

# Regulators probe bank's role in Facebook IPO

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In this Oct. 10, 2011 file photo, a magnifying glass is posed over a monitor displaying a Facebook page in Munich. Regulators are examining whether Morgan Stanley, the investment bank that shepherded Facebook through its highly publicized stock offering last week, selectively informed clients of an analyst's negative report about the company before the stock started trading. The bank said on Tuesday May 22, 2012 said that its procedures complied with regulations. (AP Photo/dapd, Joerg Koch)

(AP) -- Regulators are examining whether Morgan Stanley, the investment bank that shepherded Facebook through its highly publicized stock offering last week, selectively informed clients of an analyst's negative report about the company before the stock started trading.

Rick Ketchum, the head of the Financial Industry Regulatory Authority, the self-policing body for the securities industry, said Tuesday that the

question is "a matter of regulatory concern" for his organization and the [Securities and Exchange Commission](#).

The top securities regulator for Massachusetts, William Galvin, said he had subpoenaed Morgan Stanley. Galvin said his office is investigating whether Morgan Stanley divulged to only some clients that one of its analysts had cut his revenue estimates for Facebook before the [stock](#) hit the market on Friday.

The bank said late Tuesday that it "followed the same procedures for the Facebook offering that it follows for all IPOs," referring to [initial public offerings](#) of stock. It said that its procedures complied with regulations.

The questions about the role played by Morgan Stanley, the lead underwriter for the deal, add to the confusion surrounding Facebook's IPO. In the most hotly anticipated stock debut in years, the offering raised \$16 billion for the [social networking](#) company, valuing it at \$104 billion

On Tuesday, Robert Greifeld, the CEO of the [Nasdaq Stock Market](#), acknowledged to shareholders of Nasdaq's parent company that "clearly we had mistakes within the Facebook listing."

The stock debut, originally set for 11 a.m. EDT Friday, was delayed more than half an hour because of technical problems at Nasdaq. Some brokerages were still sorting out the aftermath on Tuesday.

"Unfortunately, our clients continue to feel the effects of this in some cases," said Stephen Austin, a spokesman for [Fidelity Investments](#), one of the country's largest brokerages. Fidelity was still waiting for some Facebook stock orders that it placed on Friday to be executed. Fidelity's systems had performed normally, Austin said.

In the meantime, Facebook stock itself has been a disappointment. It fell \$3.03 on Tuesday to close at \$31 and has now fallen \$7, or more than 18 percent, from its offering price of \$38. It managed to add just 23 cents in its first hours of trading on Friday, then suffered a big decline on Monday.

The Reuters news service reported Tuesday that a Morgan Stanley analyst, Scott Devitt, cut his estimate for Facebook's revenue this year to \$4.85 billion from more than \$5 billion earlier. Reuters reported that it was unclear whether Morgan Stanley had told only select clients about the reduced estimate.

Reuters reported that the analyst cut his figures for Facebook while the company's executives, including founder and CEO Mark Zuckerberg, were shopping the stock to potential investors in the weeks ahead of the IPO, a process known in investing as a road show.

Morgan Stanley, in its statement, did not specifically address which clients might have been told about a reduced estimate from one of its analysts. It said that "a significant number" of analysts, including those from other firms underwriting the stock issue, had reduced their estimates for Facebook to reflect publicly available information about the company.

That was a reference to a May 9 regulatory filing in which Facebook said a shift by many Facebook users toward mobile devices might limit its revenue growth. Social media companies have struggled to make as much money as they would like from mobile advertising. Advertising accounts for more than 80 percent of Facebook's overall revenue.

Morgan Stanley also said that revised analyst views were taken into account in setting the stock offering price at \$38 per share. Facebook, working with Morgan Stanley, first set a range of \$28 to \$35 for the

offering price, then raised the range to \$34 to \$38 before setting it at \$38 on the night before the IPO.

When the stock started trading Friday, it jumped several dollars, but quickly fell back toward \$38. It never crossed below that level on its first day, and outside analysts said that was probably because Morgan Stanley, eager to avoid the embarrassment of a first-day decline in the stock price, had rushed in with thousands of buy orders at \$38.

The Wall Street Journal reported Tuesday night that Facebook's chief financial officer, David Ebersman, decided shortly before the stock debut to raise the number of shares the company would offer by 25 percent. The Journal, citing people familiar with the planning of the stock offering, also reported that Morgan Stanley had assured Ebersman there was plenty of demand for the stock.

A spokesman for Facebook Inc., which is based in Menlo Park, Calif., said late Tuesday that the company had no comment.

The SEC had already said on Friday that it was looking into problems surrounding the IPO. On Tuesday, the agency's chairman, Mary Schapiro, said: "I think there is a lot of reason to have confidence in our markets and in the integrity of how they operate, but there are issues that we need to look at specifically with respect to [Facebook](#)."

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