

## U.S. LISTED OPTIONS DISCLOSURES

### **Solicited Order Mechanisms**

Morgan Stanley & Co. LLC (“Morgan Stanley”) is required to notify customers pursuant to U.S. options exchange rules that option orders over 500 contracts may be utilized to cross customer options orders using certain exchange’s solicited order mechanisms.

### Nasdaq U.S. Options Exchanges – Solicited Order Mechanisms

When handling an order of 500 or more contracts on your behalf, Morgan Stanley may solicit other parties to execute against your order and may thereafter execute your order using the Nasdaq ISE (ISE), Nasdaq GEMX (GEMX) and Nasdaq MRX (MRX) Exchange’s Solicited Order Mechanisms. This functionality provides a single-price execution only, so that your entire order may receive a better price after being exposed to the Exchange’s participants, but will not receive partial price improvement. For further details on the operation of this Mechanism, please refer to Nasdaq ISE (ISE), Nasdaq GEMX (GEMX) and Nasdaq MRX (MRX) Rules Options 3 Section 11(d), all which are available at <https://listingcenter.nasdaq.com/rulebook>.

### Cboe Exchange, Inc. (C1) – Solicitation Auction Mechanisms

When handling an order of 500 or more contracts on your behalf, Morgan Stanley & Co., LLC may solicit other parties to execute against your order and may thereafter execute your order using the Cboe Exchange, Inc.’s Solicitation Auction Mechanism (“SAM”) and Complex Solicitation Auction Mechanism (“C-SAM”). This functionality provides a single-priced execution, unless the order results in price improvement for the entire quantity, in which case multiple prices may result. For further details on the operation of these mechanisms, please refer to Cboe Exchange, Inc. Rules 5.39 and 5.40 which are available at <https://markets.cboe.com/us/options/regulation/>.

### Cboe EDGX Exchange, Inc. – Solicitation Auction Mechanism

When handling an order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may solicit other parties to execute against your order and may thereafter execute your order using the Cboe Exchange, Inc.’s Solicitation Auction Mechanism. This functionality provides a single-priced execution, unless the order results in price improvement for the entire quantity, in which case multiple prices may result. For further details on the operation of this mechanism, please refer to Cboe EDGX Exchange, Inc. Rule 21.21 which is available at <https://markets.cboe.com/us/options/regulation/>.

### MIAX Options Exchange – PRIME Solicitation Auction

When handling an order of 500 standard or 5,000 mini-option contracts, Morgan Stanley & Co., LLC may solicit other parties to execute against your order and may thereafter execute your order using the MIAX Options Exchange’s PRIME Solicitation Auction Mechanism. This functionality provides a single-price execution only, so your entire order may receive a better price after being exposed to the Exchange’s participation, but will not receive partial price improvement. For further details on the operation of this mechanism, please refer to MIAX and MIAX Emerald Rule 515A, which is available at <https://www.miaxglobal.com/markets/us-options/all-options-exchanges/rulebooks>.

### BOX Exchange – Solicitation Auction

When handling an order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may solicit other parties to execute against your order and may thereafter execute your order using the BOX Exchange’s Solicitation Auction. This functionality provides a single-priced execution, unless the order results in price improvement for the entire quantity, in which case multiple prices may result. For further details on the operation of this mechanism, please refer to BOX Exchange Rule 7270(b) which is available at <https://rules.boxexchange.com/browse>.

# Morgan Stanley

## **Tied Hedge Transactions**

Morgan Stanley & Co. LLC (“Morgan Stanley”) is required to notify customers pursuant to U.S. options Exchange rules of our intent to use the tied hedge procedures that it has available for members to execute customer options orders.

**Cboe Exchange, Inc. – Tied Hedge Transactions** When handling an option order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. The option order may thereafter be executed using the Cboe Exchange, Inc.’s tied hedge procedures. These procedures permit the option order and hedging position to be presented for execution as a net-priced package subject to certain requirements. For further details on the operation of the procedures, please refer to Cboe Exchange, Inc. Rule 5.87, which is available at <https://www.cboe.com/us/options/regulation/>.

## **NYSE Arca Options – Tied Hedge Transactions**

When handling an option order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. The option order may thereafter be executed using the NYSE Arca Options tied hedge procedures. These procedures permit the option order and hedging position to be presented for execution as a net-priced package subject to certain requirements. For further details on the operation of the procedures, please refer to NYSE Arca Options Rule 6.47 Commentary .01, which is available at <https://www.nyse.com/regulation/arca-options>.

## **Nasdaq PHLX (PHLX) – Tied Hedge Transactions**

When handling an option order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. Except that options on the Nasdaq 100<sup>®</sup> Index including options with nonstandard expiration dates ("NDX" and "NDXP") may not be smaller than 50 contracts per order (there shall be no aggregation of multiple orders to satisfy the size parameter). The option order may thereafter be executed using the Nasdaq PHLX tied hedge procedures. These procedures permit the option order and hedging position to be presented for execution as a net-priced package subject to certain requirements, including bringing the stock/future hedge to the trading crowd without undue delay and announcing it concurrently with the option order. For further details on the operation of the procedures, please refer to Nasdaq PHLX Rule Options 8 Section 30 which is available at <https://listingcenter.nasdaq.com/rulebook/phlx/rules>.

## **BOX Exchange LLC – Tied Hedge Transactions**

When handling an option order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. The option order may thereafter be executed using the BOX Exchange LLC tied hedge procedures. These procedures permit the option order and hedging position to be presented for execution as a net-priced package subject to certain requirements. For further details on the operation of the procedures, please refer to BOX Exchange LLC Rule 7600 Commentary Interpretive Material IM-7600-2, which is available at <https://rules.boxexchange.com/browse>.

## **MIAX Sapphire Exchange – Tied Hedge Transactions**

When handling an option order of 500 contracts or more on your behalf, Morgan Stanley & Co., LLC may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. There shall be no aggregation of multiple orders to satisfy the size parameter, and at least one leg of the transaction must meet the minimum size requirement to be involved in a tied hedge. Prior to entering tied hedge orders on behalf of customers, the customer must be furnished with a written notification informing the customer that their order may be executed using MIAX Sapphire’s tied hedge procedures. For further

details on the operation of the procedures, please refer to MIAX Sapphire Rule 2040.01, which is available at <https://www.miaxglobal.com/markets/us-options/all-options-exchanges/rulebooks>.

## **Options Disclosure Document**

Pursuant to SEC Rule 9b-1 and various exchange rules, Morgan Stanley & Co. LLC is required to provide all clients who trade options and/or who receive options-related sales material, a current copy of the Characteristics and Risks of Standardized Options (the "ODD") including supplements, issued by the Options Clearing Corporation. A copy of the ODD and supplements can be found here: <https://www.theocc.com/Company-Information/Documents-and-Archives/Options-Disclosure-Document>.

## **Position Limits**

The U.S. options regulators have imposed position limits on the maximum number of equity and index exchange listed and over-the-counter (OTC) put and call options covering the same underlying security that may be held or written by a single investor or group of investors acting in concert or under common control (regardless of whether the options are purchased or written on the same or different exchanges or are held or written in one or more accounts or through one or more brokers). Under the terms of the Morgan Stanley Listed Options Agreement, clients agree not to violate these limits and authorize Morgan Stanley to take action to bring the client's positions in compliance with regulatory requirements. Morgan Stanley is required to monitor and report a client's positions to the options regulators and may be required by regulators to liquidate positions in excess of these limits. Failure by Morgan Stanley to adhere to these regulations may result in the imposition of fines and other regulatory actions. The position limit applicable to a particular option class is determined by the options exchanges and is based on the number of shares outstanding and trading volume of the security underlying the option. Positions are calculated on both the long and short side of the market. To calculate your long position you aggregate calls purchased (long calls) with puts written (short puts), on the same underlier. To calculate your short position, you aggregate calls written (short calls) and puts purchased (long puts) on the same underlier. OTC option positions are calculated separately from listed option positions. In addition, there are position limits on OTC options on non-U.S. listed equity securities for accounts held on U.S. broker-dealers. Expiring options are included in your end of day position.

Options positions under common control for all accounts are aggregated as follows:

<b>Listed Options</b>		<b>OTC Options</b>	
<b>Side of the Market</b>	<b>Option Positions</b>	<b>Side of the Market</b>	<b>Option Positions</b>
Bullish Positions	Long Calls + Short Puts	Bullish Positions	Long Calls + Short Puts
Bearish Positions	Short Calls + Long Puts	Bearish Positions	Short Calls + Long Puts

For example, if the limit on a particular option class is 250,000 contracts, an investor or group of investors acting in concert or under common control (i.e., same order placer or ultimate decision maker) may purchase up to 250,000 listed calls on a particular underlying security, and at the same time, write up to 250,000 listed calls covering the same underlying security (long call and short call positions are on opposite sides of the market and are not aggregated for purpose of position limits). An investor or group of investors acting in concert or under common control that purchased 125,000 listed puts on a particular underlying security may at the same time, write up to but no more than 125,000 listed calls covering the same underlying security (long put and short call positions are on the same side of the market, and are aggregated for purposes of the limits) without exceeding the position limit for the security. In addition, the same investor or group of investors acting in concert or under common control may purchase or write up to 250,000 OTC options on the same side of the market without exceeding the position limits for the underlying security.

The exchanges' position limit rules also permit positions in excess of the applicable limit, if the client is engaging in certain qualified hedging strategies. These exemptions from the established position limits can be found in each exchange's rules. For example, Cboe Exchange, Inc. Rules Chapter 8 Section B. Position Limits, Exercise Limits, Liquidation and Reporting (link: <https://www.cboe.com/us/options/regulation/> and FINRA Rule 2360 Options (link: <https://www.finra.org/rules-guidance/rulebooks/finra-rules/> discuss the qualified hedge strategies in detail. To prevent exceeding the regulatory established position limits, clients should determine the current position limits from their brokers or the Options Clearing Corporation Website (<http://www.optionsclearing.com>) before engaging in any options transactions.

## **Exercise Limits**

The U.S. options regulators have imposed exercise limits on the maximum number of equity and index listed and OTC options covering the same underlying security that can be exercised within any five (5) consecutive business day period by a single investor or group of investors acting in concert or under common control (regardless of whether the options are purchased or written on the same or different exchanges or are held or written in one or more accounts or through one or more brokers). The exercise limit is the same as the position limit for the underlying security. If a client has an open option position that is above the established position limit, but has on a qualified hedge strategy, they are permitted to exercise the amount of options that they are fully hedged for within any five (5) consecutive business day period.