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# SEC Charges Morgan Stanley and Former Executive Pawan Passi with Fraud in Block Trading Business

## Firm agrees to pay more than \$249 million to settle fraud charges and for failing to enforce information barriers

FOR IMMEDIATE RELEASE | 2024-6

Washington D.C., Jan. 12, 2024 — The Securities and Exchange Commission today charged investment banking giant Morgan Stanley & Co. LLC and the former head of its equity syndicate desk, Pawan Passi, with a multi-year fraud involving the disclosure of confidential information about the sale of large quantities of stock known as “block trades.” The SEC also charged Morgan Stanley with failing to enforce its policies concerning the misuse of material non-public information related to block trades.

“Sellers entrusted Morgan Stanley and Passi with material non-public information concerning upcoming block trades with the full expectation and understanding that they would keep it confidential,” said SEC Chair Gary Gensler. “Instead, Morgan Stanley and Passi abused that trust by leaking that same information and using it to position themselves ahead of those trades. While their conduct may have earned them tens of millions of dollars on low-risk trades, it violated the federal securities laws. Thanks to the hard work of the SEC staff, they are being held accountable.”

“Despite assuring selling shareholders that they would keep their efforts to sell large blocks of stock confidential, Morgan Stanley and Pawan Passi instead leaked that material non-public information to mitigate their own risk, win more block trade business, and generate over a hundred million dollars in illicit profits,” said Gurbir S. Grewal, Director of the SEC’s Division of Enforcement. “When market participants game the system for personal gain in this way, it erodes investor confidence and undermines market integrity. Today’s fraud charges underscore our commitment to holding wrongdoers accountable, no matter how complicated the fraud or sophisticated the perpetrators.”

A block trade generally involves the sale of a large quantity of shares of an issuer’s stock, privately arranged and executed outside of the public markets. According to the SEC’s orders, from at least June 2018 through August 2021, Passi and a subordinate on Morgan Stanley’s equity syndicate desk disclosed non-public, potentially market-moving information concerning impending block trades to select buy-side investors despite the sellers’ confidentiality requests and Morgan Stanley’s own policies regarding the treatment of confidential information. The SEC’s orders find that Morgan Stanley and Passi disclosed the block trade information with the understanding that those buy-side investors would use the information to “pre-position” by taking a significant short position in the stock that was the subject of the upcoming block trade. According to the SEC orders, if Morgan Stanley eventually purchased the block trade, the buy-side investors would then request and receive allocations from the block trade from Morgan Stanley to cover their short positions. This pre-positioning reduced Morgan Stanley’s risk in purchasing block trades.

The SEC’s order further finds that Morgan Stanley failed to enforce information barriers to prevent material non-public information involving certain block trades from being conveyed by the equity syndicate desk, which sits on the private side of Morgan Stanley, to a trading division on the public side of the firm. As a result, the firm was unable to sufficiently scrutinize whether trades by that division, placed while the equity syndicate desk was in discussions with selling shareholders regarding potential block trades, were based on such confidential discussions.

The SEC’s order concerning Morgan Stanley finds that the firm willfully violated Sections 10(b) and 15(g) of the Securities Exchange Act of 1934 and Rule 10b-5(b) thereunder, censures the firm, and orders it to pay approximately \$138 million in disgorgement, approximately \$28 million in prejudgment interest, and an \$83 million civil penalty. The SEC’s order concerning Passi finds that he willfully violated Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, orders him to pay a \$250,000 civil penalty, and imposes associational, penny stock, and supervisory bars.

In a parallel action, the U.S. Attorney’s Office for the Southern District of New York today announced criminal resolutions with Morgan Stanley and Passi. The SEC’s ordered disgorgement and prejudgment interest for Morgan Stanley will be deemed partially satisfied by the forfeiture and restitution paid by the firm, which totals \$136,531,223, pursuant to its criminal resolution.

The SEC’s investigation was conducted by David Bennett and Colby Steele in the Enforcement Division’s Market Abuse Unit with the assistance of John Marino, Darren Boerner, and Matthew Koop of the Market Abuse Unit’s Analysis and Detection Center and trial counsel Suzanne Romajas and James Connor, and Carmen Taveras, Frank Brown, and Adam Yonce in the Division of Economic and Risk Analysis. The case was supervised by Paul Kim and Joseph Sansone.

The SEC appreciates the assistance of the U.S. Attorney’s Office for the Southern District of New York, the FBI, and the Financial Industry Regulatory Authority.

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Last Reviewed or Updated: Jan. 12, 2024

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