

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

1 In the Matter of)
2) ADMINISTRATIVE CONSENT ORDER
3 UBS FINANCIAL SERVICES, INC.,)
4 Respondent.) No: CO- 2014-0001

5 WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer registered in
6 the state of Alabama, with a Central Registration Depository ("CRD") number of 8174; and

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

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

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

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

19 UBS elects to waive permanently any right to a hearing and appeal under Section 8-6-25
20 Code of Alabama 1975, of the Alabama Securities Act (herein after "the Act"), and applicable
21 Rules of the Commission with respect to this Order; and

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

25 NOW, THEREFORE, the Alabama Securities Commission (Commission), as administrator
26 of the Alabama Securities Act, hereby enters this Order:

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I.

FINDINGS OF FACTS

1. UBS admits the jurisdiction of the Commission 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.

1 Registration Required

2 7. Pursuant to Section 8-6-3 (a), Code of Alabama 1975, it is unlawful for any person to
3 transact business in this state as a dealer or agent for securities unless he or she is registered under
4 this article. It is unlawful for any dealer or issuer to employ an agent unless the agent is registered.

5 8. Pursuant to the general prohibition under Section 8-6-3, Code of Alabama 1975, a
6 person cannot accept unsolicited orders in Alabama without being registered as a securities dealer,
7 agent, investment adviser, or investment adviser representative under this article.

8 9. Pursuant to Section 8-6-3 (j)(10), Code of Alabama 1975, the Commission may by
9 order deny, suspend, or revoke any registration, or censor or bar any applicant or registrant or any
10 officer, director, partner, or person occupying a similar status or performing similar functions for a
11 registrant, from employment with a dealer or investment adviser, or restrict or limit a registrant as
12 to any function or activity of the business for which registration is required in this state if the
13 Commission finds that the order is in the public interest and that the applicant or registrant or, in
14 the case of a dealer or investment adviser, any partner, officer or director, any person occupying a
15 similar status or performing similar functions, or any person directly or indirectly controlling the
16 dealer or investment adviser, has willfully violated or willfully failed to comply with any
17 provisions of this article, or a predecessor act, or any rule or order under this article, or a
18 predecessor act, if they have failed reasonably to supervise his or her agents or employees if he or
19 she is a dealer.

20 UBS Requires Registration of Client Service Associates

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

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

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

- 2 a. Maintaining an additional place of business;
- 3 b. Prospecting clients;
- 4 c. Soliciting new accounts;
- 5 d. Servicing existing accounts; or
- 6 e. Effecting any securities transactions and/or receiving compensation as a result of
- 7 such transactions.

8 Regulatory Investigation and Findings

9 13. In March 2010, state securities regulators initiated an investigation into the practices of

10 UBS in connection with its CSA registrations.

11 14. The multi-state investigation focused on systemic issues with UBS's CSA registrations

12 and related supervisory structure instead of attempting to identify each incidence of unregistered

13 activity. Specifically, with respect to the order entry process, the investigation found:

- 14 a. After accepting a client order, UBS CSAs accessed UBS's automated Consolidated
- 15 Order Entry System ("COE") to enter the order;
- 16 b. When entering an order through the COE, CSAs were asked by the system "Did
- 17 another person receive this order?" If the question was answered "no," the order
- 18 was processed. If the question was answered "yes," a free text field appeared for the
- 19 CSA to enter the name or employee code of the person who accepted the order;
- 20 c. In some instances, when this question was answered "yes," CSAs did not include a
- 21 name or code of the employee who accepted the order in the free text field. In other
- 22 instances, the free text field did not contain accurate identifying information about
- 23 the employee who accepted the trade;
- 24 d. Further, while UBS maintained a system to verify that the FA of record for a
- 25 particular account was registered in the state where the client resided, UBS did not
- 26 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.

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

5 UBS's Remedial Measure and Cooperation

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

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

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

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

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

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

22 **II.**

23 **CONCLUSIONS OF LAW**

24 1. The Alabama Securities Commission has jurisdiction over this matter pursuant to
25 Section 8-6-3 and 8-6-4, Code of Alabama 1975, of the Alabama Securities Act.
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1 2. UBS's failure to establish an adequate system to monitor the registration status of
2 persons accepting client orders constitutes a failure to establish a reasonably designed supervisory
3 system and/or failure to establish, maintain, and enforce reasonably designed procedures as
4 required under Rule 830-x-3-.13(3).

5 3. UBS's maintenance of order tickets which do not accurately identify the person who
6 accepted the clients order constitutes a failure to make and keep current the books, records, and
7 blotters (or other records of original entry) containing an itemized daily record of all purchases and
8 sales of securities pursuant to Rule 830-X-3-.14 (1)(a), Code of Alabama 1975, the Alabama
9 Securities Act.

10 4. Pursuant to Section 8-6-3(a), Code of Alabama 1975, the Alabama Securities Act,
11 UBS's acceptance of orders for purchases and sales of securities from clients residing in Alabama
12 through CSAs not registered in Alabama constitute a violation of 8-6-3(a) for the use/employment
13 of unregistered agents/sales representatives and serves as the bases for the issuance of an Order
14 reprimanding, censuring, and/or assessing a fine against UBS.
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16 5. Pursuant to Section 8-6-16 Code of Alabama 1975, UBS's acceptance of orders for
17 purchases and sales of securities in Alabama through agents/CSA not registered in Alabama
18 constitute a bases to order UBS to cease and desist engaging in the sale of securities in Alabama
19 through unregistered agents/CSA.
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21 6. Pursuant to the provision of the Alabama Securities Act, the violations described
22 above constitute bases for the assessment of an administrative penalty against UBS.

23 7. The Commission finds the following relief appropriate and in the public interest.
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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 Alabama Securities Commission and any other action that the Commission could commence against UBS and its officers, directors and present or former employees under applicable Alabama law on behalf of Alabama as it relates to unregistered activity in Alabama 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 and/or "refrain" from engaging in the acceptance of orders for purchases and sales of securities in the State of Alabama through persons not registered with the Commission as agents of UBS.

4. UBS is hereby ordered to pay the sum of Sixty Seven Thousand Four Hundred Thirty Five Dollars and 30/100 (\$67,435.30) to the Commission within twenty days of the date of this Order. The monies received by the Commission pursuant to this paragraph shall be paid in two(2) separate checks as follows:

- a) Respondent shall pay \$60,000.00 to the Alabama Securities Commission as reimbursement of direct and indirect costs and expenses of the Commission's cost for investigating this matter in accordance with Section 8-6-19(k) (1), Code of Alabama 1975.

1 b) Respondent shall pay \$7,435.30 to the Investor Protection Trust (IPT), a nonprofit
2 corporation and such funds are designated specifically for investor education and
3 investor protection in the state of Alabama as directed by the Alabama Securities
4 Commission in its sole discretion.

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

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

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

Dated this 21st day of January, 2014.

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BY ORDER OF THE
ALABAMA SECURITIES COMMISSION

JOSEPH P. BORG,
DIRECTOR

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

1 UBS hereby acknowledges that it has been served with a copy of this Consent Order
2 ("Order"), has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and
3 has waived the same.

4 UBS admits the jurisdiction of the Alabama Securities Commission neither admits nor denies
5 the Findings of Facts and Conclusions of Law contained in this Order, and consents to entry of this
6 Order by the Alabama Securities Commission as settlement of the issues contained in this Order.

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

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

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

14 Dated this 14th day of January, 2014.

15 UBS FINANCIAL SERVICES, INC.

16 By: [Signature]
17 Title: Managing Director

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20 SUBSCRIBED AND SWORN TO before me this 14th day of January, 2014.

21 [Affix seal]

22 [Signature]
23 Notary Public

24 My Commission expires:
25 _____
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Alexandra McInerney
Notary Public, New Jersey
My Commission Expires 6-14-15