

BEFORE THE BUSINESS CONDUCT COMMITTEE
OF THE
CHICAGO BOARD OPTIONS EXCHANGE, INCORPORATED

_____)
In the Matter of:)
)
Morgan Stanley & Company, LLC)
1221 Avenue of the Americas) File No. 12-0029
New York, NY 10020)
)
Respondent)
_____)

DECISION ACCEPTING OFFER OF SETTLEMENT

This proceeding was instituted by the Business Conduct Committee (the “Committee”) of the Chicago Board Options Exchange, Incorporated (the “Exchange”) as a result of an investigation by the staff of the Exchange, which indicated that there was probable cause for finding a violation within the disciplinary jurisdiction of the Exchange. In accordance with that determination, the Committee directed the issuance of a Statement of Charges (“Statement of Charges”). Pursuant to Exchange Rule 17.8, the respondent (“Respondent”), Morgan Stanley & Company, LLC (“Morgan”), submitted an offer of settlement (“Offer of Settlement”).

In submitting the Offer of Settlement, the Respondent neither admitted nor denied the violations alleged in the Statement of Charges.

The Respondent has agreed that the determination of the Committee to accept the Offer of Settlement shall constitute a final Decision, and, as provided in Exchange Rule 17.8, the Respondent may not seek review thereof.

The Respondent understands and acknowledges that the Committee’s decision in this matter will become part of its disciplinary record and may be considered in any future Exchange proceeding.

With due regard to the particulars of this matter, the Committee believes it is appropriate to accept the Respondent’s Offer of Settlement based on the following stipulated facts and findings and thereby to impose the sanction specified below.

FACTS

1. During all relevant periods herein, Morgan, was an Exchange TPH organization registered as a Market-Maker organization. In addition, Morgan conducted a proprietary trading business.
2. During all relevant periods in which the activity noted below occurred, Morgan was acting as a registered broker-dealer.

3. During all relevant periods herein, Exchange Rules 6.2B – Hybrid Opening Systems (“HOSS”) and 4.2 - Adherence to Law was in full force and effect.
4. Pursuant to Regulatory Circular RG08-42, the following set forth the order submission deadlines for participation in modified HOSS opening procedure:

In order to participate in the modified HOSS opening procedure, all orders for placement in the electronic book, and any change to or cancellation of any such order, must be received prior to the opening of trading (unless the circumstances described below are applicable).

In addition, all index option orders for participation in the modified HOSS opening procedure that are related to positions in, or a trading strategy involving, volatility index options or futures, and any change to or cancellation of any such order:

(A) must be received prior to 8:15 a.m. (CT), and

(B) may not be cancelled or changed after 8:15 a.m. (CT), unless the order is not executed in the modified HOSS opening procedure and the cancellation or change is submitted after the modified HOSS opening procedure is concluded (provided that any such order may be changed or cancelled after 8:15 a.m. (CT) and prior to the opening of trading in order to correct a legitimate error, in which case the member submitting the change or cancellation shall prepare and maintain a memorandum setting forth the circumstances that resulted in the change or cancellation and shall file a copy of the memorandum with the Exchange no later than the next business day in a form and manner prescribed by the Exchange).

5. On or about July 20, 2011 and on or about September 21, 2011, Morgan entered 125 and 128 orders respectively, between 8:15 am and 8:30 am CT in the out-of-the-money Standard and Poor’s 500 index option (“SPX”) series related to Morgan’s Volatility Index Futures (“VIX”) futures positions, in contravention with the requirements set forth in Rule 6.2B and RG08-42.
6. During the approximate period from in or about July 2011 through in or about September 2011, Morgan failed to supervise its employees to assure compliance with Exchange Rule 6.2B and RG08-42.

FINDINGS

The acts, practices and conduct described in Paragraph 5 above, constitute violations of Exchange Rule 6.2B thereunder by Morgan, in that Morgan entered 125 and 128 orders respectively, between 8:15 am and 8:30 am CT in the out-of-the-money SPX option series related to Morgan’s VIX futures positions, in contravention with the requirements set forth in Rule 6.2B and RG08-42.

The acts, practices and conduct described in Paragraph 6 above, constitute violations of Exchange Rule 4.2 by Morgan, in that Morgan failed to supervise its employees to assure compliance with Exchange Rule 6.2B and RG08-42.

SANCTION

The sanction to be imposed shall consist of a \$20,000 fine and a censure.

ORDER

ACCORDINGLY IT IS ORDERED THAT, the Respondent, Morgan Stanley & Company, LLC shall be and hereby is censured and fined in the amount of twenty thousand dollars (\$20,000).

**SO ORDERED
FOR THE COMMITTEE**

Dated: September 24, 2012

**By: /s/ Bruce Andrews
Bruce Andrews
Chairman
Business Conduct Committee**