

**THE NASDAQ OPTIONS MARKET
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: Morgan Stanley & Co. LLC.
Tony Taggart
Executive Director
1300 Thames Street Wharf
6th Floor
C/O North American Registration
Baltimore, MD 21231**

**FROM: The NASDAQ Options Market LLC ("Nasdaq")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850**

DATE: July 12, 2012

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20100217585-01


Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or NASDAQ if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions, and NASDAQ's Finance Department will send you an invoice regarding the payment of any fine.

Morgan Stanley & Co. LLC.
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If you have any questions concerning this matter, please call Steve Tanner, Counsel, at (646) 430-7059.



Thomas R. Gira
Executive Vice President
Department of Market Regulation, FINRA

Signed on behalf of NASDAQ

Enclosure

FINRA District 10 – New York
Michael Solomon
Regional Director
One World Financial Center
200 Liberty Street
New York, NY 10281

Cassandra Knight, Esq.
Executive Director
Morgan Stanley
1221 Avenue of the Americas
35th Floor
New York, NY 10020

Edward S. Knight, Chief Regulatory Officer
The NASDAQ Stock Market LLC
9600 Blackwell Road
Rockville, MD 20850

THE NASDAQ OPTIONS MARKET
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100217585-01

TO: The NASDAQ Options Market
c/o Department of Market Regulation
Financial Industry Regulatory Authority (“FINRA”)

RE: Morgan Stanley & Co. LLC., Respondent
Broker-Dealer
CRD No. 8209

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC (“Nasdaq”)¹ Code of Procedure, Morgan Stanley & Co. LLC (the “Firm” or “MSCO”) submits this Letter of Acceptance, Waiver and Consent (“AWC”) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. MSCO hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by Nasdaq:

BACKGROUND

MSCO has been a member of FINRA (formerly known as the NASD) since June 5, 1970, and its registration remains in effect. The Firm was approved for the NASDAQ Options Market, LLC (“NOM”) membership on March 12, 2008, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

MSCO does not have any relevant disciplinary history pertaining to Contrary Exercise Advices.

MSCO has previously been disciplined for violations of Rules pertaining to position limits. In December 2009, MSCO consented to a \$15,000 fine. The sanction was based

¹ All NASDAQ Options Market disciplinary matters are governed by The Nasdaq Code of Procedure.

on findings that MSCO had maintained stock option positions for a customer that exceeded the applicable options position limit. (Letter of Acceptance, Waiver and Consent, matter 20080135938).

SUMMARY

In connection with matter 20100217585, the staff of the Department of Market Regulation of FINRA (“the staff”) conducted a review of MSCO’s submissions of Contrary Exercise Advices (“CEAs”) after the 6:30 p.m. Eastern time exercise cut-off time during the period between January 2010 and June 2010 (the “CEA Review Period”) for compliance with the rules and regulations of NOM relating to CEAs.

In connection with matter 20100215099, the staff conducted a review of MSCO’s customers’ options positions required to be reported to the Options Clearing Corporation (“OCC”) Large Options Position Report (“LOPR”) during the period between January 2010 and June 2010 (the “Position Limit Review Period”) for compliance with the rules and regulations of NOM relating to position limits and options position reporting.

FACTS AND VIOLATIVE CONDUCT

CEAs

1. During the CEA Review Period, although MSCO had received by 5:30 p.m. customers’ Do Not Exercise Declarations to either not exercise options, or to exercise only a portion of the options, on 28 occasions the CEA was not submitted to the OCC until after 6:30 p.m.
2. The conduct described in paragraph one constitutes separate and distinct violations of Chapter VIII, Sec. 1(d) of the NOM Rules.
3. During the CEA Review Period, MSCO failed to have reasonable supervisory systems and controls, including adequate written supervisory procedures (“WSPs”), in place pertaining to CEAs. In particular, the WSPs failed to provide for: (i) the specific individuals responsible for supervision; (ii) the supervisory steps and reviews to be taken; (iii) how such reviews are documented; and (iv) the requirement to submit a memorandum to NOM by 12:00 p.m. on the following business day setting forth the circumstances of the Firm’s acceptance of instructions after the 5:30 p.m. cut-off time.
4. The conduct described in paragraph three constitutes a violation of Chapter III, Section 2(a) of the NOM Rules and Nasdaq Rule 3010.

Position Limits

5. During the Position Limit Review Period, MSCO permitted two related foreign customers, acting in-concert, to exceed the position limit in Citigroup, Inc. ("C") from January 26, 2010 to February 26, 2010, on a total of 23 consecutive days.
 6. The conduct described in paragraph five constitutes separate and distinct violations of Chapter III, Section 7 of the NOM Rules.
 7. During the period between January 4, 2010 and June 17, 2010 within the Position Limit Review Period, MSCO failed to report the in-concert information for the two accounts referred to in paragraph five.
 8. The conduct described in paragraph seven constitutes separate and distinct violations of Chapter III, Section 10 of the NOM Rules.
 9. During the Position Limit Review Period, MSCO's systems were not sufficient to detect all situations when two accounts were acting in-concert, and its WSPs did not identify which items should be reviewed to determine whether accounts were acting in-concert.
 10. The conduct described in paragraph nine constitutes a violation of Chapter III, Section 2(a) of the NOM Rules and Nasdaq Exchange Rule 3010.
- B. The Firm also consents to the imposition of the following sanctions:

A censure and a fine of \$40,000 (consisting of a \$15,000 fine for late submissions of Contrary Exercise Advices, a \$15,000 fine for position limit and options reporting violations, and a \$10,000 fine for supervision violations).

MSCO agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. MSCO has submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

MSCO specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

MSCO specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, MSCO specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

MSCO further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

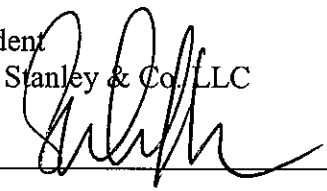
MSCO understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;

- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against MSCO and
- C. If accepted:
1. This AWC will become part of MSCO's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the firm;
 2. This AWC will be made available through Nasdaq's public disclosure program in response to public inquiries about MSCO's disciplinary record;
 3. Nasdaq may make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 4. MSCO may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects MSCO's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. MSCO may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. MSCO understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by Nasdaq, nor does it reflect the views of Nasdaq or its staff.

The undersigned, on behalf of MSCO, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce MSCO to submit it.

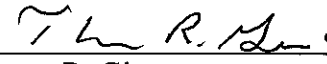
June 6, 2012
Date

Respondent
Morgan Stanley & Co. LLC
By: 

Name: Tony Taggart

Title: Executive Director

Accepted by Nasdaq:
7/12/12
Date


Thomas R. Gira
Executive Vice President
Department of Market Regulation

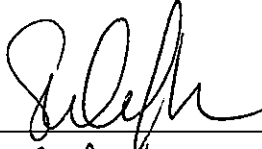
Signed on behalf of Nasdaq, by delegated authority from the Director of ODA

ELECTION OF PAYMENT FORM

Nasdaq will send the firm an invoice for the full amount.

Respectfully submitted,
Respondent
Morgan Stanley & Co. LLC.

June 6, 2012
Date

By: 
Name: S. Anthony Taggart
Title: Executive Director