

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015047758201**

**TO: Department of Enforcement
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" or "Morgan Stanley") 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 Morgan Stanley alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Morgan Stanley 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 has been registered as a broker-dealer with FINRA since May 2009. The firm was created through the merger of the Global Wealth Management Group of Morgan Stanley & Co. LLC (CRD No. 8209) and the Smith Barney Division of Citigroup Global Markets Inc. (CRD No. 7059) into a joint venture. Morgan Stanley is headquartered in Purchase, New York, and employs over 23,000 registered individuals in approximately 730 branch offices.

RELEVANT DISCIPLINARY HISTORY

On May 13, 2015, the firm was censured and fined \$225,000, of which \$190,000 was for late and inaccurate trade reporting violations to the Trade Reporting and Compliance Engine ("TRACE") during the periods April 1, 2013 through March 31, 2014, and July 1, 2014 through September 30, 2014; and \$15,000 for inaccurate trade reporting of municipal securities transactions during the period of January 1, 2013 through March 31, 2013.

On October 17, 2016, the firm was censured and fined \$102,500 for late reporting of TRACE-eligible securities transactions during the period of July 1, 2014 through March 31, 2015.

OVERVIEW

From July 1, 2015 to December 31, 2018, Morgan Stanley failed to timely report a total 1,068 fixed income transactions, 609 of which qualify as a large block transaction,¹ to TRACE or the Real-time Transaction Reporting System ("RTRS"). The untimely reports had several causes, including manual errors by firm employees and untimely amendments or corrections made to TRACE reports, and the improper set-up of relevant CUSIPs in the firm's reporting system. In addition, a coding error in the firm's TRACE reporting system caused prices in certain agency debt transactions to be reported to five decimal points instead of the required six decimal points. These trade reports failed to match with counter-party trade reports and were rejected by TRACE. The firm manually corrected the rejected trade reports but failed to do so within the specified timeframe.

Based upon the foregoing, the firm violated FINRA Rules 6730 and 2010, and MSRB Rule G-14.

FACTS AND VIOLATIVE CONDUCT

Applicable Rules

1. FINRA Rule 6730(a) states, in relevant part, that "[e]ach member that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. . . . as soon as practicable, but no later than within 15 minutes of the Time of Execution, except as otherwise specifically provided [in this Rule]. Transactions not reported within the specified timeframe will be designated as 'late.'" FINRA Rule 6730(f) provides that "[a] pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of Rule 2010."
2. MSRB Rule G-14(b) requires that each broker, dealer or municipal securities dealer report to the RTRS information concerning each purchase or sale transaction effected in municipal securities promptly, accurately and completely. Rule G-14 RTRS General Procedures (a)(ii) require that, with a few limited exceptions, "[t]ransactions effected with a Time of Trade during the hours of the RTRS Business Day shall be reported within 15 minutes of Time of Trade to an RTRS Portal."

Morgan Stanley's Late Reporting of Large Block Transactions

3. During the periods of July 1, 2016 to June 30, 2017, January 1, 2018 to June 30, 2018, and October 1, 2018 to December 31, 2018, the firm failed to report to TRACE 191 large block transactions in TRACE-eligible agency debt securities within the time required by

¹ A "large block transaction" is defined as a transaction involving a quantity of \$5 million face amount or greater.

FINRA Rule 6730. These transactions represented 10% of the total number of large block transactions in TRACE-eligible agency debt securities that the firm reported during the period, and constituted a pattern or practice of late reporting without exceptional circumstances.

4. During the period of July 1, 2016 through June 30, 2017, the firm failed to report to TRACE 292 large block transactions in TRACE-eligible corporate debt securities within the time required by FINRA Rule 6730. These transactions represented 8.8% of the total number of large block transactions in TRACE-eligible corporate debt securities that the firm reported during the period and constituted a pattern or practice of late reporting without exceptional circumstances.
5. As a result of the foregoing conduct described in paragraphs three and four, the firm violated FINRA Rules 6730(a) and 2010.
6. During the periods of January 1, 2016 through March 31, 2016, and July 1, 2016 through December 31, 2016, the firm failed to report to the RTRS 126 large block transactions in municipal debt securities within the time prescribed by Rule G-14 RTRS Procedures and the RTRS Users Manual. These transactions represented 17.1% of the total number of large block transactions in municipal debt securities that the firm reported during the periods.
7. As a result of the foregoing conduct described in paragraph six, the firm violated MSRB Rule G-14(b).

Morgan Stanley's Late Reporting of Agency Transactions

8. During the period of July 1, 2015 through March 31, 2016, the firm failed to report to TRACE 459 transactions in TRACE-eligible agency debt securities within the time required by FINRA Rule 6730. These late transactions constituted a pattern or practice of late reporting without exceptional circumstances.
9. As a result of the foregoing conduct described in paragraph eight, the firm violated FINRA Rules 6730(a) and 2010.

B. Morgan Stanley also consents to the imposition of the following sanctions:

- Censure;
- Fine of \$300,000 (\$270,000 for the TRACE reporting violations and \$30,000 for the MSRB reporting violations); and
- Written certification, as described below.

Morgan Stanley agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Morgan Stanley has submitted an Election of Payment Form showing the method by which it proposes to pay the fine imposed.

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

Within 60 days after the issuance of this AWC, an appropriate principal of Morgan Stanley shall certify in writing, addressed to Kevin McGee, Senior Counsel, at the address below, that Morgan Stanley has (i) reviewed its systems, policies, and procedures, written and otherwise, governing the firm's trade reporting of fixed income securities; and (ii) as of the date of the certification, the firm has established and implemented systems, policies, and procedures, written and otherwise, governing the trade reporting of fixed income securities that are reasonably designed to achieve compliance with FINRA Rule 6730(a) and MSRB Rule G-14. The certification shall describe with specificity the actions that Morgan Stanley took to ensure such compliance.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Morgan Stanley 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, Morgan Stanley 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.

Morgan Stanley 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

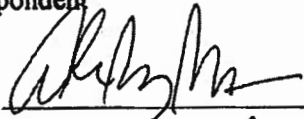
Morgan Stanley understands that:

- 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 Morgan Stanley; 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 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. Morgan Stanley 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. Morgan Stanley 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. Morgan Stanley 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.

2/28/20
Date

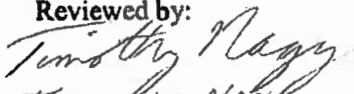
Morgan Stanley Smith Barney LLC
Respondent

By: 

Name: Allison D. Patton

Title: Managing Director

Reviewed by:


TIMOTHY NAGY
STOLEY AUSTIN, LLP
Attorney Name
Counsel for Morgan Stanley

Accepted by FINRA:

March 25, 2020

Date

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



Kevin M. McGee
Senior Counsel
FINRA Department of Enforcement