

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019062435601**

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 Securities LLC (UBS-S) has been a FINRA member since 1978. UBS-S engages in securities trading and investment banking and has more than 1,900 registered representatives across more than 30 branches, with its headquarters in New York, NY. UBS-S is a subsidiary of UBS Americas, Inc.

In December 2014, FINRA censured and fined the firm \$75,000 for, among other violations, inaccurate reporting pursuant to Rule 605 of Regulation NMS and failing to reasonably supervise the accuracy of its Rule 605 reports.

In July 2015, FINRA censured and fined the firm \$67,500 for, among other violations, inaccurate Rule 605 reporting and failing to reasonably supervise the accuracy of its Rule 605 reports. FINRA also imposed an undertaking requiring the firm to provide three written reports to FINRA detailing its efforts to improve its Rule 605 reporting and supervisory systems.¹

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

OVERVIEW

From September 2015 through January 2019, UBS-S published inaccurate monthly statistics regarding execution of covered orders in violation of Rule 605 and FINRA Rule 2010. In addition, from September 2015 through November 2019, UBS-S's supervisory system was not reasonably designed to achieve compliance with Rule 605. As a result, UBS-S violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a FINRA examination of UBS-S.

UBS-S published inaccurate monthly reports of order executions.

The Securities and Exchange Commission (SEC) adopted Regulation NMS to establish rules designed to modernize and strengthen the regulatory structure of the U.S. equities markets. Rule 605 facilitates the uniform public disclosure of order execution information by requiring any market center² that trades NMS securities to publish standardized monthly electronic reports of statistical information concerning execution of covered orders it receives.³

Rule 605 requires NMS market centers to report statistical information by security, order size, and order type, which includes market, marketable limit, and other limit orders. In each of these categories, market centers must disclose, among other statistics: (a) the number of covered orders; (b) the cumulative number of shares of covered orders; (c) the cumulative number of shares of covered orders cancelled prior to execution; and (d) the cumulative number of shares of covered orders executed at the receiving market center.

A violation of Rule 605 is also 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.”

From September 2015 through January 2019, UBS-S operated an alternative trading system called UBS ATS (UBSA) that received covered orders reportable under Rule 605. During this time, the firm published 41 monthly Rule 605 reports that contained inaccurate order and execution quality statistics for covered orders. Due to a coding error, UBSA's Rule 605 execution quality statistics were derived from the “parent” orders

² Rule 600(b)(46) defines “market center” as “any exchange market maker, OTC market maker, alternative trading system, national securities exchange, or national securities association.”

³ Rule 600(b)(22) defines covered orders as “any market order or any limit order (including immediate-or-cancel orders) received by a market center during regular trading at a time when a national best bid and national best offer is being disseminated, and, if executed, is executed during regular trading hours, but shall exclude any order for which the customer requests special handling for execution, including, but not limited to, orders to be executed at a market opening price or a market closing price, orders submitted with stop prices, orders to be executed only at their full size, orders to be executed on a particular type of tick or bid, orders submitted on a ‘not held’ basis, orders for other than regular settlement, and orders to be executed at prices unrelated to the market price of the security at the time of execution.” Accordingly, orders with special handling instructions are not covered orders.

originated at UBS-S's broker-dealer, instead of the resulting "child" orders that UBSA received.⁴ For example, when the UBS-S broker-dealer created or received a covered parent *market* order, divided that order into multiple child *limit* orders, and routed the child orders to UBSA, the UBSA Rule 605 report wrongly included execution quality statistics based on the parent market order rather than the child limit orders as required. In addition, when the UBS-S broker-dealer originated non-covered parent orders and then routed resulting covered child orders to UBSA, UBSA's Rule 605 reports improperly excluded execution quality statistics for the covered child orders.

As a result, from September 2015 through January 2019, the firm's monthly UBSA Rule 605 reports significantly underreported the number of covered orders and related shares it received, executed, and cancelled. For example, each of the firm's published UBSA Rule 605 Reports for May, August, and December 2018 failed to include millions of covered orders and executed shares and more than a billion order shares and cancel shares related to the covered orders. The underreported amounts for the three months ranged from less than 2% to approximately 14% of UBSA's reported total number of covered orders, and the order shares, canceled shares, and executed shares related to those orders.⁵

In addition, a separate coding error caused the UBSA monthly Rule 605 reports to double-count the number of cancel shares for certain covered orders between September 2015 and January 2018. This resulted in UBS-S overreporting a portion of all covered cancel shares in the UBSA Rule 605 reports from September 2015 through January 2018.⁶

Therefore, UBS-S violated Rule 605 and FINRA Rule 2010.

UBS-S's supervisory system was not reasonably designed to achieve compliance with Rule 605.

FINRA Rule 3110(a) requires member firms 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 member firms 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. A violation of FINRA Rule 3110 is also a violation of FINRA Rule 2010.

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

⁴ Broker-dealers may create or receive larger (parent) orders that are sub-divided into smaller (child) orders and then routed to one or more venues for execution.

⁵ UBS-S corrected the coding error in February 2019.

⁶ UBS-S corrected this coding error by January 2018.

From at least September 2015 through November 2019, UBS-S's supervisory reviews for compliance with Rule 605 consisted of manual retrieval and analysis by firm personnel of a sample of covered orders in the firm's Rule 605 reports. However, the firm's sample for supervisory reviews was unreasonably small.

In addition, due to system limitations, cancelled covered orders were excluded from UBS-S's supervisory reviews. Therefore, UBS-S did not review canceled covered order statistics to determine whether the UBSA Rule 605 reports were accurate. As a result, UBS-S failed to detect that it was overreporting share quantities for certain cancelled covered orders in the UBSA Rule 605 reports for nearly two years.

UBS-S also failed to reasonably investigate and act upon evidence of Rule 605 reporting deficiencies. UBS-S discovered the coding error relating to parent and child orders in September 2017 but did not correct the error until February 2019, 17 months after UBS-S became aware of this coding error.

Therefore, UBS-S violated FINRA Rules 3110 and 2010.

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

- a censure
- a \$475,000 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 SEC 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

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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.
- 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.

February 1, 2023

Date

Darya Geetter

UBS Securities LLC
Respondent

Darya Geetter

Print Name: _____

Title: _____ Head of US Securities Regulatory Affairs

Reviewed by:

Eric Bernstein

Eric Bernstein
Counsel for Respondent
Senior Regulatory Counsel
UBS Securities LLC
100 Harbor Boulevard
Weehawken, NJ 07086

Accepted by FINRA:

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

February 3, 2023

Date

Gerald O'Hara

Gerald O'Hara
Senior Counsel
FINRA
Department of Enforcement
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