

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070113472-01

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Morgan Stanley & Co. Incorporated (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, FINRA 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

The firm became a member of FINRA on June 5, 1970. The firm's registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On August 21, 2006, FINRA accepted an AWC in which the firm was censured and fined \$2,900,000, including \$12,000 for violations of NASD Rule 6230.

On August 25, 2009, FINRA accepted an AWC in which the firm was censured and fined \$20,000 for violations of NASD Rules 3360 and 2110 and NYSE Rule 421.10.

On September 28, 2009, FINRA accepted an AWC in which the firm was censured and fined \$55,000, consisting of \$12,500 for violations of MSRB Rule G-14 (two matters),

\$37,500 for violations of NASD Rule 6230 (two matters), and \$5,000 for violations of NASD Rule 3010.

On January 8, 2010, FINRA accepted an AWC that included a censure and a fine of \$6,000 for violations of NASD Rules 6230 and 2110.

SUMMARY

In connection with 20070113472, the Short Interest Section staff of the Department of Market Regulation ("staff") reviewed the firm's compliance with short interest reporting requirements during the period April 13 through October 15, 2007 (the "review period" for this matter).

In connection with 20090168033, the TRACE staff reviewed the firm's compliance with TRACE reporting requirements during the period January 1 through March 31, 2008 (the "review period" for this matter).

In connection with 20090171640, the TRACE staff reviewed the firm's compliance with TRACE reporting requirements during the period October 1 through December 31, 2008 (the "review period" for this matter).

In connection with 20090186417, the Municipal Bonds staff reviewed the firm's compliance with MSRB rules applicable to trade reporting in the Real-Time Transaction Reporting System ("RTRS") during the period January 1 through March 31, 2009 (the "review period" for this matter).

In connection with 20090191477, the TRACE staff reviewed the firm's compliance with TRACE reporting requirements during the period July 8, 2002 through July 7, 2009 (the "review period" for this matter) related to trades where the firm acted as an intermediary broker-dealer between a non-U.S. affiliate of the firm and a U.S. client account.

FACTS AND VIOLATIVE CONDUCT

20070113472

1. During the review period, the firm failed to report to FINRA 31 short interest positions in nine securities totaling 7,542,613 shares. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3360.
2. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning short interest position reporting. Specifically, the

firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

20090168033

3. The firm failed to report to TRACE (i) the correct contra-party's identifier for 150 transactions in TRACE-eligible securities, (ii) 218 transactions in TRACE-eligible securities that it was required to report, and (iii) the correct date of trade for 18 transactions in TRACE-eligible securities. These transactions represented 5.4 percent of the inter-dealer transactions in TRACE-eligible securities that the firm reported to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(b), (c)(5) and (c)(6).

20090171640

4. The firm failed to report to TRACE 1,145 transactions in TRACE-eligible securities within 15 minutes of the time of execution. These late transactions constituted five percent of all transactions in TRACE-eligible securities that the firm was required to report to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(a) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110 (FINRA Rules 6730 and 2010 after December 15, 2008).

20090186417

5. During the review period, the firm failed to report information regarding 732 purchase and sale transactions effected in municipal securities to the RTRS in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS Users Manual. Specifically, the firm failed to report information about such transactions within 15 minutes of Time of Trade to an RTRS Portal. The firm also failed to report the correct time of execution to the RTRS for the 732 transactions. These transactions constituted 2.15 percent of the transactions that the firm reported to the RTRS during the review period. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rule G-14.
6. The firm also failed to show the correct time of execution in trade memorandum of 732 transactions in municipal securities. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rule G-8.

20090191477

7. During the review period, the firm failed to report to TRACE 9,977 transactions in TRACE-eligible securities that it was required to report. These transactions constituted 1.2 percent of the transactions in TRACE-eligible securities that the firm was required to report to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(b) and a violation of NASD Rule 2110 (for conduct prior to December 15, 2008) and violations of FINRA Rules 6730 and 2010 (for conduct on or after December 15, 2008).

B. The firm also consents to the imposition of the following sanctions:

- A censure.
- A fine of \$110,000 (consisting of: in 20070113472: \$25,000 for violations of NASD Rule 3360 and \$5,000 for violations of NASD Rules 3010 and 2110; in 20090168033: \$22,500 fine for violations of NASD Rule 6230; in 20090171640: \$7,500 fine for violations of NASD Rules 6230 and 2110 before December 15, 2008, and FINRA Rules 6730 and 2010 on and after December 15, 2008; in 20090186417: \$12,500 for violations of MSRB Rule G-14 and \$7,500 for violations of MSRB Rule G-8; and in 20090191477: \$30,000 for violations of NASD Rule 6230 before December 15, 2008, and FINRA Rule 6730 on and after December 15, 2008).

The firm agrees to pay the monetary sanction(s) upon notice that this AWC 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 FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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, the firm specifically and voluntarily waives any right to claim bias or prejudice of the General Counsel, the NAC, or any member of the NAC, 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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

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 the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- 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 FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in

response to public inquiries about the firm's disciplinary record;

3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. 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 FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA 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. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA 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.

March 31, 2011
Date

Respondent
Morgan Stanley & Co. Incorporated

By: [Signature]

Name: S. Anthony Taggart

Title: Executive Director

Reviewed by:

Attorney Name
Counsel for Respondent

Accepted by FINRA:

5/16/11
Date

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

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