

RECEIVED

FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060050722-01

APR 17 A 7:00
REGISTRATION & DISCLOSURE

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: UBS Securities LLC, Respondent
Broker-Dealer
CRD No. 7654

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, UBS Securities LLC (the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

The firm became a member of FINRA in 1978, and its registration remains in effect. It has the following relevant disciplinary history:

- In March 2007, FINRA accepted the firm's AWC (20050002993) in which the firm agreed to a censure and a total fine of \$27,500, which included a \$10,000 fine for Order Audit Trail System ("OATS") violations in August 2004 and a \$5,000 fine for deficient written supervisory procedures in November 2005.
- In January 2007, FINRA accepted the firm's AWC (20042000144) in which the firm agreed to a censure and a fine of \$65,000, all of which was for OATS violations from April 1 to June 30, 2003, January 1 to March 31, 2004, and July 1 to December 31, 2004.

000023166 2009

- In March 2006, FINRA accepted the firm's AWC (20042000062) in which the firm agreed to a censure and a total fine of \$22,000, which included a \$5,000 fine for OATS violations and a \$2,000 fine for recordkeeping violations of SEC Rule 17a-4 and NASD Rule 3110 from October 1 to December 31, 2002.
- In February 2006, FINRA accepted the firm's AWC (20042000143) in which the firm agreed to a fine of \$20,000 for OATS violations in September 2003.

SUMMARY

This matter is the result of eight reviews conducted by the staff of the Department of Market Regulation of the firm's compliance with OATS reporting rules covering various periods from May 1, 2005, to December 31, 2007, and the firm's 2007 Trading and Market Making Surveillance examination in review No. 20070099566.

FACTS AND VIOLATIVE CONDUCT

Eight OATS Matters

20060050722

1. From December 1 to December 31, 2005, the firm transmitted to OATS 925,964 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the firm incorrectly submitted 925,964 Execution Reports that it should not have submitted. These inaccurate reports represented approximately 16 percent of all reports (5,615,960) that the firm transmitted to OATS during the review period.

20060055240

2. From May 1 to August 31, 2005, OATS was unable to match 1,615,247 of the firm's New Order Reports to a Route Report submitted by another firm for which UBS Securities was named as the Sent to Firm. These 1,615,247 unmatched Route Reports represented approximately 13 percent of all match eligible Route Reports submitted to OATS for which UBS Securities was named as the Sent to Firm (11,825,244) during the review period.

20060062883

3. From January 1 to March 31, 2006, the firm transmitted to OATS 279,884 Route or Combined Order/Route Reports that the OATS system was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete or improperly formatted data. These unmatched Route Reports represented approximately 3.5 percent of all match-eligible Route or Combined Order/Route Reports (7,953,850) that the firm transmitted to OATS during the review period.

4. From January 1 to March 31, 2006, the firm transmitted to OATS 370,268 New Order Reports and related subsequent reports where the timestamp for the related subsequent report occurred prior to the receipt of the order. Because of the inaccurate timestamps, the OATS system was unable to create an accurate, time-sequenced record from the receipt of the order through its resolution. These reports represented approximately 1.6 percent of related subsequent reports (23,188,227) that the firm transmitted to OATS.

The total of 650,152 violations identified in paragraphs three and four for matter No. 20060062883 represent approximately 1.5% of all reportable Order Events (43,629,248) that the firm submitted to OATS during the review period.

20060068257

5. From April 1 to June 30, 2006, the firm transmitted to OATS 462,196 Reportable Order Events ("ROEs") that were rejected by OATS for context or syntax errors. The firm failed to repair 447,494 of the rejected ROEs, representing approximately 96 percent of all rejected ROEs.

20070090615

6. From January 1 to March 31, 2007, the firm transmitted to OATS 3,110,567 ROEs that were rejected by OATS for context or syntax errors. The firm failed to repair 2,959,608 of the rejected ROEs, representing approximately 95 percent of all rejected ROEs. The firm submitted data to OATS between March and May 2008 intended to repair the rejected ROEs.

20070092124

7. From October 1 to December 31, 2006, the firm failed to report to OATS a Route Report for 98 OATS reportable orders. These represent 98 percent of the total number of Route Reports sampled by the staff (100).

20070103650

8. From January 1 to April 30, 2007, the firm transmitted to OATS 465,639 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 465,639 Route or Combined Order/Route Reports represented approximately 20 percent of all match-eligible Route or Combined Order/Route Reports (2,318,150) that the firm transmitted to OATS during the review period.

20080125305

9. From October 1 to December 31, 2007, the firm transmitted to OATS 3,301,910 ROEs that were rejected by OATS for context or syntax errors. The firm failed to repair 2,962,635 of the rejected ROEs, representing approximately 89 percent of all rejected ROEs. The firm submitted data to OATS between March and May 2008 intended to repair the rejected ROEs.

The conduct described in paragraphs one through nine constitutes separate and distinct violations of NASD Rule 6955(a).

10. From May 1, 2005, through December 31, 2007, the period covered by the eight OATS reviews referenced in paragraphs one through nine, the firm failed to enforce its written supervisory procedures relating to OATS compliance. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

2007 Trading and Market Making Surveillance Examination

The on-site portion of the TMMS examination took place on October 1 - 4, 2007. Attached as an exhibit is a list of the items the staff reviewed during the on-site examination for trade date July 31, 2007.

20070099566

11. On July 31, 2007, the firm failed to report to the FINRA/Nasdaq Trade Reporting Facility ("TRF") the correct symbol indicating whether the firm executed 584 transactions in Reportable Securities in a principal or agency capacity. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130.
12. On July 31, 2007, the firm transmitted to OATS 22 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, in 13 instances, the firm failed to submit an execution report to OATS. In five instances, the firm reported an incorrect capacity indicator. In three instances, the firm improperly submitted a new order report. In one instance, the firm failed to submit a route report to OATS. These inaccurate or incomplete reports represented approximately 36 percent of the sample of reports that the firm transmitted to OATS on the trade date reviewed in the TMMS examination. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
13. For the month of June 2007, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. For four order type/size categories, the report included incorrect order

execution information. Specifically, in two instances, the firm reported an incorrect number of "total covered shares;" in two other instances, it reported an incorrect number of "market center executed shares" and "away executed shares." The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.

14. On July 31, 2007, the firm failed to show the correct capacity on the memorandum of 1,119 brokerage orders. In 11 other instances, the firm failed to produce a customer sales activity blotter, a proprietary sales activity blotter, and required order tickets and memoranda adequate for FINRA staff to complete its review of the firm's compliance with SEC Rule 605. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rules 17a-3 and 17a-4 and NASD Rule 3110.
15. During July 2007, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of NASD, concerning order handling, sales transactions, soft dollar accounts and trading, the firm's use of multiple MPIDs, preventing anti-intimidation/coordination, and other quoting and trading rules, including the maintenance of appropriate books and records. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the persons responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory steps to be taken by the identified persons; (3) a statement as to how often such persons should take such steps; and (4) a statement as to how the completion of the steps included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.

B. The firm also consents to the imposition of the following sanctions:

A censure, a fine of \$320,000 (comprising fines of \$225,000 for the OATS violations, \$10,000 for violations of Rule 6130, \$10,000 for violations of SEC Rule 605, \$10,000 for the books and records violations, and \$65,000 for the supervision violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs I.A.10 and I.A.15 above. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to *MarketRegulationComp@finra.org*, providing the following information:

- (1) a reference to this matter;
- (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraphs I.A.10 and I.A.15; and
- (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. The firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

6-1-2009
Date

Respondent
UBS Securities LLC

By: Judith Romane

Name: Judith Romane

Title: Executive Director

Reviewed by:

Judith Romane
Counsel for Respondent

Accepted by FINRA:

6/15/09
Date

Signed on behalf of the
Director of ODA, by delegated authority

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

UBS Securities LLC
2007 Trading and Market Making Surveillance Examination
Matter No. 20070099566

The staff reviewed the following samples during the examination:

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
7	Customer sale transactions, for compliance with Nasdaq Rule 2110, NASD Rules 3110 and 6130, and SEC Reg SHO	from trade date July 31, 2007
100	Customer orders, for compliance with Nasdaq Rule 2110 and NASD Rules 21111 and IM-2110-2	from trade date July 31, 2007
50	Limit orders, for compliance with SEC Rule 604	from trade date July 31, 2007
11	Customer confirmations, for compliance with SEC Rule 10b-10	from trade date July 31, 2007
100	Orders, which resulted in the staff reviewing 203 trade reports, for compliance with NASD Rules 4632 and 6130	from trade date July 31, 2007
10	Open limit orders, for compliance with NASD Rule 2320	from trade date July 31, 2007
30	Odd lot executions, for compliance with NASD Rule 6130	from trade date July 31, 2007
30	Cancelled executions, for compliance with NASD Rules 3110 and 6130 and SEC Rule 17a-3	from trade date July 31, 2007
10	Not Held customer market orders, for compliance with Nasdaq Rule 2110 and NASD Rules 2110, 2320, 3110 and 6130	from trade date July 31, 2007
5	Orders, for compliance with NASD Rules 2110, 3110, and 6130 and SEC Section 28e	from trade date July 31, 2007
25	Orders handled by the firm, for compliance with SEC Rule 605	from report for June 2007
N/A	Report on routing of customer orders, for compliance with SEC Rule 606	from report for June 2007
60	Orders, for compliance with NASD Rule 6955	from trade date July 31, 2007
25	Transactions, for compliance with NASD Rules 232, 3110, and 6130	from trade date July 31, 2007
N/A	Overall books and records, which resulted in reviewing 249 order tickets, for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4	from trade date July 31, 2007
N/A	Registration of trading area personnel, for compliance with NASD Rule 1021 and 1031	Persons in place on trade date July 31, 2007

N/A	The firm's establishment and implementation of "regular & rigorous" reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Rules 2320 and 3010	based on WSPs in effect during July 2007
N/A	The firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Rule 3010	based on WSPs in effect during July - Oct 2007