

News Release

For Release: Wednesday, December 26, 2018
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FINRA Fines Morgan Stanley \$10 Million for AML Program and Supervisory Failures

WASHINGTON - FINRA announced today that it has fined Morgan Stanley Smith Barney LLC \$10 million for anti-money laundering (AML) program and supervisory failures that spanned a period of more than five years.

FINRA found that Morgan Stanley's AML program failed to meet the requirements of the Bank Secrecy Act because of three shortcomings:

- > First, Morgan Stanley's automated AML surveillance system did not receive critical data from several systems, undermining the firm's surveillance of tens of billions of dollars of wire and foreign currency transfers, including transfers to and from countries known for having high money-laundering risk.
- > Second, Morgan Stanley failed to devote sufficient resources to review alerts generated by its automated AML surveillance system, and consequently Morgan Stanley analysts often closed alerts without sufficiently conducting and/or documenting their investigations of potentially suspicious wire transfers.
- > Third, Morgan Stanley's AML Department did not reasonably monitor customers' deposits and trades in penny stock for potentially suspicious activity, despite the fact that its customers deposited approximately 2.7 billion shares of penny stock, which resulted in subsequent sales totaling approximately \$164 million during that time period.

FINRA also found that Morgan Stanley failed to establish and maintain a supervisory system reasonably designed to comply with Section 5 of the Securities Act of 1933, which generally prohibits the offer or sale of unregistered securities. In particular, Morgan Stanley divided responsibility for vetting its customers' deposits and sales of penny stock among its branch management and two home office departments without reasonable coordination among them. Instead, the firm primarily relied on its customers' representations that the penny stock they sought to deposit was not restricted from sale, and the representations of issuers' counsel that the customers' sales complied with an exemption from the registration requirements. As a result, Morgan Stanley failed to reasonably evaluate the customers' penny stock transactions for "red flags" indicative of potential Section 5 violations.

Moreover, FINRA found that Morgan Stanley failed to implement its policies, procedures, and controls to ensure that it conducted risk-based reviews on a periodic basis of the correspondent accounts it maintained for certain foreign financial institutions.

“As we stated in our [Report on FINRA Examination Findings](#) released earlier this month, FINRA continues to find problems with the adequacy of some firms’ overall AML programs, including allocation of AML monitoring responsibilities, data integrity in AML automated surveillance systems, and firm resources for AML programs,” said Susan Schroeder, FINRA Executive Vice President, Department of Enforcement. “Firms must ensure that their AML programs are reasonably designed to detect and cause the reporting of potentially suspicious activity.”

This matter arose out of firm examinations and cause examinations referred to FINRA’s Department of Enforcement by FINRA’s AML Investigations Unit.

In determining the appropriate monetary sanction, FINRA considered extraordinary corrective measures Morgan Stanley took to expand and enhance its AML-related programs, including that it devoted substantial resources to increase its staffing, improve its automated transaction monitoring system, and revise its policies and procedures.

In settling this matter, Morgan Stanley neither admitted nor denied the charges, but consented to the entry of FINRA’s findings.

About FINRA

FINRA is a not-for-profit organization dedicated to investor protection and market integrity. It regulates one critical part of the securities industry – brokerage firms doing business with the public in the United States. FINRA, overseen by the SEC, writes rules, examines for and enforces compliance with FINRA rules and federal securities laws, registers broker-dealer personnel and offers them education and training, and informs the investing public. In addition, FINRA provides surveillance and other regulatory services for equities and options markets, as well as trade reporting and other industry utilities. FINRA also administers a dispute resolution forum for investors and brokerage firms and their registered employees. For more information, visit www.finra.org.