

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF BUSINESS REGULATION
DIVISION OF SECURITIES
233 RICHMOND STREET, SUITE 232
PROVIDENCE, RI 02903-4232**

IN THE MATTER OF

MORGAN STANLEY & CO. INCORPORATED:

Respondent.

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CONSENT ORDER
MAKING FINDINGS
AND IMPOSING
REMEDIAL SANCTIONS

I.

The Director of the Rhode Island Department of Business Regulation ("Director") enters this Consent Order Making Findings and Imposing Remedial Sanctions ("Order") under Section 602 of the Rhode Island Uniform Securities Act of 1990 ("RIUSA"), Section 7-11-101 et seq. of the Rhode Island General Laws, 1989, as amended, with regard to the above-referenced Respondent. The Director has determined to resolve this matter, without instituting administrative proceedings, by accepting Respondent's Offer of Settlement, attached hereto as Exhibit A, and entering this Order, making the findings and imposing the remedial sanctions set forth below.

II.

On the basis of this Order and the Offer, the Director finds that:

1. Morgan Stanley & Co. Incorporated¹ (" Respondent" or "MSCO") is a broker-dealer with a principal place of business at 1585 Broadway, New York, New York, 10036.
2. MSCO is and has been continuously licensed by the State of Rhode Island, Department of Business Regulation, Securities Division (the "Division"), as a broker-

¹ Morgan Stanley DW Inc. merged with Morgan Stanley & Co. Incorporated on April 1, 2007. The conduct that is the subject of this settlement relates to the former Morgan Stanley DW Inc. broker-dealer entity.

- dealer since at least February 1, 1983 pursuant to R.I. Gen. Laws § 7-11-101 et seq.
3. MSCO has a Branch Office, which is an Office of Supervisory Jurisdiction, located at 1900 Financial Plaza, Providence, Rhode Island 02903 (“Providence office”).
 4. During the year 2004, the Division investigated complaints received from four customers of the Providence office alleging the investments sold to them by two financial advisors for MSCO were unsuitable.
 5. The Division’s investigation indicated that in multiple instances one financial advisor liquidated no-load mutual funds, and purchased variable annuities and numerous class B shares of mutual funds with redundant investment objectives. These transactions increased customers’ costs and reduced customers’ overall portfolio diversification.
 6. In another instance, the financial advisor liquidated an 80-year-old customer’s certificates of deposit to purchase variable annuities.
 7. A second financial advisor failed to exchange securities for a customer in a manner that would have avoided Contingent Deferred Sales Charges (“CDSC”) and given the customer the benefit of available breakpoints on commissions.
 8. The Division determined that the financial advisors recommended investments in mutual fund accounts and variable annuities that were not in the best interests of their customers and inappropriately sold B share mutual funds. It is the position of the Division that the transactions were unsuitable and constitute grounds for sanctions under the Rhode Island securities laws.
 9. Prior to receiving notice of the Division’s investigation, Respondent MSCO, as a result of its own supervisory oversight, discovered the transactions referenced in paragraph 7 and refunded the CDSC’s charged to these customers.

10. In addition, once alerted by the Division, MSCO settled with all the remaining customers at issue in this settlement.
11. It is the Division's position that Respondent MSCO, failed to supervise its financial advisors, in violation of R.I. Gen. Laws § 7-11-212 (b) (11).
12. Although Respondent MSCO believes it provided reasonable supervision as demonstrated by its discovery and remediation, it nevertheless has submitted the attached Offer of Settlement.

III.

Based on the foregoing, the Director determines that the following sanctions are in the public interest, appropriate for the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of RIUSA.

Accordingly, IT IS HEREBY ORDERED that:

1. Respondent shall comply with the RIUSA and the Rules promulgated thereunder.
2. Respondent shall pay a civil penalty in the amount of two hundred fifty thousand dollars (\$250,000.00) to the Division.
3. Respondent agrees to review all mutual fund transactions effected by Representative Rene Sawyer on behalf of clients that aggregated \$50,000.00 or more in any individual mutual fund during the period January 1, 2001, through December 31, 2002, to determine whether such investments were suitable and apprise the Division, in writing, of its conclusions within 120 days of the execution of this Order.
4. Respondent agrees to review all mutual fund transactions effected by Representative Nelson Hawkins on behalf of clients that aggregated \$50,000.00 or more in any individual mutual fund during the period January 1, 2001, through

December 31, 2002, to determine whether such investments were suitable and apprise the Division, in writing, of its conclusions within 120 days of the execution of this Order.

Dated this _____ day of _____, 2007.

A. Michael Marques, Director
Department of Business Regulation

Order No. _____

THIS CONSENT ORDER CONSTITUTES A FINAL ORDER OF THE DEPARTMENT OF BUSINESS REGULATION PURSUANT TO R. I. GEN. LAWS TITLE 42, CHAPTER 35. AS SUCH, THIS ORDER MAY BE APPEALED TO THE SUPERIOR COURT SITTING IN AND FOR THE COUNTY OF PROVIDENCE WITHIN THIRTY (30) DAYS OF THE DATE OF THIS DECISION. SUCH APPEAL, IF TAKEN, MAY BE COMPLETED BY FILING A PETITION FOR REVIEW IN SAID COURT. HOWEVER, RESPONDENT UNDERSTANDS THAT BY WAIVING ITS RIGHTS TO A COMPLETE HEARING AND AGREEING TO THIS CONSENT ORDER, THE ABOVE RIGHTS ARE WAIVED AND IF ANY TERMS OF THIS CONSENT ORDER ARE VIOLATED, RESPONDENTS LICENSES ARE SUBJECT TO REVOCATION.

CERTIFICATION

I hereby certify that on the _____ day of _____ 2007, a copy of the Consent Order was mailed to: S. Anthony Taggart, Executive Director and Counsel, Morgan Stanley, 1633 Broadway, New York, NY 10019.