

ARCHIVE [Arbitration](#)

# Finra panel smacks Morgan Stanley with \$4.5M arbitration award

Morgan Stanley loses Finra arbitration dispute to Banco Nacional de Mexico SA, the Mexican bank known as Banamex.

August 5, 2014 *By Bruce Kelly*



You have read 1 of 3 free articles this week. [Register now for increased access.](#)

Morgan Stanley & Co. Inc. lost a \$4.5 million Finra arbitration dispute on Friday to Banco Nacional de Mexico SA, the Mexican bank known as Banamex. The bank's fiduciary division sued Morgan Stanley in 2012 alleging fraud, negligence and other allegations in a case related to whether the bank agreed to pledge the assets of a wealthy family's trust sub-accounts against a third party debtor.

The three member Financial Industry Regulatory Authority Inc. arbitration panel found Morgan Stanley liable for "negligence and negligent supervision," according to the award. The damages in the award were compensatory and not punitive.

"We are disappointed in the arbitration panel's award," wrote Morgan Stanley spokeswoman Christine Jockle in an email. "We believe that the evidence showed that the patriarch of the family pledged the trust accounts as collateral for loans that benefited the family, and those accounts were treated that way for the two year period at issue."

Meanwhile, Jeff Erez, the attorney for the plaintiffs, said: "We are pleased that the arbitrators correctly applied the law to the evidence. The heart of the claim was the allegation that "the trustee, on behalf of the family, did not agree to repay any third party loans," Mr. Erez said. "We alleged that Morgan Stanley caused to be recorded an unauthorized pledge to third party loans. We alleged Morgan Stanley took actions in order to cause that it appeared there was a pledge."

Such pledges are known as cross-pledges, he said.

The plaintiffs alleged that Morgan Stanley improperly recorded or guaranteed the trust assets for a family member who was not part of the trust, he said. Mr. Erez added that there was no evidence that this happened more than once and was a widespread problem at Morgan Stanley.

No Morgan Stanley advisers were named in the matter.

Banamex requested \$5.2 million in compensatory damages at the end of the hearing, so the claimants received about 87% of the relief requested. Banamex Financial Group is a subsidiary of Citigroup.

Related Topics: [Morgan Stanley & Co.](#)

Learn more about [reprints and licensing](#) for this article.

## Newsletters

Subscribe for original insights, commentary and analysis of the issues facing the financial advice community, from the InvestmentNews team.

## Recent Articles by Author



### [Advisor revenue up at Ameriprise despite lousy year for stocks](#)

The firm reported that its average revenue per financial advisor increased almost 4% in 2022 compared to the year earlier.



### [Wisconsin advisor pulled \\$1.9 million fraud on clients](#)

The advisor, Anthony B. Liddle, 40, was barred from the securities industry last June by the Financial Industry Regulatory Authority Inc.



## **Does the 60/40 rule need revising given the surge in alts?**

At a panel at FSI OneVoice, one speaker suggested the revised math for portfolios could wind up in the neighborhood of 55% stocks, 35% bonds and 10% alternative investments.



## **Rising interest rates not a killer for RIA M&A**

Meanwhile, though, some RIA buyers are 'dancing' to get necessary capital to do deals, says Dan Seivert of Echelon Partners.



## **Is the new generation of nontraded REITs really any better than the last?**

Wall Street has revitalized the product, but these REITs face new scrutiny because of an old problem: Investors are demanding liquidity.