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Fed Probes Morgan Stanley's International Wealth-Management Practices

At issue is how the bank vets foreigners and the origins of their money before taking them on as customers

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Wealth management is a critical source of revenue for Morgan Stanley—it's grown to account for close to 50% of overall revenue—that helps offset droughts in deal making and trading. PHOTO: ANGUS MORDANT/BLOOMBERG NEWS

Morgan Stanley's **MS 0.61%** ▲ wealth-management arm is being scrutinized by the Federal Reserve, which is looking into whether the bank has sufficient controls in place to prevent rich foreign customers from laundering money.

The Fed has been probing how Morgan Stanley vets foreigners and the origins of their money before taking them on as customers, according to people familiar with the matter.

What started out as a routine review a few years ago escalated after regulators found the bank's due diligence on clients and anti-money-laundering efforts lacking.

The Fed has privately reprimanded the bank for not making all the changes it has required, and the head of Morgan Stanley's wealth-management business, Andy Saperstein, has been meeting with the Fed to address how he and his team are going to clean up the problems it has found.

Rich foreigners are a relatively small, but important, source of new inflows for Morgan Stanley's wealth-management business, which oversees a total of about \$5 trillion in assets for clients. During the past roughly five years, Morgan Stanley ramped up recruiting of financial advisers who specialize in catering to offshore clients, many in Latin America.

While most rich Americans have a financial adviser or wealth-management firm, many in Latin America don't—or at least don't have one that is U.S.-based.

In 2020, the Fed found that the bank lacked risk-management controls for vetting foreign wealth-management clients, the people said. It gave a list to Morgan Stanley of the problems that needed to be fixed. When the regulator returned in 2021, many items on that list remained unfixed. The same occurred when the Fed returned last year.

That is when Saperstein got more involved. In 2022, he went to the Fed and presented a plan on how the bank would fix the problems once and for all. He and his team have about 18 months to go before the plan he presented is complete.

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This expansion was spearheaded by CEO James Gorman, who on the bank's earnings call in April expressed an interest in getting more client assets in the U.S., Asia and “some in LatAm.” (Morgan Stanley recently said firm veteran Ted Pick would become its new CEO.)

Morgan Stanley remains under a separate multiagency investigation for its handling of

funds tied to an alleged Venezuelan money-laundering scheme. The Justice Department, the Securities and Exchange Commission and other federal agencies have been probing whether Morgan Stanley allowed a Venezuelan businessman to help a former oil minister in the country launder money through the bank, The Wall Street Journal reported in 2021. They are looking into why Morgan Stanley managed roughly \$100 million in investments for the Venezuelan businessman when his account displayed red flags for potential money-laundering activities.

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