BEFORE THE COMMISSIONER OF COMMERCE AND INSURANCE FOR THE STATE OF TENNESSEE, AT NASHVILLE

TENNESSEE SECURITIES DIVISION, **Petitioner,**	)	
vs.	)	**Order No. 13-004**
UBS FINANCIAL SERVICES, INC., **Respondent.**	)	

CONSENT ORDER

The Tennessee Securities Division ("Division") and UBS Financial Services, Inc., ("UBS") agree to the entry of this Consent Order in accordance with TENN. CODE ANN. Section 48-1-116 of the Tennessee Securities Act of 1980, as amended, TENN. CODE ANN. Sections 48-1-101 to 48-1-201 (2012) ("Act"), which states that the Commissioner of the Tennessee Department of Commerce and Insurance ("Commissioner") may from time to time make such orders as are necessary to carry out the provisions of the Act.

Respondent, UBS, hereby stipulates and agrees to the entry of this Consent Order, subject to the approval of the Commissioner, as follows:

RESPONDENT

1. WHEREAS, UBS is a broker-dealer registered in the State of Tennessee, with a Central Registration Depository ("CRD") number of 8174; and

2. WHEREAS, State securities regulators, including Tennessee, 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 registration of CSAs; and

3. WHEREAS, 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 investigation; and

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

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

6. WHEREAS, UBS elects to waive permanently any right to a hearing and appeal under TENN. CODE ANN. Sections 4-5-101 to 4-5-325 (2012) with respect to this Order; and

7. WHEREAS, 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.

8. NOW, THEREFORE, the Commissioner, as administrator of the Act (TENN. CODE ANN. Sections 48-1-101 to 48-1-201) (2012), hereby enters this Order:

I.

FINDINGS OF FACTS

9. UBS admits the jurisdiction of the Division in this matter.

Background on Client Service Associates

10. 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 Service Associate and Senior Registered Client Service Associate.

11. 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 in located.

12. 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.

13. UBS issued a revised policy on registration requirements on March 28, 2007, which states, *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.

14. During the period from 2004 to 2010, UBS employed, on average, approximately two thousand two hundred seventy-seven (2,277) CSAs per year.

Registration Required

15. TENN. CODE ANN. Section 48-1-109(a) states that it is unlawful for any person to transact business from or in Tennessee as a broker-dealer or agent unless such person is registered as a broker-dealer or agent under the Act.

16. Pursuant to the general prohibition under TENN. CODE ANN. Section 48-1-109(a) and (b), a person cannot accept unsolicited orders of securities in Tennessee without being registered as a broker-dealer or agent.

17. Pursuant to TENN. CODE ANN. Section 48-1-109(e) "the Commissioner may, after notice and an opportunity for a hearing under the Uniform Administrative Procedures Act," ... "impose a civil penalty against any person found to be in violation of this section...".

UBS Requires Registration of Client Service Associates

18. 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.

19. 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).

20. 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

21. In March 2010, State securities regulators initiated an investigation into the practices of UBS in connection with its CSA registrations.

22. 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 employees 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.

23. 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 Tennessee at times when the CSAs were not appropriately registered in Tennessee.

UBS's Remedial Measure and Cooperation

24. In November 2010, after the initial inquiry by State regulators, UBS enhanced the

COE system to automatically validate the registration of employees during the order entry process.

25. 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.

26. 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.

27. 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.

28. 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.

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

II.

CONCLUSIONS OF LAW

1. The Division has jurisdiction over this matter pursuant to the Act.

2. UBS's failure to establish an adequate system to monitor the registration status of persons accepting client orders constitutes a violation of TENN. CODE ANN. Section 48-1-112(a)(2)(J) for failure to reasonably supervise its CSAs.

3. UBS's maintenance of order tickets which do not accurately identify the person who accepted client orders constitutes a violation of TENN. CODE ANN. Section 48-1-112(a)(2)(B) for willfully violating or willfully failing to comply with any provision of the Act by failing to maintain adequate books and records as required pursuant to TENN. CODE ANN.

Section 48-1-111.

4. Pursuant to the Act, UBS's acceptance of orders for purchases and sales of securities from clients residing in Tennessee through CSAs not registered in Tennessee constitutes violations of TENN. CODE ANN. § 48-1-109(b) for each sale by each CSA that was not properly registered to conduct sales of securities in Tennessee.

5. Pursuant to TENN. CODE ANN. Sections 48-1-109(e) and 48-1-112(d), UBS's acceptance of orders for purchases and sales of securities in Tennessee through CSAs not registered in Tennessee constitutes violations which are a basis to order UBS to cease and desist engaging in the sale of securities in Tennessee through CSAs.

6. Pursuant to the Act, the violations described above constitute the basis for the assessment of civil penalties against UBS.

7. The Division finds the following relief appropriate, in the public interest and necessary for the protection of investors.

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 Division and any other action that the Division could commence against UBS and its officers, directors and present and former employees under applicable Tennessee law as it relates to unregistered activity in Tennessee 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 create defenses of UBS, to any claims.

3. UBS is hereby ordered to CEASE AND DESIST from engaging in the acceptance of orders for purchases and sales of securities in Tennessee through persons not registered with the Division as agents of UBS.

4. UBS is hereby ordered to pay the sum of seventy-five thousand ninety-six dollars and twenty-seven cents ($75,096.27) to the Division within twenty (20) days of the date of this Order, pursuant to the following instructions:

(a) Twenty-five thousand ninety-six dollars and twenty-seven cents ($25,096.27), designated for the Securities Division – Broker-Dealer/Agent Registration account, shall be paid by mailing a check, payable to the State of Tennessee – Securities Division, to:

State of Tennessee
Department of Commerce and Insurance
Securities Division
Attn: Director, Registration Section
500 James Robertson Parkway, 8th Floor
Davy Crockett Tower
Nashville, Tennessee 37243

(b) Fifty thousand dollars ($50,000.00), designated for the Securities Division – Enforcement/Legal Training Fund, shall be paid by mailing a check, payable to the State of Tennessee – Securities Division, to:

State of Tennessee
Department of Commerce and Insurance
Securities Division
Attention: Director, Enforcement Section
500 James Robertson Parkway, 8th Floor
Davy Crockett Tower
Nashville, Tennessee 37243

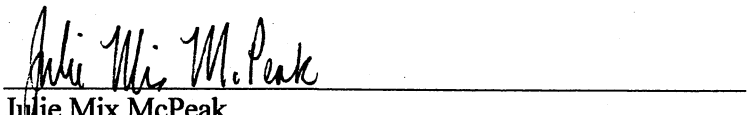
5. This order is not intended by the Division to subject any Covered Person (as defined below) to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands including, without limitation, any disqualification from relying upon 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 would otherwise be disqualified as a result of the Orders (as defined below).

6. This Order and the order of any other State in any proceedings related to UBS's agreement to resolve the above referenced multi-state investigation (collectively, "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 Tennessee 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 19th day of December, 2013.

BY ORDER OF:



Julie Mix McPeak
Commissioner
Tennessee Department of Commerce and Insurance

CONSENT TO ENTRY OF CONSENT ORDER BY 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 Tennessee Department of Commerce and Insurance, Securities Division ("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 RBC 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 Marguardt represents that s/he is Managing Director of UBSand that, as such, has been authorized by UBS to enter into this Order for and on behalf of UBS.

Dated this 14 day of October, 2013.

UBS Financial Services, Inc.

By: _____

Title: Managing Director

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

[Affix Seal]

_____

Notary Public in and for the

State of NEW JERSEY

My Commission expires:

_____

Alexandra McInerney
Notary Public, New Jersey
My Commission Expires 6-14-15