

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090170166-01**

2012 DEC 12 PM 2:43

FINRA

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 has been a member of FINRA since August 17, 1978, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On January 20, 2010, an AWC was accepted in connection with 20080140831 in which the firm was fined \$60,000 for, among other things, SEC Rule 605 and OATS reporting and supervisory violations that occurred on July 8, 2008.

On June 16, 2009, an AWC was accepted in connection with 20060050722 in which the firm was fined \$320,000, 225,000 of which was for OATS violations, \$10,000 of which was for SEC Rule 605 violations, \$10,000 of which was for books and records violations, and \$65,000 of which was for supervision of order handling, sales transactions, soft dollar accounts, use of multiple MPIDs, anti-intimidation/coordination, quoting/trading rules, and books and records for the time period May 1, 2005 through December 31, 2007.

On November 10, 2008, an AWC was accepted in connection with 20060041450 in which the firm was fined \$10,000 for OATS violations that occurred from July 1, 2005 through September 30, 2005.

On June 26, 2008, an AWC was accepted in connection with 20041000004 in which the firm was fined \$116,000, which included a \$16,000 fine for OATS violations that occurred from October 1, 2005 through December 31, 2005.

SUMMARY

In Trading and Market Making Surveillance (“TMMS”) Examination No. 20090170166, the staff of FINRA’s Department of Market Regulation (the “staff”) reviewed the items set forth on Exhibit A, which is attached hereto and incorporated herein by reference, for trade dates August 24-25, 2009, unless otherwise noted (the “2009 TMMS review period”). In TMMS Examination No. 20100216042, the staff reviewed the items set forth on Exhibit B, which is attached hereto and incorporated herein by reference, for trade date August 18, 2010, unless otherwise noted (the “2010 TMMS review period”).

FACTS AND VIOLATIVE CONDUCT

20090170166 – 2009 TMMS Examination

1. The firm on 74 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
2. During the 2009 TMMS review period, the firm transmitted to OATS 20 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports contained inaccurate “Not-Held” and “Directed” special handling codes. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
3. The firm’s supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to SEC Rule 611(a)(1) of Regulation NMS, including the firm’s use of Rule 611(b) exceptions, compliance with the self-help exception, documentation of the “externally observable circumstances” upon which the price is based for intraday benchmark VWAP trades with an over/under provision,

and documentation that the fee-pass meets the requirement set by the SEC for ADR conversions that include a conversion fee that is passed through to the customer. Specifically, the firm's supervisory system did not include written supervisory procedures providing for (1) the identification of the person(s) responsible for supervision with respect to SEC Rule 611(a)(1) of Regulation NMS concerning the items listed above; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of SEC Rule 611(a)(1), FINRA Rule 2010, and NASD Rule 3010.

4. During August 2009, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA and the SEC. At a minimum, adequate written supervisory procedures ("WSPs") addressing trading and market making topics should describe the following:
 - a. specific identification of the individual(s) responsible for supervision;
 - b. the supervisory steps and reviews to be taken by the appropriate supervisor;
 - c. the frequency of such reviews; and
 - d. how such reviews shall be documented.

The firm's WSPs failed to provide for one or more of the four above-cited minimal requirements for adequate WSPs in the following subject areas: designation of principals in each OSJ [a]; order handling (limit order display, quote dissemination, market order protection) [a, b, c, d]; trade reporting (modifiers [b], Nasdaq order entry [a, b, c, d], third party reporting [b]); trading halts (ATS, BATS order entry, Nasdaq order entry) [a, b, c, d]; Nasdaq prevention of order entry/clearly erroneous [a, b, c, d]; Nasdaq order identification [a, b, c, d]; information barriers [c]; books & records [a, b, c, d]; ATS trade reporting [a, b, c, d]. The conduct described in this paragraph constitutes violations of NASD Rule 3010 and FINRA Rule 2010.

5. The firm failed to provide documentary evidence that on the trade dates reviewed in the 2009 TMMS examination it performed the supervisory reviews set forth in its written supervisory procedures concerning the following subject areas: order handling (SEC Rule 606, market order protection, SEC Rule 605); anti-intimidation or coordination; firm quote; multiple MPIDs; ATS-R filing. The conduct described in this paragraph constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

20100216042 – 2010 TMMS Examination

6. The firm failed on 117 occasions to provide written notification disclosing to its customer its correct capacity in the transaction. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.

7. On seven occasions, the firm accepted orders from customers for execution in the pre-market session or post-market session without disclosing to such customers that extended hours trading involves material trading risks, including the possibility of lower liquidity, high volatility, changing prices, unlinked markets, an exaggerated effect from news announcements, wider spreads and any other relevant risk. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 2265.
8. For the month of July 2010, the firm made available a report on the covered orders in national market system equities that it received for execution from any person. This report included incorrect information as to Total Covered Orders, Total Covered Shares, Canceled Shares, Away Executed Shares, Shares from 5-30 Minutes, Average Realized Spread, Average Effective Spread, Price Improved Shares, Price Improved Average Amount, Price Improved Average Time, Outside the Quote Shares, Outside the Quote Average Amount, Outside the Quote Average Time, and Canceled Shares. In addition, this report excluded an order that should have been covered. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.
9. During August 2010, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA and the SEC. At a minimum, adequate written supervisory procedures ("WSPs") addressing trading and market making topics should describe the following:
 - a. specific identification of the individual(s) responsible for supervision;
 - b. the supervisory steps and reviews to be taken by the appropriate supervisor;
 - c. the frequency of such reviews; and
 - d. how such reviews shall be documented.

The firm's WSPs failed to provide for one or more of the four above-cited minimal requirements for adequate WSPs in the following subject areas: trade reporting (third party reporting) [b]; trading halts – ATS [a, b, c, d]; and rules applicable to ATSs and ECNs (five percent threshold requirements, 20% threshold requirements) [a, b, c, d]. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 and FINRA Rule 2010.

10. The firm failed to provide documentary evidence that on the trade dates reviewed in the 2010 TMMS examination it performed the supervisory reviews set forth in its written supervisory procedures concerning the following subject areas: order handling (SEC Rule 606); trade reporting (third party reporting); soft dollar records; MPID usage and requirements; and Form ATS-R Filings. The conduct described in this paragraph constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

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

A censure and a \$90,000 fine (\$15,000 for the inaccurate customer confirmations; \$10,000 for the OATS violations; \$5,000 for the extended hours trading risk disclosure violations; \$20,000 for the SEC Rule 605 violations; \$7,500 for the Reg NMS supervision violations; and \$32,500 for the supervision violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs 4 and 9 in Section A above. Within 90 business days of acceptance of this AWC by the 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 this paragraph; and (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It 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 sanction(s) 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 National Adjudicatory Council ("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.

12/10/12
Date

UBS SECURITIES LLC
Respondent

By: Frederic Greenbaum
Name: Frederic Greenbaum
Title: Executive Director

Reviewed by:

Counsel for Respondent
Firm Name
Address
Phone Number

Accepted by FINRA:

1/15/13
Date

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

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

2009 Market Regulation Examination Samples
UBS Securities, LLC ("UBSS")
Exam No. 20090170166
Sample Source/Period*: Trade Date(s) August 24-25, 2009

<u>Sample Size</u>	<u>Sample Description</u>
75	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
9	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
921	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
36	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
50	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
0	Sell orders entered into BATS Exchange execution system for compliance with BATS Rule 11.19 long/short reporting requirements
25	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390
135	Orders for compliance with best execution requirements of NASD Rule 2320
100	Held orders from the Held Order Protection Review
10	Not Held orders from the Not Held Order Review
0	Order executed with a .PRP (Prior Reference Price) trade modifier
25	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
100	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
0	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
50	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
99	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
4	Data sets published for July 2009 monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)

2009 Market Regulation Examination Samples
 UBS Securities, LLC ("UBSS")
 Exam No. 20090170166
 Sample Source/Period*: Trade Date(s) August 24-25, 2009

<u>Sample Size</u>	<u>Sample Description</u>
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
21	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040; Nasdaq Rule Series 1020, 1030, 1040; and BATS Rule 11.4
25	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
1	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
2334	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
1796	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, or BATS Rule 5.1 requirements
0	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
0	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
0	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports

2010 Market Regulation Examination Samples
UBS Securities, LLC
("UBSS")
Exam No. 20100216042
Sample Source/Period*: August 18, 2010

<u>Sample Size</u>	<u>Sample Description</u>
172	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
54	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
902	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
67	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
67	0 Buy and 67 Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
50	Sell orders entered into BATS Exchange execution system for compliance with BATS Rule 11.19 long/short reporting requirements
50	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390
135	Orders for compliance with best execution requirements of NASD Rule 2320 100 Held orders from the Held Order Protection Review 10 Not Held orders from the Not Held Order Review 0 Order executed with a .PRP (Prior Reference Price) trade modifier 25 Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
100	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
2	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
62	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
139	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
6	Data sets published for July 2010 monthly order execution report for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category as described in SEC Rule 605)
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements

2010 Market Regulation Examination Samples
UBS Securities, LLC
("UBSS")
Exam No. 20100216042
Sample Source/Period*: August 18, 2010

<u>Sample Size</u>	<u>Sample Description</u>
27	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040; Nasdaq Rule Series 1020, 1030, 1040; and BATS Rule 11.4
25	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
7	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
1529	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
1576	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq Rule 3010, or BATS Rule 5.1 requirements
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
N/A	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports