

Morgan Stanley hit with \$5 million penalty for misleading clients in wrap account program

The SEC charged the wirehouse with not fully disclosing fees for five years

- May 12, 2020
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Morgan Stanley Smith Barney is paying \$5 million to investors harmed by misleading information provided through the firm's retail wrap fee programs.

According a [Securities and Exchange Commission order issued Tuesday](#) morning, Morgan Stanley marketed its wrap fee accounts as offering clients professional investment advice, trade execution and other services within a "transparent" fee structure.

For at least five years through June 2017, some of the wirehouse's marketing and client communications gave the impression that wrap fee clients were not likely to incur additional trade execution costs.

However, during that period, the SEC found that Morgan Stanley managers routinely directed wrap fee clients' trades to third-party broker-dealers for execution, which in some instances resulted in the clients paying additional transaction fees that were not transparent.

The SEC found that as a result of the firm's actions, some clients were "unable to assess the value of the services received in exchange for the wrap fee paid."

"Investment advisers are obligated to fully inform their clients about the fees that clients will pay in exchange for services," said Melissa R. Hodgman, associate director in the SEC's Division of Enforcement.

"We are pleased to have resolved this matter and have corrected these historical issues," said a Morgan Stanley spokesperson.

Adam Gana, a securities attorney who is not involved in this case, said the penalty could be the tip of the iceberg for wrap fee accounts at brokerage firms and should stand out as a warning to advisers selling those programs to investors.

"Investment advisers must disclose their fees, period," he said. "And if they're not disclosing fees in a transparent, easy-to-understand way, they need to be looking out for the SEC."