

FINRA Fines Morgan Stanley and Scottrade with Failure to Supervise Transfer of Funds to Third-Party Accounts

On June 19, 2015, FINRA fined Morgan Stanley Smith Barney, LLC ("MSSB") and Scottrade, Inc. ("Scottrade") for failing to implement reasonable supervisory systems to monitor the transmittal of customer funds to third-party accounts. Pursuant to NASD Conduct Rules 3012 and 3010, member firms must maintain supervisory control policies sufficient to monitor all transmittals of funds to third-party accounts, as well as the activities of each representative, principal, and any other person associated with the firm.

FINRA found that three MSSB representatives in two different branch offices transferred a sum total of \$494,400 from thirteen MSSB customers to third-party accounts via fraudulent wire transfers and branch checks. MSSB's supervisory systems were deemed inadequate because they failed to provide for the review of all transmittals via wire or branch check, and did not provide for a comparison of customer signatures to prevent forged forms from being processed.

With regard to Scottrade, FINRA determined the firm also failed to maintain adequate supervision of third-party wire transmittals. Between 2011 and 2013, Scottrade failed to obtain any customer confirmation in any manner for third-party wires of less than \$200,000. For transmittals between two and five hundred thousand dollars, the firm failed to obtain review by personnel sufficient per NASD Rule 3012(a)(2)(A)(i). The aggregate total of transmittals processed during this period was over \$880 million.

FINRA fined MSSB and Scottrade \$650,000 and \$300,000, respectively. Both MSSB and Scottrade accepted the settlements

and consented to FINRA's findings of fact despite neither confirming nor denying their veracity.

FINRA News Release – [Click here](#).

Scottrade Letter of Acceptance, Waiver, and Consent – [Click here](#).

Morgan Stanley Letter of Acceptance, Waiver, and Consent – [Click here](#).