

STATE OF NEW JERSEY
BUREAU OF SECURITIES
153 Halsey Street
P.O. Box 47029
Newark, New Jersey 07101

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4 In the Matter of)
5 UBS FINANCIAL SERVICES, INC.,)
6 Respondent.) **ADMINISTRATIVE CONSENT ORDER**
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8 WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer registered in
9 the state of New Jersey, with a Central Registration Depository ("CRD") number of 8174; and

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

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

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

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

22 UBS elects to waive permanently any right to a hearing and appeal under N.J.S.A. 52:14B-
23 1 et seq. with respect to this Order; and

24 Solely for the purpose of resolving the multi-state investigation, and in settlement of the
25 issues contained in this Order, UBS, without admitting or denying the findings of fact or
26 conclusions of law contained in this Order, consents to the entry of this Order.

NOW, THEREFORE, the Bureau Chief, as administrator of the Uniform Securities Law

1 (1997), N.J.S.A. 49:3-47 et seq. ("Securities Law"), hereby enters this Order:

2 **I.**

3 **FINDINGS OF FACTS**

4 1. UBS admits the jurisdiction of the Bureau of Securities ("Bureau") in this matter.

5 Background on Client Service Associates

6 2. The CSAs function as sales assistants and typically provide administrative and sales
7 support to one or more of UBS's Financial Advisors ("FAs"). For the period 2004-2010 there were
8 different titles within the CSA position, including Client Service Associate, Registered Client
9 Associate, and Senior Registered Client Service Associate.

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

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

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

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

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

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Registration Required

7. Under the Securities Law, a person may not act as an agent in New Jersey unless registered or exempt from registration. N.J.S.A. 49:3-56(a)

8. Pursuant to the general prohibition under N.J.S.A. 49:3-56(a), a person cannot accept unsolicited orders in New Jersey without being registered.

9. Pursuant to N.J.S.A. 49:3-56(h), it shall be unlawful for any broker-dealer to employ an agent in New Jersey unless the agent is registered.

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.

1 Regulatory Investigation and Findings

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

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

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

21 15. The multi-state investigation found that on certain occasions some UBS CSAs, while
22 Series 7 registered and registered in one or more other states, accepted unsolicited orders to buy or
23 sell securities from clients residing in New Jersey at times when the CSAs were not appropriately
24 registered in New Jersey.
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1 UBS's Remedial Measures and Cooperation

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

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

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

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

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

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

18 **II.**

19 **CONCLUSIONS OF LAW**

20 1. The Bureau has jurisdiction over this matter pursuant to the Securities Law.

21 2. UBS's failure to establish an adequate system to monitor the registration status of
22 persons accepting client orders constitutes a failure to establish a reasonably designed supervisory
23 system and/or failure to establish, maintain and enforce reasonable designed procedures pursuant to
24 N.J.S.A. 49:3-58(a)(2)(xi) .

25 3. UBS's maintenance of order tickets which do not accurately identify the person who
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1 accepted client orders constitutes a failure to make and keep accurate books and records pursuant
2 to N.J.S.A. 49:3-59(b).

3 4. Pursuant to N.J.S.A. 49:3-56(a), UBS's acceptance of orders for purchases and sales
4 of securities from clients residing in New Jersey through CSAs not registered in New Jersey
5 constitute violations of N.J.S.A. 49:3-56(h) for the employment of unregistered agents and is a
6 basis for the issuance of an Order assessing a penalty against UBS.

7 5. Pursuant to the Securities Law, UBS's acceptance of orders for purchases and sales
8 of securities in New Jersey through agents not registered in New Jersey constitutes a basis to order
9 UBS to cease and desist engaging in the sale of securities in New Jersey through unregistered
10 agents.

11 6. Pursuant to N.J.S.A. 49:3-70.1, each violation described above constitutes a basis
12 for the assessment of an administrative penalty against UBS.

13 7. The Bureau Chief finds the following relief appropriate and in the public interest.
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17 **III.**

18 **ORDER**

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

21 **IT IS HEREBY ORDERED:**

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

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

5 3. UBS is hereby warned.

6 4. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders
7 for purchases and sales of securities in New Jersey through persons not registered with the Bureau as
8 agents of UBS.

9 5. UBS is hereby ordered to pay the sum of ninety-eight thousand one hundred eighty-
10 four dollars and eight-four cents(\$98,184.84) to the Bureau within ten days of the date of this Order
11 as a civil monetary penalty which shall be payable as follows: State of New Jersey, Bureau of
12 Securities. All funds shall be delivered to the Bureau of Securities, 153 Halsey Street, 6th Floor,
13 Newark, New Jersey 07102, and shall be deposited in the Securities Enforcement Fund pursuant to
14 N. J. S. A. 49:3-66.1.

15 6. UBS shall pay up to a total of four million five hundred eighty-six thousand five
16 hundred fifty five dollars (\$4,586,555.00) in fines, penalties and any other monetary sanctions among
17 the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands pursuant to the terms
18 of UBS's agreement with the multi-state working group.

19 7. However, if any securities regulator from the 50 states, the District of Columbia,
20 Puerto Rico, or the U.S. Virgin Islands determines not to accept UBS's settlement offer, the total
21 amount of the payment to the State of New Jersey shall not be affected, and shall remain at ninety-
22 eight thousand one hundred eighty-four dollars and eight-four cents (\$98,184.84).

23 8. UBS will pay \$10,000.00 to NASAA within ten days of the date of this Order in
24 consideration of the costs associated with NASAA's assistance in the investigation.

25 9. This order is not intended by the Bureau to subject any Covered Person to any
26 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

1 regulator or self-regulatory organization, including, without limitation, any disqualification from
2 relying upon the state or federal registration exemptions or safe harbor provisions. "Covered
3 Person," means UBS or any of its affiliates and their current or former officers or former officers,
4 directors, employees, or other persons that could otherwise be disqualified as a result of the Orders
5 (as defined below).

6 10. This Order and the order of any other State in related proceedings against UBS
7 (collectively, the "Orders") shall not disqualify any Covered Person from any business that they
8 otherwise are qualified, licensed or permitted to perform under applicable securities laws or
9 regulations of the Bureau and any disqualifications from relying upon this state's registration
10 exemptions or safe harbor provisions that arise from the Orders are hereby waived.

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

15 Dated this 23RD day of AUGUST, 2013.

17 **BY ORDER**

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19 _____
20 Abbe R. Tiger
21 Bureau Chief

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

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

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

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

15 Dated this 20 day of August, 2013.

16 UBS FINANCIAL SERVICES, INC.

17 By: [Signature]

18 Title: Managing Director

19
20 SUBSCRIBED AND SWORN TO before me this 20th day of August, 2013



22 My Commission expires:

23 8-12-14

24 [Signature]
25 Notary Public

26 **ELINES VLACHOS**
NOTARY PUBLIC OF NEW JERSEY
I.D. # 2228454
Commission Expires 8/12/2014