

**INVESTORS EXCHANGE LLC
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: Morgan Stanley & Co. LLC
Mr. James J. Mangan
Counsel
1585 Broadway
New York, NY 10036**

**FROM: Investors Exchange LLC (“IEX”)
c/o Financial Industry Regulatory Authority (“FINRA”)
Department of Enforcement
9509 Key West Avenue
Rockville, MD 20850**

DATE: October 18, 2018

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20140430991-04

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **October 18, 2018** by the Office of Disciplinary Affairs, on behalf of the IEX Board, pursuant to IEX Rule 9.216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Form BD (Uniform Application for Broker-Dealer Registration) to reflect the conclusion of this disciplinary action. Additionally, you must also notify 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 if a suspension has been imposed and by the IEX’s Finance Department regarding the payment of any fine if a fine has been imposed.

Morgan Stanley & Co. LLC
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If you have any questions concerning this matter, please contact me at (646) 430-7050.



Elyse D. Kovar
Senior Counsel
Department of Enforcement, FINRA

Signed on behalf of IEX

Enclosure

FINRA District 10 – New York
Michael Solomon
Senior Vice President and Regional Director
(Via email)

Morgan Stanley & Co. LLC
Samantha L. Schreiber
Executive Director, Legal and Compliance
1633 Broadway, 26th Floor
New York, NY 10019
Counsel for Respondent

INVESTORS EXCHANGE LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140430991-04

TO: Investors Exchange LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

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

Pursuant to Rule 9.216 of the Investors Exchange LLC (“IEX”) Code of Procedure, Morgan Stanley & Co. LLC (“MSCO” or the “Firm”) 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, IEX will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The Firm 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 IEX, or to which IEX 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 IEX:

BACKGROUND

The Firm is a U.S. broker-dealer and has been a FINRA member since June 5, 1970, and a member of IEX since July 25, 2016. These registrations remains in effect. The Firm has no relevant disciplinary history.

SUMMARY

This matter involves a review of Firm’s compliance with Securities Exchange Act of 1934 (“Exchange Act”) Rule 611 of Regulation NMS, and related IEX Rules 3.110, 5.110, and 11.190(b)(12), pertaining to the handling of Intermarket Sweep Orders (“ISOs”) and related supervisory requirements, conducted by the Market Analysis Section of FINRA’s Department of Market Regulation (the “Staff”), on behalf of IEX, during a six-week period, between September 21, 2017 and November 9, 2017 (the “review period”). The Firm self-identified and self-corrected the issue prior to the Staff’s review. The review disclosed that during the review period, the Firm violated Rule 611(c) of Regulation NMS and IEX Rules 3.110, 5.110, and 11.190(b)(12).

FACTS AND VIOLATIVE CONDUCT

1. Exchange Act Rule 611(c) of Regulation NMS requires broker-dealers to take reasonable steps to establish that ISOs meet the requirements set forth in Regulation NMS Rule 600(b)(30). Exchange Act Rule 600(b)(30) defines an ISO as a limit order for an NMS stock that meets two requirements: (i) it is identified as an ISO; and (ii) the firm simultaneously routes additional limit orders, as necessary, to execute against the full displayed size of any protected quotes at a price that is superior to the limit price of the limit order. Moreover, IEX Rule 11.190(b)(12) requires members to comply with Exchange Act Rule 611 of Regulation NMS with respect to ISOs.
 2. During the review period, MSCO failed to take reasonable steps to establish that ISOs it had routed met the definitional requirements set forth in Exchange Act Rule 600(b)(30) of Regulation NMS. The issue arose as a result of the Firm's update to a subset of its smart order router technology on September 21, 2017, which, unbeknownst to the Firm, resulted in a failure to embed an ISO indicator on a subset of orders it had routed to certain other exchanges, and potential trade throughs of protected quotations on such other exchanges. The Firm self-identified this issue on October 30, 2017, and corrected it on November 9, 2017, prior to the commencement of the Staff's review.
 3. As a result of the foregoing, MSCO routed approximately 505 ISOs to IEX that potentially traded through protected quotations in NMS stocks on other exchanges. Such conduct violated Exchange Act Rule 611(c) of Regulation NMS, and IEX Rule 11.190(b)(12).
 4. In addition, during the review period, MSCO failed to establish, maintain, and enforce supervisory systems and written procedures reasonably designed to prevent trade-throughs of protected quotations in NMS stocks that do not fall within an applicable exception and to otherwise achieve compliance with respect to applicable securities laws and regulations and IEX rules concerning Exchange Act Rule 611(c) of Regulation NMS. Among other things, MSCO's ISO surveillance report failed to take into account whether the order was cancelled or executed. Such conduct violated IEX Rules 3.110 and 5.110.
- B. The Firm also consents to the imposition of the following sanctions:
- A censure and a total fine of \$6,300, of which \$900 is payable to IEX.¹

Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between the Firm and each of the following self-regulatory organizations: (i) Cboe EDGA Exchange, Inc.; (ii) Cboe EDGX Exchange, Inc.; (iii) Cboe BZX Exchange, Inc.; (iv) Cboe BYX Exchange, Inc.; (v) NYSE Arca, Inc.; and (vi) the New York Stock Exchange LLC.

¹ The balance of the fine will be paid to the self-regulatory organizations referenced in the following paragraph.

The Firm agrees to pay the monetary sanction(s) in accordance with its executed Election of Payment Form.

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under IEX'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 IEX Appeals Committee and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.**

Further, the Firm specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, Chief Regulatory Officer, the IEX Appeals Committee, or any member of the IEX Appeals Committee, 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.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9.143 or the separation of functions prohibitions of Rule 9.144, 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

The Firm 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 Enforcement and the Office of Disciplinary Affairs ("ODA"), pursuant to IEX Rule 9.216;**

- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and**
- C. If accepted:**
- 1. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by IEX or any other regulator against the Firm;**
 - 2. IEX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with IEX Rule 8.340; and**
 - 3. The Firm 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 IEX, or to which IEX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which IEX is not a party.**
- D. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. Any such Statement does not constitute factual or legal findings by IEX, nor does it reflect the views of IEX or its staff.**

The undersigned, on behalf of the Firm, 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 the firm to submit it.

Sept. 17, 2018
Date

Morgan Stanley & Co. LLC
Respondent

By: James J. Mangano
Name: James J. Mangano
Title: Counsel to Morgan Stanley & Co. LLC

Reviewed by:

Counsel for Respondent

Accepted by IEX:

October 18, 2018
Date

Elyse D. Kovar
Elyse D. Kovar
Senior Counsel
Department of Enforcement

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

ELECTION OF PAYMENT FORM

The Firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A Firm check or bank check for the full amount
- Wire transfer

Respectfully submitted,

Respondent

Morgan Stanley & Co. LLC

Sept 17, 2018
Date

By: James J. Morgan
Name: James J. Morgan
Title: Advisor to Morgan Stanley & Co LLC