



BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF KANSAS

In the Matter of)
UBS FINANCIAL SERVICES, INC.,) 14 E 005
Respondent.) **KSC No: 2014-6131 CONSENT ORDER**

WHEREAS, UBS Financial Services, Inc. ("UBS") is a broker-dealer registered in the state of Kansas, 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 Kansas Administrative Procedure Act, K.S.A. 77-501 *et seq* and the Act for Judicial Review and Civil Enforcement of Agency Actions, K.S.A. 77-601 *et seq* 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.

1 NOW, THEREFORE, the Office of the Securities Commissioner of Kansas, as
2 administrator of the Kansas Uniform Securities Act, hereby enters this Order:

3 I.

4 **FINDINGS OF FACTS**

5 1. UBS admits the jurisdiction of the Office of the Securities Commissioner of Kansas in
6 this matter.

7 Background on Client Service Associates

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

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

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

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

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

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

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5 Registration Required

6 7. Under the Kansas Uniform Securities Act it is unlawful for an individual to transact
7 business in this state as an agent unless the individual is registered under this act as an agent.
8 K.S.A. 17-12a-401(a) and K.S.A. 17-12a-402(a).

9 8. Pursuant to the general prohibition under K.S.A. 17-12a-401(a) and K.S.A. 17-12a-
10 402(a), a person cannot accept unsolicited orders in Kansas without being registered as an agent.

11 9. Pursuant to K.S.A. 17-12a-604, of the Kansas Uniform Securities Act, a broker-dealer
12 may be fined for selling securities in Kansas through agents other than registered agents.

13 UBS Requires Registration of Client Service Associates

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

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

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

- 22 a. Maintaining an additional place of business;
- 23 b. Prospecting clients;
- 24 c. Soliciting new accounts;
- 25 d. Servicing existing accounts; or
- 26 e. Effecting any securities transactions and/or receiving compensation as a result of
such transactions.

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4 Regulatory Investigation and Findings

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

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

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

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

1 UBS's Remedial Measure 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
12 who 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 Office of the Securities Commissioner of Kansas has jurisdiction over this
21 matter pursuant to K.S.A. 17-12a610.

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 K.S.A. 17-12a412(d)(9) .

24 3. UBS's maintenance of order tickets which do not accurately identify the person who
25 accepted client orders constitutes a violation of K.S.A. 17-12a411(c)(1).
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1 not a party to the Order, this Order does not limit or create any private rights or remedies against
2 UBS including, limit or create liability of UBS, or limit or create defenses of UBS, to any claims.

3 3. UBS is hereby censured.

4 4. UBS is hereby ordered to cease and desist from engaging in the acceptance of orders
5 for purchases and sales of securities in the Kansas through persons not registered with the Office of
6 the Securities Commissioner of Kansas as agents of UBS.

7 5. UBS is hereby ordered to pay the sum of Sixty-Eight thousand eight hundred eighty
8 eight dollars and twenty five cents (\$68,888.25) to the Office of the Securities Commissioner of
9 Kansas within twenty days of the date of this Order.

10 6. This order is not intended by the Office of the Securities Commissioner of Kansas to
11 subject any Covered Person to any disqualifications under the laws of the United States, any state,
12 the District of Columbia, Puerto Rico, or the U.S. Virgin Islands, or under the rules or regulations
13 of any securities or commodities regulator or self-regulatory organization, including, without
14 limitation, any disqualification from relying upon the state or federal registration exemptions or
15 safe harbor provisions. "Covered Person," means UBS or any of its affiliates and their current or
16 former officers or former officers, directors, employees, or other persons that could otherwise be
17 disqualified as a result of the Orders (as defined below).

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

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

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Dated this 28th day of January, 2014.



BY ORDER OF THE COMMISSIONER



Joshua Ney
Kansas Securities Commissioner

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