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Morgan Stanley Fined Over Excessive Pricing of Munis.

WASHINGTON – Morgan Stanley has agreed to pay $170,284 over Financial Industry Regulatory Authority findings that the firm sold municipal securities, including some from Puerto Rico, to customers at prices that were not fair or reasonable.

The firm will pay $115,000 of the $170,284 as a FINRA fine and the remaining $55,284 as restitution to its customers. Morgan Stanley was responsible for a total of $57,159 in restitution but has already paid some to address the violations, FINRA said.

The transactions FINRA found took place from July 1, 2013 through March 31, 2014, according to the settlement document. The findings are the result of reviews that FINRA's fixed income investigations staff carried out.

Morgan Stanley consented to the settlement without admitting or denying the findings. Christine Jockle, a spokesperson for the firm, said the settlement "involves a very small number of municipal bond trades from 2013 and 2014."

"Morgan Stanley is committed to providing fair and reasonable prices to its clients for their municipal bond transactions," she said. "The firm has agreed to improve its prices for these trades, and has enhanced its processes around reviewing bond trade prices for its wealth management clients."

FINRA found that from Oct. 1, 2013 through Dec. 31, 2013, Morgan Stanley purchased munis in 14 pairs of transactions for its own account from a customer or sold munis for its own account to a customer at aggregate prices, including markups or markdowns that were not fair and reasonable. The determination that the aggregate prices were not fair or reasonable took a variety of factors into consideration, including: the best judgment of the dealers as to the fair market value of the securities at the time of the transactions and of any securities exchanged or traded in connection with the transactions; the expenses involved in carrying out the transactions; the fact that the dealers are entitled to a profit; and the total amount of the transactions.

The firm's actions, which led to percentage profits of between 3.03% and 5.89%, violated Municipal Securities Rulemaking Board Rules G-17 on fair dealing and G-30 on prices and commissions, FINRA said.

Morgan Stanley also violated the MSRB rules in six muni transactions from July 1, 2013 through Dec. 31, 2013, and 13 from Jan. 1, 2014 through March 31, 2014, according to the settlement documents. The transactions included bonds issued by the Puerto Rico Sales Tax Financing Corp., the commonwealth of Puerto Rico, and the Puerto Rico Electric Power Authority.

Additionally, FINRA found that Morgan Stanley violated Rules G-17 and G-30 through two muni transactions from Jan. 1, 2014 through March 31, 2014 when the firm purchased or sold munis as agent for a customer for an excessive commission or service charge. The agent activity violated a separate portion of Rule G-30 than the other violations. The two transactions involved bonds from

Puerto Rico's Highway and Transportation Authority and the Puerto Rico Aqueduct and Sewer Authority.

This isn't the first time Morgan Stanley has been hit with FINRA fines for unfair prices. In August 2013, the firm was fined $1 million for charging unfair prices, some of which violated G-30. In October 2011, it was fined $1 million, of which $650,000 was related to unfair markups and markdowns.

The Bond Buyer

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