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STATE OF ALASKA
DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT
DIVISION OF BANKING AND SECURITIES

In the matter of:)
UBS FINANCIAL SERVICES, INC.,)
Respondent.)
ORDER NO: 13-1828-S
CEASE AND DESIST ORDER
ASSESSING CIVIL PENALTIES
and
CONSENT TO ORDER

WHEREAS, UBS Financial Services, Inc. (“UBS”) is a broker-dealer registered in the State of Alaska, with a Central Registration Depository 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 registration 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 to 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 Alaska

1 Statute (AS) 45.55.920(d) with respect to this Order; and

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

6 NOW, THEREFORE, the Department of Commerce, Community, and Economic
7 Development, Division of Banking and Securities (“Division”), through its Director,
8 Administrator of the Alaska Securities Act, AS 45.55 et seq., hereby enters this order:

9 **I. FINDINGS OF FACT**

10 1. UBS admits the jurisdiction of the Division in this matter.

11 Background on Client Service Associates

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

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

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

24 4. In addition to the responsibilities described above, and of particular significance to

1 this Order, some CSAs are permitted to accept orders from clients. As discussed below,
2 UBS's written policies and procedures require that any CSAs accepting client orders first
3 obtain the necessary licenses and comply with self-regulatory organization and state
4 registration requirements.

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

9 6. During the period from 2004 to 2010, UBS employed, on average, of approximately
10 2,277 CSAs per year.

11 Registration Required

12 7. Pursuant to AS 45.55.030, a person may not transact business in Alaska as a broker-
13 dealer or agent unless the person is registered under the Alaska Securities Act.

14 8. Pursuant to the general prohibition under AS 45.55.030, a person cannot accept
15 unsolicited orders in Alaska without being registered.

16 9. Pursuant to AS 45.55.920(c), a civil penalty may be assessed against a broker-dealer
17 for selling securities in Alaska through agents other than registered agents.

18 UBS Requires Registration of Client Service Associates

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

24 11. UBS's policies and procedures state that CSAs engaging in securities activities must

1 register in, at a minimum, the state from which they conduct business (i.e. home state).

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

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

10 Regulatory Investigations and Findings

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

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

- 17 a. After accepting a client order, UBS CSAs accessed UBS's automated
18 Consolidated Order Entry System ("COE") to enter the order;
- 19 b. When entering an order through the COE, CSAs were asked by the system
20 "Did another person receive this order?" If the question was answered "no,"
21 the order was processed. If the question was answered "yes," a free text field
22 appeared for the CSA to enter the name or employee code of the person who
23 accepted the order;
- 24 c. In some instances, when this question was answered "yes," CSAs did not

1 include a name or code of the employee who accepted the order in the free
2 text field. In other instances, the free text field did not contain accurate
3 identifying information about the employee who accepted the trade;

4 d. Further, while UBS maintained a system to verify that the FA of record for a
5 particular account was registered in the state where the client resided, UBS
6 did not maintain a system to verify the registration status of the employee
7 accepting a client order when that employee was not the FA for the account.

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

12 UBS's Remedial Measure and Cooperation

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

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

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

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

24 20. If the identified person is not properly registered in the client's state of residence, the

1 order is routed to branch management who must ensure that a properly registered person
2 accepts or confirms the order before execution.

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

5 **II. CONCLUSIONS OF LAW**

6 1. The Division has jurisdiction over this matter pursuant to the Alaska Securities Act.

7 2. UBS's failure to establish an adequate system to monitor the registration status of
8 persons accepting client orders constitutes failure to reasonably supervise agents, in violation
9 of AS 45.55.060(b)(1).

10 3. UBS's maintenance of order tickets which do not accurately identify the person who
11 accepted client orders constitutes failure to keep accurate books and records, in violation of
12 3 AAC 08.030.

13 4. Pursuant to AS 45.55.030, UBS's acceptance of orders for purchases and sales of
14 securities in Alaska through CSAs not registered in Alaska constitutes the unregistered sale
15 of securities.

16 5. Pursuant to AS 45.55.920(a)(1)(A), UBS's acceptance of order for purchases and
17 sales of securities in Alaska through agents not registered in Alaska constitute bases to order
18 UBS to cease and desist engaging in the sale of securities in Alaska through unregistered
19 agents.

20 6. Pursuant to AS 45.55.920(c), the violations described above constitute bases for the
21 assessment of a civil penalty against UBS.

22 7. The Division finds the following relief appropriate and in the public interest.

23 **III. ORDER**

24 On the basis of the Findings of Facts, Conclusions of Law, and UBS's consent to the

1 entry of this Order,

2 IT IS HEREBY ORDERED:

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

8 2. This Order is entered into solely for the purpose of resolving the referenced multi-
9 state investigation, and is not intended to be used for any other purpose. For any person or
10 entity not a party to the Order, this Order does not limit or create any private rights or
11 remedies against UBS including, limit or create liability of UBS, or limit or create defenses
12 of UBS, to any claims.

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

16 4. UBS is hereby ordered to pay the sum of sixty-four thousand, six hundred sixty-one
17 dollars and fifty-one cents (\$64,661.51) to the State of Alaska within twenty days of the date
18 of this Order.

19 5. This order is not intended by the Division to subject any Covered Person to any
20 disqualifications under the laws of the United States, any state, the District of Columbia,
21 Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or
22 commodities regulator or self-regulatory organization, including, without limitation, any
23 disqualification from relying upon the state or federal registration exemptions or safe harbor
24 provisions. "Covered Person," means UBS or any of its affiliates and their current or former

1 officers, directors, employees, or other persons that would otherwise be disqualified as a
2 result of the Orders (as defined below).

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

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

13 SUSAN BELL, Commissioner,
14 Department of Commerce,
15 Community and Economic Development

16 October 14, 2013
17 Date

/s/ Lorie L. Hovanec
18 Lorie L. Hovanec, Director
19 Division of Banking and Securities

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

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

24 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

1 the Division as settlement of the issues contained in this Order.

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

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

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

10 Dated this 8th day of October, 2013.

11 UBS FINANCIAL SERVICES, INC.

12
13 By: /s/ Ilene Marquardt
14 Title: Managing Editor

15 SUBSCRIBED AND SWORN TO before me this 8th day of October, 2013.

16 [Affix seal]

17 /s/ Alexandria McInerney
18 Notary Public in and for the
19 State of New Jersey

20 My Commission expires: June 14, 2015

21 Contact Person:
22 David Newman
23 Securities Examiner
24 (907) 269-7678