BEFORE THE BUSINESS CONDUCT COMMITTEE PANEL
OF THE
CBOE FUTURES EXCHANGE, LLC

	)	
In the Matter of:	)	
	)	
Morgan Stanley & Co, LLC	)	File No. CFE 15-0003
and Ari D. Litan,	)	
	)	
Respondents.	)	

DECISION ACCEPTING OFFER OF SETTLEMENT

This proceeding was instituted by a Panel of the Business Conduct Committee ("Committee") of CBOE Futures Exchange ("CFE") as a result of an investigation by CFE Regulatory staff and the issuance of a Statement of Charges against Respondents. In order to resolve this matter, Morgan Stanley & Co. LLC and Ari D. Litan submitted an Offer of Settlement for purposes of this proceeding without admitting or denying that a violation of Exchange Rules has been committed. With due regard to the stipulated facts and findings and the proposed sanction, contained therein, the Committee believes it is appropriate to accept the Offer of Settlement, attached hereto and made a part of this decision.

So Ordered for the Committee

June 28, 2016

/s/ Bruce Andrews
Bruce Andrews
Chairman
Business Conduct Committee Panel

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OFFER OF SETTLEMENT

On April 21, 2015, a Statement of Charges ("Statement of Charges") was issued by CBOE Futures Exchange ("CFE") to Morgan Stanley & Co. LLC ("Morgan Stanley") and to Ari D. Litan ("Litan") in the above-captioned matter, alleging violations of CFE Rules. In order to resolve these proceedings pursuant to the CFE Rule 708 - Offers of Settlement, Morgan Stanley and Litan hereby submit this joint Offer of Settlement. For purposes of this proceeding, and without admitting or denying that a violation of Exchange Rules has been committed as set out in the Statement of Charges, Morgan Stanley and Litan consent to the Stipulation of Facts and Findings and the Sanctions set forth below.

Stipulation of Facts and Findings:

1. During all relevant periods herein, Morgan Stanley was a CFE Trading Privilege Holder and Litan was a Related Party of Morgan Stanley.

2. During all relevant periods herein, the following CFE Rules were in full force and effect, as follows:

    a. **CFE Rule 608** - **Just and Equitable Principles of Trade** - It shall be an offense to engage in any act detrimental to the Exchange, in conduct inconsistent with just and equitable principles of trade or in abusive practices, including without limitation, fraudulent, noncompetitive or unfair actions.

    b. **CFE Rule 609 - Supervision** - Each Trading Privilege Holder shall be responsible for establishing, maintaining and administering reasonable supervisory procedures to ensure that its Related Parties and Customers comply with Applicable Law, the Rules of the Exchange and the Rules of the Clearing

Corporation. A Trading Privilege Holder may be held accountable for the actions of its Related Parties. In addition, each Responsible Trader shall be responsible for supervising the Related Parties of the Trading Privilege Holder represented by it, and may be held accountable for the actions of such Related Parties.

c. **CFE Rule 620 -** **<u>Disruptive Practices</u>** – No Trading Privilege Holder nor any of its Related Parties shall engage in any trading, practice or conduct on the Exchange or subject to the Rules of the Exchange that… demonstrates… reckless disregard for the orderly execution of transactions during the closing period…

3. On November 21, 2012, the final settlement day for the November 2012 CBOE Emerging Markets Volatility Index Volatility Security Futures ("VXEM"), Litan, on behalf of Morgan Stanley, placed market orders on CBOE to sell options on the iShares MSCI Emerging Market Index ("EEM options"). The orders totaled approximately 45,000 contracts across 20 strikes and generated imbalance messages. Approximately 21,550 contracts were filled. As a result of these option market orders, there was an imbalance in the option order books and, as a result of that imbalance, approximately half of the strike prices used to calculate VXEM settlement opened at prices significantly lower than where they had been on the previous day, and where they closed that same day. These orders and trades caused the CFE's VXEM to settle approximately 17.75% lower than the previous day's settlement price.

4. A Panel of the CFE Business Conduct Committee finds the acts, practices and conduct of Morgan Stanley as described above constitute a violation of Exchange Rules 608 - <u>Just and Equitable</u>, 609 - <u>Supervision</u> and 620 - <u>Disruptive Practices</u>, as described in paragraph 2.

5. A Panel of the CFE Business Conduct Committee finds the acts, practices and conduct of Litan as described above constitute a violation of Exchange Rules 608 - <u>Just and Equitable</u> and 620 - <u>Disruptive Practices</u>, as described in paragraph 2.

<u>Sanction</u>: $400,000 fine, which Morgan Stanley and Litan shall be jointly and severally liable;
$152,664 disgorgement; and
A suspension for Litan for a period of five months from direct or indirect access to CFE, suspension to begin July 1, 2016, and end December 1, 2016.

Further, Morgan Stanley and Litan acknowledge that each has read the foregoing Offer of Settlement, that no promise or inducement of any kind has been made to either by the Exchange or its staff, and that this Offer of Settlement is voluntary.

Morgan Stanley and Litan each understand and acknowledge that the Business Conduct Committee's decision in this matter will become part of its disciplinary record and may be considered in any future Exchange proceeding.

Morgan Stanley and Litan also acknowledge that the Business Conduct Committee's decision to accept or reject this Offer of Settlement is final, and that Morgan Stanley and Litan may not seek review thereof in accordance with Exchange Rule 703.

/s/ Morgan Stanley & Co. LLC
Morgan Stanley & Co. LLC

/s/ Ari D. Litan
Ari D. Litan