

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2009017976301**

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

RE: UBS Financial Services Inc. ("UBS"), Respondent
Member Firm
CRD No. 8174

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, UBS 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 UBS alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. UBS 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

UBS has been a member of FINRA since 1936. It employs approximately 22,170 registered and unregistered individuals who work out of a main office in Weehawken, New Jersey and approximately 485 branch offices. UBS is a full service broker-dealer, offering securities, trading, brokerage and related products and services.

RELEVANT DISCIPLINARY HISTORY

In 1999, when UBS was known as PaineWebber, NASD censured and fined it \$50,000 for failing to ensure that all persons who were involved in the firm's investment banking or securities business, or in the management thereof, were properly registered as general securities representatives or principals. As part of

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the settlement, UBS was required to review and revise its written supervisory procedures.

OVERVIEW

During a period of at least five years, UBS permitted approximately 70 individuals to act as principals and representatives of the firm without the requisite registration. In addition, UBS's supervisory system and/or written supervisory procedures were insufficient to achieve compliance with the applicable registration rules. This conduct violated NASD Membership and Registration Rules 1021 and 1031, NASD Conduct Rules 3010 and 2110 and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

At various times from at least 2005 through 2009, UBS permitted approximately 70 of its employees to function as principals and representatives without the requisite registration. These individuals were based in UBS's home office and some of them were managers at UBS. The firm's registration tracking materials had identified them as needing qualification examinations, but UBS did not take the necessary steps to have these employees obtain the requisite registrations. UBS thereby violated NASD Membership and Registration Rules 1021 and 1031, NASD Conduct Rule 2110 (for conduct before December 15, 2008) and FINRA Rule 2010 (for conduct after December 14, 2008).

From at least 2005 through 2009, UBS did not establish, maintain and enforce a supervisory system and/or written supervisory procedures that were reasonably designed to achieve compliance with the rules and regulations applicable to the registration of principals and representatives. For example, those procedures did not clearly assign respective registration responsibilities between the firm's compliance department and the business unit supervisors. As a result, there were communication gaps between those departments; the responsible supervisors relied mainly on cues from the compliance department, but the firm's compliance department was not consistent in notifying supervisors about registration issues. UBS's procedures also did not provide reasonable guidance as to the specific steps that needed to be taken when an individual was hired or given new responsibilities affecting their registration status. For example, the procedures did not require that employees be given specific deadlines for testing and other actions, or provide for reasonable follow-up and review to ensure compliance. Moreover, the firm sometimes permitted representatives to delay taking the required examinations. These deficiencies contributed to the registration violations described above. By not establishing and maintaining a supervisory system, and not establishing, maintaining and enforcing written supervisory

procedures that were reasonably designed to achieve compliance with the rules and regulations applicable to registration, UBS violated NASD Conduct Rules 2110 (for conduct before December 15, 2008) and 3010 and FINRA Rule 2010 (for conduct after December 14, 2008).

B. UBS also consents to the imposition of the following sanctions:

- a censure and a \$200,000 fine.

In addition, UBS shall comply with the following undertakings within the time periods specified (unless otherwise extended by FINRA staff following a written request by the firm):

- UBS shall undertake a comprehensive review, and testing, of its supervisory system and procedures concerning compliance with the applicable laws, regulations and rules relating to the registration of principals and representatives in its home office. The review will include, at a minimum, sample testing to determine whether individuals previously identified by UBS as requiring registration have satisfied those requirements. No later than 120 days after the date of issuance of this AWC, UBS shall prepare a written report detailing its review, findings, testing and recommendations and provide a copy of that report to Department of Enforcement staff at FINRA's New Jersey District Office. The written report shall address, at a minimum, (i) the adequacy of the firm's policies, systems, procedures, and training relating to the registration of principals and representatives; (ii) a description of the review performed and the conclusions reached; and (iii) the recommendations, if any, for modifications and additions to the firm's policies, systems, procedures and training. To the extent that the report recommends the implementation of additional systems and procedures regarding registration, those shall be implemented within 90 calendar days of the submission of the written report to FINRA staff.

In addition, within 90 calendar days of the submission of the written report to FINRA staff, an officer of UBS will certify to FINRA in writing that the firm has completed its review and that it has established systems and procedures reasonably designed to achieve compliance with those laws, regulations, and rules concerning the registration of principles and representatives. The certification, along with UBS's current procedures, must be submitted to Department of Enforcement staff at FINRA's New Jersey District Office. Although FINRA staff may review the revised procedures, said review shall in no way constitute an approval of the revised procedures. The failure of FINRA staff to alert UBS to any

deficiencies in the revised procedures shall not preclude FINRA from instituting a subsequent disciplinary action as a result of deficiencies in the revised procedures.

UBS agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. UBS has submitted an Election of Payment form showing the method by which UBS proposes to pay the fine imposed.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against UBS;
- 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, UBS 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.

UBS 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

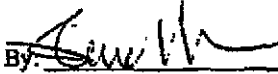
UBS understands that:

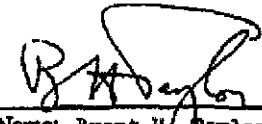
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against UBS;
- C. If accepted:
 - 1. this AWC will become part of UBS'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 UBS'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. UBS 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. UBS 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 UBS's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party; and
- D. UBS may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. UBS 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 UBS, certifies that a person duly authorized to act on the firm's 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 the firm has agreed to its 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.

UBS Financial Services Inc.

10/21/10
Date

By: 
Ilene B. Marquardt, Esq.
Senior Deputy General Counsel and
Managing Director

By: 
Name: Brent H. Taylor, Esq.

Title: Senior Deputy General Counsel and
Managing Director

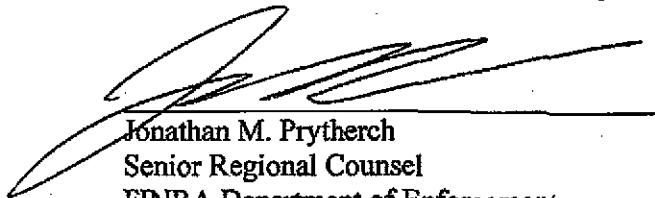
Reviewed by:


Harry J. Weiss, Esq.
Counsel for Respondent
Wilmer Cutler Pickering Hale
and Dorr LLP
1875 Pennsylvania Avenue, NW
Washington, DC 20006
Phone: (202) 663-6993

Accepted by FINRA:

11/3/2010
Date

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

A handwritten signature in black ink, appearing to read 'Jonathan M. Prytherch', is written over a horizontal line.

Jonathan M. Prytherch
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FINRA Department of Enforcement
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Woodbridge, New Jersey 07095
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