Facebook underwriter Morgan Stanley defends IPO

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Pedestrians cross the street by the Morgan Stanley building in Times Square in New York City. The chief executive of Morgan Stanley on Wednesday defended his company's lead role in the disastrous IPO of Facebook, which has lost investors billions of dollars.

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James Gorman told an internal staff meeting that the bank had worked "100 percent within the rules" in heading the $16 billion stock issue, according to a person who was at the meeting.

The source said Gorman also condemned the "speculation of nefarious activity" that has surrounded the issue and drawn at least eight class action lawsuits against Facebook and its underwriters.

He said the social networking giant itself was happy with the bank, even though the company's shareprice has now sunk nearly 26 percent from the $38 initial public offering price.

Facebook's chief operating officer Sheryl Sandberg had told him that the company "is very pleased with the way Morgan Stanley conducted itself, (saying) that we were very professional," Gorman told the group, according to the source.

Gorman blamed the overall economic environment -- especially the Greek financial crisis -- as well as technical problems at the Nasdaq market for "unprecedented confusion and disarray at the opening," when Facebook shares began trading on May 18.

"You don't control Nasdaq and you don't control Greece and the environment," he said.

It all "made for a very difficult start."

Facebook's shares barely held above the issue price on the first day of trade and have steadily fallen ever since, wiping $27 billion off of the company's IPO market valuation of $104 billion.

Those losses have been taken by investors who are furious over how the country's second largest IPO ever flopped.

The anger stems in part from Morgan Stanley's having approved an increase in the shares issued and the share price just days before the share sale.

Also driving the fury and the lawsuits are allegations that the underwriters had given their best institutional clients private, downbeat forecasts for Facebook's finances just before the shares hit the market, while denying the same information to small investors.

The result, the accusations say, was that the better-informed big investors immediately dumped their shares leaving smaller investors to take the losses.

Gorman insisted that the shareprice should be seen over a 12 month period, and not just in the short term.

"Facebook is a great company and will still be in so in a few months," he said.