

1 STATE OF OREGON
2 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
3 DIVISION OF FINANCE AND CORPORATE SECURITIES
4 ENFORCEMENT SECTION
5 BEFORE THE DIRECTOR OF THE
6 DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

7 In the Matter of:

8 MORGAN STANLEY & CO.
9 INCORPORATED,
10
11 RESPONDENT.

DFCS File No. S-08-0017

**FINDINGS OF FACT
CONCLUSIONS OF LAW
CONSENT ORDER**

12 WHEREAS, Morgan Stanley & Co. Incorporated ("MS&Co") is a
13 broker-dealer licensed with the Oregon Department of Consumer
14 and Business Services, Division of Finance and Corporate
15 Securities ("DFCS"); and

16 WHEREAS, Morgan Stanley DW Inc. ("MSDW"), formerly known as
17 Dean Witter Reynolds, Inc. ("Dean Witter"), was a broker-dealer
18 licensed with DFCS¹; and

19 WHEREAS, in May 2005, MSDW & MS&Co, collectively referred
20 to as Morgan Stanley, discovered deficiencies in some of their
21 order entry systems that permitted the execution of transactions
22 for certain types of securities without checking to determine
23 whether the transactions complied with applicable securities
24 registration requirements under state securities laws ("Blue Sky
25 laws"); and

26 ¹ Morgan Stanley, the product of a 1997 merger of Morgan Stanley Group Inc. and Dean Witter, Discover & Co., is a Delaware corporation whose common stock trades on the New York Stock Exchange. Morgan Stanley & Co. Incorporated is a wholly owned subsidiary of Morgan Stanley. Morgan Stanley DW Inc., formerly known as Dean Witter Reynolds, Inc., was a wholly owned subsidiary of Morgan Stanley until April 1, 2007, when Morgan Stanley DW Inc. merged into Morgan Stanley & Co. Incorporated to form a single broker-dealer.



1 WHEREAS, immediately upon discovery of the deficiencies,
2 Morgan Stanley formed a team to examine the issues and correct
3 the problems; and

4 WHEREAS, Morgan Stanley conducted an internal investigation
5 into the reasons why the affected order entry systems were not
6 functioning properly and voluntarily provided the results of the
7 internal investigation to members of a multi-state task force
8 (collectively, the "State Regulators"); and

9 WHEREAS, Morgan Stanley self-reported the Blue Sky problem
10 to all affected state and federal regulators; and

11 WHEREAS, the State Regulators have conducted a coordinated
12 investigation into the activities of Morgan Stanley, and its
13 predecessors, in connection with Morgan Stanley sales of
14 securities over a several year period which did not satisfy the
15 Blue Sky laws; and

16 WHEREAS, Morgan Stanley identified transactions which were
17 executed in violation of the Blue Sky laws as a result of the
18 system deficiencies and offered rescission to such customers
19 with terms and conditions that are consistent with the
20 provisions of the Oregon Securities Law; and

21 WHEREAS, Morgan Stanley has since adopted policies and
22 procedures, as well as further actions, designed to ensure
23 compliance with all legal and regulatory requirements regarding
24 Blue Sky laws, including applicable state securities laws and
25 regulations; and

26 WHEREAS, Morgan Stanley has advised the State Regulators of

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 its agreement to resolve the investigation relating to its
2 practices of complying with state Blue Sky laws; and

3 WHEREAS, Morgan Stanley, elects to permanently waive any
4 right to a hearing and appeal under ORS 59.295, ORS 59.305, and
5 ORS Chapter 183 with respect to this Consent Order ("Order");

6 NOW THEREFORE, the Director of the Department of Consumer
7 and Business Services ("the Director"), as administrator of the
8 Oregon Securities Law, ORS Chapter 59.005 et seq. and OAR
9 Chapter 441, hereby enters this Order:

10 **PRELIMINARY STATEMENT**

11 On or about August of 2005, Morgan Stanley notified the
12 North American Securities Administrators Association ("NASAA"),
13 as well as DFCS, that it learned that certain order entry
14 systems in place at its primary retail broker-dealer, MSDW, did
15 not check whether certain securities transactions complied with
16 Blue Sky law registration requirements. The Blue Sky
17 surveillance problem included most fixed income securities and
18 certain equity securities sold to customers in solicited and
19 non-exempt transactions, from at least 1995.

20 Morgan Stanley discovered the Blue Sky issue in late May
21 2005. Shortly thereafter, Morgan Stanley commissioned an
22 internal investigation to determine the origins and reasons for
23 the oversight. Morgan Stanley discovered that its surveillance
24 systems were deficient for the following reasons:

- 25 • Broker workstations, the automated trading system used at
26 Morgan Stanley, did not have any type of Blue Sky block, or

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387





- 1 other exception report, for trades involving fixed income
2 securities;
- 3 • Morgan Stanley's Blue Sky surveillance system covered only
4 securities contained in its Blue Sky databases, which were
5 maintained separately for MSDW and MS&Co. As such, if the
6 surveillance system did not locate a particular security in
7 the Blue Sky database, the systems would allow the
8 transaction to proceed without further checking or creating
9 any exception report noting the inability to locate Blue
10 Sky registration confirmation;
 - 11 • Morgan Stanley did not adequately stock its Blue Sky
12 database with sufficient information, either by way of
13 internal research or outside vendors research, to properly
14 review all transactions for Blue Sky compliance;
 - 15 • Morgan Stanley did not direct enough resources and
16 personnel during the ten-year period to adequately manage
17 the Blue Sky issues.

18 The result of the surveillance failures was that thousands
19 of securities transactions, particularly fixed income
20 securities, during the time frame January 1997 - May 2005, were
21 approved and executed without first confirming Blue Sky
22 registration status.

23 FINDINGS OF FACTS

24 History of the Blue Sky Issue at Morgan Stanley

25 Blue Sky Compliance Pre-1995

26 1. Before 1995, Dean Witter brokers entered customer

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 transactions using paper order tickets and the internal
2 electronic wire. Dean Witter's Blue Sky surveillance system
3 compared orders (by CUSIP number) with information in its
4 internal Blue Sky database, known as BSKS.

5 2. If the system detected a possible problem, it would allow
6 the order to be filled out, but it would list the trade on a
7 next-day T+1 exception report. Dean Witter's Blue Sky Manager
8 then reviewed the report and contacted branch officers involved
9 to determine whether particular trades had to be cancelled.

10 3. BSKS contained information on equities in which Dean
11 Witter made a market, a total of about 1,200 to 1,500 stocks.
12 BSKS did not regularly contain information on fixed income
13 securities unless the Blue Sky Manager was asked to manually
14 enter such information by the fixed income trading area.

15 4. Where Dean Witter's Blue Sky system could not locate a
16 security in BSKS, it did not reflect its inability to find the
17 security in a "security-not-found" or other exception report.

18 5. As a result, before 1995, Dean Witter had no surveillance
19 system in place that would check for possible Blue Sky
20 violations for most fixed income securities or equities in which
21 Dean Witter was not making a market.

22 Automation of Trading Systems in 1995 Did Not Correct

23 Blue Sky Compliance Issue

24 6. In 1995, Dean Witter began developing its automated order
25 entry system, called the Financial Advisor Workstation
26 ("Workstation"). In addition to using the Workstation to enter

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 customer orders, Financial Advisors ("FAs") could use it to look
2 up the Blue Sky status of securities in BSKS. After a customer
3 order was entered on the Workstation, the system compared
4 securities (by CUSIP number) with information in BSKS and
5 automatically blocked trades not meeting specified requirements,
6 including transactions that potentially posed Blue Sky issues.

7 7. However, the Workstation design team noted that the system
8 was not designed to block fixed income securities and noted that
9 such a feature would be added in a later phase:

10 ..As previously discussed, the Order Entry
11 System will perform the Blue Sky validation on-
12 line. Initially, the Blue Sky and Compliance
13 edits will be built into the **Equity Ticket, while**
14 **Blue Sky validation in Fixed Income Ticket will**
15 **be added in a later phase.** (emphasis added)

16 8. Until May 2005, no one on the Workstation design team or
17 anyone else at the firm followed up on whether or when fixed
18 income securities would be added to the Blue Sky validation
19 process.

20 9. FAs using the Workstation to research the Blue Sky status
21 of fixed income products did not receive either the requested
22 Blue Sky information or a warning message to contact Compliance
23 which resulted in the processing of fixed income transactions
24 without the performance of proper Blue Sky checks.

25 10. In response to early complaints about the
26 Workstation's slowness, MSDW programmed the system to execute an

1 order for equity securities regardless of whether the system had
2 completed Blue Sky screening. However, the system compared all
3 such trades at the end of the day to BSKS and listed possibly
4 violative transactions on the T+1 exception report.

5 11. In addition, MSDW did not include surveillance for
6 Blue Sky compliance in the various trading platforms that it
7 subsequently built out to support MSDW's managed account
8 business. Although MSDW initially built and revised these
9 systems over time, it failed to incorporate Blue Sky
10 surveillance into these systems.

11 12. During the automation process in 1995, MSDW's Blue Sky
12 Manager advised the Compliance Director and the Deputy
13 Compliance Director that the new automated system would require
14 her to monitor more than 15,000 equity securities, rather than
15 about 1,500 equity securities which she previously monitored.

16 13. During this time, the Firm, the Compliance Director
17 and his deputy, failed to recognize the significant compliance
18 issue that existed due to the pre-automation system not
19 providing Blue Sky checks on many equities or fixed income
20 securities.

21 14. To assist the Blue Sky Manager, MSDW bought a newly
22 available automated Blue Sky information feed covering only
23 equities from an outside vendor, Blue Sky Data Corp ("BSDC") on
24 April 11, 1996 (an information feed for fixed income securities
25 was not available until 1997). Upon buying the service, MSDW
26 terminated the Blue Sky Manager's only assistant.

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 15. The new BSDC equity feed resulted in a substantial
2 increase of information (from 1,500 to 15,000 covered equities)
3 causing the volume of possible Blue Sky violations appearing on
4 the daily T+1 exception report to increase substantially, which
5 overwhelmed the Blue Sky Manager.

6 **Blue Sky Problem Not Detected Following The Merger**

7 16. On or about May 31, 1997, Dean Witter, Discover & Co.
8 merged with Morgan Stanley Group, Inc. After the merger, the
9 Blue Sky problems continued.

10 17. The predecessor Morgan Stanley Group, Inc., had
11 conducted a retail business, including Blue Sky checking,
12 through its relatively small Private Wealth Management Group
13 ("PWM"), which served ultra-high net worth clients.

14 18. After the merger, the combined firm kept the two
15 predecessor firms' trading systems (including the corresponding
16 Blue Sky systems) running in parallel—one for MSDW and the other
17 for PWM. Beginning in 1998, Morgan Stanley assigned MSDW's Blue
18 Sky Manager to monitor the PWM Blue Sky system as well, even
19 though the Blue Sky Manager had difficulties with the increased
20 review responsibilities created by the MSDW T+1 exception
21 reports.

22 19. The two Blue Sky systems produced different, but
23 similar, exception reports that identified transactions with
24 possible Blue Sky violations. For PWM this included all such
25 trades, and for MSDW this included trades that had not been
26 stopped by the front-end block then in place.

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-5881
Telephone: (503) 378-4387





1 20. Morgan Stanley's Blue Sky databases contained only a
2 small amount of fixed income Blue Sky information entered
3 manually over the years and did not cross-reference the
4 information they each separately contained.

5 21. Beginning sometime in 1997, BSDC began offering a
6 fixed income Blue Sky information feed, and on December 15,
7 1997, BSDC contacted Morgan Stanley to solicit the new fixed
8 income feed. Morgan Stanley elected to add BSDC's fixed income
9 feed to the PWM Blue Sky System, but not to MSDW's Blue Sky
10 system.

11 22. Although some of Morgan Stanley's employees in its
12 compliance department were aware that MSDW did not have an
13 adequate fixed income Blue Sky registration verification system,
14 neither Morgan Stanley, nor any of its employees, took any
15 action to rectify the situation for the next eight (8) years.

16 **Blue Sky Violations Not Detected By Internal Audit**

17 23. Morgan Stanley's Internal Audit Department commenced
18 an audit of Blue Sky surveillance in the Fall of 2002. Internal
19 Audit noted that the "objective of the audit was to assess
20 whether adequate internal controls and procedures exist[ed] to
21 ensure that Product Surveillance activity for ...Blue Sky...[was]
22 properly performed, documented, and monitored, in accordance
23 with [Morgan Stanley] policy, applicable laws and regulatory
24 requirements."

25 24. The audit workpapers stated that a control objective
26 was to assure that the Blue Sky unit monitored "equity security

1 trading activity" and "market maker securities and those
2 securities recommended by Morgan Stanley's Research Department,"
3 but they did not mention the need to monitor fixed income
4 trading activity nor securities beyond those where Morgan
5 Stanley made a market or provided research coverage.

6 25. Some fixed income and other types of transactions were
7 reviewed during the Internal Audit. In particular, workpapers
8 show an October 29, 2002 trade in a particular bond which noted:
9 "Bond originally was not blue sky available," but found this
10 trade was appropriately resolved, from a Blue Sky perspective,
11 by "Signed Solicitation letter obtained from client
12 acknowledging unsolicited order."

13 26. Despite the fact that some fixed income transactions
14 were reviewed, the Internal Audit failed to recognize that there
15 were no hard blocks when a security was not found in the Blue
16 Sky database.

17 27. While the workpapers from the Internal Audit concluded
18 that Morgan Stanley's performance was "adequate" for most Blue
19 Sky surveillance activities, the workpapers also concluded that
20 performance was "inadequate" in the area of communicating Blue
21 Sky surveillance findings to management and commented that
22 "there is no evidence of analysts/supervisory review over
23 Surveillance Reports."

24 28. In its final report dated July 31, 2003, the Internal
25 Audit concluded, in part, that there were "[n]o control
26 deficiencies noted" in the areas of "Exception Reporting"

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 ("Review of daily exception reports") and "Management Oversight
2 / Monitoring" ("Supervision of Compliance analyst activities to
3 ensure the adequacy of investigation and corrective action").

4 29. After noting that the audit "evaluated the existence
5 and the adequacy of the design of the monitoring mechanisms
6 employed to ensure that key controls are operating effectively,"
7 the report concluded that there were "[n]o findings...that
8 warranted discussion with the Board Audit Committee."

9 **The State Of Blue Sky Systems Existing In Early 2005**

10 30. At the beginning of 2005, MSDW had in place an up-
11 front order entry block, but it covered only transactions
12 involving equities, certificates of deposit, mutual funds,
13 managed futures, insurance, and unit investment trusts. The
14 block did not cover fixed income securities, apart from
15 certificates of deposit.

16 31. MSDW's Blue Sky system did not contain information for
17 all securities (especially fixed income) and failed to include
18 any sort of "security-not-found" exception report to flag
19 transactions in securities not contained in the Blue Sky
20 database, resulting in no surveillance for such transactions.

21 32. MS&Co's PWM Group operated on a different platform
22 that never included any automated block to prevent execution of
23 transactions possibly violating Blue Sky requirements. Instead,
24 MS&Co's PWM system automatically generated a T+1 exception
25 report covering both equities and fixed income securities
26 containing possible Blue Sky violations.

Division of Finance and Corporate Securities
Labor and Industries Building
320 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 33. At the beginning of 2005, MSDW's Blue Sky policies and
2 procedures had remained fundamentally unchanged for a decade.
3 While the policies articulated the obligation of individual FAs
4 and branch managers to check for Blue Sky compliance, MSDW did
5 not provide the FAs and branch managers with the proper tools to
6 assist them in fulfilling their Blue Sky responsibilities, and
7 did not require adequate monitoring systems to check for Blue
8 Sky compliance.

9 34. Moreover, Morgan Stanley did not adequately staff the
10 Blue Sky Manager's office with sufficient resources and
11 personnel to assist and supervise all security transactions.

12 **Recognition Of The Blue Sky Surveillance Problem, Morgan**
13 **Stanley's Self-Reporting To Regulators And Remediation Efforts**

14 35. At the end of 2004, Morgan Stanley hired a new
15 Compliance employee in the Policies and Procedures Group. The
16 employee came with considerable experience in Blue Sky and other
17 surveillance related matters and soon was charged with managing
18 certain surveillance functions.

19 36. On or about May 23, 2005, during a review of MSDW's
20 Blue Sky compliance surveillance, the employee learned that
21 while MSDW had an equity Blue Sky feed from BSDC, it received no
22 similar feed for fixed income securities. The employee reported
23 the situation to MSDW's new Head of Compliance the following
24 day.

25 37. Upon hearing the report, the Head of Compliance
26 directed the employee to have MSDW acquire the fixed income feed

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 from BSDC as soon as possible. MSDW began receiving the fixed
2 income feed from BSDC on May 30, 2005.

3 38. Morgan Stanley then took steps to assess the
4 significance and extent of the gaps in surveillance. A team of
5 persons was formed in June 2005 to examine the issues and worked
6 through the balance of June and July in an effort to identify
7 the deficiencies and to begin to immediately correct the
8 problems. In doing so, the team created a list of Blue Sky
9 compliance requirements for all trading platforms and identified
10 a list of Blue Sky compliance gaps.

11 39. On August 12, 2005, an Executive Director in the
12 Regulatory Group of Morgan Stanley's Law Division began the
13 process of self-reporting the Blue Sky problem to state
14 regulators. Over the next couple of weeks, the Executive
15 Director notified regulators in all fifty (50) states, the
16 District of Columbia and Puerto Rico, as well as the National
17 Association of Securities Dealers ("NASD"). The head of the
18 Regulatory Group had already given preliminary notice to the New
19 York Stock Exchange ("NYSE").

20 40. Upon receiving the fixed income feed from BSDC, MSDW
21 made necessary system enhancements and conducted testing of the
22 system enhancements, resulting in MSDW putting the fixed income
23 feed into production on June 20, 2005. The changes permitted a
24 daily updating of MSDW's internal Blue Sky database and allowed
25 fixed income exceptions to appear on the daily T+1 report.

26 41. On or about July 15, 2005, MSDW developed a "security-

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 not-found" report to address instances where the BSDC feed may
2 not contain data for a particular security. This report,
3 generated on a T+1 basis, identifies all transactions in
4 securities (by CUSIP number) not recognized by the Blue Sky
5 database that could potentially violate Blue Sky laws.
6 Currently the security-not-found report covers both equities and
7 fixed income transactions entered through the equity and fixed
8 income order entry platforms on the Workstations.

9 42. On a daily basis, Compliance personnel analyze the
10 security-not-found report to ascertain the Blue Sky registration
11 or exemption status of the flagged transaction and make a
12 determination regarding the Blue Sky status of the identified
13 transactions prior to settlement date. If they discover a
14 transaction that violated Blue Sky restrictions, they instruct
15 the branch that effected the transaction to cancel it. When
16 analyzing the report, Compliance personnel also update the Blue
17 Sky database to include relevant information about the
18 securities they research.

19 43. On or about July 29, 2005, MSDW programmed a hard
20 block - i.e. a block an FA cannot override—that prevents the
21 entry of fixed income transactions that could violate Blue Sky
22 regulations.

23 44. MSDW has also refined the process to filter out
24 transactions that qualify for certain exemptions that span all
25 Blue Sky jurisdictions. By eliminating the covered
26 transactions, the system yields a smaller and more manageable

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 pool of securities with potential Blue Sky issues for manual
2 review by the Compliance Department.

3 45. Additionally, MSDW directed its IT Department to
4 examine all of MSDW's trading platforms to determine the nature
5 and scope of the Blue Sky compliance problem.

6 The review uncovered a gap in Blue Sky coverage for MSDW's
7 managed account platforms to the extent that such platforms
8 include affiliated money managers or accommodate broker
9 discretionary trading. MSDW has taken the necessary steps to
10 close the gaps in the managed account platforms, and has
11 incorporated trading in the managed account platforms into the
12 securities-not-found report.

13 46. By the end of 2005, Morgan Stanley remedied all of the
14 previously identified Blue Sky compliance gaps in both MSDW and
15 PWM systems.

16 47. Morgan Stanley hired additional Compliance Department
17 employees to staff its Blue Sky function. In particular, the
18 new personnel include a new Blue Sky manager who is dedicated
19 exclusively to Blue Sky compliance. A full time temporary
20 employee was hired to assist the Blue Sky manager and Morgan
21 Stanley subsequently hired this individual as a permanent full-
22 time employee. Morgan Stanley also assigned a back-up person to
23 cover the Blue Sky Manager's responsibilities in the event of
24 absences.

25 48. At great expense, Morgan Stanley conducted a review of
26 millions of historical transactions and identified those which

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street, NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 were executed in violation of the Blue Sky laws as a result of
2 the system deficiencies and offered rescission to customers with
3 terms and conditions that are consistent with the provisions
4 from the state securities statutes which correspond to the state
5 of residence of each affected customer.

6 49. In January 2007, the Director issued administrative
7 order 2007-WVR-01 granting a request from Morgan Stanley for a
8 waiver pursuant to ORS 59.045(1)(b), allowing Morgan Stanley to
9 use an exemption in order to make a rescission offering to all
10 the affected Oregon customers.

11 CONCLUSIONS OF LAW

12 1. The Director has jurisdiction over this matter pursuant
13 to ORS 59.235.

14 2. Morgan Stanley's failure to maintain adequate systems to
15 reasonably ensure compliance with Blue Sky laws resulted in the
16 sale of unregistered securities in violation of ORS 59.055.

17 3. Morgan Stanley failed to reasonably supervise its agents
18 or employees, in violation of ORS 59.205(13) and OAR 441-205-
19 0210(1).

20 4. This Order is necessary and appropriate in the public
21 interest and for the protection of investors, and is consistent
22 with the purposes fairly intended by the policy and the
23 provisions of the Oregon Securities Law.

24 5. Pursuant to ORS 59.115, Morgan Stanley is liable to
25 investors for any sales of securities that are conducted in
26 violation of 59.055, unless among other defenses, Morgan Stanley

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 offers and completes rescission to investors as set forth in the
2 Oregon Securities Law.

3 **ORDER**

4 On the basis of the Findings of Fact and Conclusions of
5 Law, Morgan Stanley consents to the entry of this Order, for the
6 sole purpose of settling this matter, prior to a hearing and
7 without admitting or denying the Findings of Fact or the
8 Conclusions of Law,

9 IT IS HEREBY ORDERED,

10 1. This Order concludes the Investigation by DFCS and any
11 other action that DFCS could commence under the Oregon
12 Securities Law on behalf of the State of Oregon as it relates to
13 Respondent, Morgan Stanley, or any of its affiliates, and their
14 current or former officers, directors, and employees, arising
15 from or relating to the subject of the Investigation, provided,
16 however, that excluded from and not covered by the paragraph are
17 any claims by DFCS arising from or relating to enforcement of
18 the Order provisions contained herein.

19 2. Morgan Stanley will cease and desist from violating
20 ORS 59.055 in connection with the sales of unregistered
21 securities as referenced in this Order and will comply with ORS
22 59.205(13) and OAR 441-205-0210(1).

23 3. This Order shall become final upon entry.

24 4. As a result of the Findings of Fact and Conclusions of
25 Law contained in this Order, Morgan Stanley shall pay \$138,036
26 (one hundred thirty-eight thousand, thirty six dollars) to the

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 State of Oregon as a civil monetary penalty pursuant to ORS
2 59.995, to be deposited in the General Fund of the State
3 Treasury, ORS 59.995(1), which amount constitutes the State of
4 Oregon's proportionate share of the state settlement amount of
5 \$8.5 Million Dollars (\$8,500,000.00), which shall be payable to
6 the Oregon Department of Consumer and Business Services within
7 ten (10) days of the date on which this Order becomes final.

8 5. If payment is not made by Morgan Stanley, DFCS may
9 vacate this Order, at its sole discretion, upon ten (10) days
10 notice to Morgan Stanley and without opportunity for
11 administrative hearing and Morgan Stanley agrees that any
12 statute of limitations applicable to the subject of the
13 Investigation and any claims arising from or relating thereto
14 are tolled from and after the date of this Order.

15 6. This Order is not intended by DFCS to subject any
16 Covered Person to any disqualifications under the laws of the
17 United States, any state, the District of Columbia or Puerto
18 Rico, including, without limitation, any disqualification from
19 relying upon the state or federal registration exemptions or
20 safe harbor provisions. "Covered Person," means Morgan Stanley
21 or any of its affiliates and their current or former officers,
22 directors, employees, or other persons that would otherwise be
23 disqualified as a result of the Orders (as defined below).

24 7. This Order and the order of any other State in related
25 proceedings against Morgan Stanley (collectively, the "Orders")
26 shall not disqualify any Covered Person from any business that

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 they otherwise are qualified, licensed or permitted to perform
2 under applicable law of the State of Oregon and any
3 disqualifications from relying upon this state's registration
4 exemptions or safe harbor provisions that arise from the Orders
5 are hereby waived.

6 8. For any person or entity not a party to this Order,
7 this Order does not limit or create any private rights or
8 remedies against Morgan Stanley or create liability of Morgan
9 Stanley or limit or create defenses of Morgan Stanley to any
10 claims.

11 9. This Order and any dispute related thereto shall be
12 construed and enforced in accordance, and governed by, the laws
13 of the State of Oregon, without regard to any choice of law
14 principles.

15 10. The parties represent, warrant and agree that they
16 have received legal advice from their attorneys with respect to
17 the advisability of executing this Order.

18 11. Morgan Stanley agrees not to take any action or to
19 make or permit to be made on its behalf any public statement
20 denying, directly or indirectly, any finding in this Order or
21 creating the impression that this Order is without factual
22 basis. Nothing in this Paragraph affects Morgan Stanley's: (i)
23 testimonial obligations or (ii) right to take legal or factual
24 positions in defense of litigation or in defense of a claim or
25 other legal proceedings in which DFCS is not a party.

26 12. This Order shall be binding upon Morgan Stanley and

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-5881
Telephone: (503) 378-4387

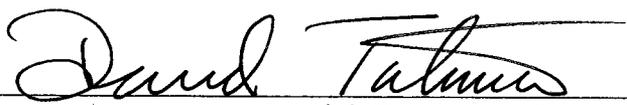


1 its successors and assigns. Further, with respect to all
2 conduct subject to Paragraph 4 above and all future obligations,
3 responsibilities, undertakings, commitments, limitations,
4 restrictions, events, and conditions, the terms "Morgan Stanley"
5 as used here shall include Morgan Stanley's successors or
6 assigns.

7 13. Morgan Stanley, through its execution of this Consent
8 Order, voluntarily waives its right to a hearing on this matter
9 and to judicial review of this Consent Order under ORS 59.295,
10 ORS 59.305, and ORS Chapter 183.

11
12 Dated this 20th day of February, 2009.

13 CORY STREISINGER, Director
14 Department of Consumer and Business Services

15
16 
17 David Tatman, Administrator
18 Division of Finance and Corporate Securities

19 **CONSENT TO ENTRY OF ORDER BY**
20 **MORGAN STANLEY & CO. INCORPORATED**

21 1. Morgan Stanley & Co. Incorporated ("MS&Co"), on behalf of
22 itself and as successor to Morgan Stanley DW Inc. ("MSDW"),
23 hereby acknowledges that it has been served with a copy of this
24 Order, has read the foregoing Order, is aware of its right to a
25 hearing and appeal in this matter, and has waived the same.

26 2. MS&Co, on behalf of itself and as successor to MSDW,
admits the jurisdiction of DFCS, neither admits nor denies the

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



1 Findings of Fact and Conclusions of Law contained in this Order;
2 and consents to entry of this Order by the Director as
3 settlement of the issues contained in this Order.

4 3. MS&Co, on behalf of itself and as successor to MSDW,
5 states that no promise of any kind or nature whatsoever was made
6 to induce it to enter into this Order and that it has entered
7 into this Order voluntarily.

8 4. S. Anthony Taggart represents that he is an Executive
9 Director of MS&Co and that, as such, has been authorized by
10 MS&Co to enter into this Order for and on behalf of MS&Co (for
11 itself and as successor to MSDW).

12
13 Dated this 2nd day of February, 2009

14
15 Morgan Stanley & Co. Incorporated

16
17 By: [Signature]

18 Title: Executive Director

19
20
21
22
23
24
25
26
Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387

