

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

CONTROL

AT RICHMOND, FEBRUARY 1, 2007

COMMONWEALTH OF VIRGINIA, ex rel.

2007-02-01 10:13

STATE CORPORATION COMMISSION

v.

CASE NO. SEC-2006-00040

UBS FINANCIAL SERVICES, INC.,

Defendant

SETTLEMENT ORDER

Based on an investigation conducted by the Division of Securities and Retail Franchising ("Division") of the State Corporation Commission ("Commission"), it is alleged that, during 2000 and 2001, UBS Financial Services, Inc. ("UBS"): (1) violated Commission Rule 21 VAC 5-20-240 by failing to maintain the required books and records with respect to certain client accounts; (2) violated Commission Rule 21 VAC 5-20-260 B, C, D, D1, D2, and D3 by failing to establish and maintain adequate policies, systems and procedures for supervision and control of a retail agent to assure compliance with applicable securities laws and regulations; and (3) violated Commission Rule 21 VAC 5-20-280 A3, A4, A5, and A6 when one of its agents, Raymond Natili, who was terminated by UBS before the Division's investigation of this matter, exercised unauthorized discretionary authority to make unsuitable trades in his clients' accounts and executed margin transactions without a margin agreement or the clients' approval of those transactions.

The Commission is authorized by § 13.1-506 of the Virginia Securities Act ("Act"), § 13.1-501 et seq. of the Code of Virginia, to revoke the Defendant's registration, by § 13.1-519 of the Act to issue temporary or permanent injunctions, by § 13.1-518 A of the Act to impose

costs of investigation, by § 13.1-521 of the Act to impose certain monetary penalties, and by § 12.1-15 of the Code of Virginia to settle matters within its jurisdiction.

The Defendant neither admits nor denies these allegations but admits to the Commission's jurisdiction and authority to enter this Settlement Order ("Order").

The Division acknowledges that UBS cooperated during the investigation and has undertaken significant improvements to its supervisory processes and computer systems to eliminate the risk of similar violations in the future. Those improvements have been considered by the Division in reaching this settlement.

The Defendant has made an offer of settlement to the Commission to settle all matters arising from the Division's allegations, wherein the Defendant has agreed to abide by and comply with the following terms and undertakings:

(1) The Defendant will pay to the Commission, contemporaneously with the entry of this Order, the amount of seventeen thousand dollars (\$17,000) to defray the cost of investigation.

(2) The Defendant will pay to the Treasurer of the Commonwealth of Virginia, contemporaneously with the entry of this Order, eighty-three thousand dollars (\$83,000) in monetary penalties.

(3) The Defendant has made the following updates to its computer systems and processes as well as its supervisory procedures:

i) UBS redesigned its order entry process for mutual fund B shares to prevent inappropriate transactions in such securities, and improved automated surveillance routines to identify potentially inappropriate transactions in such securities;

ii) UBS implemented automated surveillance of sales of B shares that are subject to contingent deferred sales charges;

iii) UBS implemented a program to monitor, on a sample basis, transfers from fee-based accounts to commission-based accounts with a view to identifying potential compliance issues;

iv) UBS is in the process of updating its supervisory systems and procedures concerning contact with clients regarding account activity.

(4) The Defendant will continue to update its supervisory systems and processes concerning contact with clients regarding account activity, and in that revision provide for account activity letters to include the account number and provide information sufficient to apprise the client, with specificity, of each issue that is potentially taking place in the account, including information as to why this activity is concerning.

The Division has recommended that the Commission accept the offer of settlement of the Defendant. The Commission, having considered the record herein, the offer of settlement of the Defendant, and the recommendation of the Division, is of the opinion that the Defendant's offer should be accepted.

Accordingly, IT IS THEREFORE ORDERED THAT:

(1) The Defendant's offer in settlement of the matter set forth herein be, and it is hereby, accepted;

(2) The Defendant will pay to the Commission the amount of seventeen thousand dollars (\$17,000) to defray the cost of investigation, such amount to be tendered contemporaneously with this Order;

(3) The Defendant will pay to the Treasurer of the Commonwealth of Virginia eighty-three thousand dollars (\$83,000) in monetary penalties, such amount to be tendered contemporaneously with this Order;

(4) The Defendant shall continue to implement and update, as necessary, supervisory procedures and computer system changes to address the issues in Undertaking Paragraph 3 above.

(5) This case is dismissed and the papers herein shall be placed in the file for ended causes.

AN ATTESTED COPY hereof shall be sent by the Clerk of the Commission to:
Erich Schwartz, Skadden, Arps, Slate, Meagher & Flom, LLP, 1440 New York Avenue, N.W.,
Washington, D.C. 20005-2111; and the Commission's Office of General Counsel and Division of
Securities and Retail Franchising.

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ADMISSION AND CONSENT

The Defendant, UBS Financial Services, Inc., admits to the jurisdiction of the State Corporation Commission ("Commission") as to the party and subject matter hereof and, without admitting or denying the allegations made herein by the Division of Securities and Retail Franchising, hereby consents to the form, substance and entry of the foregoing Settlement Order.

The Defendant further states that no offer, tender, threat or promise of any kind whatsoever has been made by the Commission or any member, subordinate, employee, agent or representative thereof in consideration of the foregoing Settlement Order.

UBS Financial Services, Inc.

Date: 1/23/07

By: Karen M. Mincavage

Karen M. Mincavage
Managing Director
Senior Deputy General Counsel

Seen and Approved By:

Erich T. Schwartz

Erich T. Schwartz, Esquire
SKADDEN, ARPS, SLATE, MEAGHER & FLOM, LLP