

Bond Case Briefs

Municipal Finance Law Since 1971

Morgan Stanley to Pay \$1.6-Mln Over Municipal Securities Violations: Finra

The Financial Industry Regulatory Authority has fined Morgan Stanley \$1.6 million based on findings that the wirehouse repeatedly failed to abide by rules set by the Municipal Securities Rulemaking Board for processing and settling municipal securities transactions.

From 2016 to August 2021, Morgan Stanley failed to close out 239 failed inter-dealer municipal securities transactions and to promptly take physical possession or control of 247 municipal securities that were short more than 30 calendar days, Finra said in a Thursday morning announcement. The 30 days exceeded by 10 days the window for closing out allowed under the MSRB rules, according to Finra.

Finra said that Morgan Stanley violated its requirements to maintain a reasonably designed supervisory system to comply with MSRB rules.

Finra noted that this action marked its first time imposing a fine based on the violation of the MSRB's close-out requirements, but it was the second time it had sanctioned Morgan Stanley for supervisory failures regarding short positions in municipal securities, as it had done so in 2015.

"Member firms must establish and maintain controls and procedures for detecting, resolving and preventing the consequences of municipal short positions and [any] fails to receive," Bill St. Louis, Finra's executive vice president and head of enforcement, said in a statement.

A spokesperson for Morgan Stanley, which consented to FINRA's findings without admitting or denying the charges, said: "Morgan Stanley has enhanced its policies and procedures for closing out municipal short positions and is pleased to resolve this matter."

Morgan Stanley will pay its \$1.2 million of its \$1.6 million fine to the MSRB and also had, as of September 2021, resolved all outstanding municipal bond positions that violated MSRB rules, Finra said.

In March 2015, Finra censured Morgan Stanley and imposed a \$675,000 fine based on findings that it had violated MSRB rules "by failing to implement adequate supervisory procedures to address short positions in tax-exempt municipal bonds," Finra said.

The regulator also found at that time that Morgan Stanley failed "to provide adequate guidance or oversight on covering municipal short positions" and "inaccurately" represented "to customers that the interest they received on municipal bonds that the firm did not hold was non-taxable when it was paid by the firm and thus taxable as ordinary income," Finra said.

by AdvisorHub Staff

February 15, 2024

