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Morgan Stanley Accused of Facilitating Unethical Sales Contests

By Alexander Baptiste, J.D. Candidate 2018 | October 12, 2016

On October 3, 2016, Morgan Stanley was charged with "dishonest and unethical conduct" by a top Massachusetts securities regulator.

Morgan Stanley is accused of facilitating high-pressured sales contests in Massachusetts and Rhode Island, where brokers had the opportunity to earn thousands of dollars for selling high volumes of securities based loans. Securities based loans allow clients to borrow money against the value of their investment accounts, but are known to involve a non-negligible risk including the bank's ability to sell securities to repay the loan.

Secretary of the Commonwealth William Galvin alleges that the contests, which aimed to boost business, were officially prohibited by Morgan Stanley but were ultimately lucrative generating $24 million in new loan balances. Thirty financial advisors in the Springfield, Wellesley, Worcester, Waltham, and Providence offices were given incentives of $1,000 for ten loans, $3,000 for twenty loans and $5,000 for thirty loans. This compensation allegedly came in the form of "business development allowances," or funds that could be used to write off travel expenses and other costs related to managing client relationships. Galvin charges that Morgan Stanley's executives were slow in discovering these improper sales contests and failed to shut them down immediately.

These charges come in the wake of the Wells Fargo scandal in which the bank was fined after employees opened as many as two million fake accounts under customers' names, without their permission, in order to fulfill internal sales quotas. The bank is currently under investigation by the House Financial Services committee and Wells Fargo CEO John Stumpf has been called to testify before the Senate Banking Committee. The practice of encouraging customers to buy products and services from a variety of business lines is not uncommon within the banking industry, but following the Wells Fargo scandal, questions have been raised as to whether it is ethical to set aggressive internal sales quotas for employees.

In a statement, Galvin says that the complaint "lays bare the culture at Morgan Stanley that bred the high pressure effort to cross sell banking products to its brokerage customers without regard for the fiduciary duty owed to the investor." Morgan Stanley spokesperson James Wiggins insists that the complaints leveled are "without merit" and that there is no evidence that any clients were harmed by the program. In a response, Galvin states that he believes customers have been harmed, although he does not have such evidence "in front of [him]."

Galvin is seeking a fine against Morgan Stanley for its actions, and relief for any customers who have been harmed by purchasing the products that were offered in the sales contest. The company plans to actively defend itself against the charges.