

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009019383801**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Morgan Stanley & Co. LLC, Respondent
CRD No. 8209

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

Morgan Stanley & Co. LLC ("Morgan Stanley" or the "Firm") has been a member of FINRA since 1970. In 2009, the Global Wealth Management Group of Morgan Stanley and the Smith Barney Division of Citigroup Global Markets, Inc. were contributed into Morgan Stanley Smith Barney Holdings LLC, a new joint venture. Morgan Stanley Smith Barney LLC, which is a registered investment advisor and broker-dealer, became a FINRA member in May 2009.

RELEVANT DISCIPLINARY HISTORY

Morgan Stanley has the following relevant disciplinary history:

In May 2012, Morgan Stanley consented to a \$1.75 million fine and agreed to pay restitution of approximately \$600,000 based, in part, on findings that it failed to establish and maintain a supervisory system, including written procedures, to achieve compliance with rules related to the sale of leveraged, inverse, and inverse-leveraged exchange traded funds ("ETFs") and making unsuitable recommendations of non-traditional ETFs. (Letter of Acceptance, Waiver and Consent No. 2009018161101)

In January 2012, Morgan Stanley consented to a \$600,000 fine based on findings that it failed to establish a reasonable supervisory system and procedures to ensure that the sale of structured products complied with the Firm's internal guidelines related to concentration and minimum net worth and that it made unsuitable recommendations of structured products. (Letter of Acceptance, Waiver and Consent No. 2008015963801).

In May 2011, Morgan Stanley consented to a \$100,000 fine based on findings that it failed to establish adequate procedures and an effective supervisory system to ensure that the Firm applied appropriate sales charge discounts for unit investment trust purchases in certain instances. (Letter of Acceptance, Waiver and Consent No. 2008015700601).

OVERVIEW

Between approximately February 2007 and February 2009, approximately 140 accounts were opened by non-U.S. customers (the "Bank Accounts") with a Swiss affiliate bank ("Bank") of Morgan Stanley. These accounts were serviced by investment representatives in the Firm's Private Wealth Management unit ("PWM"). Morgan Stanley did not establish and maintain a reasonable supervisory system, including written procedures, to supervise the investment representatives' activities in connection with the Bank Accounts.

Based on the foregoing, the Firm violated NASD Rules 3010 and 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct after December 15, 2008).

FACTS AND VIOLATIVE CONDUCT

Relevant Rules

NASD Rule 3010(a) requires that member firms establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules. Final responsibility for proper supervision shall rest with each member firm.

NASD Rule 3010(b) requires that member firms establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable NASD and FINRA Rules.

The Bank Accounts and Supervision of Those Accounts

From approximately February 2007 through February 2009, approximately 140 accounts were opened by non-U.S. individuals and entities that were maintained at the Bank and serviced by Morgan Stanley's PWM investment representatives in the United States. All Bank Account holders signed portfolio management agreements that explicitly permitted the Bank to delegate asset management to Morgan Stanley. Pursuant to that provision in the Bank's portfolio management agreements, PWM investment representatives provided investment recommendations and other services to the holders of the accounts. These investment representatives facilitated the completion of the Bank's new account documents, served as the customers' primary point of contact, provided investment recommendations and advice, and relayed order information to the Bank on behalf of the customers.

The PWM investment representatives who serviced the Bank Accounts were based in U.S. branch offices. Accordingly, their conduct and supervision was governed by Morgan Stanley policies and procedures applicable to PWM offices. However, there were certain differences between Morgan Stanley's supervision of the PWM investment representatives' servicing of the Bank Accounts and accounts maintained at Morgan Stanley. Further, there was not a separate supervisory system or procedures in place that specifically governed the supervision of the investment representatives' servicing of the Bank Accounts. In addition, although the Bank supervised the Bank Accounts and the transactions therein, the Bank did not supervise the PWM investment representatives.

In June 2008, PWM investment representatives were notified that they could no longer open new Bank Accounts. Between approximately February 2009 and August 2009, Morgan Stanley ended the arrangement that had allowed PWM investment representatives to service the Bank Accounts. During that time, customers either transferred their Bank Accounts to Morgan Stanley or were assigned a Bank representative to service their accounts. U.S. based PWM investment representatives no longer service the Bank Accounts.

Violations

During the relevant period, Morgan Stanley failed to establish and maintain a separate supervisory system, including written procedures, to supervise the PWM investment representatives with respect to their servicing of approximately 140 Bank Accounts.

As a result, the Firm violated NASD Rules 3010 and 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct on or after December 15, 2008).

B. Respondent also consents to the imposition of the following sanctions:

- A censure; and
- a fine of \$100,000.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against Respondent;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including

its acceptance or rejection.

III.

OTHER MATTERS

Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about my disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf

has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that the Firm has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the Firm to submit it.

5 March 2014
Date

Harry Walters
Morgan Stanley & Co LLC
Morgan Stanley & Co. LLC, Respondent
By: Harry Walters
Title: Managing Director

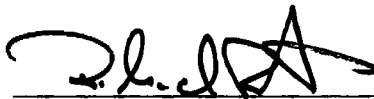
Reviewed by:

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Accepted by FINRA:

3.11.14
Date

Signed on behalf of the
Director of ODA, by delegated authority



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