

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110303983-01**

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

RE: Morgan Stanley Smith Barney LLC, Respondent
Broker-Dealer
CRD No. 149777

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Morgan Stanley Smith Barney LLC (the "firm") 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 the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

The firm has been a member of FINRA since May 19, 2009, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On May 9, 2012, FINRA accepted an AWC in connection with 20100215694 in which the firm was fined \$62,500, of which \$7,500 was for reports of large block corporate bond transactions that were reported late to the Trade Reporting and Compliance Engine ("TRACE") from January 1, 2010 through March 31, 2010, and \$5,000 was for late reports to TRACE of agency bond transactions from October 1, 2010 through December 31, 2010.

SUMMARY

In matter no. 20110303983, the Market Regulation Department ("Market Regulation") reviewed the firm's compliance with Order Audit Trail System ("OATS") reporting requirements for the period May 1, 2011 through August 31, 2011 (the "2T11 period").

In matter no. 20120335002, Market Regulation reviewed the firm's compliance with TRACE reporting rules in connection with transactions involving Securitized Products ("SPs") for the period April 1, 2012 through June 30, 2012 (the "2Q12 period").

In matter no. 20120347276, Market Regulation reviewed the firm's compliance with TRACE reporting rules in connection with large block corporate bond transactions for the period July 1, 2012 through September 30, 2012 (the "3Q12 period").

In matter no. 20130357974, Market Regulation reviewed the firm's compliance with TRACE reporting rules in connection with large block Agency Debt transactions for the period October 1, 2012 through December 31, 2012 (the "4Q12 period").

In matter no. 20130368945, Market Regulation reviewed the firm's compliance with TRACE reporting rules in connection with SP transactions for the period January 1, 2013 through March 31, 2013 (the "1Q13 period").

FACTS AND VIOLATIVE CONDUCT

20110303983 (2T11 OATS review)

1. During the 2T11 period, the firm (a) transmitted to OATS 78 Execution or Combined Order/Execution Reports that the OATS system was unable to link to the related trade reports in a FINRA transaction reporting system because they contained inaccurate, incomplete, or improperly formatted data; and (b) submitted six Execution Reports in which the firm failed to append the required Reporting Exception Code. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.

20120335002 (2Q12 TRACE SP review)

2. During the 2Q12 period, the firm failed to report to TRACE 2,954 SP transactions within the time required by FINRA Rule 6730. These transactions constituted 13.6% of the transactions in TRACE-eligible SP securities that the firm was required to report to TRACE during the 2Q12 period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern and practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

20120347276 (3Q12 TRACE Corporate review)

3. During the 3Q12 period, the firm failed to report to TRACE 60 large block S1 transactions in corporate securities within 15 minutes of the time of execution and, with respect to 45 of these transactions, the firm failed to report to TRACE the correct time of execution. These transactions constituted 15.4% of the large block S1 transactions in TRACE-eligible corporate securities that the firm was required to report to TRACE during the 3Q12 period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) (for the late reports) and FINRA Rule 6730(c)(8) (for the inaccurate reports).

20130357974 (4Q12 TRACE Agency review)

4. During the 4Q12 period, the firm failed to report to TRACE 61 large block S1 transactions in agency securities within 15 minutes of the time of execution. These transactions constituted 10.1% of the transactions in TRACE-eligible agency securities that the firm was required to report to TRACE during the 4Q12 period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a).

20130368945 (1Q13 TRACE SP review)

5. During the 1Q13 period, the firm failed to report to TRACE 1,171 SP transactions within the time required by FINRA Rule 6730. These transactions constituted 3.5% of the transactions in TRACE-eligible SP securities that the firm was required to report to TRACE during the 1Q13 period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern and practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

B. Respondents also consent to the imposition of the following sanctions:

a censure and a fine of \$41,000 (\$6,000 for the OATS reporting violations in 20110303983; \$5,000 for the TRACE SP reporting violations in 20120335002; \$10,000 for the TRACE Corporate reporting violations in 20120347276; \$10,000 for the TRACE Agency reporting violations in 20130357974; and \$10,000 for the TRACE SP reporting violations in 20130368945);

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

The firm 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

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

- A. To have a Complaint issued specifying the allegations against the firm;
- 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, the firm 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.

The firm 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

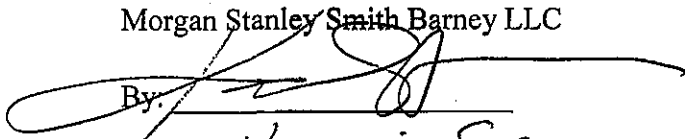
The firm understands that:

- 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 the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm’s permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm’s 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. The firm 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. The firm 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 the firm’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. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 it has agreed to the AWC's 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.

12/11/13
Date

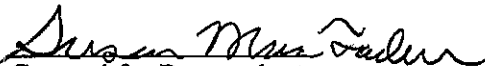
Respondent
Morgan Stanley Smith Barney LLC

By: 

Name: Katherine Stowe

Title: Executive Director

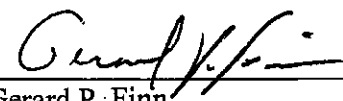
Reviewed by:


Counsel for Respondents

Accepted by FINRA:

2/5/14
Date

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


Gerard P. Finn
Chief Counsel
Department of Market Regulation