

STATE OF OHIO
DEPARTMENT OF COMMERCE
DIVISION OF SECURITIES
COLUMBUS, OHIO 43215-6131

In the Matter of)
UBS FINANCIAL SERVICES, INC.,) Order No. 13-036
Respondent.) **CONSENT ORDER**
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WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer licensed in the state of Ohio, with a Central Registration Depository ("CRD") number of 8174; and

State securities regulators, as part of a North American Securities Administrators Association ("NASAA") working group (the "NASAA Working Group"), have conducted an investigation into the registration of UBS Client Service Associates ("CSAs") and UBS's supervisory system with respect to the registrations of CSAs; and

UBS has cooperated with state securities regulators and the NASAA Working Group conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing access to facts relating to the investigations; and

UBS has advised the NASAA Working Group of its agreement to resolve the investigation pursuant to the terms specified in this Consent Order (the "Order") and pursuant to the multi-state resolution recommended by the NASAA Working Group; and

UBS has made certain changes in its supervisory system with respect to the registration of CSAs, and will make certain payments in accordance with the terms of this Order; and

UBS elects to waive permanently any right to a hearing and appeal under Ohio Revised Code ("R.C.") Chapter 119 with respect to this Order; and

Solely for the purpose of terminating the NASAA working group investigation, and in settlement of the issues contained in this Order, UBS, without admitting or denying the findings of fact or conclusions of law contained in this Order, consents to the entry of this Order.

NOW, THEREFORE, the Commissioner of the Ohio Division of Securities, as administrator of the Ohio Securities Act, R.C. Chapter 1707, hereby enters this Order:

I.
FINDINGS OF FACTS

1. UBS admits the jurisdiction of the Ohio Division of Securities (“Division”) in this matter.

Background on Client Service Associates

2. The CSAs function as sales assistants and typically provide administrative and sales support to one or more of UBS’s Financial Advisors (“FAs”). There are different titles within the CSA position, including Client Service Associate, Registered Client Associate, and Senior Registered Client Service Associate.

3. The responsibilities of CSAs specifically include, among other things:

- a. Extending invitations to UBS-sponsored events;
- b. Providing published quotations to clients, if asked;
- c. Inquiring whether a current or prospective client wishes to discuss investments with a registered representative of UBS; and
- d. Entering an order, provided the order was accepted by an appropriately registered individual in those instances where the CSA is not registered in the state in which the client is located.

4. In addition to the responsibilities described above, and of particular significance to this Order, some CSAs are permitted to accept orders from clients. As discussed below, UBS’s written policies and procedures require that any CSAs accepting client orders first obtain the necessary licenses and comply with self-regulatory organization and state registration requirements.

5. UBS issued a revised policy on registration requirements on March 28, 2007, which stated, inter alia, that managers are responsible for ensuring that all employees under their supervision are appropriately registered and licensed to perform the functions of their position.

6. During the period of 2004 to 2010, UBS employed, on average, approximately 2,277 CSAs per year.

License Required

7. R.C. 1707.16 requires that every salesperson of securities be licensed by the Division and employed by the licensed dealer specified in the salesperson license. R.C. 1707.44(A) prohibits any salesperson from selling securities in Ohio without being licensed pursuant to R.C. 1707.16. For purposes of this order, the term “register” shall mean “license”.

8. Pursuant to the general prohibition under R.C. 1707.44(A), a person cannot accept unsolicited orders in Ohio without being licensed as a securities salesperson or dealer.

9. Pursuant to R.C. 1707.23, an Order may be issued by the Division requiring any person to cease and desist from acts or practices constituting violations of the Ohio Securities Act or rules adopted thereunder.

UBS Requires Registration of Client Service Associates

10. UBS requires CSAs to become properly registered, licensed, and appointed with the necessary self-regulatory organizations, state regulators, and business entities before taking solicited or unsolicited transaction orders from clients in securities or other financial products, receiving transaction-related compensation, or otherwise engaging in the offer or sale of securities or other financial products.

11. UBS’s policies and procedures state that CSAs engaging in securities activities must register in, at a minimum, the state from which they conduct business (i.e. home state).

12. Additionally, UBS also required CSAs to register in states in which a CSA anticipated:

- a. Maintaining an additional place of business;
- b. Prospecting clients;

- c. Soliciting new accounts;
- d. Servicing existing accounts; or
- e. Effecting any securities transactions and/or receiving compensation as a result of such transactions.

Regulatory Investigation and Findings

13. In March 2010, state securities regulators initiated an investigation into the practices of UBS in connection with its CSA registrations.

14. The multi-state investigation focused on systemic issues with UBS's CSA registrations and related supervisory structure instead of attempting to identify each incidence of unregistered activity. Specifically, with respect to the order entry process, the investigation found:

- a. After accepting a client order, UBS CSAs accessed UBS's automated Consolidated Order Entry System ("COE") to enter the order;
- b. When entering an order through the COE, CSAs were asked by the system "Did another person receive this order?" If the question was answered "no," the order was processed. If the question was answered "yes," a free text field appeared for the CSA to enter the name or employee code of the person who accepted the order;
- c. In some instances, when this question was answered "yes," CSAs did not include a name or code of the employee who accepted the order in the free text field. In other instances, the free text field did not contain accurate identifying information about the employee who accepted the trade;
- d. Further, while UBS maintained a system to verify that the FA of record for a particular account was registered in the state where the client resided, UBS did not maintain a system to verify the registration status of the employee accepting a client order when that employee was not the FA for the account.

15. The multi-state investigation found that on certain occasions some UBS CSAs, while Series 7 registered and registered in one or more other states, accepted unsolicited orders to buy or sell securities from clients residing in Ohio at times when the CSAs were not appropriately licensed in Ohio.

UBS's Remedial Measure and Cooperation

16. In November 2010, after the initial inquiry by state securities regulators, UBS enhanced the COE System to automatically validate the registration of employees during the order entry process.

17. Specifically with respect to branch support staff (i.e. CSAs), employees are now required to indicate the person who directly accepted the order from a client by selecting "self" or "other" within the electronic ticket on the COE.

18. If a CSA selects "self", the COE validates whether the CSA who accepted the order is properly registered in the state where the client resides.

19. If a CSA selects "other," the CSA must provide identifying information of the person who accepted the order. The COE system subsequently validates whether the identified person who accepted the order is properly registered in the state where the client resides.

20. If the identified person is not properly registered in the client's state of residence, the order is routed to branch management who must ensure that a properly registered person accepts or confirms the order before execution.

21. UBS provided timely responses and substantial cooperation in connection with this regulatory investigation.

II. CONCLUSIONS OF LAW

1. The Division has jurisdiction over this matter pursuant to the Ohio Securities Act.
2. UBS's failure to establish an adequate system to monitor the licensure status of persons accepting client orders constitutes a failure to reasonably supervise persons associated with the dealer or to establish reasonable procedures designed to avoid violations of Chapter

1707 of the Revised Code or of Chapter 1301:6 of the Ohio Administrative Code ("O.A.C."), in violation of O.A.C. 1301:6-3-19(B)(9).

3. UBS's maintenance of order tickets which do not accurately identify the person who accepted client orders constitutes a violation of O.A.C. 1301:6-3-19(B)(9).

4. UBS's acceptance of orders for purchases and sales of securities from clients residing in Ohio through CSAs not registered in Ohio constitutes a violation of R.C. 1707.44(A).

5. Pursuant to R.C. 1707.23, based on violations of R.C. 1707.44(A) and O.A.C. 1301:6-3-19(B)(9), UBS's acceptance of orders for purchases and sales of securities in Ohio through salespersons not licensed in Ohio constitutes basis to order UBS to cease and desist engaging in the sale of securities in Ohio through unlicensed salespersons.

6. The Division finds that UBS has engaged in practices prohibited by the Ohio Securities Act or the rules promulgated thereunder and further finds the following relief to be in the best interest of the public and necessary for the protection of investors.

III. ORDER

On the basis of the Findings of Facts, Conclusions of Law, and UBS's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Division and any other action that the Division could commence against UBS and its officers, directors and present or former employees under applicable Ohio law on behalf of Ohio as it relates to unregistered activity in Ohio by UBS's CSAs and UBS's supervision of CSA registrations during the period from January 1, 2004 through December 31, 2010.

2. This Order is entered into solely for the purpose of resolving the referenced multi-state investigation, and is not intended to be used for any other purpose. For any person or entity

not a party to the Order, this Order does not limit or create any private rights or remedies against UBS including, limit or create liability of UBS, or limit or create defenses of UBS, to any claims.

3. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders for purchases and sales of securities in Ohio through persons not registered with the Division as agents of UBS.

4. UBS is hereby ordered to pay the sum of \$87,723.66 to the Division, which shall be payable to the Ohio Division of Securities Investor Education and Enforcement Expense Fund within twenty business days of the date of this Order.

5. This order is not intended by the Division to subject any Covered Person to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities regulator or self-regulatory organization, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. "Covered Person," means UBS or any of its affiliates and their current or former officers or former officers, directors, employees, or other persons that could otherwise be disqualified as a result of the Orders (as defined below).

6. This Order and the order of any other State in any proceeding related to UBS's agreement to resolve the above referenced multi-state investigation (collectively, the "Orders") shall not disqualify any Covered Person from any business that they otherwise are qualified, licensed or permitted to perform under applicable securities laws or regulations of the state of Ohio and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

7. This Order shall be binding upon UBS and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

TIME AND METHOD TO PERFECT AN APPEAL

Any party desiring to appeal shall file a Notice of Appeal with the Ohio Division of Securities, 77 South High Street, 22nd Floor, Columbus, Ohio 43215, setting forth the order appealed from and stating that the agency's order is not supported by reliable, probative, and substantial evidence and is not in accordance with law. The notice of appeal may, but need not, set forth the specific grounds of the party's appeal beyond the statement that the agency's order is not supported by reliable, probative, and substantial evidence and is not in accordance with law. The Notice of Appeal shall also be filed by the appellant with the court of common pleas of the county in which the place of business of the licensee is located or the county in which the licensee is a resident. If any party appealing from the order is not a resident of and has no place of business in this state, the party may appeal to the Court of Common Pleas of Franklin County. Such notices of appeal shall be filed within fifteen (15) days after the mailing of the notice of the Ohio Division of Securities' Order as provided in Section 119.12 of the Ohio Revised Code.

JLH/cn

WITNESS MY HAND AND THE OFFICIAL SEAL OF THIS DIVISION at
Columbus, Ohio this 20th day of November, 2013.



Andrea L. Seidt, Commissioner of Securities

CONSENT TO ENTRY OF CONSENT ORDER BY UBS FINANCIAL SERVICES, INC.

UBS hereby acknowledges that it has been served with a copy of this Consent Order (“Order”), has read the foregoing Order, is aware of its right to notice, a hearing and appeal in this matter, pursuant to R.C. 119, and has waived the same.

UBS admits the jurisdiction of the Division, neither admits nor denies the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this Order by the Division as settlement of the issues contained in this Order.

UBS agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal or local tax for any administrative monetary penalty that UBS shall pay pursuant to this Order.

UBS states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Ilene Marquardt represents that he/she is Managing Director of UBS and that, as such, has been authorized by UBS to enter into this Order for and on behalf of UBS.

Dated this 14 day of November, 2013.

UBS FINANCIAL SERVICES, INC.

By:



Title:

Managing Director

SUBSCRIBED AND SWORN TO before me this 14 day of November, 2013.

[Affix seal] Notary Public, State of New Jersey
My Commission Expires February 15, 2018
ID #2281122



Notary Public

My Commission expires:

Ivan Sterling
Notary Public, State of New Jersey
My Commission Expires February 15, 2018
ID #2281122