

MORGAN STANLEY IN HOT WATER AGAIN

NOVEMBER 2007

In a case that would have garnered national attention if the company perpetrating the fraud was called Halliburton, Exxon Mobil, Lockheed Martin or Wall-mart...

Morgan Stanley will pay \$12.5 million to settle a regulator's charges that it repeatedly failed to provide incriminating e-mails, and lied when they claimed they were lost during the September 11, 2001 terrorist attacks.

The Financial Industry Regulatory Authority (FINRA) stated that the emails were sought after by claimants in arbitration hearings with the firm as well as from regulators. Morgan Stanley fibbed and told everyone that their email servers at the World Trade Center were destroyed and nothing could be recovered. The truth of the matter was that Morgan Stanley was able to restore the messages because of back-up tapes stored in another location. Subsequently, Morgan Stanley Dean Witter "*later destroyed many of the pre-9/11 emails it did possess,*" stated FINRA, by overwriting most of the tapes and allowing employees to permanently delete emails.

This is not the first time Morgan Stanley has been fined due to document retention policies. The firm paid \$15 million to settle a civil lawsuit with the Securities and Exchange Commission over failure to produce tens of thousands of emails during probes of conflicts of interest among Wall Street analysts and other issues between 2000 and 2005. Of course Morgan neither admitted nor denied wrongdoing.

FINRA also fined Morgan Stanley \$6.1 million for overcharging customers on \$59 million in bond sales. Morgan overcharged customers of its retail brokerage unit in more than 2,800 separate bond sales from the firm's own inventory. FINRA states that Morgan Stanley marked up bonds as high as 18%. Securities regulations allow for a markup a brokerage firm can receive on securities sales at 5% (which is really high).

Does this make you want to cozy up and open account with Morgan Stanley? Does their new advertising campaign sound believable now? If your answer is in the affirmative or even the slightest bit undecided, I can't help you. For a firm to lie, and use 9/11 to shield itself from investor lawsuits; in my opinion have no business of ever managing individual investors money.

Smith Randall [Morgan Stanley Faces Fine](#) *The Wall Street Journal* August 2, 2007
Kingsbury Kevin [Morgan Stanley Settles Email Charges](#) *The Wall Street Journal* September 27, 2007
[Morgan Stanley Fined](#) *Bloomberg* September 28, 2007