

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140431359-01**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Morgan Stanley Smith Barney LLC (the "firm" or "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 Respondent 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

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

RELEVANT DISCIPLINARY HISTORY

On April 25, 2013, FINRA accepted an AWC in connection with 20110264460 in which the firm was fined \$47,500, of which \$10,000 was for TRACE reporting violations that occurred in 4Q10, \$12,500 was for TRACE reporting violations that occurred in 3Q11, and \$7,500 was for TRACE reporting violations that occurred in 4Q11 and up through February 3, 2012.

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 TRACE reporting violations that occurred in 1Q10, and \$5,000 was for TRACE reporting violations that occurred in 4Q10.

SUMMARY

In connection with matter no. 20140431359, the TRACE Agency and Securitized Products staff of FINRA's Department of Market Regulation ("Market Regulation") reviewed the firm's Securitized Product ("SP") transaction reporting during period of July 1, 2014 through September 30, 2014 (the "3Q14 period").

In connection with matter no. 20150442568, the TRACE Agency and SP staff of Market Regulation reviewed the firm's Agency Debt transaction reporting during the period of October 1, 2014 through December 31, 2014 (the "4Q14 period").

In connection with matter no. 20150454100, the TRACE Corporate Bonds staff of Market Regulation reviewed the firm's corporate bond transaction reporting during the period of January 1, 2015 through March 31, 2015 (the "1Q15 period").

Based on the foregoing reviews, the staff determined that the firm violated FINRA Rules 6730(a) and 2010.

FACTS AND VIOLATIVE CONDUCT

20140431359 (3Q14 period – SP)

1. During the 3Q14 period, the firm failed to report 452 SP transactions within the time required by FINRA Rule 6730(a) to TRACE. These transactions constituted 2.9% of the transactions in TRACE-eligible Securitized Products (15,550) that the firm reported to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

20150442568 (4Q14 period – Agency)

2. During the 4Q14 period, the firm failed to report 100 transactions in Agency Debt Securities within the time required by FINRA Rule 6730(a) to TRACE. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

20150454100 (1Q15 period – large block corporate bonds)

3. The firm failed to report to TRACE 64 large block S1 transactions in TRACE-eligible corporate debt securities within 15 minutes of the time of execution. These late transactions constituted approximately 15.1 percent of the 423 large block S1 transactions in TRACE-eligible corporate debt securities that the firm reported during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a).

- B. The firm also consents to the imposition of the following sanctions:

A censure and a fine of \$102,500.

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

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 Chief Legal Officer, 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 the firm; 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 accordance with FINRA Rule 8313;
 - 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.

September 26, 2016
Date

By: Harry Webster

Name: HARRY T. WALTERS

Title: MANAGING DIRECTOR

Counsel for Respondent

October 17, 2016
Date

Robert A. Marchman
Robert A. Marchman
Executive Vice President
Department of Market Regulation