

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the  
Continued Membership  
of

Morgan Stanley Smith Barney LLC  
(CRD# 149777)

Notice Pursuant to  
Rule 19h-1  
Securities Exchange Act  
of 1934

SD-2459

**February 5, 2026**

**I. Introduction**

On February 12, 2025 Morgan Stanley Smith Barney LLC (“MS” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.<sup>1</sup> The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

**II. The Statutorily Disqualifying Event**

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Sections 15(b)(4)(D) and (E), as a result of a December 9, 2024 order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding that MS willfully violated Section 206(4) of the Investment Advisers Act of 1940 (“Advisers Act”) and Rule 206(4)-7 thereunder and failed to reasonably supervise within the meaning of Section 15(b)(4)(E) of the Exchange Act and/or Section 203(e)(6) of the Advisers Act (“SEC Order”).<sup>2</sup> Specifically, the Firm failed to adopt and implement policies and procedures reasonably designed to prevent MS personnel from misusing and misappropriating funds from advisory client and brokerage customer accounts.<sup>3</sup> MS applied the same inadequate policies, procedures, and systems to

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<sup>1</sup> See MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated February 28, 2025, collectively attached as Exhibit 1.

<sup>2</sup> See SEC Order, *In re Morgan Stanley Smith Barney LLC*, Exchange Act Release No. 101842 (Dec. 9, 2024), attached as Exhibit 2 at p. 3, para 5.

<sup>3</sup> *Id.* at p. 2, para. 1.

both brokerage and advisory accounts with respect to third-party disbursements, which led to the Firm's failure to reasonably supervise four of its investment adviser and registered representatives, referred to as financial advisors ("FAs"), who misappropriated funds from client and customer accounts.<sup>4</sup>

Further, until at least December 2022, MS failed to adopt and implement policies and procedures reasonably designed to prevent and detect misappropriation from client and customer accounts by its FAs by means of unauthorized Automated Clearing House ("ACH") payments that were externally initiated.<sup>5</sup> MS did not have any policy or procedure that screened the ACH payment instructions MS received from the originating financial institution for the name of the beneficiary of the ACH payments, which allowed certain FAs to initiate ACH payments for their own purposes.<sup>6</sup> Additionally, from October 2015 to at least February 2021, MS failed to implement policies and procedures reasonably designed to prevent and detect misappropriation by its FAs using unauthorized cash wire transfers from multiple unrelated customer or client accounts of the same FA to the same third-party external account.<sup>7</sup> The Firm knew this activity was a red flag and implemented a third-party fraud detection software system in 2015, but mistakenly believed it would, among other things, monitor for such activity, when it did not, in fact, detect such patterns of wire activity.<sup>8</sup> MS failed to test the system for that purpose over the next five years and its failure to reasonably monitor for this risk allowed two of the FAs to misappropriate customer funds without detection.<sup>9</sup> For the above misconduct, the Firm was censured, ordered to cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, ordered to pay a civil money penalty of \$15,000,000, and to comply with certain undertakings.<sup>10</sup>

### III. Remedial Measures

According to the SEC Order, the Commission considered the Firm's remedial actions and cooperation with the SEC when determining to accept the Offer of Settlement.<sup>11</sup> The SEC

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<sup>4</sup> *Id.*

<sup>5</sup> *Id.* at para. 2.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at para. 3.

<sup>8</sup> *Id.* at pp. 2-3, para. 3.

<sup>9</sup> *Id.* at p. 3, para. 3.

<sup>10</sup> *Id.* at pp. 9-12. The Firm paid the penalty on December 24, 2024. *See* Exhibit 1 at FINRA p. 4, Item 4 and FINRA p. 25 for proof of payment. The Firm indicated that it has agreed to implement certain undertakings in connection with the SEC Order. *Id.* at FINRA pp. 28-30. *See also* Firm Discovery Responses dated June 16, 2025, September 22, 2025 and January 6, 2026, collectively attached as Exhibit 3 at FINRA p. 16, which indicate that the Firm is currently in compliance with the undertakings.

<sup>11</sup> *See* Exhibit 2 at p. 9, para. 29.

Order notes that when prompted by allegations from customers or their families, MS investigated and upon discovery of wrongdoing terminated the FAs in question, notified the SEC and law enforcement and entered into settlement agreements with the victimized clients and customers.<sup>12</sup> Further, after inquiries by SEC staff, MS discovered and self-reported that fraud detection software used since October 2015 had never been calibrated to monitor for unauthorized wire activity to external third-party accounts.<sup>13</sup> In February 2022, MS began a retroactive review of payment instructions for externally-initiated ACH payments from the previous five years to identify instances where a beneficiary's name in the ACH payment instructions matched that of a MS FA.<sup>14</sup> This retroactive review uncovered the misconduct of two MS FAs referred to in the SEC Order.<sup>15</sup> They were both terminated and reported to the Commission.<sup>16</sup> MS instituted a written procedure to review externally-initiated ACH payments for name matches of FAs on a scheduled basis starting in December 2022.<sup>17</sup> In addition, the SEC Order notes that MS retained an outside compliance consultant ("Initial Consultant") in July 2022 to review and assess MS's control environment and anti-fraud controls for third-party payments, identify gaps in its procedures, and recommend enhancements to mitigate problems.<sup>18</sup> After completing its review and assessment, the Initial Consultant issued a written report in April 2023 that included findings and recommendations for improvements to MS's control environment. MS reported that it has either implemented or was in the process of implementing the Initial Consultant's recommendations.<sup>19</sup>

Apart from these actions which were noted in the SEC Order, the Firm represents that it conducts regular business-level trainings for employees, including annual compliance training, training on certain money movement processes, anti-money laundering ("AML") training and fraud awareness training.<sup>20</sup> In addition, the Firm represents that over the last several years it has regularly enhanced its fraud awareness training for relevant teams and personal groups.<sup>21</sup> Pertinent examples include fraud operations training for the Service Review Unit, which encompassed fraud awareness, handling attempted wrongdoing, wire

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<sup>12</sup> *Id.* at p. 8, paras 22, 24.

<sup>13</sup> *Id.* at para. 23.

<sup>14</sup> *Id.* at para. 25.

<sup>15</sup> *Id.*

<sup>16</sup> *Id.*

<sup>17</sup> *Id.* at p. 9, para. 25.

<sup>18</sup> *Id.* at para. 26.

<sup>19</sup> *Id.* See also Exhibit 3 at p. 2, Response 2.

<sup>20</sup> See Ex. 3 at FINRA p. 7.

<sup>21</sup> *Id.*

fraud scams, signature analysis, books and records and cybersecurity.<sup>22</sup> New members of that team are required to complete funds disbursement and fraud awareness training and gain familiarity with relevant anti-fraud tools prior to processing any requests.<sup>23</sup> Moreover, the Firm represents that it conducts training for relevant personnel on outgoing wires, clarifying verbal client instructions, explaining eAuthorizations, alternatives to wire transfers and training on proper escalation of suspicious payments in client accounts.<sup>24</sup> The Firm believes the above trainings demonstrate its ongoing commitment to combating the types of misconduct described in the SEC Order and it represents it will do whatever is necessary to prevent similar violations in the future.<sup>25</sup>

#### **IV. Firm Background**

The Firm has been a FINRA member since May 19, 2009.<sup>26</sup> It is headquartered in Purchase, New York, with 1,157 branches (606 of which are Offices of Supervisory Jurisdiction).<sup>27</sup> The Firm employs approximately 27,561 registered representatives (approximately 4,973 of whom are registered principals) and 13,759 non-registered fingerprint employees.<sup>28</sup> MS employees seven statutorily disqualified individuals.<sup>29</sup>

MS is approved to engage in the following lines of business: exchange member engaged in exchange commission business other than floor activities; broker or dealer making inter-dealer markets in corporate securities over-the-counter; broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; underwriter or selling group participant (corporate securities other than mutual funds); mutual fund underwriter or sponsor; mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; solicitor of time deposits in a financial institution; broker or dealer selling gas or oil interests; put and call broker or dealer or option writer; broker or dealer selling securities of non-profit organizations; Investment advisory services; non-exchange member arranging for transactions in listed securities by exchange member; trading securities for own account; Private placements of securities; broker or dealer selling interests in mortgages or other

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<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at FINRA p. 8.

<sup>26</sup> *See* Central Registration Depository (“CRD”) Excerpt – Organization Registration Status, attached as Exhibit 4.

<sup>27</sup> FINRA confirmed this through analysis of the Firm’s information contained in CRD, last performed on January 14, 2026.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* *See* Appendix A for statutorily disqualified individuals.

receivables; broker or dealer involved in a networking, kiosk, or similar arrangement with a bank, savings bank or association, or credit union; engages in other securities business; effects transactions in commodity futures, commodities, commodity options as broker for others or dealer for own account; engages in other non-securities business. MS also intends to act as a broker or dealer engaging in underwriting municipal securities, repos and reverse-repos, offering on-line trading/electronic trading, engaging in selling securities futures products, and a broker or dealer selling interests in unregistered private investment funds. In addition, MS will conduct research and soft dollar activities and provide mergers and acquisitions advisory services. Finally, MS engages in other non-securities business including transactions in foreign exchange, precious metals, certificates of deposit, and non-securities based futures. In addition, MS engages in non-client facing hedging in non-securities products which is incidental to its trading business.<sup>30</sup>

MS is a member of the following self-regulatory organizations (“SROs”): The Nasdaq Stock Market LLC (“Nasdaq”); New York Stock Exchange LLC (“NYSE”) and NYSE American LLC (“NYSE American”); Municipal Securities Rulemaking Board (“MSRB”); Depository Trust Company (“DTC”); National Securities Clearing Corporation (“NSCC”) and Fixed Income Clearing Corporation – Government Securities Division (“FICC-GOV”).<sup>31</sup>

### **Recent Examinations**

In the past two years, FINRA completed two routine examinations, including one on behalf of Nasdaq, and seven non-routine examinations of the Firm which resulted in Cautionary Action Letters (“CALs”). The SEC also completed one examination that resulted in deficiencies during that period.

#### **A. FINRA Routine Examination**

In March 2025, FINRA issued a disposition letter regarding a routine examination that resulted in the issuance of a CAL for seven exceptions, a referral to the Enforcement Department (“Enforcement”) for two exceptions and a referral to an existing Cause Matter (“Cause”) for one exception.<sup>32</sup> The exceptions that were referred to Enforcement related to the Firm’s failure to accurately update Form BR and to notify FINRA regarding the termination of 2,723 non-registered fingerprint persons in accordance with Firm procedures.<sup>33</sup> The exception that was referred to Cause related to the Firm’s failure to

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<sup>30</sup> See CRD Excerpts – Types of Business and Other Business Descriptions, collectively attached as Exhibit 5.

<sup>31</sup> Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on January 21, 2026. See also Exhibit 4 at p. 1.

<sup>32</sup> See Disposition Letter for Examination No. 20240800957 dated March 26, 2025, Examination Report dated February 7, 2025, and Firm Response dated March 7, 2025, collectively attached as Exhibit 6.

<sup>33</sup> *Id.* at FINRA p. 5.

fingerprint ten non-registered foreign employees.<sup>34</sup> The exceptions that were the subject of the CAL included the Firm's failure to follow Written Supervisory Procedures ("WSPs") and Margin Manual Desktop Procedures by entering incorrect processing comments on the E\*Trade Option Out of Level exception reports.<sup>35</sup> The Firm also made incorrect calculations in its portfolio margin calculation<sup>36</sup> and reported an inaccurate Time of Execution to the MSRB Real-time Transaction Reporting System.<sup>37</sup> Further, the Firm improperly reported transactions to the Trade Reporting and Compliance Engine ("TRACE") by reporting block trades instead of individual client allocations.<sup>38</sup> Finally, the Firm accepted orders in Over the Counter ("OTC") and National Market System ("NMS") securities and with a sub-penny price limit in violation of minimum pricing increment rules.<sup>39</sup> The Firm responded in writing that it amended its policies, procedures and training, amongst other measures taken.<sup>40</sup>

In February 2025, FINRA issued a disposition letter on behalf of Nasdaq regarding a routine examination that resulted in the issuance of a CAL for two exceptions.<sup>41</sup> The exceptions included the Firm's failure to establish and maintain a supervisory system for the Firm's activities that was reasonably designed to detect inaccurate capacity codes on orders routed to an exchange<sup>42</sup> and the Firm's failure to register three individuals as Securities Trader Principals on Nasdaq.<sup>43</sup> The Firm responded in writing and stated that it implemented a new supervisory process and updated the registrations of the individuals noted in the disposition letter.<sup>44</sup>

#### B. FINRA Non-Routine Examinations

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<sup>34</sup> *Id.* at FINRA p. 7.

<sup>35</sup> *Id.* at FINRA p. 6.

<sup>36</sup> *Id.* at pp. 7-8.

<sup>37</sup> *Id.* at p. 8.

<sup>38</sup> *Id.* at FINRA pp. 8-9.

<sup>39</sup> *Id.* at FINRA pp. 9-10.

<sup>40</sup> *Id.* at FINRA pp. 13-23.

<sup>41</sup> *See* Disposition Letter for Examination No. 20240800958 dated February 6, 2025, Examination Report dated November 26, 2024, and Firm Response dated December 10, 2024, collectively attached as Exhibit 7.

<sup>42</sup> *Id.* at FINRA p. 5.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at FINRA pp. 6-7.

Between October 2025<sup>45</sup> and April 2024, FINRA issued CALs to the Firm for various infractions<sup>46</sup> including Consolidated Audit Trail (“CAT”) and Customer and Account Information System (“CAIS”) reporting violations and for failing to maintain reasonable WSPs relating to those systems.<sup>47</sup> The Firm was also cautioned for failing to include certain educational materials in electronic mail templates for perspective clients<sup>48</sup> and for registering an individual with a criminal background without submitting a written request for a materiality consultation or filing a continuing membership application.<sup>49</sup> Finally, CALs were issued when then Firm failed to provide documentation pertaining to a financial advisor’s request for an exception to personally invest in certain products<sup>50</sup> and when the Firm failed to establish WSPs governing Velocity Transactions alerts and failed to provide evidence that it delivered adequate training to personnel responsible for reviewing those alerts.<sup>51</sup>

### C. SEC Examination

In January 2025, the SEC concluded an examination of the Firm that identified deficiencies related to the Firm’s failure to adopt written policies and procedures reasonably designed to protect customer records and information against threats, hazards and unauthorized access to such information which could result in customer harm in violation of Safeguard Rules.<sup>52</sup> The Firm, further, failed to follow its own policies and procedures in violation of

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<sup>45</sup> Staff also notes FINRA issued a recent CAL to MS on January 29, 2026 relating to certain failures of E\*TRADE Securities, LLC (CRD# 29106), a firm acquired by MS. See Disposition Letter for Matter No. 202307776669 dated January 29, 2026.

<sup>46</sup> See Disposition Letter for Matter No. 20240811041 dated October 23, 2025 (no Firm response required); Disposition Letter for Matter No. 20240844767 dated May 6, 2025 (no Firm response required); Disposition Letter for Examination No. 20220760260 dated April 1, 2025, Examination Report dated February 28, 2025, and Firm Response dated March 28, 2025; Disposition Letter for Matter No. 20220769076 dated March 13, 2025; Disposition Letter for Matter No. 20240822559 dated September 11, 2024 and initial Firm communication dated August 1, 2024 (no Firm response required); Disposition Letter for Matter No. 20230804547, dated June 25, 2024 (no Firm response required) and Disposition Letter for Examination No. 20190642425 dated April 9, 2024, Examination Report dated February 15, 2024, and Firm Response dated March 15, 2024, collectively attached as Exhibit 8.

<sup>47</sup> *Id.* at FINRA pp. 1-4, 12-13.

<sup>48</sup> *Id.* at FINRA pp. 17-20.

<sup>49</sup> *Id.* at FINRA pp. 14-16. The Firm noted that it terminated the individual’s registration. *Id.* at FINRA p. 14.

<sup>50</sup> *Id.* at FINRA pp. 5-9. The Firm responded that it implemented an automated review to streamline the process and address issues. *Id.* at FINRA pp. 10-11.

<sup>51</sup> *Id.* at FINRA pp. 21-26. This Firm responded that it updated training and supervisory procedures. *Id.* at FINRA pp. 27-29.

<sup>52</sup> See SEC Examination Letter, SEC File No. 8-68191 dated January 24, 2025, and Firm Response dated March 17, 2025, collectively attached as Exhibit 9 at FINRA pp 3-5.

the Safeguards Rule.<sup>53</sup> Finally, the SEC noted the Firm’s policies and procedures did not address creating new fraud detection rules, which could lead to delays and failures, potentially resulting in violations of federal securities law.<sup>54</sup> The Firm responded in writing that it was in the process of enhancing its policies and procedures.<sup>55</sup>

### **Regulatory Actions**

In the past two years, MS has been the subject of three disciplinary actions, including two FINRA Letters of Acceptance, Waiver, and Consent (“AWCs”) and one Consent Order with the Massachusetts Securities Division. In addition, the Firm was subject to another SEC Order and an AWC that are more than two years old but relevant to the instant SEC Order.

#### **A. FINRA Actions**

In August 2024, the Firm entered into an AWC with FINRA in connection with the Firm providing trade confirmations to non-institutional customers that did not accurately disclose or failed to disclose the Firm’s mark-ups and mark-downs for approximately 19,000 municipal securities and corporate debt transactions.<sup>56</sup> In addition, the Firm did not disclose the time of execution and/or security specific URL for approximately 35,000 fixed price primary market transactions involving municipal securities and approximately 500,000 fixed price primary market transactions involving corporate or agency debt securities.<sup>57</sup> As a result, the Firm violated MSRB Rule G-15 and FINRA Rules 2232 and 2010.<sup>58</sup> The Firm also failed to establish, maintain and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with the above rules, and as a result violated MSRB Rule G-27 and FINRA Rules 3110(a) and 2010.<sup>59</sup> MS was censured and fined \$400,000 (\$24,000 of which pertained to the MSRB rule violations).<sup>60</sup> The Firm paid the fine on September 6, 2024.<sup>61</sup>

In February 2024, MS entered into an AWC with FINRA in connection with the Firm’s failure to cancel or close out 239 failed inter-dealer municipal securities transactions within

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<sup>53</sup> *Id.* at FINRA pp. 5-6.

<sup>54</sup> *Id.* at FINRA p. 6.

<sup>55</sup> *Id.* at FINRA pp. 7-19.

<sup>56</sup> *See* FINRA AWC No. 2021069319401 dated August 13, 2024, attached as Exhibit 10 at pp. 2-3.

<sup>57</sup> *Id.* at p. 3.

<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at pp. 3-4.

<sup>60</sup> *Id.* at p. 4.

<sup>61</sup> *See* Proof of payment, attached as Exhibit 11 at p. 3.

20 calendar days after settlement date in violation of MSRB Rule G-12(h).<sup>62</sup> In addition, from January 2016 through August 2021, MS failed to take prompt steps to obtain physical possession or control of 247 short positions in municipal securities resulting from failed inter-dealer municipal securities transactions in violation of Section 15(c)(3) of the SEA, SEA Rule 15c3-3(d)(2) and FINRA Rule 2010.<sup>63</sup> The Firm also violated MSRB Rule G-27, by failing to establish and maintain a supervisory system, including WSPs, reasonably designed to achieve compliance with: (1) the timely close-out requirements under MSRB Rule G-12(h) relating to failed inter-dealer municipal securities transactions; and (2) the requirement under SEA Rule 15c3-3(d)(2) that the Firm take prompt steps to obtain physical possession or control of municipal securities aged more than 30 calendar days that the Firm failed to receive.<sup>64</sup> The Firm was censured and fined \$1,600,000 (\$1,200,000 of which pertains to the MSRB rule violations).<sup>65</sup> The Firm paid the fine on February 27, 2024.<sup>66</sup>

### B. State Action

In September 2024, MS entered into a Consent Order with the Massachusetts Secretary of the Commonwealth, Securities Division which found that the Firm violated the Massachusetts Uniform Securities Act, M.G.L. c. 110A, including §204(a)(2)(J), and regulations thereunder at 950 CMR 10.00-14.413.<sup>67</sup> Specifically, from January 1, 2022 through February 28, 2024, MS failed to reasonably supervise its agents in the execution and review of trading activity by an insider at a publicly traded company, failed to have a specific process for review of trades by insiders of FDIC-Regulated Institutions, failed to conduct reasonable post-trade review of certain transactions and failed to follow recordkeeping obligations concerning off-channel communications and to reasonably supervise recordkeeping obligations concerning off-channel communications.<sup>68</sup> MS was censured, ordered to permanently cease and desist, pay an administrative fee of \$2,000,000 and complete certain undertakings.<sup>69</sup> The fine was paid September 19, 2024.<sup>70</sup> The Firm

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<sup>62</sup> See FINRA AWC No. 2020065102001 dated February 14, 2024, attached as Exhibit 12 at p. 2.

<sup>63</sup> *Id.*

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at p. 6.

<sup>66</sup> See Proof of Payment, attached as Exhibit 13 at p. 2.

<sup>67</sup> See Massachusetts Consent Order, *In re Morgan Stanley Smith Barney LLC*, No. E-2023-0034 (Sept. 5, 2024), attached as Exhibit 14 at pp. 1-2, 15.

<sup>68</sup> *Id.* at pp. 4-14.

<sup>69</sup> *Id.* at pp. 16-20.

<sup>70</sup> See Firm's representation that the fine was paid, attached as Exhibit 15 at FINRA p. 1. See also Exhibit 3, at p. 3, Response 5.

represented that it is current in completing the undertakings.<sup>71</sup>

### C. Relevant Actions More than Two Years Old.

#### 1. SEC Order

On June 29, 2018, the SEC issued an Order finding that MS willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder and also failed to supervise one of its employees, within the meaning of Section 203(e)(6) of the Advisers Act, with a view towards preventing his violations of Sections 206(1) and (2) of the Advisers Act.<sup>72</sup> Specifically, the Firm failed to adopt policies and procedures reasonably designed to prevent MS personnel from misusing and misappropriating funds in client accounts.<sup>73</sup> From at least 2009 until 2018, MS allowed FAs to initiate third-party disbursements from client accounts of outgoing wire transfers and journals up to \$100,000 per day, per account based on an attestation from the FA that he had received a verbal request from the client.<sup>74</sup> MS reviews that took place prior to disbursement were not reasonably designed to detect or prevent a financial advisor from making false attestations regarding client orders.<sup>75</sup> The Firm's insufficient policies and procedures allowed a financial advisor to misappropriate over \$5 million in funds from client accounts from December 2015 until November 2016 until the defrauded clients contacted MS with questions about their accounts.<sup>76</sup> MS was censured, ordered to cease and desist from committing or causing any violations or future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7, pay a civil monetary penalty of \$3.6 million and to complete certain undertakings.<sup>77</sup> MS paid the fine on July 16, 2018<sup>78</sup> and certified completion of the undertakings on January 31, 2020.<sup>79</sup>

#### 2. FINRA Action

In June 2015, the Firm entered into an AWC with FINRA finding that from at least June 2009 through November 2014, MS failed to establish, maintain and enforce reasonable supervisory systems and written procedures regarding outgoing wire transfers and branch

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<sup>71</sup> See Exhibit 3 at pp. 3-4, Response 5.

<sup>72</sup> See SEC Order, *In re Morgan Stanley Smith Barney LLC*, Exchange Act Release No. 83571 (June 29, 2018), attached as Exhibit 16 at p. 5.

<sup>73</sup> *Id.* at p. 2.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.*

<sup>76</sup> *Id.*

<sup>77</sup> *Id.* at pp. 6-7.

<sup>78</sup> See Proof of Payment, attached as Exhibit 17.

<sup>79</sup> See Certification of Completion, attached as Exhibit 18 at FINRA pp. 3, 5-7.

check disbursements from customer accounts.<sup>80</sup> As a result, three MS registered representatives in two different branch offices were able to convert a total of \$494,400 from thirteen MS customers through fraudulent wire transfers and branch checks sent from the customers' accounts to third-party accounts.<sup>81</sup> MS was censured and fined \$650,000.<sup>82</sup> The Firm paid the fine on June 23, 2015.<sup>83</sup>

## **V. Prior SEA Rule 19h-1 Notices**

MS has been subject to two prior SEA Rule 19h-1 Notices.

On January 29, 2024, FINRA filed a Rule 19h-1 Notice approving the continued membership of MS notwithstanding the existence of its statutory disqualification stemming from a September 27, 2022 SEC Order.<sup>84</sup> The Commission acknowledged FINRA's Notice on January 29, 2024.<sup>85</sup>

On November 28, 2017, FINRA filed a Rule 19h-1 Notice approving the continued membership of MS notwithstanding the existence of its statutory disqualification stemming from a January 13, 2017 SEC Order.<sup>86</sup> The SEC acknowledged FINRA's Notice on February 1, 2018.<sup>87</sup>

## **VI. The Firm's Proposed Continued Membership with FINRA and Plan of Heightened Supervision**

Morgan Stanley Smith Barney LLC ("MS" or "Firm") is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Securities Exchange Act of 1934 ("Exchange Act"), incorporating by reference Section 15(b)(4)(D) and (E), as a result of a December 9, 2024, order issued by the U.S. Securities and Exchange Commission ("SEC" or "Commission"), which found that the Firm willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder and failed to reasonably

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<sup>80</sup> See FINRA AWC No. 2011025479301 dated June 19, 2015, attached as Exhibit 19 at p. 2.

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at p. 6.

<sup>83</sup> See Proof of Payment, attached as Exhibit 20, at p. 3.

<sup>84</sup> See *In re the Continued Membership of Morgan Stanley Smith Barney LLC*, SD-2344 (FINRA Jan. 29, 2024), and the SEC's Letter of Acknowledgement dated February 26, 2024, collectively attached as Exhibit 21.

<sup>85</sup> *Id.* at FINRA pp. 20-21.

<sup>86</sup> See *In re the Continued Membership of Morgan Stanley Smith Barney*, SD-2147 (FINRA Nov. 28, 2017), and the SEC's Letter of Acknowledgement dated February 1, 2018, collectively attached as Exhibit 22.

<sup>87</sup> *Id.* at FINRA p. 11.

supervise within the meaning of Section 15(b)(4)(E) of the Exchange Act and /or Section 203(e)(6) of the Advisers Act. (“SEC Order”).<sup>88</sup>

In consenting to this Supervision Plan (“Plan”), the Firm agrees to the following:

1. The Firm must comply with the undertakings outlined in the SEC Order.
2. The Firm must maintain copies of all correspondence between the Firm and SEC staff regarding requests to extend the procedural dates relating to the undertakings specified in the SEC Order in a readily accessible place for ease of review by FINRA staff.
3. The Firm must maintain copies of all reports issued by the Compliance Consultant (“Consultant”) in relation to the SEC Order along with all recommendations, the Firm’s responses to such recommendations (whether contesting the Consultant’s recommendations or documenting compliance), implementation plans, and proof of implementation. The Firm must maintain these documents in a segregated place for ease of review by FINRA staff.
4. The Firm must provide FINRA’s Statutory Disqualification Group with copies of all written certifications the Firm submits to the SEC regarding the undertakings specified in the SEC Order.
5. Within one year of receiving the SEC's Letter of Acknowledgement (“LOA”), and to the extent it has not already done so since the issuance of the SEC Order, the Firm will conduct training (with either new material or by incorporating appropriate material into a pre-existing training) for all registered representatives and supervisors addressing the risks associated with misappropriation of client/customer funds. The Firm will conduct this training or a similar version of the training on an annual basis until the termination of the Plan. The Firm shall maintain a record of individual completion for this training and a copy of the training material in a readily accessible place for ease of review by FINRA staff.
6. All requested documents and certifications under this Plan of Heightened Supervision must be sent directly to the SD Group at [SDMailbox@finra.org](mailto:SDMailbox@finra.org).
7. The Firm must obtain written approval from FINRA’s Statutory Disqualification Group prior to changing any provision of the Plan of Heightened Supervision.
8. The Firm must submit any proposed changes or other requested information under this Plan of Heightened Supervision to FINRA’s SD Group at [SDMailbox@finra.org](mailto:SDMailbox@finra.org).
9. This Plan shall take effect on the date the SEC issues its LOA in this matter. The Plan shall remain in effect for a maximum of two calendar years from the date of

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<sup>88</sup> See executed Plan of Heightened Supervision, dated December 18, 2025, attached as Exhibit 23.

the LOA. However, the Plan may terminate early upon FINRA's receipt and acceptance of the Firm's final certification as required by the SEC Order.

## **VII. Discussion**

After carefully reviewing the entire record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating MS's Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on FINRA's assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on MS's securities activities. Moreover, the full amount of the civil monetary penalty was promptly paid and the Firm represented that it is in compliance with the ordered undertakings, which demonstrates the Firm's recognition that its anti-fraud deficiencies were serious and that it intends to ensure future violations do not occur.

Member Supervision also acknowledges that within the SEC Order, the Commission considered the Firm's remedial actions and cooperation when determining to accept the Offer of Settlement. Even before settling with the SEC, the Firm proactively updated its written procedures and hired the Initial Consultant to review and improve its policies and control processes. Additionally, the Firm has continually enhanced its training programs for key personnel in anti-fraud areas. These measures demonstrate the Firm's resolve in ensuring that its policies, procedures and control processes are up to date and effective in preventing the fraudulent activities that led to the SEC Order. These efforts, which include personnel training and policy updates, will keep Firm employees informed of the inherent, and ever-changing risks, that are present whenever customers transfer funds and help employees conduct thoughtful, prophylactic, reviews to catch fraudulent activity before transfers occur and customers are harmed.

FINRA notes that the undertakings required in the SEC Order require a consultant review of the Firm's available forms of third-party cash disbursements from accounts and MS's policies, procedures and controls for preventing and detecting conversion of funds by employees, as well as an assessment of the Firm's compliance with those policies, procedures and controls and their efficacy. Further, the consultant must issue a subsequent report and, after a year, conduct a fresh review and assessment of MS to be followed by

another report containing any updated recommendations. Engaging in multiple rounds of reviews, recommendations and reports by an independent consultant will help ensure Firm compliance with existing policies and procedures, enhance them going forward and provide additional safeguards against recidivist behavior and future fraudulent misconduct.

FINRA is further reassured by the controls set in place by the Firm's Supervision Plan which bolster and complement the undertakings outlined in the SEC Order. The Plan's training requirements, which focus on the risks of misappropriating customer funds, work in harmony with the multiple rounds of consultant led policy review required in the undertakings to ensure not only that the policies are adequate and up to date, but that MS employees can understand and implement them. This training targets the fraudulent behavior that led to the SEC Order and should mitigate the risk of similar misconduct in the future. Further, the training is required for registered representatives, the class of employee that committed each instance of fraud, as well as their supervisors. Moreover, the training will occur annually, which underscores the importance the Firm places on it and ensures that these issues will remain in the forefront for MS employees so that they can remain vigilant, exercise due caution and keep customer money safe.

It is well settled that a firm's regulatory history bears upon the assessment of its ability to comply with securities law and regulations. See *In the Matter of the Continued Association of Craig Scott Taddonio with Meyers Associate, L.P.*, SD-2117, slip op. at 24-25 (FINRA NAC Mar. 8, 2017). However, the corrective measures taken by firms to address deficiencies are weighed in determining whether to approve applications. See *In the Matter of the Association of X with the Sponsoring Firm*, SD11007 (FINRA NAC Jan. 1, 2011) (where a firm's corrective actions negated Member Regulation's assertion that the firm failed to appreciate or respect securities rules and regulations). FINRA has also previously approved applications for continued membership where the firms had extensive regulatory history, including disqualifying events. See *In the Matter of the Continued Membership of Deutsche Bank Securities, Inc.*, SD-2190 (FINRA Jan. 14, 2020) and *In the Matter of the Continued Membership of Citigroup Global Markets, Inc.*, SD-2082 (FINRA May 2, 2017) (approving continued membership where the firms had extensive regulatory history, including recent disqualifying events).

In evaluating the Firm's Application, FINRA considered the Firm's recent regulatory and disciplinary history as well as older, relevant matters. Member Supervision acknowledges these matters but notes, as of the date of this Notice, the Firm has paid all fines and complied with all undertakings, demonstrating the Firm's commitment to improvement. Similarly, MS took steps to resolve its examination exceptions, including by enhancing policies and procedures, and implementing additional trainings. The Firm's proactive responses to its recent regulatory and disciplinary matters weighed strongly on FINRA's decision to file 19h-1 approval notices with the SEC in January 2024 and November 2017 relating to different disqualifications, and the same rationale applies here. The existence of the disqualification from the SEC Order does not change FINRA's prior conclusions that it is appropriate to approve the Firm to continue its FINRA membership.

Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made

pursuant to the Supervision Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves MS's Application to continue its membership with FINRA.

FINRA certifies that MS meets all qualification requirements and represents that the Firm is registered with several other SROs including Nasdaq; NYSE; NYSE American; MSRB; DTC; NSCC and FICC-GOV. The SROs have been provided with the terms and conditions of MS's proposed continued membership and concur with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



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Marcia E. Asquith  
Executive Vice President & Corporate Secretary

Appendix A

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

EXHIBITS

SD-2459

1. MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated February 28, 2025.
2. SEC Order, *In re Morgan Stanley Smith Barney LLC*, Exchange Act Release No. 101842 (Dec. 9, 2024).
3. Firm Discovery Response dated June 16, 2025, September 22, 2025 and January 6, 2026.
4. Central Registration Depository (“CRD”) Excerpt – Organization Registration Status.
5. CRD Excerpts – Types of Business and Other Business Descriptions.
6. Disposition Letter for Examination No. 20240800957 dated March 26, 2025, Examination Report dated February 7, 2025, and Firm Response dated March 7, 2025.
7. Disposition Letter for Examination No. 20240800958 dated February 6, 2025, Examination Report dated November 26, 2024, and Firm Response dated December 10, 2024.
8. Disposition Letter for Matter No. 20240811041 dated October 23, 2025 (no Firm response required); Disposition Letter for Matter No. 20240844767 dated May 6, 2025 (no Firm response required); Disposition Letter for Examination No. 20220760260 dated April 1, 2025, Examination Report dated February 28, 2025, and Firm Response dated March 28, 2025; Disposition Letter for Matter No. 20220769076 dated March 13, 2025; Disposition Letter for Matter No. 20240822559 dated September 11, 2024 and initial Firm communication dated August 1, 2024 (no Firm response required); Disposition Letter for Matter No. 20230804547, dated June 25, 2024 (no Firm response required) and Disposition Letter for Examination No. 20190642425 dated April 9, 2024, Examination Report dated February 15, 2024, and Firm Response dated March 15, 2024,
9. SEC Examination Letter, SEC File No. 8-68191 dated January 24, 2025, and Firm Response dated March 17, 2025.
10. FINRA AWC No. 2021069319401 accepted on August 13, 2024.
11. Proof of Payment.
12. FINRA AWC No. 2020065102001 accepted on February 14, 2024.

13. Proof of Payment.
14. Massachusetts Consent Order, *In re Morgan Stanley Smith Barney LLC*, No. E-2023-0034 (Sept. 5, 2024).
15. Proof of Payment.
16. *In re Morgan Stanley Smith Barney LLC*, Exchange Act Release No. 83571 (June 29, 2018).
17. Proof of payment.
18. Certification of Completion.
19. FINRA AWC No. 2011025479301 accepted on June 19, 2015.
20. Proof of Payment.
21. *In re the Continued Membership of Morgan Stanley Smith Barney LLC* SD-2344 (FINRA Jan. 29, 2024), and SEC's Letter of Acknowledgement dated February 26, 2024.
22. *In re the Continued Membership of Morgan Stanley Smith Barney LLC*, SD-2147 (FINRA Nov. 28, 2017), and the SEC's Letter of Acknowledgement dated February 1, 2018.
23. Executed Plan of Heightened Supervision, dated December 18, 2025.