

**NYSE CHICAGO, INC.**

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In the Matter of: )  
Morgan Stanley & Co. LLC )  
(CRD No. 8209) ) Proceeding No. 2018056929905  
Respondent. )  
)

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**ORDER INSTITUTING PROCEEDINGS, ACCEPTING  
SETTLEMENT, MAKING FINDINGS, AND IMPOSING SANCTIONS**

I.

NYSE Chicago, Inc. ("NYSE Chicago" or the "Exchange"), pursuant to Article 12, Rule 1(d) of the Rules of the Exchange, in lieu of filing charges, hereby enters this Order against the Respondent Morgan Stanley & Co. LLC ("Respondent," or the "firm") instituting proceedings, accepting an Offer of Settlement, making findings, and imposing sanctions.

II.

In anticipation of the institution of these proceedings, the Respondent has submitted an Offer of Settlement ("Offer") to NYSE Chicago, which NYSE Chicago has determined to accept. This Order accepting the Offer of the Respondent, together with the Offer in and of itself, hereby constitutes the "Settlement Agreement." Respondent, without admitting or denying the findings herein, except as to the Exchange's jurisdiction over the firm and over the subject matter of these proceedings, which is admitted solely for the purposes of this proceeding or any other proceeding brought by or on behalf of the Exchange, or to which the Exchange is a party, prior to a hearing and without adjudication of any issue of law or fact, consents to the entry of this Order Instituting Proceedings, accepting an Offer of Settlement, Making Findings, and Imposing Sanctions (the "Order").

III.

Morgan Stanley became a registered member with NYSE Chicago in July 1974. Its registration remains in effect. The Firm is headquartered in New York, New York, maintains 38 branches, and employs roughly 4,300 registered representatives. Morgan Stanley is a multi-service broker-dealer that provides, among things, securities underwriting, distribution, and financial advisory services; sales, equities, and equity derivatives trading; and financing and market-making activities in equity and fixed income securities and related products. The Firm has no relevant disciplinary history. This matter arose from an investigation conducted by FINRA's Department of Market Regulation.

IV.

FACTS

Between November 2019 and March 2021, Morgan Stanley & Co. LLC violated NYSE Chicago Rule 11.5190<sup>1</sup> by filing inaccurate, filing untimely, or failing to file approximately 41 required notifications to NYSE Chicago in connection with its participation in distributions of securities. Morgan Stanley & Co. LLC also violated NYSE Chicago Article 6, Rule 5 by failing to establish and maintain a system to supervise, including written supervisory procedures, reasonably designed to achieve compliance with NYSE Chicago's Regulation M related notification rules. Morgan Stanley & Co. LLC consents to a censure, and a fine of \$25,634 (resolved simultaneously with similar matters for a total fine of \$500,000).<sup>2</sup>

V.

LEGAL ANALYSIS

A. Applicable Rules

Regulation M, promulgated under the Securities Exchange Act of 1934, is the SEC's principal anti-manipulation provision that applies to securities offerings.

Regulation M is intended to preclude manipulative conduct by preventing persons with an interest in the outcome of an offering from influencing those offerings and from conditioning the market in order to facilitate a distribution.

Regulation M prohibits manipulative conduct by deeming certain conduct as unlawful. For example, subject to the exceptions set forth therein, Exchange Act Rule 101 prohibits bidding for or purchasing a covered security during the applicable restricted period.

NYSE Chicago Rule 11.5190 sets forth notice requirements that are applicable to all members participating in offerings of securities as a manager for purposes of monitoring compliance with the provisions of Regulation M.

NYSE Chicago Article 6, Rule 5 provides that each member organization "shall establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered and associated persons. Such written procedures must be reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable rules of the Exchange."

Between November 2019 and March 2021 (the "review period"), Morgan Stanley, as a manager, failed to submit, submitted untimely, and/or submitted inaccurate and/or incomplete restricted period notifications and/or trading notifications with the Exchange as set forth below. As a result, Morgan Stanley also failed to establish and maintain a system to supervise, including written supervisory procedures, reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable Exchange rules.

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<sup>1</sup> NYSE Chicago Rule 11.5190 was adopted on November 25, 2019.

<sup>2</sup> Those matters were brought by FINRA, New York Stock Exchange LLC, NYSE Arca, Inc., NYSE American LLC, NYSE National, Inc., and The Nasdaq Stock Market LLC.

As a result, Morgan Stanley violated NYSE Chicago Rule 11.5190 and Article 6, Rule 5.

Regulation M Restricted Period Notifications

NYSE Chicago Rule 11.5190(c)(1)(A) requires a member acting as a manager, or in a similar capacity, of a distribution of a security that is a covered security subject to a restricted period under Regulation M to provide written notification to the Exchange regarding whether a one-day or five-day restricted period applies under Rule 101 of Regulation M. The written notice must also provide the basis for such determination, including the contemplated date and time of the commencement of the restricted period, the listed security name and symbol, and identification of the distribution participants and affiliated purchasers. This is known as a Restricted Period Notification.

NYSE Chicago Rule 11.5190(c)(1)(A) requires the Restricted Period Notification to be filed no later than the business day prior to the first complete trading session of the applicable restricted period, unless later notification is necessary under specific circumstances.

During the review period, Morgan Stanley was a manager and required to submit Restricted Period Notifications pursuant to NYSE Chicago Rule 5190(c)(1)(A) in connection with numerous offerings subject to Regulation M.

Morgan Stanley, however, submitted untimely Restricted Period Notifications in connection with 26 distributions during that time. Morgan Stanley also submitted inaccurate and/or incomplete Restricted Period Notifications in connection with five distributions. Those notifications, among other things, failed to identify all of the syndicate members participating in relevant offerings.

By virtue of the foregoing, Morgan Stanley violated NYSE Chicago Rule 5190(c)(1)(A).

Regulation M Trading Notifications

NYSE Chicago Rule 11.5190(c)(1)(B) requires members acting as a manager, or in a similar capacity, of a distribution of a security to provide written notification to the Exchange regarding the pricing of the distribution, the security name and symbol, the type of security, the number of shares offered, the offering price, the last sale before the distribution, the pricing basis, the SEC effective date and time, the trade date, the restricted period, and identification of the distribution participants and affiliated purchasers. This is known as a Trading Notification.

Unless later notification is necessary under specific circumstances, NYSE Chicago Rule 11.5190(c)(1)(B) requires a member organization to submit the Trading Notification no later than the close of business the next business day following the pricing of the distribution.

NYSE Chicago Rule 11.5190(d) requires members acting as a manager, or in a similar capacity, of a distribution of a security that is considered “actively traded” under Exchange Act Rule 101 to provide a Trading Notification reflecting the member’s determination that no restricted period applies under Rule 101 and the basis for that determination. Members must submit the Trading Notification no later than the close of business the next business day following the pricing of the distribution, unless later notification is necessary under specific circumstances.

During the review period, Morgan Stanley, as a manager, was required to file Trading Notifications for numerous distributions of securities pursuant to NYSE Chicago Rule 11.5190(c)(1)(B) and Rule 11.5190(d).

Morgan Stanley, however, submitted untimely Trading Notifications in connection with two distributions during that time. Morgan Stanley also submitted inaccurate and/or incomplete Trading Notifications in connection with eight distributions. Those notifications, among other things, failed to identify all of the syndicate members participating in relevant offerings.

By virtue of the foregoing, Morgan Stanley violated NYSE Chicago Rule 11.5190(c)(1)(B) and Rule 11.5190(d).

#### Supervision

NYSE Chicago Article 6, Rule 5 provides that each member organization “shall establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered and associated persons. Such written procedures must be reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable rules of the Exchange.”

Between approximately November 2019 and December 2020, the Firm’s system for supervising compliance with the notification requirements of Regulation M was not reasonably designed to achieve compliance with certain applicable securities laws and regulations, and with certain applicable Exchange rules, as specified herein. Specifically, the firm’s system was not reasonably designed to verify the accuracy of certain elements of Regulation M filings. For example, the Firm failed to conduct an independent review to verify the accuracy of the identities of syndicate members listed in certain filings or to ensure that certain filings were updated when members were added to a distribution.

By virtue of the foregoing, Morgan Stanley violated NYSE Chicago Article 6, Rule 5.

Morgan Stanley took several steps to correct the above-referenced issues, including enhancing its supervisory systems and procedures regarding compliance with Regulation M and Rule 11.5190.

#### VI.

#### SANCTION

The firm also consents to the imposition of the following sanctions: censure and fine in the amount of \$25,634 (resolved simultaneously with similar matters for a total fine of \$500,000).<sup>3</sup>

In view of the foregoing, the Exchange deems it appropriate to censure and fine Morgan Stanley & Co. LLC \$25,634. Payment of this amount shall be due no later than the 15th day following the issuance of this Order.

NYSE CHICAGO, INC.

By:



Jaime L. Klima  
Chief Regulatory Officer

Date: 9/27/2022

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<sup>3</sup> Those matters were brought by FINRA, New York Stock Exchange LLC, NYSE Arca, Inc., NYSE American LLC, NYSE National, Inc., and The Nasdaq Stock Market LLC.