

**NASDAQ OMX BX, INC.
NOTICE OF ACCEPTANCE OF AWC**

Certified, Return Receipt Requested

**TO: Morgan Stanley & Co. LLC
S. Anthony Taggart
Executive Director
1300 Thames Street Wharf
6th Floor
c/o North American Registration
Baltimore, MD 21231**

**FROM: The NASDAQ OMX BX, Inc. (the "Exchange")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850**

DATE: December 19, 2012

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 20100222173-01

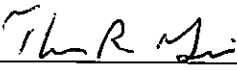
Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or Nasdaq if you are not a member of 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 Nasdaq'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 W. Kwame Anthony, Counsel,
at (646) 430-7030.



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

Signed on behalf of NASDAQ

Enclosure

FINRA District 10 – New York
Michael Solomon
Regional Director
One World Financial Center
200 Liberty Street
New York, NY 10281

Morgan Stanley & Co. LLC
S. Anthony Taggart
Executive Director
1221 Avenue of the Americas
35th Floor
New York, NY 10020

Edward S. Knight, Chief Regulatory Officer
The NASDAQ Stock Market LLC
9600 Blackwell Road
Rockville, MD 20850

NASDAQ OMX BX, Inc.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20100222173-01

TO: NASDAQ OMX BX, Inc.
c/o Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Chapter XXX of the Grandfathered Rules of NASDAQ OMX BX, Inc.¹ (the "Exchange")² and Rule 9216 of The NASDAQ Stock Market ("Nasdaq") Code of Procedure³, Morgan Stanley & Co. LLC (the "Firm" or "MSCO") 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, the Exchange will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. MSCO 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

MSCO is a Delaware limited liability company. It has been a FINRA member since June 5, 1970, and its registration remains in effect. The Firm became a Participant of the Boston Options Exchange ("BOX")⁴ on April 2, 2004, when its Options Participation Agreement was accepted by the Exchange. Under the terms of that agreement, among other things, the Firm agreed to be bound by the Rules of the Exchange, as amended,

¹ The applicable Rules and authority for this action can be found in the By-Laws of NASDAQ OMX BX, Inc., the Rules of NASDAQ OMX BX ("The Equities Rules") and the Grandfathered Rules of the Exchange.

² Please note, for purposes of this AWC, "Exchange" includes NASDAQ OMX BX, Inc.

³ Additionally, this disciplinary matter is further governed by The Nasdaq Code of Procedure.

⁴ BOX became a facility of NASDAQ OMX BX in August 2008.

including the BOX Trading Rules, and to be subject to the Exchange's jurisdiction and oversight.

RELEVANT DISCIPLINARY HISTORY

In *Morgan Stanley & Co. Incorporated* (International Securities Exchange File Nos. 2005-06 and 2005-136, Dec. 7, 2007), MSCO signed an AWC in which it stipulated to findings that from January 2005 through September 2006, it violated International Securities Exchange Rules 804(E)(1), 804(E)(2)(I), and 804(E)(2)(II) governing price quoting for options. In its capacity as a primary market maker, MSCO failed to: (i) quote continuously in all series to which it was appointed in 1,053 instances; (ii) participate in the opening rotation in 60% of the classes to which it was assigned in 355 instances; and (iii) maintain continuous quotations for all series of the options class until the close of trading after it had entered a quote in an options class to which it was appointed in 6,396 instances. MSCO consented to a sanction of a \$20,000 fine.

FACTS AND VIOLATIVE CONDUCT

Quoting Obligations

1. BOX Trading Rule Chapter V, Section 9(d), entitled "Market Maker Obligations During Pre-Opening Phase,"⁵ required BOX market makers to provide continuous two-sided quotes in its assigned options classes according to the BOX minimum standards at the opening of the market for the underlying security. BOX Trading Rule Chapter VI, Section 5(a)(ii)⁶ required market makers to participate in opening the market pursuant to Chapter V, Section 9(a) and Chapter VI, Section 6(d). Chapter V, Section 9(a)⁷ set forth the method in the pre-opening phase by which the BOX Trading Host accepted orders and quotes. Chapter VI, Section 6(d)⁸ required market makers to participate in the pre-opening phase and thereafter, to make markets by posting quotes at least 80% of the time a class was open for trading in at least 90% of the classes to which it was assigned. In addition, Chapter VI, Section 6(d) required market makers to post valid quotes at least 60% of the time in each of its appointed classes during the time each class was open for trading.
2. In connection with Matter No. 20100222173, on BOX's behalf, FINRA staff (the "Staff") reviewed MSCO's market maker quoting performance for the period

⁵ On April 27, 2012, the Securities and Exchange Commission approved BOX's application for registration as a national securities exchange. Exchange Act Release No. 66871 (April 27, 2012), 77 FR 26323 (May 3, 2012). As part of the registration, BOX adopted a new rule set with a different numbering pattern. The rules relevant to this investigation are, in substance, the same; any differences in language are immaterial. Box Rule Chapter V, Section 9(d) is now BOX Rule 7070(d).

⁶ Now BOX Rule 8040(a)(2).

⁷ Now Rule 7070(a).

⁸ Now BOX Rule 8050(e).

February 1, 2010 through April 29, 2010, and determined that MSCO had failed to provide continuous two-sided quotes according to the BOX minimum standards at the opening of the market for the underlying securities. Specifically, on 44 trade dates, MSCO failed to provide valid quotes in quoting less than 80% of the series at the opening for more than 10% or more of its total number of assigned classes. In addition, on one trade date, it quoted 0% of the series in 96% of its assigned classes.

3. The conduct described in paragraph two constitutes separate and distinct violations of BOX Trading Rules Chapter V, Section 9(d) and Chapter VI, Section 6(d).
4. On April 26, 2010, BOX Trading Rule Chapter VI, Section 6(d) was amended to remove the provision requiring market makers to post quotes at least 80% of the time a class was open for trading in at least 90% of the classes to which it was assigned. With respect to the provision requiring that market makers post quotes at least 60% of the time in each of its appointed classes, the provision was amended to require that they post valid quotes at least 60% of the time that *all* of its collective assigned classes were open rather than on a class-by-class basis. When the amendment took effect, BOX also required market makers to participate in the opening of the BOX Market by submitting valid, two-sided quotes according to the BOX minimum standard of 60%.
5. In connection with Matter Nos. 20110280695, 20110289646, and 20110303644, the Staff reviewed MSCO's market making quoting performance for the period February 2011 through October 2011 and determined that on 13 trade dates, MSCO had failed to quote at least 60% of its assigned series at the market opening.
6. The conduct described in paragraph five constitutes separate and distinct violations of BOX Trading Rules Chapter V, Section 9(d) and Chapter VI, Section 6(d).
7. In addition, in connection with Matter No. 20110303644, on August 15, 2011, MSCO failed to meet its continuous quoting obligation in that it failed to post valid quotes at least 60% of the time that its assigned classes were open for trading.
8. The conduct described in paragraph seven constitutes a separate and distinct violation of BOX Trading Rule Chapter VI, Section 6(d).

Supervision

9. BOX Trading Rule Chapter III, Section 1 prohibited Option Participants from violating the Securities Exchange Act of 1934 and the rules promulgated thereunder, and BOX rules, and Options Clearing Corporation rules with respect to any BOX transaction. Section (2)(a) required each Options Participant to ensure that the transaction of business on BOX complied with their obligations under BOX rules, Options Clearing Corporation rules, and any other relevant laws, rules, interpretations and obligations.

10. From February 2010 through April 2010, MSCO failed to maintain an adequate system of supervision reasonably designed to achieve compliance with Exchange rules relating to the quoting obligations of an Exchange market maker at the opening.
11. The conduct described in paragraph ten constitutes a violation of BOX Trading Rules Chapter III, Sections 1 and 2(a).

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

A censure and a total fine of \$30,000.

MSCO agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. MSCO has submitted an Election of Payment form showing the method by which they propose to pay the fine imposed.

MSCO 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.

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

II.

WAIVER OF PROCEDURAL RIGHTS

MSCO specifically and voluntarily waives the following rights granted under the Rules of the Exchange:

- A. To have a Formal Complaint issued specifying the allegations against the Firm in writing;
- 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 National Adjudicatory Council (“NAC”) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, MSCO specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

MSCO further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

MSCO 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 Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against MSCO and
- C. If accepted:
 - 1. This AWC will become part of MSCO's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the firm;
 - 2. This AWC will be made available through Nasdaq's public disclosure program in response to public inquiries about MSCO's disciplinary record;
 - 3. Nasdaq may make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 - 4. MSCO 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

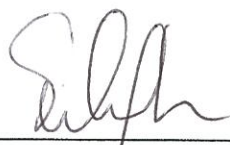
is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects MSCO's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.

- D. MSCO may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. MSCO 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 Nasdaq, nor does it reflect the views of Nasdaq or its staff.

The undersigned, on behalf of MSCO, 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 MSCO to submit it.

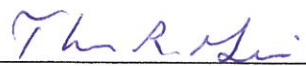
11/12/2012
Date

Respondent
Morgan Stanley & Co. LLC

By: 
S. Anthony Taggart
Executive Director
1221 Avenue of the Americas, 35th Floor
New York, NY 10020

Accepted by Nasdaq:

12/19/12
Date


Thomas R. Gira
Executive Vice President
Department of Market Regulation

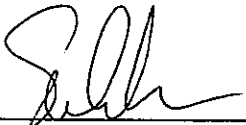
Signed on behalf of Nasdaq, by delegated authority from the Director of ODA

ELECTION OF PAYMENT FORM

Nasdaq will send the firm an invoice for the full amount.

Respectfully submitted,
Respondent
Morgan Stanley & Co. LLC

11/12/2012
Date

By: 
Name: S. Anthony Taggart
Title: Executive Director