Morgan Stanley must pay $4.5 million to Banamex: panel

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By Suzanne Barlyn

(Reuters) - A unit of Morgan Stanley must pay $4.5 million to Citigroup Inc's Banamex unit which alleged the firm had allowed funds in a family's trust account to be used to repay third-party loans without its authorization, according to a ruling on Friday.

A Financial Industry Regulatory Authority (FINRA) arbitration panel found Morgan Stanley & Co Inc liable for negligence in the case, filed by Banamex in 2012. Banamex, which served as trustee to a family's trust account, had sought more than $5.2 million, according to the ruling.

“We are disappointed in the arbitration panel's award," a Morgan Stanley spokeswoman said in a statement. The firm believes the evidence showed that the family's "patriarch" had pledged the trust accounts as collateral for loans that benefited the family and that the accounts were treated that way for the period at issue, the spokeswoman said.

The trust was set up in 2007 with proceeds from the sale of property that a group of adult siblings and their mother had inherited, according to Jeff Erez, a lawyer in Fort Lauderdale, Florida, who represented Banamex in the case.

Banamex and the trust beneficiaries enlisted a broker at Morgan Stanley to manage their accounts that same year.

The ruling does not disclose the broker's name.

The trust accounts were held at a banking unit of Morgan Stanley & Co and managed by the brokerage unit. They were set up in a way that did not allow the assets to be used as guarantees to pay off third-party loans taken by another family member's account, Erez said.

Banamex alleged that Morgan Stanley caused the trust accounts to guarantee payment of third-party loans of a family member without Banamex's authorization, Erez said.

The FINRA arbitration panel, as is customary, did not explain the reasons for its decision.

(Reporting by Suzanne Barlyn in New York; editing by Meredith Mazzilli and Matthew Lewis)

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