

STATE OF RHODE ISLAND

1  
2 In the Matter of )  
3 UBS FINANCIAL SERVICES, INC., )  
4 Respondent. ) **CONSENT ORDER**  
5 )  
6 )

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

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

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

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

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

22 UBS elects to waive permanently any right to a hearing and appeal under § 7-11-602 of the  
23 R. I. Gen. Laws of 1985 as amended, § 7-11-101 et seq., the Rhode Island Uniform Securities Act  
(the "RIUSA"), with respect to this Order; and

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

1 NOW, THEREFORE, the Director, Department of Business Regulation, as administrator of  
2 the RIUSA, hereby enters this Order:

3 **I.**

4 **FINDINGS OF FACTS**

5 1. UBS admits the jurisdiction of the Department of Business Regulation 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.

1 Registration Required

2 7. Under § 7-11-201(b) of the RIUSA, no person may transact securities business in this  
3 State as a broker dealer or sales representative unless licensed or exempt from licensing under the  
4 RIUSA.

5 8. Pursuant to the general prohibition under § 7-11-201(a), a person cannot accept  
6 unsolicited orders in Rhode Island without being licensed or exempt from licensing.

7 UBS Requires Registration of Client Service Associates

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

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

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

- 16 a. Maintaining an additional place of business;
- 17 b. Prospecting clients;
- 18 c. Soliciting new accounts;
- 19 d. Servicing existing accounts; or
- 20 e. Effecting any securities transactions and/or receiving compensation as a result of  
21 such transactions.

22 Regulatory Investigation and Findings

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

25 13. The multi-state investigation focused on systemic issues with UBS's CSA registrations  
26 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:

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

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

#### 18 UBS's Remedial Measure and Cooperation

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

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

25 17. If a CSA selects "self", the COE validates whether the CSA who accepted the order is  
26 properly registered in the state where the client resides.



1 unregistered sales representatives.

2 6. Pursuant to § 7-11-602, the violations described above constitute bases for the  
3 assessment of an administrative penalty against UBS.

4 7. The Department finds the following relief appropriate and in the public interest.  
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6

7 **III.**

8 **ORDER**

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

11 IT IS HEREBY ORDERED:

12 1. This Order concludes the investigation by the Department and any other action that the  
13 Department could commence against UBS and its officers, directors and present or former employees  
14 under applicable Rhode Island law on behalf of Rhode Island as it relates to unregistered activity in  
15 Rhode Island by UBS's CSAs and UBS's supervision of CSA registrations during the period from  
16 January 1, 2004 through December 31, 2010.

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

21 3. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders  
22 for purchases and sales of securities in the Rhode Island through persons not registered with the  
23 Department as agents of UBS.

24 4. UBS is hereby ordered to pay the sum of \$66,484.29 payable to the General  
25 Treasurer, State of Rhode Island within twenty days of the date of this Order.

26 5. This order is not intended by the Department to subject any Covered Person to any  
disqualifications under the laws of the United States, any state, the District of Columbia, Puerto

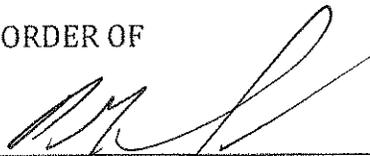
1 Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or commodities  
2 regulator or self-regulatory organization, including, without limitation, any disqualification from  
3 relying upon the state or federal registration exemptions or safe harbor provisions. "Covered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

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

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

17 Dated this 18<sup>th</sup> day of November, 2013.

18  
19 BY ORDER OF



20  
21  
22 Paul McGreevy  
23 Director, Department of Business Regulation

24  
25  
26 Order Number 13-055

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 Department, neither admits nor denies the Findings of Facts  
6 and Conclusions of Law contained in this Order, and consents to entry of this Order by the  
7 Department as 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                   Ilene Marquardt 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 14 day of November, 2013.

16                   UBS FINANCIAL SERVICES, INC.

17                   By 

18                   Title: Managing Director

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20  
21                   SUBSCRIBED AND SWORN TO before me this 14 day of November, 2013.

22  
23                   Ivan Sterling  
24                   Notary Public, State of New Jersey  
25                   My Commission Expires February 15, 2018  
26                   ID #2281122

  
                  Notary Public

My Commission expires: