

1 RCW 21.20, hereby enters this Order:

2 **I.**

3 **FINDINGS OF FACT**

4 1. UBS admits the jurisdiction of the Securities Division of the Washington State Department of Financial
5 Institutions in this matter.

6 Background on Client Service Associates

7 2. The CSAs function as sales assistants and typically provide administrative and sales support to one or
8 more of UBS's Financial Advisors ("FAs"). There are different titles within the CSA position, including Client
9 Service Associate, Registered Client 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 a registered
14 representative of UBS; and
- 15 d. Entering an order, provided the order was accepted by an appropriately registered individual in those
16 instances where the CSA is not registered in the state in which the client is located.

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

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

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

1 Registration Required

2 7. Pursuant to RCW 21.20.040(1), it is unlawful for an individual to transact business in the state of
3 Washington as a securities salesperson unless the individual is registered or exempt from registration.

4 8. Accepting unsolicited orders on behalf of a broker-dealer in the state of Washington constitutes acting as a
5 securities salesperson as defined in RCW 21.20.005(15).

6 9. Pursuant to RCW 21.20.040(2), it is unlawful for a broker-dealer to employ a securities salesperson who
7 transacts business in the state of Washington unless the securities salesperson is registered or exempt from registration.

8 UBS Requires Registration of Client Service Associates

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

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

15 12. 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 such transactions.

21 Regulatory Investigation and Findings

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

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

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

16 UBS's Remedial Measure and Cooperation

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

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

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

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

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

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

5 II.

6 CONCLUSIONS OF LAW

7 1. The Securities Division of the Washington State Department of Financial Institutions has jurisdiction
8 over this matter pursuant to the Securities Act of Washington, RCW 21.20.

9 2. UBS's failure to establish an adequate system to monitor the registration status of persons accepting
10 client orders constitutes a failure to establish a reasonably designed supervisory system as required by RCW
11 21.20.110(1)(j).

12 3. UBS's maintenance of order tickets which do not accurately identify the person who accepted client
13 orders constitutes a failure to maintain all books and records as required by RCW 21.20.100.

14 4. UBS's acceptance of orders for purchases and sales of securities from clients residing in the state of
15 Washington through CSAs not registered in the state of Washington constitutes the employment of unregistered
16 securities salespersons, in violation of RCW 21.20.040(2).

17 5. Pursuant to RCW 21.20.390, UBS's acceptance of orders for purchases and sales of securities in the
18 state of Washington through agents not registered in the state of Washington constitute bases to order UBS to cease
19 and desist from employing unregistered agents.

20 6. Pursuant to RCW 21.20.110(1)(j) and RCW 21.20.395, the violations described above constitute bases
21 for the assessment of an administrative fine against UBS.

22 7. The Securities Division of the Washington State Department of Financial Institutions finds the
23 following relief appropriate and in the public interest.

1 **III.**

2 **ORDER**

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

4 **IT IS HEREBY ORDERED:**

5 1. This Order concludes the investigation by the Securities Division of the Washington State Department of
6 Financial Institutions and any other action that the Securities Division of the Washington State Department of Financial
7 Institutions could commence against UBS and its officers, directors and present or former employees under applicable
8 Washington State law on behalf of the state of Washington as it relates to unregistered activity in the state of Washington
9 by UBS's CSAs and UBS's supervision of CSA registrations during the period from January 1, 2004 through December
10 31, 2010.

11 2. This Order is entered into solely for the purpose of resolving the referenced multi-state investigation,
12 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
13 not limit or create any private rights or remedies against UBS, limit or create liability of UBS, or limit or create
14 defenses of UBS to any claims.

15 3. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders for purchases and
16 sales of securities in the state of Washington through persons not registered with the Securities Division of the
17 Washington State Department of Financial Institutions as agents of UBS.

18 4. Within twenty days after the entry of this Order, UBS shall pay the sum of \$80,432.53 to the state of
19 Washington as a civil monetary penalty pursuant to RCW 21.20.110 and RCW 21.20.395.

20 5. This Order is not intended by the Securities Division of the Washington State Department of Financial
21 Institutions to subject any Covered Person to any disqualifications under the laws of the United States, any state, the
22 District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations of any securities or
23 commodities regulator or self-regulatory organization, including, without limitation, any disqualification from relying
24 upon the state or federal registration exemptions or safe harbor provisions. "Covered Person," means UBS or any of
25 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).

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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 the state of Washington and any disqualifications from relying upon this state's registration exemptions or safe harbor provisions that arise from the Orders are hereby waived.

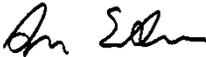
7. This Order shall be binding upon UBS and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and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

Dated this 22nd day of October, 2013.



William M. Beatty
Securities Administrator

Approved by:



Suzanne Sarason
Chief of Enforcement

Presented by:



Brian J. Guerard
Financial Legal Examiner

Reviewed by:



Jack McClellan
Financial Legal Examiner Supervisor

1 SUBSCRIBED AND SWORN TO before me this 14th day of October, 2013.

2

3

4 Notary Public Seal Affixed

5

_____/s/ Alexandra McInerney_____

6

Notary Public

7

8

9 My Commission expires:

10 June 14, 2015

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25