



News Release

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FINRA Fines Morgan Stanley \$800,000 for Deficient Conflict of Interest Disclosures in Equity Research Reports and Public Appearances by Research Analysts

Firm Also Violated 2003 Research Analyst Settlement

WASHINGTON — The Financial Industry Regulatory Authority (FINRA) announced today that it has censured and fined Morgan Stanley & Co., Inc. \$800,000 for failing to make public disclosures required by FINRA's rules governing research analyst conflicts of interest. The firm also failed to comply with a key provision of the 2003 Research Analyst Settlement by failing to disclose the availability of independent research in customer account statements.

In addition to the censure and fine, Morgan Stanley must review a sample of its research reports and certify to FINRA that they comply with FINRA's research analyst conflict-of-interest rules. These reviews and certifications must take place every six months for two years.

"This case strikes at the heart of FINRA's research disclosure requirements, which were written in response to scandals involving research analyst conflicts of interest," said James S. Shorris, FINRA Executive Vice President and Acting Chief of Enforcement. "Here, thousands of Morgan Stanley research reports did not include accurate information about the firm's relationships with the companies it covered, depriving potential investors of important information."

FINRA found that from April 2006 to June 2010, Morgan Stanley issued equity research reports that failed to disclose accurate information about the relationships Morgan Stanley, or its analysts, had with companies covered in its research reports. Overall, these inaccuracies resulted in approximately 6,836 deficient disclosures in about 6,632 equity research reports and 84 public appearances by research analysts. Among the deficient disclosures were:

- Securities holdings of an analyst, or a member of the analyst's household, in a subject company;
- Morgan Stanley's receipt of investment banking and non-investment banking revenue from subject companies;
- Morgan Stanley's role as a manager, or co-manager, of a public offering of securities for subject companies;
- Morgan Stanley's role as a market maker for certain subject companies' securities; and
- Price charts for securities covered in equity research reports and the valuation method used to support published price targets.

Morgan Stanley also did not disclose in approximately 127,600 monthly account statements sent to customers from August 2007 to February 2008 that it had available independent, third-party research. The requirement to provide customers with this notification was part of the Securities and Exchange Commission's final agreement with Morgan Stanley as part of the 2003 Research Analyst Settlement and was incorporated into a separate agreement with FINRA.

In determining the appropriate sanctions in this matter, FINRA considered Morgan Stanley's self-review and self-reporting of some of its disclosure violations and remedial steps taken by the firm, as well as a prior FINRA settlement in 2005 that found the firm violated FINRA's research analyst disclosure rules.

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

Investors can obtain more information about, and the disciplinary record of, any FINRA-registered broker or brokerage firm by using FINRA's BrokerCheck. FINRA makes BrokerCheck available at no charge. In 2009, members of the public used this service to conduct 18.5 million reviews of broker or firm records. Investors can access BrokerCheck at www.finra.org/brokercheck or by calling (800) 289-9999.

FINRA is the largest independent regulator for all securities firms doing business in the United States. FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA touches virtually every aspect of the securities business – from registering and educating all industry participants to examining securities firms, writing and enforcing

rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering the largest dispute resolution forum for investors and registered firms. For more information, please visit www.finra.org.

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