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FINRA Fines Morgan Stanley $1M for Unfair Pricing.

The Financial Industry Regulatory Authority announced Thursday that Morgan Stanley & Co. LLC and a subsidiary have agreed to pay $1.19 million in fines and restitution for unfair pricing of muni and corporate bonds in transactions with customers.

FINRA found that in 165 municipal bond transactions, Morgan Stanley and Morgan Stanley Smith Barney, a joint venture of the firm and Citigroup, failed to purchase or sell bonds at prices reasonably related to fair market value.

The muni transgressions include violations of the Municipal Securities Rulemaking Board's Rule G-17 on fair dealing and G-30 on prices and commissions.

G-17 requires broker-dealers to deal fairly with customers and G-30 prohibits dealers from purchasing munis for their own accounts from customers, or selling munis from their own accounts to customers, at aggregate prices that are not fair and reasonable, taking into consideration all relevant factors. These factors include the best judgment of the broker-dealer as to the fair market value of the securities at the time of the transaction.

The firm will pay a fine of $1 million and $188,000 in restitution plus interest, FINRA said. The MSRB is to be allotted $560,000 of the fine.

The total amount of restitution owed as a result of the violations, FINRA said, was $452,280.90, more than $250,000 of which stemmed from MSRB violations. However, Morgan Stanley already made considerable restitution payments.

The violations occurred during several quarters over three years that were examined by FINRA, including the third quarter of 2008, second quarter of 2009, first quarter of 2010, fourth quarter of 2010, and the third quarter of 2011. Morgan Stanley was previously fined $1 million in October 2011 for similar conduct that FINRA alleged the firm had engaged in between 2003 and 2010.

Morgan Stanley was also dinged for unfair pricing in 116 corporate and agency bond transactions.

"Firms must ensure that customers who buy and sell securities – including corporate, agency, and municipal bonds – receive execution prices that are consistent with prices available in the marketplace," said Thomas Gira, executive vice president of FINRA Market Regulation. "FINRA will continue to sanction firms that execute fixed income transactions for their customers at unfair prices, and will require firms that violate such standards to reimburse customers."

Morgan Stanley neither admitted nor denied FINRA's findings, but pointed out that the infractions alleged by the authority were a small percentage of the firm's dealings during those time periods.

"Morgan Stanley Wealth Management is committed to seeking the best execution reasonably available for our clients," said managing director James Wiggins. "We fully cooperated with FINRA's investigation. The settlement involved fewer than 300 fixed income transactions over a four-year period during which some four million such trades were conducted. FINRA did not allege any willful or fraudulent conduct by the firm. Morgan Stanley will make restitution to the affected clients."

by: KYLE GLAZIER