

**OFFICE OF THE MISSISSIPPI SECRETARY OF STATE  
SECURITIES DIVISION**

<b>In the Matter of</b>	)	
	)	<b>File No. LS-13-0762</b>
<b>UBS Financial Services, Inc.,</b>	)	
	)	
<b>Respondent</b>	)	<b>ADMINISTRATIVE CONSENT ORDER</b>
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WHEREAS, UBS Financial Services, Inc. (“UBS”) is a broker-dealer registered in the state of Mississippi, 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 Miss. Code Ann. §75-71-605 and under Section §75-71-604(b) and (c) of the predecessor Act, 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 Securities Division of the Mississippi Secretary of State (the "Division"), as administrator of the Mississippi Securities Act (the "Act"), hereby enters this Order:

## I.

### FINDINGS OF FACTS

1. UBS admits the jurisdiction of the Division in this matter.
2. As the alleged actions of UBS took place prior to January 1, 2010 and after January 1, 2010, both the Predecessor Act and the current Securities Act apply. Therefore, all citations to Mississippi statutes in this section are to the both the current and predecessor securities act in force for the relevant time period of UBS's alleged actions.

## Background on Client Service Associates

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

3. The responsibilities of CSAs specifically include, among other things:
- a. Extending invitations to UBS-sponsored events;
  - b. Providing published quotations to clients, if asked;
  - c. Inquiring whether a current or prospective client wishes to discuss investments with a registered representative of UBS; and
  - d. Entering an order, provided the order was accepted by an appropriately registered individual in those instances where the CSA is not registered in the state in which the client is located.

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

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

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

#### Registration Required

7. Pursuant to Miss. Code Ann §75-71-401(a), and under §75-71-301 of the predecessor Act, it is unlawful for a person to transact business in Mississippi as a broker-dealer unless the person is registered under the Act, or is exempt from registration as a broker-dealer.

8. Pursuant to the general prohibition under Miss. Code Ann. §75-71-401(a), and under §75-71-301 of the predecessor Act, a person cannot accept unsolicited orders in Mississippi without being a registered broker-dealer.

9. Pursuant to Miss. Code Ann. §75-71-604(a)(3)(B), and under §75-71-715(2)(a) of the predecessor Act, if it has been determined that a person has engaged in any violation under the Act, including, but not limited to, the sale of securities in Mississippi through individuals other than registered agents, the administrator may impose a civil penalty.

#### 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.

#### 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 Mississippi at times when the CSAs were not appropriately registered in Mississippi.

#### UBS’s Remedial Measure and Cooperation

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

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

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

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

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

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

## II.

### CONCLUSIONS OF LAW

1. Pursuant to Miss. Code Ann. §75-71-701 of the Act, because UBS’s allegations took place before January 1, 2010, the predecessor Act applies.

2. The Division has jurisdiction over this matter pursuant to Miss. Code Ann. §75-71-610, and §75-71-715 of the predecessor Act.

3. UBS’s failure to establish an adequate system to monitor the registration status of persons accepting client orders constitutes a violation of Rule 519 of the Mississippi Securities Act Rules, and Rule 521 of the predecessor Rules.

4. UBS's maintenance of order tickets which do not accurately identify the person who accepted client orders constitutes a violation of Rule 515A of the Mississippi Securities Act Rules, and Rule 515A of the predecessor Rules.

5. UBS's failure to ensure its CSA's were registered in appropriate jurisdictions constitutes a failure to enforce its established written procedures.

6. Pursuant to Miss. Code Ann. §75-71-715(2)(a) and §75-71-715(2)(a) of the predecessor Act, the violations described above constitute bases for the assessment of an administrative fine against UBS.

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

### **III.**

#### **ORDER**

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

#### **IT IS HEREBY ORDERED:**

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

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

3. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders for purchases and sales of securities in Mississippi through persons not registered as agents of UBS with the Mississippi Secretary of State.

4. UBS is hereby ordered to pay the sum of Sixty Thousand Three Hundred Two Dollars and Sixty-Eight Cents (\$60,302.68) to the Mississippi Secretary of State within twenty (20) days of the date of this Order.

5. This Order is not intended by the Division to subject any Covered Person to any 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 regulator or self-regulatory organization, including, without limitation, any disqualification from relying upon the state or federal registration exemptions or safe harbor provisions. "Covered Person," means UBS or any of its affiliates and their current or former officers or former officers, directors, employees, or other persons that could otherwise be disqualified as a result of the Orders (as defined below).

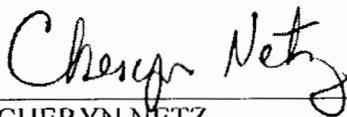
6. This Order and the order of any other state in any proceeding related to UBS's agreement to resolve the above referenced multi-state investigation (collectively, the "Orders") shall not disqualify any Covered Person from any business that they

otherwise are qualified, licensed or permitted to perform under applicable securities laws or regulations of Mississippi and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

7. 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 2d day of October, 2013.

C. DELBERT HOSEMANN, JR.  
Mississippi Secretary of State

BY:   
CHERYN NETZ  
Assistant Secretary of State  
Securities Division

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

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

UBS admits the jurisdiction of the Securities Division of the Mississippi Secretary of State ("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 the Division as settlement of the issues contained in this Order.

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

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

\_\_\_\_\_ represents that he/she is \_\_\_\_\_ of UBS and that, as such, has been authorized by UBS to enter into this Order for and on behalf of UBS.

Dated this 3 day of October, 2013.

UBS FINANCIAL SERVICES, INC.

by: [Signature]

Title: Managing Director

SUBSCRIBED AND SWORN TO before me this 3<sup>rd</sup> day of October, 2013.

[Affix seal]

[Signature]

Notary Public

**Ivan Sterling**  
Notary Public, State of New Jersey  
My Commission Expires February 15, 2018  
ID #2281122

My Commission expires:  
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