

OCT 22 2013

IN THE OFFICE OF THE SECRETARY OF STATE  
COMMISSIONER OF SECURITIES  
STATE OF GEORGIA

~~BOOKET NUMBER~~

2013-13

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In the Matter of	)	
UBS FINANCIAL SERVICES, INC.,	)	Case No. ENSC-140351
Respondent.	)	CONSENT ORDER

WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer registered in the state of Georgia, 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 the Georgia Uniform Securities Act of 2008 ("2008 Act") and its predecessor, the Georgia Securities Act of 1973 ("1973 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 Commissioner of Securities of the State of Georgia (the "Commissioner"), as administrator of the 1973 Act and 2008 Act, hereby enters this Order:

1 I.

2 **FINDINGS OF FACTS**

3 1. UBS admits the jurisdiction of the Georgia Secretary of State in this matter.

4 Background on Client Service Associates

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

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

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

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

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

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

1 Registration Required

2 7. Under the 1973 Act and the 2008 Act, a person may not act as a broker-dealer in the  
3 State of Georgia unless registered or exempt from registration. See Sections 10-5-3(a) of the 1973  
4 Act and 10-5-30(a) of the 2008 Act. A broker-dealer may not employ, or associate with, a  
5 salesperson or agent, as defined in Sections 10-5-2(25) of the 1973 Act and 10-5-2(1) of the 2008  
6 Act respectively, unless the employee or associated person is registered as a salesperson or agent of  
7 the broker-dealer. See Sections 10-5-3(d) of the 1973 Act and 10-5-31(d) of the 2008 Act.

8 8. Pursuant to the general prohibitions under Sections 10-5-3(a) of the 1973 Act and 10-5-  
9 30(a) of the 2008 Act, a person cannot accept unsolicited orders in the State of Georgia without  
10 being registered as a salesperson or agent of the broker-dealer. See Sections 10-5-3(d) of the 1973  
11 Act and 10-5-31(d) of the 2008 Act

12 9. Pursuant to Sections 10-5-13(a)(1) of the 1973 Act and 10-5-73(d) of the 2008 Act, a  
13 broker-dealer may be fined for selling securities in the State of Georgia through agents other than  
14 registered agents.

15 UBS Requires Registration of Client Service Associates

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

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

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

- 24 a. Maintaining an additional place of business;
- 25 b. Prospecting clients;
- 26 c. Soliciting new accounts;
- d. Servicing existing accounts; or

- 1 e. Effecting any securities transactions and/or receiving compensation as a result of  
2 such transactions.

3 Regulatory Investigation and Findings

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

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

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

23 15. The multi-state investigation found that on certain occasions some UBS CSAs, while  
24 Series 7 registered and registered in one or more other states, accepted unsolicited orders to buy or  
25 sell securities from clients residing in the State of Georgia at times when the CSAs were not  
26 appropriately registered in Georgia.

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 who  
12 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 to branch management who must ensure that a properly registered person accepts or  
15 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 Commissioner has jurisdiction over this matter as administrator of the 1973 Act  
21 and 2008 Act.

22 2. UBS's failure to establish an adequate system to monitor the registration status of  
23 persons accepting client orders constitutes a violation of Section 10-5-4-(a)(11) of the 1973 Act  
24 and Rule 590-4-2-.07 of the 1973 Rules, as well as Section 10-5-41(d)(9) of the 2008 Act and Rule  
25 590-4-5-.12 of the 2008 Rules.



1 UBS's CSAs and UBS's supervision of CSA registrations during the period from January 1, 2004  
2 through December 31, 2010.

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

7 3. UBS is hereby censured.

8 4. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders  
9 for purchases and sales of securities in the State of Georgia through persons not registered with the  
10 Commissioner as agents of UBS.

11 5. UBS is hereby ordered to pay the sum of eighty-eight thousand five hundred sixty  
12 nine dollars (\$88,569.00) to the Commissioner within twenty days of the date of this Order. The  
13 \$88,569.00 is comprised of a \$73,569.00 civil penalty and a \$15,000.00 payment to reimburse the  
14 Commissioner for its investigative costs. Payment to the Commissioner shall be in the form of  
15 two (2) certified or bank checks payable to the order of the "Office of the Secretary of State," one  
16 for seventy-three thousand five hundred sixty nine dollars (\$73,569.00), and the other for fifteen  
17 thousand dollars (\$15,000.00). The monies received by the Commissioner pursuant to this  
18 paragraph may be used, in accordance with Georgia law, to reimburse the Commissioner for costs  
19 incurred during the investigation of this matter, for securities and investor education, and/or for  
20 other securities and investor protection purposes, at the sole discretion of the Commissioner.

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

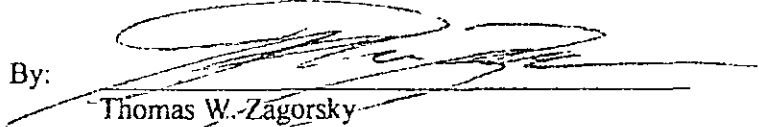
1 officers or former officers, directors, employees, or other persons that could otherwise be  
2 disqualified as a result of the Orders (as defined below).

3 7. 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 "Orders")  
5 shall not disqualify any Covered Person from any business that they otherwise are qualified,  
6 licensed, or permitted to perform under applicable securities laws or regulations of the State of  
7 Georgia, and any disqualifications from relying upon this state's registration exemptions or safe  
8 harbor provisions that arise from the Orders are hereby waived.

9 8. 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 provisions  
11 above and all future obligations, responsibilities, undertakings, commitments, limitations,  
12 restrictions, events, and conditions.

13 Dated this 18<sup>th</sup> day of October, 2013.

14 **BRIAN P. KEMP**  
15 **SECRETARY OF STATE**  
16 **COMMISSIONER OF SECURITIES**

17 By:   
18 Thomas W. Zagorsky  
19 Acting Assistant Commissioner of Securities  
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**CONSENT TO ENTRY OF CONSENT ORDER BY UBS FINANCIAL SERVICES, INC.**

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UBS Financial Services, Inc. ("UBS") hereby acknowledges that it has been served with a copy of this 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 Commissioner of Securities of the State of Georgia (the "Commissioner"), 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 Commissioner 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.

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

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

UBS FINANCIAL SERVICES, INC.

By: [Signature]  
Title: Managing Director

SUBSCRIBED AND SWORN TO before me this 17 day of October, 2013.

[Affix seal]

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

My Commission expires:  
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