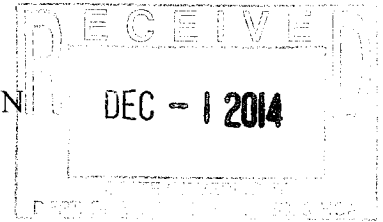


STATE OF VERMONT
DEPARTMENT OF FINANCIAL REGULATION



IN THE MATTER OF:)
) Docket No. 14-089-S
UBS FINANCIAL SERVICES INC.,)
) ADMINISTRATIVE CONSENT ORDER
Respondent.)
_____)

WHEREAS, UBS Financial Services Inc. (“UBS” or “the Firm”) is a broker-dealer registered in all State jurisdictions, including Vermont, an investment advisor registered with the Securities and Exchange Commission, and is a member of the Financial Industry Regulatory Authority (“FINRA”), and as such, has a Central Registration Depository (“CRD”) number of 8174; and

The Securities Division of the Vermont Department of Financial Regulation, (“Department”), has conducted an investigation into the activities of UBS and adequacy of UBS’ supervisory processes, policies and procedures pertaining to the recommendation and engagement of a third party investment manager to perform transactions on behalf of certain Vermont clients at UBS; and

UBS has cooperated with the Department in its investigation by responding to inquiries, providing documentary evidence and other information and providing the Department with access to the facts relating to the investigation; and

UBS has advised the Department of its agreement to resolve the investigation relating to the issues discussed below; and

UBS elects to permanently waive any right to a hearing and appeal under 9 V.S.A., Chapter 150, the Vermont Uniform Securities Act (“VUSA”); 3 V.S.A., Chapter 25, the Vermont Administrative Procedure Act; the rules, regulations, and orders of the Commissioner

of the Department (the “Commissioner”) with respect to this Administrative Consent Order (the “Order”); and

UBS has implemented certain enhancements to its supervisory processes, policies and procedures concerning matters at issue in this investigation; and

UBS agrees to make certain payments in accordance with the terms of this Order; and

Solely for the purpose of terminating this investigation and in settlement of the issues contained in this Order, UBS, without admitting or denying the findings of fact or conclusions of law contained in this Order (except pertaining to jurisdiction), consents to the entry of this Order.

NOW, THEREFORE, the Commissioner, as administrator of the VUSA, hereby enters this Order:

I. FINDINGS OF FACT

1. UBS admits to the jurisdiction of the Commissioner in this matter pursuant to the VUSA.

UBS’ Managed Accounts Consulting Program

2. UBS’ Managed Accounts Consulting (“MAC”) program is one of the investment advisory separately managed account platforms that the Firm offers to its clients. A separately managed account in general is an arrangement whereby a UBS client gives written authority to a third party investment manager to effect transactions on behalf of the UBS client.

3. The Firm designates the MAC managers’ strategies as either “Researched” or “Eligible.” UBS performs initial research and due diligence on managers and their strategies before approving them as MAC Researched and, after such approval, UBS performs ongoing research and due diligence on the managers and their strategies. Under the Firm's written

supervisory procedures (collectively, “WSPs”) policies and disclosure documents including Form ADV disclosures, UBS may recommend MAC Researched strategies to their clients.

4. MAC Eligible strategies are subject to a one-time, general review that is more limited than the research performed on MAC Researched strategies. The MAC Eligible designation is intended primarily as an accommodation for newly-recruited FAs whose clients used strategies at their prior firms that UBS has not designated as MAC Researched; and the designation is also permitted for unsolicited requests by clients to use such strategies.

5. Under its WSPs, the Firm may not recommend or solicit MAC Eligible strategies to their clients.

6. Between January of 2008 and August of 2010 (the “Relevant Period”), UBS improperly solicited certain clients (the “VT Clients”) recommending that they open accounts with a specific MAC Eligible manager (the “MAC Manager”). UBS then opened accounts for the VT Clients with the MAC Manager. On or about August 26, 2010, the MAC Manager’s strategy became MAC Researched and thus UBS’ WSPs then permitted the solicitation or recommendation of the strategy.

7. Pertaining to the account opening process for the VT Clients, UBS presented the VT Clients with an account agreement containing an acknowledgment statement (the “Acknowledgement Statement”) in which the VT Clients were asked to sign or initial the following statement, which under the facts and circumstances were inaccurate statements: “I selected the above-referenced MAC Eligible manager/style to manage my account. I understand that UBS Financial Services Inc.’s review of this firm is limited in scope and does not provide enough information for UBS Financial Services Inc. to express an opinion on or about its investment capabilities.”

8. In addition, UBS' WSPs prohibited MAC Eligible managers from distributing marketing materials to UBS, and in turn UBS' WSPs prohibited the distribution or presentation of those materials to UBS clients. During the Relevant Period, the MAC Manager sent marketing materials to UBS, which were presented and/or circulated to certain of the VT Clients as well as prospective clients. UBS did not detect and prevent those actions.

9. Two of the VT Clients filed arbitrations against UBS. Both cases have been settled.

The Department's Investigation

10. In February of 2012, the Department initiated an investigation into the practices of UBS in connection with the VT Clients' MAC Eligible investor accounts that were opened by UBS with the MAC Manager, which was only MAC Eligible at the time and not yet MAC Researched.

11. The Department's investigation found that during the Relevant Period, UBS had solicited or recommended the MAC Manager to the VT Clients, while the MAC Manager was only MAC Eligible. The Firm had also requested that the VT Clients sign or initial the Acknowledgement Statement stating that the VT Clients had selected the MAC Manager, when in fact UBS had recommended the MAC Manager. UBS also had used, circulated and/or presented the MAC Manager's marketing materials to the VT Clients and prospective clients while the MAC Manager was only MAC Eligible. UBS failed to detect and deter these activities from occurring.

12. UBS requested that the VT Clients sign or initial the Acknowledgement Statement as part of their account opening process without verifying its accuracy. UBS did not require confirmation that the Acknowledgement Statement applied to each of the individual VT

Clients' facts and circumstances when approving MAC Eligible client account opening applications, and UBS did not make reasonably diligent inquiries about whether the Acknowledgement Statement applied prior to issuing approval to open the VT Clients' accounts.

UBS' Enhancements and Cooperation

13. The Department acknowledges the substantial cooperation UBS provided in connection with this regulatory investigation. The Department also acknowledges that UBS has made enhancements to its MAC Eligible account opening procedures, including the education and training of its personnel.

14. UBS implemented numerous measures to enhance its training, policies and procedures applicable to FAs, and its supervisory procedures and processes with respect to MAC Eligible managers and communications with clients and prospective clients concerning such managers. These enhancements further highlight the distinctions between MAC Researched and MAC Eligible strategies and the appropriate usage of both types of strategies.

15. The MAC account opening application includes a more explicit and improved Acknowledgement Statement that the client must initial stating that he/she has selected the strategy "without recommendation or solicitation" by UBS. UBS revised its WSPs to provide more explicit statements that the recommendation and solicitation of MAC Eligible strategies and managers to UBS clients is impermissible by UBS and its personnel.

16. UBS has also enhanced its WSPs to address the issue of supervisory approval for the opening of new MAC accounts. UBS managers, in approving client applications for MAC Eligible strategies must now attest, in their electronic approval of the account, that neither UBS nor its personnel solicited or recommended the strategy to clients.

17. Additional education and training has also been provided to UBS personnel including FAs and supervisors on MAC Eligible and MAC Researched strategies.

II. CONCLUSIONS OF LAW

1. The Commissioner has jurisdiction over this matter pursuant to the VUSA.

2. UBS engaged in the following conduct, contrary to its policies and WSPs: (a) solicited a MAC Eligible manager, the MAC Manager, to the VT Clients; (b) opened the VT Clients' accounts with the MAC Manager after soliciting them while the MAC Manager was only MAC Eligible; (c) requested that the VT Clients sign or initial the Acknowledgement Statement as part of their account opening applications without verifying its accuracy; and (d) inappropriately used, circulated and/or presented MAC Manager's marketing materials to certain VT Clients, while the MAC Manager was only MAC Eligible. As such, UBS violated its obligation to observe high standards of commercial honor and just and equitable principles of trade, pursuant to 9 V.S.A. § 5412(d)(13), Exhibit 6.1 to Order 06-43-S, Sections 1.03, 3.05, 3.18 and 3.23.

3. By not detecting and preventing the foregoing conduct, UBS violated its obligations to establish a reasonably designed supervisory system and/or to establish, maintain and enforce reasonably designed supervisory procedures pursuant to 9 V.S.A. § 5412(d)(9).

4. In addition, UBS' maintenance of books and records which inaccurately stated that the VT Clients selected the MAC Manager violated 9 V.S.A. § 5411.

5. Pursuant to 9 V.S.A. §§ 5412 and 5604, the violations described above constitute bases for the assessment of an administrative penalty against UBS.

6. Pursuant to 9 V.S.A. § 5614 the Department may recover reasonable expenses incurred in connection with its investigation.

7. The Commissioner finds the following relief appropriate and in the public interest.

III. CONSENT ORDER

On the basis of these Findings of Fact, Conclusions of Law, and UBS' consent to the entry of this Order,

IT IS HEREBY ORDERED THAT:

1. This Order concludes the investigation by the Commissioner and any other action that the Commissioner could commence against UBS and its present and former officers, directors and employees under applicable Vermont law on behalf of Vermont as it relates to UBS' solicitation of the VT Clients to open accounts with the MAC Manager, the VT Clients' accounts with the MAC Manager and UBS' supervision thereof, during the Relevant Period while the MAC Manager was only MAC Eligible.

2. This Order is entered into solely for the purpose of resolving the above-referenced investigation, and is not intended to be used for any other purpose. For any person or entity not a party to this Order, this Order does not create or limit any private rights or remedies against UBS, nor does it limit or create liability for UBS, or limit or create defenses for UBS to any claims.

3. UBS is hereby ordered to comply with the undertakings contained herein.

4. UBS is hereby ordered to Cease and Desist from engaging in activities in violation of the VUSA.

5. UBS is hereby ordered to pay the sum of **Three Hundred and Twenty Five Thousand Dollars (\$325,000)** to the **Vermont Department of Financial Regulation** within ten days from the date of this Order. Of that amount, **Fifty Thousand Dollars (\$50,000)** shall be

used, in accordance with Vermont law, to reimburse the Department for costs incurred during the investigation of this matter, for securities and investor education and/or for other securities and investor protection purposes, at the sole discretion of the Commissioner.

6. If payment is not made by UBS, or if UBS defaults in any of its obligations set forth in this Order, the Commissioner may vacate this Order, at her sole discretion and without opportunity for administrative hearing, after providing UBS notice and an opportunity to cure default(s) within ten days after the date of notice.

7. This Order shall not subject UBS or any of its affiliates and their current and former officers, directors and employees (“Covered Persons”) to any disqualifications under the laws of the United States, any state, the District of Columbia, Puerto Rico or the US Virgin Islands or under the rules or regulations of any securities or commodities regulator or self-regulatory organization, including, without limitation, any disqualification from the ability to rely upon any state or federal registration exemptions or safe harbor provisions. In addition, this Order shall not form the basis for any such disqualification.

8. This Order shall not disqualify any Covered Person from any business that he, she or it are otherwise qualified, licensed or permitted to perform under applicable securities laws or regulations of Vermont and Vermont hereby waives any disqualification from relying upon Vermont’s registration exemptions or safe harbor provisions that may otherwise arise from this Order.

9. This Order and any dispute related thereto shall be construed and enforced in accordance with and governed by the laws of the state of Vermont.

10. UBS, through the execution of this Consent Order, voluntarily waives its right to a hearing on this matter and to judicial review of this Consent Order under 9 V.S.A. Chapter 150,

the VUSA; 3 V.S.A. Chapter 25, the Vermont Administrative Procedure Act; and the rules, regulations and orders of the Commissioner.

11. UBS enters into this Consent Order voluntarily and represents that no threats, offers, inducements or promises of any kind have been made by the Commissioner or by any representative of the Commissioner to induce UBS to enter into this Consent Order.

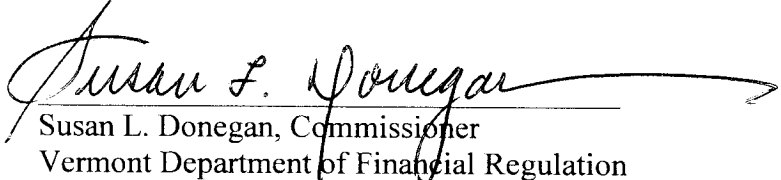
12. UBS admits to the jurisdiction of the Commissioner, neither admits nor denies the Findings of Facts and Conclusions of Law contained in the Order and consents to entry of this Order by the Commissioner as settlement of the issues contained in this Order.

13. UBS agrees that it shall not claim, assert or apply for a tax deduction or tax credit with regard to any state or federal or local tax for any administrative monetary penalty that UBS shall pay pursuant to this Order.

14. This Order shall be binding upon UBS and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events and conditions.

Entered at Montpelier, Vermont this 1st day of December, 2014.

BY ORDER OF THE COMMISSIONER


Susan L. Donegan, Commissioner
Vermont Department of Financial Regulation

Ilene Marguardt represents that he/she is a Managing Director of UBS

and that as such has been authorized by UBS to enter into this Order for and on behalf of UBS.

Dated this 24 day of Nov., 2014.

UBS FINANCIAL SERVICES INC.

By: [Signature]

Title: Managing Director

State of New Jersey

County of Hudson

SUBSCRIBED AND SWORN TO before me this 24th day of November, 2014.

[Signature]
Notary Public

My Commission Expires:

