

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011030284601**

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

RE: UBS Securities, LLC, Respondent
CRD No. 7654

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

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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 Securities, LLC ("UBS" or the "Firm") has been a member of FINRA since 1978, and its registration remains in effect. UBS is headquartered in Stamford, Connecticut and is a wholly owned subsidiary of UBS AG, a publicly owned Swiss banking company. The Firm employs approximately 1,900 registered representatives from its 13 branch offices. UBS provides investment banking, research, and sales and trading services, primarily to corporate and institutional clients.

RELEVANT DISCIPLINARY HISTORY

The Firm does not have any relevant disciplinary history.

OVERVIEW

In January 2011, UBS self-reported a \$400 million hindsight deficiency that resulted from the substitution of cash for unqualified securities in its Special Reserve Bank Accounts for the Exclusive Benefit of Customers ("Reserve Bank Accounts"). In addition, between September 28, 2010 and February 1, 2011, the

Firm failed to establish and maintain a supervisory system to detect and elevate intraday cash movements in the Customer Reserve Accounts and to accurately capture the timing of any such movements.

Based on the foregoing, the Firm violated Rules 15c3-3(e) and (g) of the Securities and Exchange Act of 1934 ("Exchange Act"), NASD Rule 3010(a) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Failure to Maintain Adequate Funds in the Reserve Bank Accounts

Section 15(c) of the Exchange Act authorizes the U.S. Securities and Exchange Commission (the "SEC") to promulgate rules relating to the financial responsibility of broker-dealers. In this regard, the SEC adopted Exchange Act Rule 15c3-3 (the "Customer Protection Rule"), which requires all broker-dealers that receive customer funds or securities to open and maintain an account entitled Special Reserve Bank Account for the Exclusive Benefit of Customers.

The Customer Protection Rule includes a requirement set forth in Exchange Act Rule 15c3-3(e) that every broker-dealer perform a weekly computation to determine what amount, if any, the broker-dealer must deposit on behalf of customers in the Reserve Bank Account. The Reserve Bank Account must be funded by cash and/or qualified securities. Exchange Act Rule 15c3-3(g) provides that a broker-dealer may remove excess funds from its customer reserve account prior to 10:00 a.m. on the second business day following a reserve formula computation. A violation of these rules is also a violation of FINRA Rule 2010, which requires its members, "in the conduct of its business [to] observe high standards of commercial honor and just and equitable principles of trade."

On January 18, 2011, the Firm had an approximately \$400 million hindsight deficiency in its Reserve Bank Accounts as a result of cash being substituted for unqualified securities after 10:00 a.m. This substitution was not attributable to the Firm. Nevertheless, UBS was responsible for ensuring that its Reserve Bank Accounts maintained sufficient funds to satisfy its reserve requirements. The hindsight deficiency was corrected within eighteen minutes.

By failing to have sufficient cash and/or qualified securities in its Reserve Bank Accounts, the Firm violated Exchange Act Rule 15c3-3(e) and FINRA Rule 2010. Further, the substitution of cash for unqualified securities in the Reserve Bank Accounts after 10:00 a.m. on the second day after a reserve formula computation violated Exchange Act Rule 15c3-3(g) and FINRA Rule 2010.

Failure to Establish and Maintain a System to Supervise Activities Reasonably
Designed to Achieve Compliance with Rule 15c3-3(g)

NASD Conduct Rule 3010(a) requires that member firms "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD [and FINRA] Rules."

During the relevant period, UBS had a system to supervise the delivery of eligible collateral into its Reserve Bank Accounts prior to 10:00 a.m. The supervisory system also included a review of nightly batch reconciliations to confirm that the balance of the accounts continued to satisfy its reserve requirements. However, the Firm's supervisory system was inadequate to ensure that intraday debit and credit movements in the Reserve Bank Accounts after 10:00 a.m. were detected and elevated.

Between September 28, 2010 and February 1, 2011, UBS completed reserve formula computations on Fridays and moved qualified securities either into or out of its Reserve Bank Accounts by 10:00 a.m. on Tuesdays in order to meet increased or decreased reserve requirements. During this time, although qualified securities were moved either into or out of the Reserve Bank Accounts prior to 10:00 a.m., there were also intraday offsetting debit and credit entries. Based on the information available concerning the timing of cash movements into and out of the Reserve Bank Accounts, these intraday offsetting debit and credit entries may have resulted in withdrawals occurring after 10:00 a.m. on sixteen days and four hindsight deficiencies.

By failing to have an adequate supervisory system related to withdrawals from, and deposits to, the Reserve Bank Accounts occurring after 10:00 a.m. in accordance with Rule 15c3-3(g), the Firm violated NASD Rule 3010(a) and FINRA Rule 2010.

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

- A censure; and
- a fine of \$100,000.

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

Respondent 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

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

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

Respondent 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

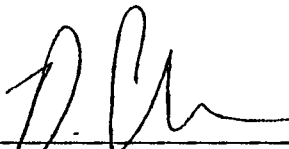
Respondent understand that:

- 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. Respondent 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. Respondent 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 Respondent's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 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.

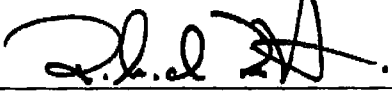
9/24/2013
Date


Respondent
UBS Securities, LLC
Print Name: D. Christopher Walker, Esq.
Print Title: Director + Regulatory Attorney

Accepted by FINRA:

10-2-13
Date

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


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