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Finra Fines Morgan Stanley \$1.6M Over Muni Transaction Shortfalls.

Broker-dealer self-regulator finds pattern of gross supervisory failure involving municipal securities over a five-year period.

Finra has imposed a \$1.6 million fine on Morgan Stanley for significant lapses in handling municipal securities transactions.

In a statement Thursday, the broker-dealer self-regulatory organization announced the landmark action, highlighting it as the first disciplinary case in which it “charged a firm with violating the close-out requirements of Municipal Securities Rulemaking Board (MSRB) Rule G-12(h) and related supervisory failures.”

“Member firms must establish and maintain controls and procedures for detecting, resolving and preventing the consequences of municipal short positions and fails to receive,” Bill St. Louis, executive vice president and head of enforcement at Finra, [said in the statement](#).

In its decision, Finra underscored the firm’s gross negligence as shown by its “repeated failures to timely close out failed inter-dealer municipal securities transactions.”

Under MSRB Rule G-12(h), broker-dealers must cancel or close out failed inter-dealer transactions in munis within 20 days after the settlement date. Finra found that between December 2016 and August 2021, Morgan Stanley failed to cancel or close out in a timely manner 239 inter-dealer municipal transactions with a total value of roughly \$9 million.

The financial industry regulator said the financial giant also fell short in its obligation to “obtain physical possession or control of municipal security positions that are short more than 30 calendar days,” as required under Rule 15c3-3(d)(2) of the Securities Exchange Act of 1934.

[Finra said](#) that from January 2016 through August 2021, Morgan Stanley neglected to take the necessary steps to obtain possession or control of 247 municipal securities, valued at about \$9.4 million, which it had failed to receive for an average of approximately 177 days.

While Morgan Stanley did take steps to improve how it addresses municipal fails-to-receive, those efforts were too little and too late. The firm only revisited its systems and processes in June 2021, and updated its written supervisory procedures in September 2021.

The financial giant has consented to Finra’s findings without admitting or denying the allegations.

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