

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 101215 / September 27, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-21825

In the Matter of

Morgan Stanley & Co. LLC,

Respondent.

**ORDER CREATING AND
CONSOLIDATING FAIR FUNDS,
AND SETTING DEADLINE TO
SUBMIT A PROPOSED PLAN OF
DISTRIBUTION**

ADMINISTRATIVE PROCEEDING
File No. 3-21826

In the Matter of

Pawan Kumar Passi,

Respondent.

On January 12, 2024, the Commission issued two separate, but related, settled orders (collectively, the “Orders”) against Morgan Stanley & Co. LLC (“Morgan Stanley”)¹ and Pawan Kumar Passi (“Passi”)² (collectively, the “Respondents”). In the Orders, the Commission found that, from at least June 2018 through August 2021 (the “Relevant Period”), Passi and another employee on Morgan Stanley’s Equity Syndicate Desk in the Americas (the “Syndicate Desk”) perpetrated a fraud involving large blocks of stock that the investment banking firm purchased from investors (the “Selling Shareholders”). The Commission found that the two employees, in violation of duties of confidentiality and Morgan Stanley’s policies, disclosed to certain buy-side

¹ Order Instituting Administrative and Cease-And-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order, Admin. Proc. No. 3-21825, Exchange Act Rel. No. 99336 (Jan. 12, 2024) (the “Morgan Order”).

² Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions, Admin. Proc. 3-21826, Exchange Act Rel. No. 99337 (Jan. 12, 2024) (the “Passi Order”).

investors non-public, potentially market-moving information, concerning impending “block trades” that the firm had been invited to bid on or was in the process of negotiating with selling shareholders. The Commission further found that Morgan Stanley failed to enforce information barriers to prevent material non-public information involving the block trades from being discussed by the Syndicate Desk. According to the Order, by this conduct, Morgan Stanley generated more than \$138 million in profits across 28 transactions. The Commission found that Morgan Stanley and Passi willfully violated Sections 10(b) and 15(g) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 thereunder, and that Morgan Stanley willfully violated Section 15(g) of the Exchange Act.

In the Morgan Stanley Order, the Commission ordered Morgan Stanley to disgorge \$138,297,046, plus prejudgment interest of \$28,057,775, for a total of \$166,354,821, which would be offset by the value of forfeiture and restitution paid by Morgan Stanley pursuant to a January 11, 2024, non-prosecution agreement with the U.S. Attorney for the Southern District of New York in parallel criminal proceedings (the “Criminal Proceedings”).³ The Commission further ordered Morgan Stanley to pay a civil penalty of \$83 million. Pursuant to the Morgan Stanley Order, the Commission will hold the funds paid pending a decision as to whether the Commission will seek to distribute them.

In the Passi Order, the Commission ordered Passi to pay a civil penalty of \$250,000. Pursuant to the Passi Order, the Commission will hold the funds paid pending a decision as to whether the Commission will seek to distribute them.

The Respondents have paid in full. They have collectively paid \$83,250,000 in civil penalties and Morgan Stanley, after the offset of forfeiture and restitution paid in the Criminal Proceedings, has paid disgorgement and prejudgment interest totaling \$29,823,598. The Commission holds the funds in Commission-designated accounts at the United States Department of Treasury. Any interest accrued will be added to the funds for the benefit of investors harmed by the conduct described in the Orders.

The Commission staff has concluded that a distribution is feasible and appropriate based on the harm suffered by the Selling Shareholders through the conduct described in the Orders.

The Division of Enforcement (the “Division”) recommends that Fair Funds be created pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 for the civil penalty paid by Passi (the “Passi Fair Fund”) and the civil penalty paid by Morgan Stanley (the “Morgan Fair Fund”) so that the civil penalties can be distributed, along with paid disgorgement and prejudgment interest, for the benefit of the harmed investors. The Division further recommends that the Passi Fair Fund be consolidated with the Morgan Stanley Fair Fund for purposes of distribution administration.

The Division further recommends that the Commission, in accordance with Rule 1101 of the Commission’s Rules on Fair Fund and Disgorgement Plans (the “Commission’s Rules”),⁴ set

³ For more on the Criminal Proceedings, see <https://www.justice.gov/usao-sdny/pr/us-attorney-announces-agreements-morgan-stanley-and-former-senior-employee-pawan-passi>.

⁴ 17 C.F.R. § 201.1101(a).

February 28, 2025 as the date by which the Division will submit a proposed plan of distribution (“Proposed Plan”) for the consolidated Fair Fund. In making this recommendation, the Division states that it requires sufficient time to develop the distribution methodology, confirm any restitution payments made in connection with the Criminal Proceedings, and prepare a Proposed Plan.

Accordingly, IT IS HEREBY ORDERED that:

- A. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, the Passi Fair Fund is created so that the civil penalty paid by Passi can be distributed for the benefit of harmed investors;
- B. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, the Morgan Stanley Fair Fund is created so that the civil penalty paid by Morgan Stanley can be added to the disgorgement and prejudgment interest paid by Morgan Stanley for distribution for the benefit of harmed investors;
- C. The Passi Fair Fund is consolidated with the Morgan Stanley Fair Fund for purposes of distribution administration; and
- D. In accordance with Rule 1101(a) of the Commission’s Rules,⁵ the Division will submit a Proposed Plan of distribution for the consolidated Fair Fund by February 28, 2025.

By the Commission.

Vanessa A. Countryman
Secretary

⁵ 17 C.F.R. § 201.1101(a).