

## Services

# Dinsmore Compliance Services

## Insights

### SEC Enforcement Action against Morgan Stanley Smith Barney for Providing Misleading Information to Retail Clients

July 16, 2020 | Insight

Kevin S. Woodard

On May 12, 2020, the SEC announced Morgan Stanley Smith Barney (MSSB) agreed to a \$5 million penalty to settle charges that the firm provided misleading information to clients in its retail wrap fee programs regarding trade execution services and transaction costs. According to the SEC's order, from October 2012 to June 2017 some of MSSB's marketing and client communications indicated to wrap fee clients they were not likely to incur additional trade execution costs. However, the SEC alleges that during this period, some MSSB managers would often direct wrap fee clients' trades to third-party broker-dealers, resulting in additional transactions costs which were not visible to the clients. Therefore, clients were unable to determine the value of the services received in exchange for the wrap fee.

The SEC found MSSB failed to adopt and implement trading policies reasonably designed to prevent wrap managers from "trading away," which often resulted in clients paying MSSB twice for the order execution. Recently, other firms, such as Raymond James & Associates and Stifel Nicolaus & Co., have paid penalties regarding wrap fee program failures.

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Morgan Stanley Smith Barney, LLC

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