

DENISE VOIGT CRAWFORD
SECURITIES COMMISSIONER



JOHN R. MORGAN
DEPUTY SECURITIES COMMISSIONER

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Texas State Securities Board

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MEMBER

IN THE MATTER OF
THE DEALER REGISTRATION OF
MORGAN STANLEY & CO. INC.

§
§
§

Order No. **IC08-CAF-07**

TO: Anne T. Cooney, Managing Director
Morgan Stanley & Co. Inc. (CRD No. 8209)
2000 Westchester Ave.
Purchase, NY 10577

DISCIPLINARY ORDER

Be it remembered that Morgan Stanley & Co. Inc. ("Respondent"), as successor to Morgan Stanley OW, Inc. ("MSDW"), by and through Anne T. Cooney, Managing Director, appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this Order and the Findings of Fact and Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, TEX. REV. CIV. STAT. ANN. art. 581-1 et seq. (Vernon 1964 & Supp. 2007)("Texas Securities Act"), and the Administrative Procedure Act, TEX. GOV'T CODE ANN. § 2001.001 et seq. (Vernon 2000 & Supp. 2007)("Administrative Procedure Act").
2. On or before July 25, 1983, Respondent registered with the Securities Commissioner as a dealer. That registration is currently effective. On or before July 22, 1983, MSDW registered with the Securities Commissioner as a dealer. That registration was terminated on June 29, 2007 based on MSDW's merger with Respondent.

3. In 2000, an agent of MSDW located in Texas (the "Agent") requested MSDW's approval of an outside business activity. The name of the outside business activity was RowPyn Investment Partners, LLC ("RowPyn LLC"). RowPyn LLC was established to hold the patent on an investment model (the "RowPyn Methodology") created by the Agent and another of MSDW's agents (the "Illinois Agent"). On or about December 29, 2000, the Compliance Department approved the Agent's outside business activity on behalf of RowPyn LLC.
4. In 2001, the Agent and the Illinois Agent agreed to create a pooled investment vehicle (the "Hedge Fund") with two other individuals. The initial name contemplated for the Hedge Fund was QRP Partners, L.P. CQRP")

Approval of Outside Business Activity and Account

5. The Hedge Fund was not affiliated with MSDW. Therefore, on or about June 25, 2001, the Agent submitted an "Outside Activity Approval Request Form" with respect to QRP (the "Approval Request Form") to the Branch Manager of the Agent's office (the "Branch Manager") in order to request approval of the Agent's outside business activity on behalf of the Hedge Fund. The following are relevant statements on the Approval Request Form:
 - a. The "Subject" of the outside activity was listed by the Agent as "Investment Partnership";
 - b. The legal name and address of the outside company or organization was listed as "QRP Partners, LP; 16 Midchester Ave #301, White Plains, NY 10606;
 - c. On Item 7, the Agent listed the reason(s) why approval should be granted as "Founding Partner and Special Limited Partner";
 - d. On Item 11, the Agent answered "Advisory position" in response to a request for "a complete description of [the Agent's] anticipated role in the company"; and
 - e. On Item 13, the Agent answered "None" in response to a request for a list of the Agent's other outside activities.
6. MSDW's written supervisory procedures effective in 2001 required the Agent to provide the information requested by the Approval Request Form in connection with his request to conduct an outside business. Furthermore, the Branch Manager was required to review the Approval Request Form.
7. In connection with the Branch Manager's review of the Approval Request Form, the Branch Manager spoke with the Agent about QRP. Based on this conversation, the Branch Manager knew, or should have known, that the Agent had not listed relevant material on the Approval Request Form. However, the Branch Manager did not take any steps to ensure that the Approval Request Form contained complete responses and all relevant information.

8. Pursuant to the conversation with the Agent about QRP, the Branch Manager learned that the "investment partnership" was planning to utilize the RowPyn Methodology to select sectors for investment and then engage in stock trading. Furthermore, the Agent had disclosed that he was going to invest \$50,000.00 in the investment partnership. Therefore, the Branch Manager knew or should have known that the Agent was going to have a financial interest in an investment account for QRP. However, the Branch Manager did not request any information about the QRP investment account or require the Agent to obtain the Compliance Department's approval to hold an interest in an investment account that was held outside of MSDW.
9. Under MSDW's written supervisory procedures, all employee securities accounts were to be held at MSDW unless an exception had been first approved by the Compliance Department. Branch Managers were required to approve and review all employee and employee-related accounts.
10. On or about July 24, 2001, the Branch Manager approved the Approval Request Form.
11. After the Branch Manager's approval, the Approval Request Form was forwarded to the Compliance Department pursuant to MSDW's written supervisory procedures. Within the Compliance Department, a Compliance Analyst was required to review the information submitted to ensure compliance with relevant sections of MSDW's written supervisory procedures. Based on the review, the Compliance Analyst was required to draft a memorandum to the Director of Compliance to recommend the approval or disapproval of the outside business activity. The Compliance Analyst was required to notify the branch office of the decision made by the Director of Compliance.
12. MSDW's Compliance Department issued a memorandum, also dated July 24, 2001, approving the Agent's outside activity on behalf of QRP (the "July 24, 2001 Memorandum"). However, on or about August 15, 2001, a member of the Compliance Department sent an e-mail to the Illinois Agent in order to get an explanation of the "business purpose" of QRP.
13. With respect to the Agent's QRP Activity Request Form, the Compliance Department failed to conduct a review reasonably adequate to ensure compliance with the relevant sections of MSDW's written supervisory procedures.

Withdrawals from Client Accounts

14. On or before July 6, 2001, the name of the Hedge Fund was changed from QRP to Enhanced Capital Partners I, L.P. ("ECP") The Agent did not inform MSDW of the name change.

15. From on or about July 11, 2001 to on or about November 2, 2001, the Agent recommended and sold limited partnership interests in ECP to Texas investors. Eleven (11) of the twelve (12) investors solicited by the Agent were clients of MSDW (the "Clients") at the time of the Agent's recommendation and sale of the investment in ECP.
16. At all relevant times, the Agent was the representative of record for each of the Clients' accounts. Each of the Clients withdrew funds from their accounts with MSDW in connection with their purchases of the limited partnership interests in ECP.
17. On or about August 28, 2001 and in connection with their investments in ECP, three of the Clients filed forms titled "Outgoing Wire Transfer Request" in order to request that MSDW wire transfer funds totaling \$2,500,000.00 from their accounts held with MSDW to their bank accounts. The Branch Manager did not sign any of these three Outgoing Wire Transfer Request forms. On or about August 29, 2001, the wire transfer requests were entered into MSDW's systems and the funds were wire transferred by MSDW.
18. Pursuant to MSDW's written supervisory procedures, the branch manager's signature is required on each Outgoing Wire Transfer Request form prior to the request being entered onto MSDW's systems.
19. Two of the Clients submitted letters, dated September 3, 2001 and addressed to the Agent at his branch office, requesting that MSDW send two checks payable to ECP, for a total of \$528,000.00, to ECP's business address. There is no record that the Branch Manager reviewed these letters as incoming correspondence. On or about September 12, 2001, MSDW drafted two checks payable to ECP based on funds in the pertinent client accounts.
20. Pursuant to MSDW's written supervisory procedures, all written correspondence received at a branch office must be read by a branch manager.

Supervision of Approved Outside Business Activity

21. From on or about July 11, 2001 to November 2, 2001, the Clients withdrew over \$5,500,000.00 in connection with investments in ECP. Thus, each of these withdrawals were made during the time that the Agent's Approval Request Form was still pending approval or shortly after the Agent's investment partnership outside business activity was approved. Furthermore, the withdrawal activity by a majority of the Clients was inconsistent with those particular clients' general account activity. Finally, the withdrawals by at least five (5) of the Clients accounted for greater than 25% of each client's holdings at MSDW at the time of each withdrawal.
22. The withdrawals by the Clients were "red flags" because they were inconsistent with many of the Clients' general account activity and the significant withdrawals were being made shortly after the Agent disclosed to MSDW, and received approval for, an outside business activity involving an investment partnership.

23. Despite the "red flags", the Branch Manager did not take any steps to determine the purpose of the large withdrawals being made by the Clients or to verify that those withdrawals were not related to the Agent's investment partnership.
24. The July 24, 2001 Memorandum issued by Compliance Department notifying the Agent of its approval of his investment partnership business listed several restrictions and requirements in connection with such activity, including:
 - a. The Agent was required to notify the Compliance Department if the investment partnership offers any securities (either publicly or not); and
 - b. The Agent could not solicit MSDW's clients for any purposes of the investment partnership.
25. Pursuant to MSDW's written supervisory procedures, the Branch Manager was responsible for ensuring that the Agent complied with the conditions listed in the July 24, 2001 Memorandum.

CONCLUSIONS OF LAW

1. The Branch Manager's failure to ensure that the Approval Request Form contained complete and accurate responses to all information required on MSDW's "Outside Activity Approval Request Form" constitutes a failure to enforce MSDW's written supervisory procedures, and is a violation of §115.10(b)(1) of the Rules and Regulations of the Texas State Securities Board ("the Board Rules").
2. The Branch Manager's failure to request information about the QRP investment account or require the Agent to obtain the Compliance Department's approval to hold an interest in an investment account that was held outside of MSDW constitutes a failure to enforce MSDW's written supervisory procedures, and is a violation of §115.10(b)(1) of the Board Rules.
3. The Compliance Department's failure to conduct a review reasonably adequate to ensure compliance with the relevant sections of MSDW's written supervisory procedures in connection with the Agent's Approval Request Form constitutes a failure to enforce MSDW's written supervisory procedures, and is a violation of §115.10(b)(1) of the Board Rules.
4. MSDW's acceptance of three wire transfer requests without the Branch Manager's signature on the Outgoing Wire Transfer Request forms constituted failures to enforce MSDW's written supervisory procedures, and are violations of §115.10(b)(1) of the Board Rules.
5. The Branch Manager's failures to review two letters requesting payments to ECP as incoming correspondence constitute failures to enforce MSDW's written supervisory procedures, and are violations of §115.10(b)(1) of the Board Rules.

6. The Branch Manager's failure to take any steps to determine the purpose of the large withdrawals being made by the Clients, during the period from on or about July 11, 2001 to November 2, 2001, or to verify that those withdrawals were not related to the Agent's investment partnership despite the fact that those withdrawals were "red flags" constitutes a failure to enforce MSDW's written supervisory procedures, and is a violation of §115.10(b)(1) of the Board Rules.
7. The foregoing violations of §115.10(b)(1) constitute bases for the issuance of an Order reprimanding the Respondent pursuant to Section 14.(A)(6) of the Texas Securities Act, and for the issuance of an Order assessing an administrative fine against the Respondent pursuant to Section 23-1 .A(3) of the Texas Securities Act.

ORDER

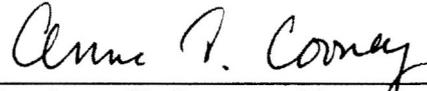
1. It is therefore ORDERED that Morgan Stanley & Co., Inc. is hereby REPRIMANDED.
2. It is further ORDERED that Morgan Stanley & Co., Inc. is hereby ASSESSED AN ADMINISTRATIVE FINE in the amount of Four Hundred Thousand Dollars (\$400,000.00). Payment shall be made by delivery of a cashier's check to the Securities Commissioner in the amount of Four Hundred Thousand Dollars (\$400,000.00), payable to the State of Texas, contemporaneously with the delivery of this Order.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 21st
day of July, 2008.


DENISE VOIGT CRAWFORD
Securities Commissioner

Respondent:

Morgan Stanley & Co. Inc.

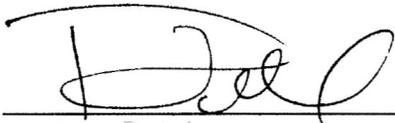


By: Anne T. Cooney, Managing Director

Approved as to Form:



Benette L. Zivley
Director
Inspections and Compliance Division



Ronak V. Patel
Attorney
Inspections and Compliance Division

ACKNOWLEDGMENT

On the 8 day of July, 2008, Morgan Stanley & Co. Inc. ("Respondent"), by and through Anne T. Cooney, Managing Director, personally appeared before me, executed the foregoing Order, and acknowledged that:

1. Anne 1. Cooney is duly authorized to enter into the foregoing Order on behalf of Respondent;
2. Anne 1. Cooney has read the foregoing Order;
3. Respondent has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained therein; and,
5. Respondent, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.

AMY ZERVAS
 NOTARY PUBLIC-STATE OF NEW YORK
No. 02ZE6096551
 Qualified In Westchester County
 My Commission Expires **July 28, 2011**
 [affix notary seal here]

Amy Zervas
 Notary Public in and for
 the State of NY

My commission expires on: 7/28 2011