Press Release

# SEC Charges Morgan Stanley in Connection With Failure to Detect or Prevent Misappropriation of Client Funds

**FOR IMMEDIATE RELEASE**
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*Washington D.C., June 29, 2018* — The Securities and Exchange Commission today announced that Morgan Stanley Smith Barney (MSSB) has agreed to pay a $3.6 million penalty and to accept certain undertakings for its failure to protect against its personnel misusing or misappropriating funds from client accounts.

The SEC's order finds that MSSB failed to have reasonably designed policies and procedures in place to prevent its advisory representatives from misusing or misappropriating funds from client accounts. The order further finds that although MSSB's policies provided for certain reviews of disbursement requests, the reviews were not reasonably designed to detect or prevent such potential misconduct.

According to the SEC's order, MSSB's insufficient policies and procedures contributed to its failure to detect or prevent one of its advisory representatives, Barry F. Connell, from misusing or misappropriating approximately $7 million out of four advisory clients' accounts in approximately 110 unauthorized transactions occurring over a period of nearly a year.

"Investment advisers must view the safeguarding of client assets from misappropriation or misuse by their personnel as a critical aspect of investor protection," said Sanjay Wadhwa, Senior Associate Director of the SEC's New York Regional Office. "Today's order finds that Morgan Stanley fell short of its obligations in this regard."

Without admitting or denying the findings, MSSB consented to the SEC's order, which includes a $3.6 million penalty, a censure, a cease-and-desist order, and undertakings related to the firm's policies and procedures. Morgan Stanley previously repaid the four advisory clients in full plus interest.

The SEC previously filed fraud charges against Barry Connell, who was also criminally charged by the U.S. Attorney's Office for the Southern District of New York. Both sets of charges as to Connell remain pending.

The SEC's investigation has been conducted by Jonathan Grant and Wendy Tepperman, with assistance from George O'Kane and Dugan Bliss, and has been supervised by Mr. Wadhwa.

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## Related Materials

- SEC Order