

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090172547-01

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Morgan Stanley & Co. LLC (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 September 28, 2009, FINRA accepted an AWC in which the firm was censured and fined \$37,500 for Trade Reporting and Compliance Engine ("TRACE") reporting violations that occurred during the period July 1 through December 31, 2007, in two matters.

On January 8, 2010, FINRA accepted an AWC in which the firm was censured and fined \$6,000 for TRACE reporting violations that occurred during the period April 1 through June 30, 2008.

On May 17, 2010, FINRA accepted an AWC in which the firm was censured and fined \$60,000 for TRACE reporting violations that occurred during the period July 8, 2002 through July 7, 2009, in three matters.

SUMMARY

In connection with matter 20090172547, the Short Sales staff of the Department of Market Regulation reviewed the firm's compliance with Regulation SHO during the period September 3, 2008 through February 26, 2009.

In connection with matter 20090196876, the Order Audit Trail System ("OATS") staff of the Department of Market Regulation reviewed the firm's OATS reporting activity during the period January 1 through June 30, 2009 (the "OATS review period").

In connection with matter 20090209808, the TRACE staff of the Department of Market Regulation reviewed the firm's TRACE reporting activity during the period October 1 through December 31, 2008 (the "TRACE review period").

In connection with matter 20100215963, the Trading and Market Making Surveillance ("TMMS") staff conducted the 2010 TMMS Examination wherein the staff reviewed the items set forth on Exhibit 1, which is attached hereto and incorporated herein by reference, primarily for trade dates June 2 and 3, 2010, unless otherwise noted (the "2010 TMMS review period").

In connection with matter 20100231618, the Trade Reporting staff of the Department of Market Regulation reviewed the firm's trade reporting to the OTC Trade Reporting Facility ("OTCTRF") during the period January 1, 2010 through April 30, 2010 (the "OTCTRF review period").

FACTS AND VIOLATIVE CONDUCT

20090172547

1. In eight instances during the period September 3 through September 26, 2008, the firm knew or had reasonable grounds to believe that the sale of equity security Seven Arts Pictures PLC ("SAPXF") was or would be effected pursuant to an order marked long, and failed to deliver the security on the date delivery was due. The conduct

described in this paragraph constitutes separate and distinct violations of SEC Rule 203(a)(1) of Regulation SHO.

2. During the period September 10 through October 6, 2008, the firm had a fail-to-deliver position at a registered clearing agency in SAPXF, a threshold security, for 13 consecutive settlement days beginning September 10, 2008, and failed to immediately thereafter close out the fail-to-deliver position by purchasing securities of like kind and quantity. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(3) of Regulation SHO.
3. Beginning on September 23, 2008 through October 6, 2008, in two instances, the firm had a fail to deliver position at a registered clearing agency in equity security SAPFX that resulted from a long sale, and did not close the fail to deliver position by purchasing securities of like kind and quantity within the time frame prescribed by SEC Rule 204T(a)(1). The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 204T(a)(1).
4. During the period December 29, 2008 through February 27, 2009, in one instance, the firm had a fail to deliver position at a registered clearing agency in equity security Integrated Pharmaceuticals, Inc. (INTP) that resulted from a short sale, and did not close the fail to deliver position by purchasing securities of like kind and quantity within the time frame prescribed by SEC Rule 204T(a). The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 204T(a).

20090196876

5. During the OATS review period, the firm transmitted to OATS 77,460 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports were marked with a Limit Order Display Indicator of "Y", indicating that the firm received instructions from the customer that a non-block size limit order should not be displayed when in fact no such instruction was received. These inaccurate reports represented approximately 86 percent of all reports (89,965) for non-block limit orders that the firm transmitted to OATS during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20090209808

6. During the TRACE review period, the firm failed to report to TRACE the correct contra-party's identifier for 294 transactions in TRACE-eligible securities. These transactions constituted five percent of the inter-dealer transactions in TRACE-eligible securities that the firm reported to TRACE during the TRACE review period. The conduct described in this paragraph constitutes separate and distinct violations of

NASD Rule 6230(c)(6) before December 15, 2008, and FINRA Rule 6730(c)(6) on and after December 15, 2008.

7. During the TRACE review period, the firm failed to report to TRACE 102 inter-dealer transactions in TRACE-eligible securities that it was required to report. These transactions constituted two percent of the inter-dealer 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) before December 15, 2008, and FINRA Rule 6730(b) on and after December 15, 2008.

20100215963

8. During the TMMS review period, the firm: (a) in eight instances, submitted incorrect "Leaves Quantities" to OATS; (b) in four instances, failed to submit OATS information relating to orders; (c) in three instances, failed to submit a "Special Handling Code" of "FP" to OATS, so as to designate the orders as market peg orders; (d) in two instances, submitted an incorrect "Event Start Time" to OATS; (e) in one instance, failed to submit a Cancel/Replace report to OATS and submitted incorrect "Leaves Quantities"; and (f) in one instance, failed to submit "Special Handling Code" of "FM" to OATS, so as to designate the order as mid-price peg. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20100231618

9. During the OTCTRF review period, the firm failed, within 90 seconds after execution, to transmit to the OTCTRF 111 last sale reports of transactions in OTC Equity securities. These transactions constitute 11 percent of the transactions reviewed that the firm reported to the OTCTRF during the OTCTRF review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6622(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

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

- A censure.
- A fine of \$47,500 (consisting of the following: \$10,000 for the Regulation SHO violations; \$22,500 for the OATS violations; \$7,500 for the TRACE violations; and \$7,500 for the trade reporting violations).

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.

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 prejudgment 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

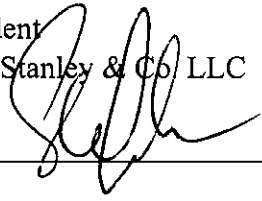
The firm understands that:

- 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.

Sept 28, 2012
Date

Respondent
Morgan Stanley & Co LLC

By: 

Name: Tony Taggart

Title: Executive Director

Accepted by FINRA:

11/21/12
Date

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

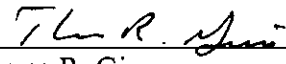

Thomas R. Gira
Executive Vice President
Department of Market Regulation

EXHIBIT #1**2010 Market Regulation Examination Samples****Firm Name ("MSCO")****Exam No. 20100215963****Sample Source/Period*: June 2-3, 2010 Trade Date(s)****Sample**

<u>Size</u>	<u>Sample Description</u>
199	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
266	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
997	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
78	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
13288	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
73	Sell orders entered into BATS Exchange execution system for compliance with BATS Rule 11.19 long/short reporting requirements
0	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390
8	Orders for compliance with best execution requirements of NASD Rule 2320
0	Held orders from the Held Order Protection Review
0	Not Held orders from the Not Held Order Review
0	Order executed with a .PRP (Prior Reference Price) trade modifier
8	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
0	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
N/A	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
50	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
106	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements

* unless otherwise noted

2009 Version 2.0 - September 1, 2009

EXHIBIT #1**2010 Market Regulation Examination Samples****Firm Name ("MSCO")****Exam No. 20100215963****Sample Source/Period*: June 2-3, 2010 Trade Date(s)**

5	Data sets published for April 2010 monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
2nd Quarter 2010	Quarterly Routing Report for compliance with SEC Rule 606 requirements
22	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040; Nasdaq Rule Series 1020, 1030, 1040; and BATS Rule 11.4
8	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
0	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
2758	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
1086	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, or BATS Rule 5.1 requirements
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
N/A	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports

** unless otherwise noted**2009 Version 2.0 - September 1, 2009*