

STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES

In the Matter of

Case No. S-13-0169

UBS FINANCIAL SERVICES, INC.,

FINAL ORDER TO CEASE AND
DESIST, ORDER ASSESSING CIVIL
PENALTY, AND CONSENT TO ENTRY
OF ORDER

Respondent.

WHEREAS, UBS Financial Services, Inc. (“UBS”) is a broker-dealer licensed in Oregon, with a Central Registration Depository (“CRD”) number of 8174;

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 licensing¹ of UBS Client Service Associates (“CSAs”) and UBS’s supervisory system with respect to the licenses of CSAs;

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;

UBS has advised the NASAA Working Group of its agreement to resolve the investigation pursuant to the terms specified in this Final Order to Cease and Desist, Order Assessing Civil Penalty, and Consent to Entry of Order (the "Order") and pursuant to the multi-state resolution recommended by the NASAA Working Group;

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

¹ With respect to securities professionals and the entities with which they are associated, the Oregon Securities Law uses the term “license” in the same manner other jurisdictions may use the term “registration”. For the purposes of this Order, the two terms should be considered synonymous.





1 UBS elects to waive permanently any right to a hearing and appeal under Oregon
2 Revised Statutes (“ORS”) 59.295, ORS 59.305, and ORS chapter 183 with respect to this
3 Order;

4 UBS admits the jurisdiction of the Director of the Department of Consumer and
5 Business Services for the State of Oregon (the “Director”) in this matter; and

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

10 NOW, THEREFORE, the Director, as administrator of the Oregon Securities
11 Law, 59.005 to 59.451, 59.991 and 59.995, hereby enters this Order:

12
13 I. FINDINGS OF FACT

14 The Director FINDS that:

15 Background on Client Service Associates

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

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

21 A. Extending invitations to UBS-sponsored events;

22 B. Providing published quotations to clients, if asked;

23 C. Inquiring whether a current or prospective client wishes to discuss
24 investments with a licensed salesperson of UBS; and

25 D. Entering an order, provided the order was accepted by an appropriately
26 licensed individual in those instances where the CSA is not licensed in the state in which



1 the client is located.

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

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

11 5. During the period of 2004 to 2010, UBS employed, on average, approximately
12 2,277 CSAs per year.

13 Securities Salesperson License Required

14 6. It is unlawful for any person to transact business in Oregon as a securities
15 salesperson unless the person is licensed under the Oregon Securities Law.

16 7. Pursuant to the general prohibition under ORS 59.165(1), a person cannot
17 accept unsolicited orders in Oregon unless the person is licensed pursuant to ORS 59.175.

18 8. Pursuant to ORS 59.165(3) and ORS 59.995(1), a broker-dealer may be
19 subject to a civil penalty for selling securities in Oregon through salespersons other than
20 licensed securities salespersons.

21 UBS Requires Licensing of Client Service Associates

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



1 10. UBS's policies and procedures state that CSAs engaging in securities activities
2 must license in, at a minimum, the state from which they conduct business (i.e. home
3 state).

4 11. Additionally, UBS also required CSAs to license in states in which a CSA
5 anticipated:

- 6 A. Maintaining an additional place of business;
- 7 B. Prospecting clients;
- 8 C. Soliciting new accounts;
- 9 D. Servicing existing accounts; or
- 10 E. Effecting any securities transactions and/or receiving compensation as a result
11 of such transactions.

12 Regulatory Investigation and Findings

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

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

19 A. After accepting a client order, UBS CSAs accessed UBS's automated
20 Consolidated Order Entry System ("COE") to enter the order;

21 B. When entering an order through the COE, CSAs were asked by the system
22 "Did another person receive this order?" If the question was answered "no," the order
23 was processed. If the question was answered "yes," a free text field appeared for the
24 CSA to enter the name or employee code of the person who accepted the order;

25 C. In some instances, when this question was answered "yes," CSAs did not
26 include a name or code of the employee who accepted the order in the free text field. In



1 other instances, the free text field did not contain accurate identifying information about
2 the employee who accepted the trade;

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

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

11 UBS's Remedial Measure and Cooperation

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

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

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

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

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

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

3
4 II. CONCLUSIONS OF LAW

5 The Director CONCLUDES that:

6 21. The Director has jurisdiction over this matter pursuant to ORS 59.235 and
7 ORS 59.245.

8 22. UBS's failure to establish an adequate system to monitor the license status of
9 persons accepting client orders constitutes failure to establish, maintain, and enforce
10 reasonably designed procedures, in violation of OAR 441-205-0210(3).

11 23. UBS's maintenance of order tickets which do not accurately identify the
12 person who accepted client orders constitutes failure to maintain all books and records
13 required by the Director, in violation of ORS 59.195.

14 24. Pursuant to ORS 59.165(3), UBS's acceptance of orders for purchases and
15 sales of securities from clients residing in Oregon through CSAs not licensed in Oregon
16 constitute violations of ORS 59.165(3), by employing unlicensed salespersons.

17 25. Pursuant to ORS 59.245(4), UBS's acceptance of orders for purchases and
18 sales of securities in Oregon through salespersons not licensed in Oregon constitute bases
19 to order UBS to cease and desist from engaging in the sale of securities in Oregon
20 through unlicensed salespersons.

21 26. Pursuant to ORS 59.995, the violations described above constitute bases for
22 the assessment of a civil penalty against UBS.

23 27. The Director finds the following relief appropriate and in the public interest.

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26 ///





1 III. ORDER

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

4 IT IS HEREBY ORDERED:

5 28. This Order concludes the investigation by the Oregon Department of
6 Consumer and Business Services, Division of Finance and Corporate Securities, and any
7 other action that the Director could commence against UBS and its officers, directors and
8 present or former employees under applicable Oregon law on behalf of Oregon as it
9 relates to unlicensed activity in Oregon by UBS's CSAs and UBS's supervision of CSA
10 licenses during the period from January 1, 2004 through December 31, 2010.

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

16 30. UBS is hereby ordered to cease and desist from engaging in the acceptance of
17 orders for purchases and sales of securities in Oregon through persons not licensed with
18 the Director as securities salespersons of UBS.

19 31. UBS is hereby ordered to pay the sum of \$83,813.92 (eighty-three thousand,
20 eight hundred thirteen dollars and ninety-two cents) to the Oregon Department of
21 Consumer and Business Services within 20 days of the date of this Order. The sum
22 includes a civil penalty of \$79,623.22 (seventy-nine thousand, six hundred twenty-three
23 dollars and twenty-two cents) for the General Fund of the Oregon State Treasury,
24 pursuant to ORS 59.995(1), and \$4,190.70 (four thousand, one hundred ninety dollars
25 and seventy cents) for the DCBS Consumer Financial Education Account.

26 32. This order is not intended by the Director to subject any Covered Person to



1 any disqualifications under the laws of the United States, any state, the District of
2 Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of
3 any securities or commodities regulator or self-regulatory organization, including,
4 without limitation, any disqualification from relying upon the state or federal registration
5 exemptions or safe harbor provisions. “Covered Person,” means UBS or any of its
6 affiliates and their current or former officers or former officers, directors, employees, or
7 other persons that could otherwise be disqualified as a result of the Orders (as defined
8 below).

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

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

20 Dated this 14th day of October, 2013.

21 PATRICK M. ALLEN, Director
22 Department of Consumer and Business Services

23
24
25 /s/ David Tatman
26 David C. Tatman, Administrator
Division of Finance and Corporate Securities

Division of Finance and Corporate Securities
Labor and Industries Building
350 Winter Street NE, Suite 410
Salem, OR 97301-3881
Telephone: (503) 378-4387



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

2 UBS hereby acknowledges that it has been served with a copy of this Final Order
3 to Cease and Desist, Order Assessing Civil Penalty, and Consent to Entry of Order
4 (“Order”), has read the foregoing Order, is aware of its right to a hearing and appeal in
5 this matter, and has waived the same.

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

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

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

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

17 Dated this 8 day of October, 2013.

18 UBS FINANCIAL SERVICES, INC.

19 By: /s/ Ilene Marquardt

20 Title: Managing Director

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

22 [Affix seal]

23
24 /s/ Alexandra McInerney
25 Notary Public

25 My Commission expires:
26 6-14-15