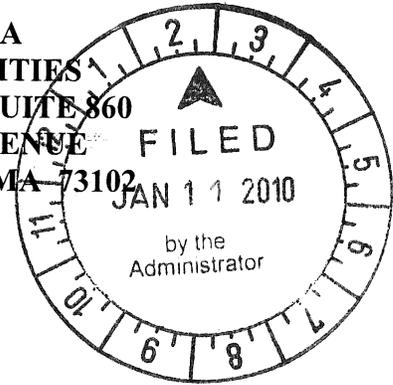


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STATE OF OKLAHOMA
DEPARTMENT OF SECURITIES
FIRST NATIONAL CENTER, SUITE 860
120 NORTH ROBINSON AVENUE
OKLAHOMA CITY, OKLAHOMA 73102



In the Matter of:

Morgan Stanley & Co., Incorporated
CRD No. 8209,

Respondent.

ODS File No. 10-048

CONSENT ORDER

WHEREAS, Morgan Stanley & Co. Incorporated ("Morgan Stanley") is a broker-dealer registered under the Oklahoma Uniform Securities Act of 2004 ("Act"), 71 O.S. §§ 1-101 through 1-701 (Supp. 2003); and

WHEREAS, coordinated investigations of the activities of Morgan Stanley in connection with the marketing and sale of auction rate securities have been conducted by a multistate task force composed of members of the North American Securities Administrators Association Inc. ("NASAA"); and

WHEREAS, Morgan Stanley has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

WHEREAS, Morgan Stanley has advised regulators of its agreement to resolve the investigations relating to its marketing and sale of ARS to retail investors; and

WHEREAS, Morgan Stanley agrees to, among other things, reimburse certain purchasers of auction rate securities, implement certain changes with respect to its marketing and sale of ARS, and make certain payments; and

WHEREAS, the Findings of Fact set forth in Section I below, and the provisions set forth

1 customers with short-term liquidity needs that they might be unable to sell their ARS if the auction
2 process failed.

3 5. In connection with the sale of ARS, certain Morgan Stanley representatives told
4 certain investors that ARS were “just like cash” and “liquid with seven days notice.”

5 6. Morgan Stanley marketed ARS to investors within a brochure entitled "Money
6 Market Instruments." Within this brochure, ARS are listed under the subsection "Other Short-
7 Term Instruments."

8 7. Since it began participating in the auction rate securities market, Morgan Stanley
9 submitted support bids—purchase orders for the entirety of an auction rate security issue for which
10 it acted as the sole or lead broker. Support bids were Morgan Stanley proprietary orders that would
11 be filled, in whole or in part, if there was otherwise insufficient demand in an auction. When
12 Morgan Stanley purchased auction rate securities through support bids, auction rate securities were
13 then owned by Morgan Stanley and the holdings were recorded on Morgan Stanley's balance sheet.
14 For risk management purposes, Morgan Stanley imposed limits on the amounts of auction rate
15 securities it could hold in inventory.

16 8. Because many investors could not ascertain how much of an auction was filled
17 through Morgan Stanley proprietary trades, they could not determine if auctions at Morgan Stanley
18 were clearing because of normal marketplace demand, or because Morgan Stanley was making up
19 for the lack of demand through support bids. Generally, investors were also not aware that the
20 liquidity of the auction rate securities as to which Morgan Stanley was the managing broker-dealer
21 depended upon Morgan Stanley's continued use of support bids. While Morgan Stanley could track
22 its own inventory as a measure of the supply and demand for its auction rate securities, ordinary
23 investors had no comparable ability to assess the operation of Morgan Stanley's auctions. There
24 was no way for such investors to monitor supply and demand in the market or to assess when
25 broker-dealers might decide to stop supporting the market, thereby causing its collapse.

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1 ii. Charities and nonprofits with Internal Revenue Code Section 501(c)(3)
2 status that purchased Eligible ARS at Morgan Stanley; and

3 iii. Small Businesses that purchased Eligible ARS at Morgan Stanley. For
4 purposes of this provision, "Small Businesses" shall mean Morgan Stanley customers not
5 otherwise covered in paragraph 10(i) and (ii) above that had \$10 million or less in assets in
6 their accounts with Morgan Stanley, net of margin loans, as determined by the customer's
7 aggregate household position(s) at Morgan Stanley as of August 31, 2008, or, if the
8 customer was not a customer of Morgan Stanley as of August 31, 2008, as of the date that
9 the customer terminated its customer relationship with Morgan Stanley. Notwithstanding
10 any other provision, "Small Businesses" does not include broker-dealers or banks acting as
11 conduits for their customers.

12 11. Morgan Stanley shall offer to purchase, at par plus accrued and unpaid
13 dividends/interest, from Retail ARS Investors their Eligible ARS that were not clearing as of
14 September 30, 2008 ("Buyback Offer"), and explain to such Retail ARS Investors what they must
15 do to accept, in whole or in part, the Buyback Offer. The Buyback Offer shall remain open until at
16 least January 11, 2009 ("Offer Period"). Morgan Stanley may in its sole discretion extend the
17 Offer Period beyond this date.

18 12. Morgan Stanley shall have undertaken its best efforts to identify and provide notice
19 to Retail ARS Investors who invested in Eligible ARS that were not clearing as of September 30,
20 2008, of the relevant terms of this Order by October 20, 2008.

21 13. Retail ARS Investors may accept the Buyback Offer by notifying Morgan Stanley at
22 any time before midnight, Eastern Time, January 11, 2009, or such later date and time as Morgan
23 Stanley may in its sole discretion decide to extend the Offer Period. For Retail ARS Investors who
24 accept the Buyback Offer prior to December 11, 2008, Morgan Stanley shall have purchased their
25 Eligible ARS by December 15, 2008. Morgan Stanley shall have purchased the Eligible ARS of all
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1 other Retail ARS Investors who accept the Buyback Offer within the Offer Period, on or before
2 January 16, 2009.

3 14. If at any time between January 12, 2009, and December 31, 2009, a Retail ARS
4 Investor who did not accept the Buyback Offer contacts Morgan Stanley and affirms that he or she
5 did not receive notice of the Buyback Offer prior to January 11, 2009, Morgan Stanley will
6 purchase the Eligible ARS of such investor.

7 15. No later than October 20, 2008, Morgan Stanley shall have established: a) a
8 dedicated toll-free telephone assistance line, with appropriate staffing, to provide information and
9 to respond to questions concerning the terms of this Order; and b) a public Internet page on its
10 corporate Web site(s), with a prominent link to that page appearing on Morgan Stanley's relevant
11 homepage(s), to provide information concerning the terms of this Order and, via reasonable means,
12 to respond to questions concerning the terms of this Order. Morgan Stanley shall maintain the
13 telephone assistance line and Internet page through December 31, 2009.

14 **Review of Customer Accounts**

15 16. For a period of two years from the date of this Order, upon request from any firm
16 that is repurchasing auction rate securities, Morgan Stanley shall take reasonable steps to provide
17 notice of that firm's offer to repurchase auction rate securities to Morgan Stanley customers that
18 Morgan Stanley can reasonably identify, that hold such auction rate securities subject to the other
19 firm's repurchase.

20 **Relief for Investors Who Sold Below Par**

21 17. No later than December 11, 2008, Morgan Stanley shall pay any Retail ARS
22 Investor that Morgan Stanley can reasonably identify who sold Eligible ARS below par between
23 February 13, 2008, and August 13, 2008, the difference between par and the price at which the
24 Retail ARS investor sold the Eligible ARS.

1 Claims for Consequential Damages

2 18. Notwithstanding this Order, an investor may pursue any claims related to the sale of
3 auction rate securities via any method normally available to the investor. However, if the investor
4 is pursuing claims related exclusively to consequential damages, Morgan Stanley shall provide the
5 investor with the option to proceed in arbitration according to the following provisions:

6 a. The arbitrations will be conducted by a single public arbitrator in accordance
7 with FINRA's special arbitration procedures for claims of consequential damages filed by
8 Retail ARS Investors;

9 b. Morgan Stanley shall pay all applicable FINRA forum and FINRA filing
10 fees;

11 c. Any Morgan Stanley Retail ARS Investors who choose to pursue such
12 claims shall bear the burden of proving that they suffered consequential damages and that
13 such damages were caused by the investors' inability to access funds consisting of Eligible
14 ARS holdings purchased at Morgan Stanley; and

15 d. Morgan Stanley shall be able to defend itself against such claims; provided,
16 however, that Morgan Stanley shall not contest liability related to the sale of auction rate
17 securities, and provided further that Morgan Stanley shall not be able to use as part of its
18 defense a Morgan Stanley Retail ARS Investor's decision not to borrow money from
19 Morgan Stanley.

20 19. Retail ARS Investors who elect to use the special arbitration process provided for
21 herein shall not be eligible for punitive damages.

22 20. All customers, including but not limited to Retail ARS Investors who avail
23 themselves of the relief provided pursuant to this Order, may pursue any remedies against Morgan
24 Stanley available under the law. However, Eligible Investors that elect to utilize the special
25 arbitration process set forth above are limited to the remedies available in that process and may not
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1 bring or pursue a claim against Morgan Stanley or in any case where Morgan Stanley is
2 underwriter relating to Eligible ARS in another forum.

3 **Institutional Investors**

4 21. Morgan Stanley shall endeavor to work with issuers and other interested parties,
5 including regulatory and governmental entities, to expeditiously provide liquidity solutions for
6 institutional investors that purchased auction rate securities not covered by the Retail ARS Investor
7 repurchase provisions delineated above.

8 22. Beginning December 11, 2008, and within 45 days of the end of each quarter
9 thereafter, Morgan Stanley shall submit a written report to a representative specified by NASAA
10 outlining the efforts in which Morgan Stanley has engaged and the results of those efforts with
11 respect to Morgan Stanley institutional investors' holdings in Eligible ARS. Morgan Stanley shall,
12 at the option of the representative specified by NASAA, confer with such representative no less
13 frequently than quarterly to discuss Morgan Stanley's progress. Such quarterly meetings shall
14 continue until no later than December 2009. Following every quarterly meeting, the representative
15 shall advise Morgan Stanley of any concerns and, in response, Morgan Stanley shall detail the
16 steps that Morgan Stanley plans to implement to address such concerns. The reporting or meeting
17 deadlines set forth above may be amended upon Morgan Stanley's request if written permission is
18 received from the representative specified by NASAA.

19 **Relief for Municipal Issuers**

20 23. Morgan Stanley shall promptly refund to municipal issuers refinancing fees the
21 issuers paid to Morgan Stanley for the refinancing of their auction rate securities, where such
22 refinancing occurred between February 11, 2008, and the date of this Order and where Morgan
23 Stanley acted as underwriter for the primary offering of the auction rate securities between August
24 1, 2007, and February 11, 2008. Nothing in this Order precludes the Administrator of the
25 Department from pursuing any other civil action that may arise with regard to auction rate
26 securities other than the marketing and sale of auction rate securities to retail investors.

1 **Additional Considerations**

2 24. Nothing herein shall preclude the state of Oklahoma, its departments, agencies,
3 boards, commissions, authorities, political subdivisions and corporations (collectively, "State
4 Entities"), other than the Department and only to the extent set forth in paragraph 1 above, and the
5 officers, agents or employees of State Entities from asserting any claims, causes of action,
6 applications for compensatory, nominal and/or punitive damages, or administrative, civil, criminal,
7 or injunctive relief against Morgan Stanley in connection with certain auction rate securities
8 practices at Morgan Stanley.

9 25. This Order shall not disqualify Morgan Stanley or any of its affiliates or current or
10 former employees from any business that they otherwise are qualified or licensed to perform under
11 applicable state law and this Order is not intended to form the basis for any disqualification.

12 26. To the extent applicable, this Order hereby waives any disqualification from relying
13 upon the registration exemptions or registration safe harbor provisions that may be contained in the
14 federal securities laws, the rules and regulations thereunder, the rules and regulations of self
15 regulatory organizations or any states' or U.S. Territories' securities laws. In addition, this Order is
16 not intended to form the basis for any such disqualifications. In addition, this Order is not intended
17 to form the basis of a statutory disqualification under Section 3(a)(39) of the Securities Exchange
18 Act of 1934.

19 27. This Order and any dispute related thereto shall be construed and enforced in
20 accordance with, and governed by, the laws of the state of Oklahoma without regard to any choice
21 of law principles.

22 28. Evidence of a violation of this Order proven in a court of competent jurisdiction
23 shall constitute prima facie proof of a violation of the Act, in any civil action or proceeding
24 hereafter commenced by the Administrator of the Department against Morgan Stanley.

25 29. Should the Department prove in a court of competent jurisdiction that a material
26 breach of this Order by Morgan Stanley has occurred, Morgan Stanley shall pay to the Department

1 the cost, if any, of such determination and of enforcing this Order including without limitation
2 legal fees, expenses, and court costs.

3 30. If Morgan Stanley fails to make the payment specified in paragraph 6, the
4 Administrator of the Department may, at his sole discretion, pursue any legal remedies including,
5 but not limited to, initiating an action to enforce the Order, revoking Morgan Stanley's registration
6 within the state, or terminating this Order.

7 31. If in any proceeding, after notice and opportunity for a hearing, a court of competent
8 jurisdiction, including an administrative proceeding by a state securities administrator, finds that
9 there was a material breach of this Order, the Administrator of the Department, at his sole
10 discretion, may terminate the Order. If Morgan Stanley defaults on any other obligation under this
11 Order, the Administrator of the Department may, at his sole discretion, pursue legal remedies to
12 enforce the Order or pursue an administrative action including, but not limited to, an action to
13 revoke Morgan Stanley's registration within the state. Morgan Stanley agrees that any statute of
14 limitations or other time related defenses applicable to the subject of the Order and any claims
15 arising from or relating thereto are tolled from and after the date of this Order. In the event of such
16 termination, Morgan Stanley expressly agrees and acknowledges that this Order shall in no way bar
17 or otherwise preclude the Administrator of the Department from commencing, conducting or
18 prosecuting any investigation, action, or proceeding, however denominated, related to the Order,
19 against Morgan Stanley, or from using in any way any statements, documents or other materials
20 produced or provided by Morgan Stanley prior to or after the date of this Order, including, without
21 limitation, such statements, documents or other materials, if any, provided for purposes of
22 settlement negotiations, except as may otherwise be provided in a written agreement with the
23 Administrator of the Department.

24 32. Morgan Stanley shall cooperate fully and promptly with the Administrator of the
25 Department and shall use its best efforts to ensure that all the current and former officers, directors,
26 trustees, agents, members, partners, and employees of Morgan Stanley (and of any of Morgan

1 Stanley's parent companies, subsidiaries, or affiliates) cooperate fully and promptly with the
2 Administrator of the Department in any pending or subsequently initiated investigation, litigation,
3 or other proceeding relating to auction rate securities and/or the subject matter of the Order. Such
4 cooperation shall include, without limitation, and on a best efforts basis:

5 a. producing, voluntarily and without service of subpoena, upon the request of
6 the Administrator of the Department, all documents or other tangible evidence requested by
7 the Administrator of the Department and any compilations or summaries of information or
8 data that the Administrator of the Department requests that Morgan Stanley (or Morgan
9 Stanley's parent companies, subsidiaries, or affiliates) prepare, except to the extent such
10 production would require the disclosure of information protected by the attorney-client
11 and/or work product privileges;

12 b. without the necessity of a subpoena, having the current (and making all
13 reasonable efforts to cause the former) officers, directors, trustees, agents, members,
14 partners, and employees of Morgan Stanley (and of any of Morgan Stanley's parent
15 companies, subsidiaries, or affiliates) attend any Proceedings (as hereinafter defined) in the
16 state of Oklahoma or elsewhere at which the presence of any such persons is requested by
17 the Administrator of the Department and having such current (and making all reasonable
18 efforts to cause the former) officers, directors, trustees, agents, members, partners, and
19 employees answer any and all inquiries that may be put by the Administrator of the
20 Department, or his designee, to any of them at any proceedings or otherwise, except to the
21 extent such production would require the disclosure of information protected by the
22 attorney-client and/or work product privileges. "Proceedings" include, but are not limited
23 to, any meetings, interviews, depositions, hearings, trials, grand jury proceedings, or other
24 proceedings;

25 c. fully, fairly, and truthfully disclosing all information and producing all
26 records and other evidence in its possession, custody, or control (or the possession, custody,

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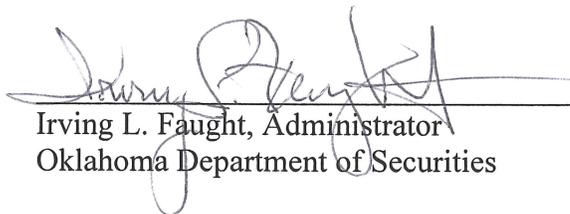
or control of Morgan Stanley's parent companies, subsidiaries, or affiliates) relevant to all inquiries made by the Administrator of the Department concerning the subject matter of the Order, except to the extent such inquiries call for the disclosure of information protected by the attorney-client and/or work product privileges; and

d. making outside counsel reasonably available to provide comprehensive presentations concerning any internal investigation relating to all matters in the Order and to answer questions, except to the extent such presentations or questions call for the disclosure of information protected by the attorney-client and/or work product privileges.

33. In the event Morgan Stanley fails to comply with paragraph 32 of this Order, the Administrator of the Department shall be entitled to specific performance, in addition to any other available remedies.

WITNESS my Hand and the Official Seal of the Oklahoma Department of Securities this

11th day of January, 2010.



Irving L. Faught, Administrator
Oklahoma Department of Securities

1 **CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY MORGAN STANLEY & CO.**
2 **INCORPORATED**

3 Morgan Stanley & Co. Incorporated ("Morgan Stanley") hereby acknowledges that it has
4 been served with and has read a copy of the Order, is aware of its right to a hearing and appeal in this
5 matter, and has waived the same.

6 Morgan Stanley admits the jurisdiction of the Department, neither admits nor denies the
7 Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order
8 by the Administrator of the Department as settlement of the issues contained in this Order.

9 Morgan Stanley agrees that it shall not claim, assert, or apply for a tax deduction or tax
10 credit with regard to any state, federal or local tax for any administrative monetary penalty that
11 Morgan Stanley shall pay pursuant to this Order.

12 Morgan Stanley states that no promise of any kind or nature whatsoever was made to it to
13 induce it to enter into this Order and that it has entered into this Order voluntarily.

14 S. Anthony Taggart represents that he/she is Executive Director of Morgan
15 Stanley and that, as such, has been authorized by Morgan Stanley to enter into this Order for and on
16 behalf of Morgan Stanley.

17 Dated this 30th day of December, 2009

18 MORGAN STANLEY & CO. INCORPORATED

19 By: [Signature]
20 Title: Executive Director

21 STATE OF New York)
22 County of New York)

23 SUBSCRIBED AND SWORN TO before me this 30th day of December, 2009.

24 [Signature]
25 Notary Public

26 My commission expires:
7/9/11

YOKO NITTA
Notary Public, State Of New York
No. 01N16060999
Qualified In New York County
Commission Expires July 9, 2011