

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20140421908-01**

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

RE: UBS Financial Services Inc., Respondent
Broker-Dealer
CRD No. 8174

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, UBS Financial Services Inc. ("PWJC" or 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. PWJC 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

PWJC became a FINRA member on October 13, 1936, and the firm's registration remains in effect. PWJC is a subsidiary of UBS AG, a Swiss corporation. PWJC employs approximately 12,000 registered representatives within 586 branches. The firm acquired the desk at issue here, the Taxable Fixed Income desk ("TFI desk"), from another subsidiary of UBS AG on July 16, 2013.

DISCIPLINARY HISTORY

On June 19, 2015, in Matter No. 20130387463, PWJC was sanctioned \$17,500 for TRACE and recordkeeping violations in 3Q13 in violation of FINRA Rules 6730(c)(8), 4511 and SEC Rule 17a-3.

SUMMARY

In connection with STAR No. 20140408023, FINRA's Market Regulation Department (the "Staff") reviewed whether PWJC kept accurate books and records, and whether it accurately reported order details to the Order Audit Trail System ("OATS"), FINRA/Nasdaq Trade Reporting Facility ("FNTRF") and the OTC Reporting Facility ("OTCRF") during the period of January 1, 2013 through December 31, 2016. Based on the review, Staff found that the firm violated the rules set forth below.

In connection with STAR No. 20140421908, Staff reviewed PWJC's compliance with FINRA Rule 5310 during the period between April 1, 2014 and June 30, 2014 (the "Best Execution review period").

FACTS AND VIOLATIVE CONDUCT

Matter No. 20140408023

The policy underlying recordkeeping and reporting provisions is to ensure that regulators have access to certain basic information about securities transactions to allow them to adequately police the securities markets. Access to accurate records and timely and accurate reports therefore serve as an essential component of the surveillance and examination of broker-dealers by self-regulatory bodies.

Matter No. 20140408023 involves a review of the process by which PWJC's financial advisors ("FAs") and its TFI desk manually handled non-convertible preferred customer orders¹ during the review period. The customer orders in question were generally executed by telephone or electronic communication between the FAs and the TFI desk prior to the time the FAs entered the customer orders into an order management system. As a result, the order receipts time by the FAs from their customers, the order receipt times at the TFI desk and the order execution times were all recorded incorrectly and reported incorrectly with respect to PWJC's books and records, OATS reporting, and Trade Reporting. Specifically:

1. From January 1, 2013 through December 31, 2016, PWJC failed to accurately record the time of order receipt by FAs for approximately 2,112 manually handled non-convertible preferred orders; from July 17, 2013 through December 31, 2016, PWJC failed to accurately record the time of order receipt at the TFI desk for approximately 1,870 manually handled non-convertible preferred orders;² and from July 17, 2013 through July 22, 2016, PWJC failed to accurately record the time of execution for approximately 1,584 manually handled non-convertible

¹ Manually handled non-convertible preferred order refers to those orders that are either transmitted by affiliated financial advisers directly to the TFI desk by telephone, email or IM or transmitted by financial advisers by telephone, email or through a TFI Sales Liaison who acted to assist in the process of executing orders. During the review period, the TFI desk handled about 7% of non-convertible preferred securities through the manual process and 93% through an automated process, which is not at issue here.

² PWJC's rule violations related to order receipt at the TFI desk began when it acquired the TFI desk from an affiliated firm on July 17, 2013.

preferred orders.³ The conduct described in this paragraph constitutes violations of FINRA Rule 4511 and Securities and Exchange Commission ("SEC") Rule 17a-3.

2. From July 17, 2013 through December 31, 2016, PWJC failed to accurately report to OATS the time of order receipt by FAs, failed to accurately report the time of order receipt at the TFI desk for approximately 1,870 manually handled non-convertible preferred orders, and failed to accurately report the time of execution for approximately 1,870 manually handled non-convertible preferred orders. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
3. From July 17, 2013 through July 22, 2016, PWJC failed to report the accurate time of execution to either the FNTRF or the OTCRF for approximately 1,584 manually handled non-convertible preferred trades; and failed to report approximately 1,584 manually handled non-convertible preferred transactions to the TRF within 30 or 10 seconds of execution. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rules 6380A, 6622, 7230A and 7330 and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

Matter No. 20140421908

4. During the Best Execution review period, PWJC failed to provide best execution with respect to 23 transactions executed in OTC securities with customers or customers of another broker-dealer, by failing to use reasonable diligence to ascertain the best market for the subject security and by failing to buy or sell in such market so that the resultant prices to the customers were as favorable as possible under prevailing market conditions. The conduct described in this paragraph consists of 23 separate and distinct violations of FINRA Rules 5310 and 2010.⁴

Matter Nos. 20140408023 and 20140421908

5. During the review period, PWJC's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to applicable securities laws and regulations, and/or FINRA rules related to recordkeeping, OATS reporting and Trade reporting. The above-described conduct constitutes violations of NASD Rule 3010 (for conduct occurring before December 1, 2014) and FINRA Rules 3110 (for conduct occurring on and after December 1, 2014) and 2010.

³ PWJC's rule violations related to order execution timestamps began on July 17, 2013 when it acquired the TFI desk and ended on July 22, 2016, at which time PWJC implemented changes to the manual process, which appears to have resolved execution timestamp recording and reporting deficiencies.

⁴ The Firm previously made restitution to the impacted clients in the amount of \$443.35 for the 23 best execution violations.

6. During the Best Execution review period, 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 FINRA, concerning FINRA Rule 5310. Specifically, the Firm's supervisory system did not include written supervisory procedures that identified the person(s) responsible for supervision. In addition, PWJC's supervisory system was not reasonably designed to ensure compliance with FINRA Rule 5310 with respect to the execution of new issue non-convertible preferred OTC securities during the review period. The conduct described in this paragraph constitutes a violation of NASD Rule 3010 and FINRA Rule 2010.

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

- Censure and fine of \$110,000 (consisting of a \$12,500 fine for the SEA Rules 17a-3 and FINRA Rule 4511 violations; a \$12,500 fine for the FINRA Rule 7450 violations; a \$20,000 fine for the FINRA Rules 6380A, 6622, 7230A, 7330 and 2010 violations; a \$15,000 fine for the FINRA Rule 5310 and 2010 violations; and a \$50,000 fine for the NASD Rule 3010 and FINRA Rules 3110 and 2010 violations in Matter Nos. 20140408023 and 20140421908).
- An undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs I.A.5 and I.A.6. Within 30 business days of acceptance of this AWC by the NAC, a senior executive officer 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.

PWJC 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.

PWJC 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

PWJC 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, PWJC specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

PWJC 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

PWJC 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: (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. 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 PWJC, 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.

4/25/17
Date

Respondent
UBS Financial Services Inc.

By: [Signature]

Name: Irene Marguardt

Title: Managing Director
Legal

Reviewed by:

[Signature]

MARK D. KNOWL
Brouse Amy + Ross
Accepted by FINRA:

5/15/17
Date

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

[Signature]
Robert A. Marchman
Executive Vice President
Department of Market Regulation