

SECURITIES COMMISSIONER FOR THE
STATE OF DELAWARE
OCT 04 2013

**BEFORE THE INVESTOR PROTECTION UNIT
FOR THE STATE OF DELAWARE**

In the Matter of)	
)	Case No. 13-5-2
UBS FINANCIAL SERVICES, INC.,)	
)	
Respondent.)	ADMINISTRATIVE CONSENT ORDER
)	
)	
)	

WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer registered in the state of Delaware, 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 6 Del. C. §§ 73-304, 73-502, 73-601 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 Investor Protection Director for the State of Delaware (the "Director"), as administrator of the Delaware Securities Act (6 Del. C. Ch. 73) (the "Act") and the

1 Rules and Regulations Pursuant to the Act (the "Rules"), hereby enters this Order:

2 **I.**

3 **FINDINGS OF FACTS**

4 1. UBS admits the jurisdiction of the Investor Protection Unit of the Delaware Department
5 of Justice (the "Unit") in this matter.

6 Background on Client Service Associates

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

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

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

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

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

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

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Registration Required

7. The Act governs the registration of broker-dealers and their agents in Delaware. Specifically, 6 *Del. C.* § 73-301 requires registration by all broker-dealers and agents transacting business in Delaware.

8. Pursuant to the general prohibition under 6 *Del. C.* § 73-301, a person cannot accept unsolicited orders in Delaware without being registered under the Act.

9. Pursuant to 6 *Del. C.* § 73-601, the Director may issue an order providing for fines against a broker-dealer that sells securities in Delaware through agents that have not be registered under the Act.

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.

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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 Delaware at times when the CSAs were not appropriately registered in Delaware.

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3 UBS's Remedial Measure and Cooperation

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

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

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

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

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

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

20 **II.**

21 **CONCLUSIONS OF LAW**

22 22. The Unit has jurisdiction over this matter pursuant to § 73-501 of the Act.

23 23. UBS's failure to establish an adequate system to monitor the registration status of
24 persons accepting client orders constitutes a violation of § 73-304(a)(10) of the Act for failure to
25 reasonably supervise its agents.
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1 state investigation, and is not intended to be used for any other purpose. For any person or entity
2 not a party to the Order, this Order does not limit or create any private rights or remedies against
3 UBS including, limit or create liability of UBS, or limit or create defenses of UBS, to any claims.

4 31. UBS is hereby reprimanded.

5 32. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders
6 for purchases and sales of securities in Delaware through persons not registered with the Unit as
7 agents of UBS.

8 33. UBS is hereby ordered to pay the sum of seventy thousand seventy-seven dollars
9 and two cents (\$ 70,077.02) to the "State of Delaware — Investor Protection Fund" within twenty
10 days of the date of this Order. The monies received by the Unit pursuant to this paragraph may be
11 used, in accordance with Delaware law, to reimburse the Unit for costs incurred during the
12 investigation of this matter, for securities and investor education, and/or for other securities and
13 investor protection purposes, at the sole discretion of the Director.

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

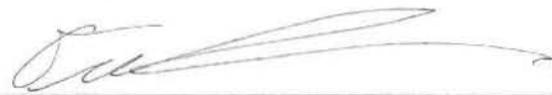
21 35. This Order and the order of any other State in any proceeding related to UBS's
22 agreement to resolve the above referenced multi-state investigation (collectively, the "Orders")
23 shall not disqualify any Covered Person from any business that they otherwise are qualified,
24 licensed or permitted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

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36. 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.

Dated this 4th day of October, 2013.

BY ORDER OF THE DELAWARE DEPARTMENT OF JUSTICE, INVESTOR PROTECTION UNIT



OWEN PHILIP LEFKON,
DIRECTOR

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

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

5 UBS admits the jurisdiction of the Delaware Department of Justice Investor Protection Unit
6 (the "Unit"), neither admits nor denies the Findings of Facts and Conclusions of Law contained in this
7 Order, and consents to entry of this Order by the Unit as settlement of the issues contained in this
8 Order.

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

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

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

16 Dated this 3 day of October, 2013.

17 UBS FINANCIAL SERVICES, INC.

18 By: [Signature]
19 Title: Managing Director

20
21 SUBSCRIBED AND SWORN TO before me this 3rd day of October, 2013.

22 [Affix seal]

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

[Signature]
 Notary Public

My Commission expires:
