



I believe FINRA had full knowledge that these notes were not legally registered for sale in 2005.

NEWS RELEASE

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Contacts: Nancy Condon
Herb Perone

FINRA Fines Morgan Stanley \$1.5 Million, Orders \$4.6 million In Restitution To Customers Overcharged in Corporate Bond Sales

Washington, D.C. - The Financial Industry Regulatory Authority (FINRA) announced today that it has fined Morgan Stanley DW Inc. (now known as Morgan Stanley & Co. Incorporated) \$1.5 million and ordered the firm to pay more than \$4.6 million in restitution for rule violations relating to the sale of corporate bonds to retail customers at excessive prices. The firm was cited for charging excessive mark-ups in more than 2,800 transactions and for having an inadequate supervisory system for monitoring the pricing of corporate fixed income securities sold to customers.

The firm's corporate bond trader, who was responsible for setting the excessive prices, Kenneth S. Carberry III, was fined \$40,000 jointly and severally with the firm and suspended in all capacities for 15 business days.

The action announced today was investigated and settled by NASD's Enforcement Department prior to the creation of FINRA, which consolidated NASD and the member regulation functions of the New York Stock Exchange.

"Firms have a fundamental obligation to their customers to offer securities at prices that are fair and reasonable," said Susan Merrill, FINRA Executive Vice President and Chief of Enforcement. "In this case, Morgan Stanley and its bond trader breached that obligation, resulting in excessive mark-ups in more than 2,800 transactions. Firms should carefully monitor the methods used by traders in setting prices to ensure that the prices paid by customers are not excessive."

FINRA found that during a five-month period in 2001, Morgan Stanley charged markups ranging from 5.88 percent to 17.86 percent on 2,807 sale transactions of Kemper Lumbermans Mutual Casualty Surplus Notes in the 9.15% and 8.30% series, with a face value totaling over \$59 million. In pricing the securities, the firm's corporate fixed income securities trader, Carberry, established the offering price, to which a sales commission was added. However, the firm's procedures failed to provide for a review of the mark-ups charged using the prevailing market price at the time, which in this case was best evidenced by the firm's cost for acquiring the bonds that it later sold to customers. The pricing method used by Carberry and the firm resulted in excessive prices paid by its customers. These transactions were conducted out of the firm's main office in New York City.

In addition, FINRA found that **the firm failed** to have a supervisory system in place that would have allowed the firm to detect the excessive mark-ups, and failed **to properly register the individual responsible for review of the trading activities.**

In concluding this settlement, the firm and Carberry neither admitted nor denied the charges, but consented to the entry of FINRA's findings.

About the Financial Industry Regulatory Authority

FINRA, the Financial Industry Regulatory Authority, is the largest non-governmental regulator for all securities firms doing business with the U.S. public. Created in 2007 through the consolidation of NASD and NYSE Member Regulation, 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 industry participants to examining securities firms; writing rules; enforcing those 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.