



**Michael Zmora**  
Senior Counsel

*Department of Enforcement*

FINRA | 55 W. Monroe Street  
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Chicago, IL 60605  
Phone: 312-230-5041  
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**Via Certified Mail, Return Receipt Requested (9314 8699 0430 0073 6855 73), First Class Mail and Email: [Belinda.Blaine@morganstanley.com](mailto:Belinda.Blaine@morganstanley.com)**

August 3, 2020

Belinda Blaine, CCO  
Morgan Stanley & Co., LLC  
1585 Broadway  
New York, NY 10036

**RE: Payment of Fine in Connection with Executed Letter of Consent**  
**FINRA Matter No. 2017053508806**

Dear Ms. Blaine:

Enclosed is an executed copy of the Letter of Consent (“LOC”), signed by S. Anthony Taggart, on behalf of Morgan Stanley & Co., LLC (the “Firm”), and countersigned by Edward Deitzel, Executive Vice President and Chief Regulatory Officer, for the Business Conduct Committee, at the Miami International Securities Exchange, LLC (“MIAX” or the “Exchange”) on July 31, 2020. Please consider this correspondence as notice to the Firm that this LOC has been accepted, and as a result, the Firm must promptly remit payment of the agreed upon sanction. Please make the payment to Miami International Securities Exchange, LLC. Please note that the pre-judgment interest payment for the disgorgement component of the sanction is \$561.16.

By Mail:

Make a Firm check or Bank check payable to “MIAX Options” and return your payment to the following address:

By Wire:

If payment is by wire, wiring instructions are as follows:

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Account Name: Miami International Securities Exchange, LLC  
Account Address: 7 Roszel Road, Suite 1A, Princeton, NJ 08540  
Account Number: 381032779617  
Reference Number: 20170535088

Pursuant to MIAX Rule 1011, after seven calendar days' notice in writing, the Exchange may summarily suspend a Member that fails to pay promptly a fine when such fine becomes finally due and payable.

If you have any questions regarding this matter, please contact me at 312-230-5041

Sincerely,

*Michael Zmora*

Michael Zmora  
Senior Counsel

Enclosure

cc: Larry O'Leary, VP Regulation, Miami International Securities Exchange, LLC  
(via e-mail to [loley@miaxoptions.com](mailto:loley@miaxoptions.com))  
Christian Kemnitz, Esq., Katten Muchin Rosenman LLP (via e-mail to  
[christian.kemnitz@katten.com](mailto:christian.kemnitz@katten.com))

*This letter is issued on behalf of the Miami International Securities Exchange, LLC, by FINRA Department of Enforcement pursuant to a grant of authority to FINRA. Accordingly, this constitutes a letter by the Miami International Securities Exchange, LLC.*

**MIAMI INTERNATIONAL SECURITIES EXCHANGE, LLC  
LETTER OF CONSENT  
NO. 2017053508806**

**TO:** Miami International Securities 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 1003 of the Rules of the Miami International Securities Exchange, LLC ("MIAX"), Morgan Stanley & Co. LLC ("Morgan Stanley" or the "firm") submits this Letter of Consent ("LOC") for the purpose of proposing a settlement of the alleged rule violations described below. This LOC is submitted on the condition that, if accepted, MIAX 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 MIAX, or to which MIAX 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 MIAX:

**BACKGROUND**

The firm became a member of FINRA on June 5, 1970 and MIAX on December 7, 2012 and its registrations remain in effect.

**RELEVANT DISCIPLINARY HISTORY**

Morgan Stanley has no relevant disciplinary history with respect to MIAX. In April 2015, the International Securities Exchange, LLC (now Nasdaq ISE, LLC) censured and fined Morgan Stanley \$30,000 for one anticipatory hedge violation that occurred on January 18, 2013 (Matter No. 20130374127).

**SUMMARY**

In Matter No. 20170535088, FINRA's Department of Market Regulation's Options Regulation team (the "Staff") conducted a review, on behalf of MIAX and multiple additional

self-regulatory organizations,<sup>1</sup> of certain transactions effected by a firm trader on March 9, 2017, and the firm's compliance with MIAX rules prohibiting anticipatory hedging.

As a result of its review, FINRA's Department of Enforcement ("Enforcement") determined that, on March 9, 2017, with knowledge of material non-public information concerning an imminent undisclosed customer order, the firm executed firm trades in a related instrument option series prior to disclosure of the full terms and conditions of the customer order to the trading crowd.

### **FACTS AND VIOLATIVE CONDUCT**

1. MIAX Rule 301 provides that no Member shall engage in acts or practices inconsistent with just and equitable principles of trade.
2. MIAX Rule 301.02 specifically provides:

It may be considered conduct inconsistent with just and equitable principles of trade for any Member or person associated with a Member who has knowledge of all material terms and conditions of:

- (1) An order and a solicited order,
- (2) An order being facilitated, or
- (3) Orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until (1) the terms and conditions of the order and any changes in the terms and conditions of the order of which the Member or person associated with the Member has knowledge are disclosed to the trading crowd, or (2) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

The terms of an order are "disclosed" to the trading crowd on the MIAX when the order is entered into the MIAX System.

3. When a Member engages in anticipatory hedging, or otherwise uses undisclosed information about an imminent option transaction, to trade the relevant option or a related instrument, it can disadvantage market participants who are unaware of the information or who refrain from trading based on it. As set forth in MIAX Rule 301 such conduct is considered inconsistent with just and equitable principles of trade.
4. On or about March 9, 2017, at approximately 8:32:43 a.m., a Morgan Stanley trader received a customer order to buy 6,842 ABC put option contracts

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<sup>1</sup> The additional self-regulatory organizations are BOX Exchange LLC, NYSE Arca, Inc., NYSE American LLC, Cboe C2 Exchange, Inc., and MIAX Pearl, LLC.

("Customer Order"). While in possession of the Customer Order, whose execution in light of the facts and circumstances was imminent, and prior to disclosure of the Customer Order to the trading crowd, Morgan Stanley purchased 20,000 DEF put option contracts between 8:32:45 a.m. and 8:32:54 a.m. in order to hedge its expected facilitation of the Customer Order.

5. The firm's conducted described in Paragraph 4 above violated MIAX Rule 301.
- B. The firm also consents to the imposition of the following sanctions:
1. a censure;
  2. a fine in the amount of \$2,473; and
  3. disgorgement in the amount of \$3,200.<sup>2</sup>

Additionally, acceptance of this LOC is conditioned upon acceptance of similar settlement agreements in related matters between the firm and each of the following self-regulatory organizations: (i) BOX Exchange LLC; (ii) NYSE Arca, Inc.; (iii) NYSE American LLC; (iv) Cboe C2 Exchange, Inc.; and (v) MIAX PEARL, LLC.

The firm agrees to pay the monetary sanction(s) upon notice that this LOC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

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 MIAX.

## II.

### WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under MIAX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges and have the opportunity to answer the allegations in writing;

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<sup>2</sup> The Firm consents to a total fine of \$325,000 and total disgorgement of \$40,469 in this and another related matter, of which \$2,473 in fine and \$3,200 in disgorgement shall be paid to MIAX. The remainder of the fine and disgorgement shall be paid to Nasdaq Options Market LLC, Nasdaq BX, Inc., Nasdaq GEMX, LLC, NASDAQ ISE, LLC, NYSE Arca, Inc., NYSE American LLC, Cboe Exchange Inc., Cboe C2 Exchange, Inc., BOX Exchange, LLC, and MIAX PEARL, LLC.

- 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 MIAX's Board of Directors 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 prejudgment of the Chief Regulatory Officer ("CRO"), as well as the Business Conduct Committee ("BCC"), in connection with participation in discussions regarding the terms and conditions of this LOC, or other consideration of this LOC, including acceptance or rejection of this LOC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of MIAX Rule 1006, in connection with such person's or body's participation in discussions regarding the terms and conditions of this LOC, or other consideration of this LOC, including its acceptance or rejection.

### III.

#### OTHER MATTERS

The firm understands that:

- A. Submission of this LOC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO and the BCC, pursuant to MIAX Rule 1003;
- B. If this LOC 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 LOC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by MIAX or any other regulator against the firm;
  - 2. This AWC will be published on a website maintained by MIAX; 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 LOC or create the impression that the LOC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of MIAX, or to which MIAX is a party, that is inconsistent with any part of this LOC. 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 MIAX is not a party.
- D. The firm may attach a Corrective Action Statement to this LOC 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 LOC

in this Statement. This Statement does not constitute factual or legal findings by MIAX, nor does it reflect the views of MIAX 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 LOC and has been given a full opportunity to ask questions about it; that it has agreed to the LOC'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.

June 5, 2020

Date

Respondent  
Morgan Stanley & Co. LLC

By: S. Anthony Taggart

Name: S. Anthony Taggart

Title: Managing Director and Counsel

Reviewed by:

Chris Kemnitz

Counsel for Respondent  
Christian Kemnitz  
Katten Muchin Rosenman LLP  
525 W. Monroe Street  
Chicago, IL 60661  
312-902-5379

Accepted by Miami International Securities Exchange, LLC:

7-31-20

Date



Edward Deitzel  
Executive Vice President and  
Chief Regulatory Officer  
Miami International Securities Exchange,  
LLC

Decision of the Business Conduct Committee:  Accept  Decline

7-31-20

Date



By: Edward Deitzel  
For the Business Conduct Committee

**ELECTION OF PAYMENT FORM**

The firm intends to pay the fine proposed in the attached Letter of 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

June 5, 2020

\_\_\_\_\_  
Date

By: S. Anthony Taggart

Name: S. Anthony Taggart

Title: Managing Director and Counsel



**SANCTIONS ADDENDUM**

**A. FINE**

The firm to pay the monetary sanctions upon notice that this LOC has been accepted and that such payments are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent 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.

**B. DISGORGEMENT**

Disgorgement of unlawful profits, which is ordered to be paid to MIAX in the amount of \$3,200, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621, from the date of the violative conduct until the date this LOC is accepted by the Business Conduct Committee.