

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017053128501**

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

RE: Morgan Stanley & Co. LLC, Respondent
Member Firm
CRD No. 8209

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 has been a member of FINRA since June 1970. The firm is a Delaware limited liability company headquartered in New York, New York. It has approximately 4,010 registered representatives in 39 branch offices, provides services to corporate and broker-dealer clients and institutional investors, and acts as an agency broker-dealer, providing market access and execution services to market participants for a wide variety of products.

The firm does not have relevant disciplinary history.

OVERVIEW

During the period between December 2015 and January 2019, two individuals employed by a foreign affiliate of the firm entered orders on behalf of the firm, although they were not registered with FINRA to act in such a capacity. By allowing these individuals to effect these transactions, the firm violated NASD Rules 1031(a) and 1032(f) (for the period from December 2015 through September 30, 2018), FINRA Rules 1210 and 1220(b)(4) (for the period from October 1, 2018 through January 2019) and FINRA Rule 2010.¹

¹ Effective October 1, 2018, NASD Rules 1031 and 1032 were superseded by FINRA Rules 1210 and 1220.
STAR No. 20170531285 (ST)

FACTS AND VIOLATIVE CONDUCT

This matter resulted from a 2017 cycle examination of the firm conducted by the Trading and Financial Compliance Examinations ("TFCE") section of FINRA's Department of Market Regulation.

Relevant Rules

NASD Rule 1031(a) stated that "[a]ll persons engaged or to be engaged in the investment banking or securities business of a member who are to function as representatives shall be registered as such with NASD in the category of registration appropriate to the function to be performed as specified in Rule 1032." NASD Rule 1031(b) defined "representatives" as persons "associated with a member . . . who are engaged in the investment banking or securities business for the member including the functions of supervision, solicitation or conduct of business in securities"

NASD Rule 1032(f)(1), pertaining to "Securities Trader", stated that "[e]ach person associated with a member must register with the Association as a Securities Trader if such person is . . . included within the definition of representative, as defined in Rule 1031 and, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities"

FINRA Rule 1210 states that "[e]ach person engaged in the investment banking or securities business of a member shall be registered with FINRA as a representative or principal in each category of registration appropriate to his or her functions and responsibilities as specified in Rule 1220" FINRA Rule 1220(b)(1) defines "representative" as "any person associated with a member . . . who is engaged in the member's investment banking or securities business, such as supervision, solicitation, conduct of business in securities"

FINRA Rule 1220(b)(4), pertaining to "Securities Trader", states that "[e]ach representative as defined in paragraph (b)(1) of this Rule shall be required to register with FINRA as a Securities Trader if, with respect to transactions in equity, preferred or convertible debt securities effected otherwise than on a securities exchange, such person is engaged in proprietary trading, the execution of transactions on an agency basis, or the direct supervision of such activities. . . ."

FINRA Rule 2010 states that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

Violative Conduct

1. During the period between December 2015 and January 2019, the firm permitted an individual, "GS," who was employed by Banco Morgan Stanley S.A. ("Banco Morgan"), a foreign affiliate of the firm, to effect transactions in a firm

proprietary account without requiring GS to pass the Series 57 examination, and become qualified and registered as a Securities Trader.

2. During the period between June 2018 and January 2019, GS effected five transactions in a firm proprietary account.
3. During the period between July 2016 and January 2019, the firm permitted another individual, "HC," who was also employed by Banco Morgan, to effect transactions in a firm proprietary account without requiring HC to pass the Series 57 examination, and become qualified and registered as a Securities Trader.
4. During the period between June 2018 and January 2019, HC effected eight transactions in a firm proprietary account.
5. Both GS and HC participated in telephone calls with properly registered employees at the firm's sales trading desk concerning potential trades in emerging market securities and securities related to foreign companies. If the firm effected a trade as a result, GS and HC would send the order to a third-party floor broker to execute a transaction in a firm proprietary account.
6. The firm learned about this issue as a result of TFCB's cycle examination. On February 6, 2019, the firm added pre-trade limits to its order management system to prevent the entry of orders on U.S. exchanges by members of the firm's Brazilian Index Desk at Banco Morgan.
7. The conduct described in paragraphs I.A.1 through I.A.6 constitutes violations of NASD Rules 1031(a), and 1032(f) (for the period from December 2015 through September 30, 2018), FINRA Rules 1210 and 1220(b)(4) (for the period from October 1, 2018 through January 2019), and FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine of \$20,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent 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 an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against it;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, 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.

Respondent 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

Respondent 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary

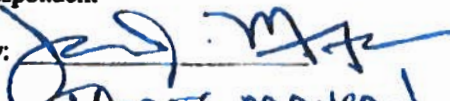
record and may be considered in any future action brought by FINRA or any other regulator against Respondent;

2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 4. Respondent 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. Respondent 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 Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent(s) 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.

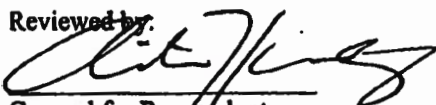
The undersigned, on behalf of the Respondent Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that 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 it to submit it.

1/15/2020
Date

Morgan Stanley & Co. LLC
Respondent

By: 
Name: JAMES MANGAN
Title: Counsel to MS&CO

Reviewed by:


Counsel for Respondent
Christian T. Kemnitz
Katten Muchin Rosenman
525 W. Monroe
Suite 1900
Chicago, IL 60661
312-902-5379

Accepted by FINRA:

2/18/2020
Date

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


Steven M. Tanner
Senior Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281