

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2017053191801**

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

RE: UBS Securities LLC (Respondent)
Member Firm
CRD No. 7654

Pursuant to FINRA Rule 9216, Respondent UBS Securities LLC 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

UBS has been a FINRA member since August 1978. The firm is headquartered in New York, New York, and is a wholly owned subsidiary of UBS AG, a publicly owned Swiss banking company. UBS employs approximately 1,900 registered persons operating out of 32 branch locations, and engages in investment banking, research, proprietary trading, and sales and trading services to institutional customers.

In December 2017, FINRA censured and fined UBS \$55,000 for Trade Reporting and Compliance Engine (TRACE) related violations occurring between November 2015 and August 2016, including late reporting of approximately 6,800 trades in corporate debt transactions; reporting incorrect execution times for certain trades to TRACE and recording inaccurate execution times on order memoranda for those trades; and failing to evidence supervisory reviews.¹

OVERVIEW

This matter involves UBS's failures to comply with TRACE reporting and related supervision requirements. From October 2016 through November 2020, UBS (i) failed to

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

timely report approximately 10,500 corporate debt transactions; (ii) incorrectly appended the No Remuneration indicator to approximately 108,000 TRACE reports for corporate debt transactions; (iii) incorrectly reported approximately 5,800 internal transfers as corporate debt or Treasury transactions, when they were not reportable; (iv) reported the incorrect size of approximately 600 corporate debt transactions; and (v) inaccurately or untimely reported approximately 120 securitized products transactions in violation of FINRA Rules 6730 and 2010.

In addition, between October 2016 and June 2022, the firm's supervisory system, including written supervisory procedures (WSPs), was not reasonably designed to achieve compliance with TRACE reporting in violation of FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of the firm's TRACE reporting and a 2020 exam of the firm.

FINRA Rule 6730 (Transaction Reporting) sets out the requirements that apply to firms when reporting transactions in TRACE-eligible securities. TRACE facilitates the mandatory reporting of over-the-counter transactions in certain fixed income securities and provides increased price transparency to market participants and investors. Inaccurate or untimely trade reporting of disseminated trades directly impacts investors and other market participants by depriving them of meaningful information necessary to make trading and valuation decisions. Inaccurate information, including reporting transactions that should not have been reported, affects the audit trail and can result in either false alerts or the inability to detect problematic transactions.

A violation of FINRA Rule 6730 also constitutes a violation of FINRA Rule 2010, which states that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." In addition, FINRA Rule 6730(f) provides that "[a] pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of [FINRA] Rule 2010."

UBS late reported transactions in TRACE-eligible securities.

FINRA Rule 6730(a) provides that each member that is a party to a transaction in a TRACE-eligible security must report the transaction as soon as practicable, but no later than within 15 minutes of the time of execution, except as otherwise specifically provided in the rule. FINRA Rule 6730(a)(5) provides that members have an obligation to report transaction information promptly, accurately, and completely to TRACE.

From October 2016 through September 2018, UBS reported approximately 10,500 trades in corporate debt late to TRACE, which represented 2% - 3% of the firm's corporate debt trades reported during that time. The majority of the late reports resulted from the firm's

need to amend reports to correct trade information and manual processes associated with entering trades into firm systems.

From April 2017 through June 2017, the firm also reported approximately 60 trades in securitized products late to TRACE, which represented 22% of all UBS's securitized products reported during that time. The late reporting of securitized products generally was due to the firm's need to amend reports to correct transaction information.

By failing to report approximately 10,500 trades in corporate debt and 60 trades in securitized products within the time required by FINRA Rule 6730(a), the firm violated FINRA Rules 6730(a) and 2010. In addition, the firm's late reporting violations of corporate debt and securitized products trades constituted a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.²

UBS misapplied the No Remuneration indicator on corporate debt reports.

FINRA Rules 6730(d)(1) and 6730(d)(4)(F) require that members use the No Remuneration indicator where a trade report does not reflect either a commission, mark-up or mark-down, except for certain trades such as inter-dealer transactions. The No Remuneration indicator provides more meaningful pricing transparency through TRACE by identifying those transactions where no commission, mark-up or mark-down was charged or known at the time of TRACE reporting, while not inhibiting possible firm remuneration arrangements.

From August 2017 through November 2020, due to erroneous coding logic, the firm improperly appended the No Remuneration indicator on approximately 108,000 TRACE corporate debt reports, which represented 24% of the firm's corporate debt reports related to customer and affiliate trades during that time. Therefore, UBS violated FINRA Rules 6730(d)(1), 6730(d)(4)(F) and 2010.

UBS submitted non-reportable transactions in corporate debt and Treasuries.

FINRA Rule 6730(a)(5) provides that members have an obligation to report transaction information promptly, accurately, and completely to TRACE.

From June 2018 through August 2020, UBS reported approximately 5,800 non-reportable events to TRACE that were internal transfers of corporate debt or Treasuries and not TRACE reportable. The misreporting occurred because the firm misclassified an internal account as a non-member affiliate account during UBS's transition to a new order management system. Therefore, UBS violated FINRA Rules 6730(a)(5) and 2010.

² By December 2018, UBS implemented a new order management system that largely resolved the late transaction reporting issues.

UBS inaccurately reported the size of corporate factor bond transactions.

FINRA Rule 6730(c) describes the specific information required to be reported to TRACE. FINRA Rule 6730(c)(2) requires each TRACE report to include the size of the transaction as required by FINRA Rule 6730(d)(2). Rule 6730(d)(2)(A) requires members to report the total par value or principal value of the security traded, except for securitized products.

From June 2018 through August 2020, due to a system configuration error, the firm overreported to TRACE the size of approximately 600 transactions in factor bonds³ by failing to adjust the bonds' principal value based upon previous partial redemptions. As a result, UBS over-reported the size of the transactions. Therefore, UBS violated FINRA Rules 6730(c)(2) and 2010.

UBS inaccurately reported the contra-party identifier in securitized products transactions.

FINRA Rule 6730(c)(6) requires that a TRACE report contain the contra-party's identifier either by market participant identifier, customer, or non-member affiliate.

From January 2017 through June 2017, due to a coding error, UBS submitted approximately 60 TRACE reports for inter-dealer trades in securitized products with a broker-dealer affiliate that incorrectly identified the contra-party as being a customer. These inaccurate securitized products reports constituted 35% of the firm's inter-dealer trades in securitized products during this period. Therefore, UBS violated FINRA Rules 6730(c)(6) and 2010.

UBS's supervisory system was not reasonably designed to achieve compliance with TRACE reporting rules.

FINRA Rule 3110(a) requires a member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) requires a member firm to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that indicate rule violations may be occurring and to act upon the results of such investigation. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

³ A factor bond is a bond for which partial redemptions are processed by a proportional return of principal to each bondholder.

Between October 2016 and June 2022, UBS's supervisory system concerning TRACE reporting was not reasonably designed to achieve compliance with FINRA Rule 6730 for several reasons.

First, UBS failed to reasonably and timely address recurring issues concerning late corporate debt reporting, some of which dated back to November 2015 and were a subject of the December 2017 AWC. UBS began to review and take steps toward addressing issues concerning late reporting in 2016. However, UBS did not develop a formal remediation plan until late 2017, and did not fully remediate the late reporting issues until the end of 2018.

Second, UBS's supervisory system, including its WSPs, did not contain reasonable supervisory reviews for accuracy of TRACE reporting. For example:

- At various points between October 2016 and June 2022, UBS did not conduct supervisory reviews for accuracy of reported information concerning corporate debt or securitized products transactions, such as quantity, execution price, execution time, and contra-party. Although following FINRA inquiries, UBS implemented supervisory reviews to address the accuracy of certain TRACE-reported fields — including the accuracy of the reported size of factor bond transactions in May 2021, the accuracy of time stamps on customer transactions in June 2021, and the use of the No Remuneration indicator in August 2021 — certain TRACE reportable flow was not encompassed by these reviews.
- Prior to January 2021, the firm did not have a supervisory system, procedures or reviews for compliance with FINRA Rule 6730 Supplementary Material .02, which requires members to annually identify entities that meet the definition of a “non-member affiliate” for TRACE purposes.
- Moreover, UBS did not conduct supervisory reviews of reports that were rejected by TRACE until July 2018.⁴

Third, at various points between October 2016 and June 2022, two of the firm's trading groups executed fixed income transactions and reported to TRACE without a reasonable supervisory system for TRACE reporting. These two groups were responsible for TRACE reporting related to equity- or commodity-linked notes and convertible bonds, and primary debt offerings by the firm, respectively. Collectively, they accounted for approximately 5% of the firm's TRACE-reportable corporate bond transactions. In particular, the firm's equities group did not have supervisory reviews of the transactions that were manually reported to TRACE; instead the equities group's reviews only covered TRACE reports that systems automatically reported. In addition, at various times during the period, UBS did not provide the two desk heads of this group designated as TRACE supervisors internal TRACE statistics or FINRA TRACE report cards necessary to reasonably perform supervisory oversight. Finally, one group lacked WSPs concerning

⁴ Rejected TRACE reports can result in failures to report or late reports if not corrected and timely resubmitted.

secondary market TRACE reporting prior to October 2018, and the other group lacked WSPs until early 2020.

Therefore, UBS violated FINRA Rules 3110 and 2010.

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

- a censure and a \$675,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 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 its acceptance or rejection.

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 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 Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

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- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent'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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

November 3, 2022

Date

Darya Geetter

UBS Securities LLC
Respondent

Print Name: Darya Geetter

Title: Managing Director,
Head of US Securities Regulatory Affairs

Reviewed by:

Elizabeth L. Mitchell

Elizabeth L. Mitchell, Esq.
WilmerHale
Counsel for Respondent
1875 Pennsylvania Avenue NW
Washington, DC 20006

Accepted by FINRA:

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

November 21, 2022

Date

Dawn Faris

Dawn Faris
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Department of Enforcement
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