

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2012034427001**

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

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

UBS Securities LLC, Respondent
CRD No. 7654

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondents UBS Financial Services Inc. ("UBSFS") and UBS Securities LLC ("UBSS") submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondents hereby accept and consent, 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

UBSFS, a FINRA member and headquartered in Weehawken, New Jersey, is a full service broker-dealer providing securities and commodities brokerage, investment advisory, and asset management services to retail and institutional clients. It has approximately 597 branch offices and employs approximately 12,590 registered individuals and 13,880 non-registered fingerprint persons.

UBSS, a FINRA member and headquartered in New York, New York, provides investment banking, research, and securities trading primarily to institutional clients. It has approximately 21 branch offices and employs approximately 1,808 registered individuals and 8,385 non-registered fingerprint persons.

UBSFS and UBSS are subsidiaries of UBS Americas, Inc., which in turn is a wholly owned indirect subsidiary of UBS Group AG, based in Zurich, Switzerland.

RELEVANT DISCIPLINARY HISTORY

Respondents have no relevant disciplinary history.

OVERVIEW

UBSFS, beginning in 2004, and UBSS, beginning in 2008, did not establish and implement Anti-Money Laundering (“AML”) programs reasonably designed to detect and cause the reporting of potentially suspicious activity. Due to the size and complexity of respondents’ customer bases, the firms relied upon automated surveillance systems to identify potential AML red flags. These systems, however, were not reasonably designed to monitor certain high-risk transactions including, on the part of UBSFS, foreign currency wire transfers and, on the part of UBSS, transactions in low-priced equity securities (“penny stocks”).

From January 2004 to August 2012, UBSFS did not monitor wire transfers of foreign currency directly into and out of customer commodities accounts. Beginning in August 2012, however, UBSFS instituted a reporting mechanism for reviewing such foreign currency transactions. Despite the high-risk nature of these transactions and the mechanism implemented in 2012, UBSFS did not have reasonably designed policies and procedures in place to monitor them until 2017. By not establishing and implementing reasonably designed policies and procedures, thousands of foreign currency wires involving billions of dollars, including transfers to and from countries known for having high money-laundering risk, occurred without sufficient AML oversight.

With respect to retail brokerage accounts, UBSFS’s AML program was not reasonably designed because its automated surveillance system did not capture certain information about the wire transfers of foreign currency into and out of customer accounts to monitor the transactions for potentially suspicious activity. UBSFS’s automated system did not capture certain sender and recipient information and the country of origin for third-parties, which may assist in ascertaining whether the transactions were suspicious.

From January 2013 to June 2017, UBSS did not have policies and procedures reasonably designed to monitor trading in penny stocks through an omnibus account for customer trades routed by UBS Group AG to UBSS for execution. During this time, UBSS facilitated the purchase or sale of over 30 billion low-priced shares valued at over \$545 million for undisclosed customers through the omnibus account. For these transactions, UBSS failed to collect basic information such as the identity of the stock’s beneficial owner, the beneficial owner’s relationship with the issuer, or how the seller obtained the stock. At times, UBSS facilitated these transactions when some of the securities appeared to be subject to “pump and dump” schemes or other forms of potential manipulation or fraud.

Additionally, UBSFS and UBSS did not conduct required periodic risk-based due diligence reviews of correspondent accounts for certain foreign financial institutions (“FFIs”) from May 2011 to August 2012 and from May 2008 to September 2017, respectively.

FACTS AND VIOLATIVE CONDUCT

NASD Rule 3011 and FINRA Rule 3310 each require member firms to develop and implement a written AML program “reasonably designed to achieve and monitor the member’s compliance with the requirements of the Bank Secrecy Act ... and implementing regulations promulgated thereunder by the Department of the Treasury.”¹ A firm’s AML program is required by NASD Rule 3011(a) and FINRA Rule 3310(a) to “[e]stablish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions” required under 31 U.S.C. § 5318(g) and implementing regulations. Broker-dealers are required to report suspicious transactions pursuant to 31 C.F.R. §1023.320. To meet this obligation, broker-dealers need to look for signs of suspicious activity – “red flags” – that suggest money-laundering or other suspicious activity, and should review and understand certain information about their customers and their customers’ transactions.

Additionally, FINRA Rule 3310(b) requires a member firm to establish and implement policies and procedures reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder, including 31 C.F.R. §1010.610, which, in part, requires a member firm to apply risk-based procedures and controls to each correspondent account for FFIs “reasonably designed to detect and report known or suspected money laundering activity, including a periodic review of the correspondent account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account.”

1. UBSFS Did Not Have an AML Program Reasonably Designed to Monitor Foreign Currency Wires for Potentially Suspicious Activity

Beginning in January 2004 and continuing to April 2017, UBSFS did not have an AML program reasonably designed to detect and cause the reporting of suspicious transactions through foreign currency wires done in both commodities and retail accounts, in violation of NASD Rule 3310(a) and FINRA Rule 3310(a).

Offering customers the ability to transfer foreign currency is one of the services provided by UBSFS, a wholly-owned subsidiary of a major European bank with global operations. For example, while comprising a fraction of UBSFS’s total money movements, from 2009 through 2012, UBSFS customers sent or received over 199,000 foreign currency wires totaling \$9.7 billion. Of these wire transfers, 17,500 wires totaling \$464 million were to or from customers or third parties in countries recognized as high-risk by UBSFS, such as Mexico, Turkey, Thailand, Argentina, and Saudi Arabia.

Customers could utilize accounts opened for commodities trading and accounts opened for retail securities trading to transfer foreign currency. Customers could hold foreign currency in

¹ FINRA Rule 3310 superseded NASD Rule 3011 effective December 31, 2010.

commodities accounts and could send and receive foreign currency from or into the account without converting the foreign currency to U.S. dollars.

In contrast, customers could hold only U.S. dollars in their retail brokerage accounts. When a customer sought to wire foreign currency into a retail account or to transfer funds from a retail account in foreign currency, UBSFS routed those wire transfers through the Stamford branch of its bank affiliate, UBS Group AG, or in the case of Mexican pesos, through a Mexican bank. UBS Group AG (or the Mexican bank) would convert the funds received through a wire transfer into U.S. dollars to deposit in the retail accounts or convert funds from U.S. dollars to foreign currency to wire out of the retail accounts.

With respect to customer commodities accounts, until 2012, UBSFS did not monitor foreign currency wires sent into or out of these accounts. UBSFS recognized that foreign currency wire transactions represent a heightened degree of AML risk because such transactions are a convenient way to move money to and from various jurisdictions. Nevertheless, UBSFS's AML surveillance systems did not capture certain information about these foreign currency wires necessary to determine whether the transactions might involve money-laundering. UBSFS therefore processed thousands of foreign currency wires for billions of dollars, including transfers to and from countries known for heightened money-laundering risks, without reasonable oversight. For example, for the period 2009-2012, approximately \$6.2 billion in foreign currency wires flowed through customer commodities accounts, including \$350 million in foreign currency wires to and from jurisdictions known for having a high risk of money-laundering. UBSFS failed to detect this deficiency for a period of more than eight years until identifying it in 2012.

By failing to monitor foreign currency wire transfers moving in to or out of customer commodities accounts and to ascertain whether foreign currency wire transactions that occurred prior to the discovery of this deficiency were suspicious, UBSFS did not implement an AML program reasonably designed to detect and cause the reporting of suspicious transactions occurring in connection with these commodities accounts. UBSFS failed to ascertain information about the foreign currency wire transfers necessary to detect and report suspicious activity, including (i) the number and identity of customers; (ii) the number and dollar value of transactions; (iii) whether the transactions involved third-parties; and (iv) whether the transactions involved countries known for money-laundering risk.² As a result, during the relevant period, a third-party unknown to UBSFS, and residing in a country known for money-laundering risk, could wire transfer foreign currency (*e.g.*, Mexican pesos), into a UBSFS customer commodities account and then transfer these funds, or a portion of these funds, to another party in a country known for money-laundering risk, without UBSFS's AML surveillance system reviewing these transactions.

In August 2012, UBSFS began manually reviewing a report of foreign currency wires into and out of commodities accounts, but the review was not reasonably designed, since the amount and complexity of international foreign currency wire activity made it difficult to, among other

² FINRA's investigation focused on UBSFS's surveillance of transactions and did not involve an assessment of the firm's other surveillance processes.

things, identify patterns of suspicious money movement or money movements orchestrated through related accounts.

With respect to retail brokerage accounts, during the same time period, UBSFS also failed to implement a system reasonably designed to monitor foreign currency wires into and out of customer retail accounts for potentially suspicious activity. For example, for the period 2009 through 2012, approximately 178,700 foreign currency wires totaling \$3.7 billion flowed through UBSFS customer retail accounts, including \$113 million to and from countries known for heightened money-laundering risk. UBSFS's surveillance systems captured only the dollar amount and date of the foreign currency wire transfer, but failed to capture other information necessary to monitor these transactions for potentially suspicious activity, including (i) the identity of the originating or beneficial party, including whether the foreign currency wire was to or from a third party; (ii) the particular foreign currency denomination being sent or received; and (iii) the location of the originating or beneficial party sending or receiving the foreign currency wires, including whether the country was known for heightened money-laundering risk. By failing to capture and review this information through its surveillance system, UBSFS had an incomplete picture of foreign currency transactions in customer retail accounts and therefore could not reasonably identify AML red flags relating to these transferred funds.

In July 2012, UBSFS adjusted its automated surveillance tool to enhance scrutiny of foreign currency transactions in retail accounts, but this measure was not sufficient because the system still did not capture information related to the foreign currency denomination, the identity of the parties to the transaction, or the jurisdictions involved, necessary to ascertain whether the transactions were suspicious. Accordingly, UBSFS's AML program was not reasonably designed to detect and cause the reporting of suspicious transactions occurring in connection with these accounts.

Accordingly, UBSFS violated NASD Rules 3011(a) and 2110 and FINRA Rules 3310(a) and 2010.³

2. UBSS Did Not Have an AML Program Reasonably Designed to Monitor Penny Stock Transactions for Potentially Suspicious Activity

From January 2013 to June 2017, UBSS did not have an AML program reasonably designed to detect and cause the reporting of potentially suspicious activity in connection with low-priced equity securities, or penny stock, transactions through an omnibus account, in violation of FINRA Rule 3310(a). UBS Group AG directed its customers' trades in equity securities, including penny stocks, to UBSS for routing or execution through an omnibus account (the "Zurich Account").

From January 2013 to June 2017, UBSS facilitated the Zurich Account's purchase or sale of over 30 billion shares of penny stocks, valued at over \$545 million on behalf of UBS Group AG's undisclosed customers. While conducting these trades, UBSS did not collect certain information such as the identity of the stock's beneficial owner, the beneficial owner's relationship with the issuer, or how the customer obtained the stock. UBSS did not have a system reasonably

³ FINRA Rule 2010 superseded NASD Rule 2110 effective December 15, 2008.

designed to detect and cause the reporting of suspicious microcap activity in the Zurich Account, such as the illegal distribution of unregistered securities or other fraudulent activity.

During the relevant period, UBSS facilitated penny stock transactions through the Zurich Account that included the purchase or sale of twenty-three penny stocks, for 261 million shares, valued at \$2.6 million, during times when those securities appeared to have been subject to “pump and dump” schemes or other forms of potential manipulation or fraud. UBSS did not reasonably review transactions in these securities for suspicious activity.

UBSS has subsequently adopted measures that substantially reduced the volume of penny stock transactions through the Zurich Account and enhanced their system to review any such transactions for suspicious activity.

Accordingly, UBSS violated FINRA Rules 3310(a) and 2010.

3. UBSFS and UBSS Did Not Establish a Reasonably Designed Due Diligence Program for Correspondent Accounts

UBSFS and UBSS, from May 2011 to August 2012 and from May 2008 to September 2017, respectively, did not apply risk-based procedures and controls to each correspondent account of FFIs reasonably designed to detect and report known or suspected money-laundering activity, in violation of NASD Rule 3011(b) and FINRA Rule 3310(b). Both firms did not conduct required periodic reviews of the correspondent account activity of FFIs sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account, as required by 31 C.F.R. §1010.610(a). Although UBSFS and UBSS both obtained information about FFI customers when opening the correspondent accounts, and also surveilled transactions in those accounts, neither firm monitored the accounts on a periodic basis specifically to determine if the type, purpose or anticipated activity of the accounts had changed over time. The firms’ due diligence program for FFI correspondent accounts therefore was not reasonably designed to detect and report known or suspected money-laundering activity.

Accordingly, UBSFS violated FINRA Rules 3310(b) and 2010, and UBSS violated NASD Rules 3011(b) and 2110 and FINRA Rule 3310(b) and 2010.

B. Respondents also consent to the imposition of the following sanctions:

For UBSFS:

1. Censure; and
2. Fine of \$4.5 million.

For UBSS:

1. Censure; and
2. Fine of \$500,000.

Contemporaneous with the issuance of this AWC, UBSFS is settling actions with the United States Securities and Exchange Commission pursuant to an Order Instituting Administrative

Proceedings, and the United States Department of the Treasury Financial Crimes Enforcement Network pursuant to a Consent to the Assessment of Civil Money Penalty, addressing related AML violations. To settle these related matters, UBSFS is paying \$5 million each to those agencies.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudice 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 Respondents; and
- C. If accepted:
 - 1. This AWC will become part of Respondents’ permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
 - 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 the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondents 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. Respondents 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 Respondents’: (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Respondents, certify that a person duly authorized to act on their 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 Respondents have agreed to its 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 Respondents to submit it.

11/29/2018
Date (mm/dd/yyyy)

UBS Financial Services Inc.
By: Michael Crowl
Michael Crowl
Group Managing Director

11/29/2018
Date (mm/dd/yyyy)

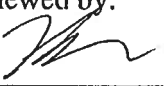
UBS Financial Services Inc.
By: Ilene Marquardt
Ilene Marquardt
Managing Director

Date (mm/dd/yyyy)

UBS Securities LLC
By: _____
Patrick Shilling
Managing Director, Head of Americas

Date (mm/dd/yyyy)

UBS Securities LLC
By: _____
Patricia Canavan,
Executive Director and Counsel

<p>Reviewed by:</p>  <hr/> <p>Kenneth R. Lench Kirkland & Ellis LLP Counsel for Respondent UBSFS 655 Fifteenth Street, NW Washington, DC 20005-5793 Phone: 202-879-5270</p>	<p>Reviewed by:</p> <hr/> <p>Fraser L. Hunter, Jr. Wilmer Cutler Pickering Hale and Dorr, LLP Counsel for Respondent UBSS 7 World Trade Center 250 Greenwich Street New York, NY 10007 Phone: 212-230-8882</p>
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Accepted by FINRA:

Date

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

James E. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
15200 Omega Drive, Third Floor
Rockville, MD 20850
Phone: 301-258-8520

The undersigned, on behalf of Respondents, certify that a person duly authorized to act on their 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 Respondents have agreed to its 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 Respondents to submit it.

Date (mm/dd/yyyy)

UBS Financial Services Inc.

By: _____
Michael Crowl
Group Managing Director

Date (mm/dd/yyyy)

UBS Financial Services Inc.

By: _____
Ilene Marquardt
Managing Director

11/29/18

Date (mm/dd/yyyy)

UBS Securities LLC

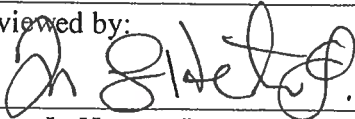
By: _____
Patrick Shilling
Managing Director

11/29/18

Date (mm/dd/yyyy)

UBS Securities LLC

By: _____
Patricia Canavan,
Executive Director and Counsel

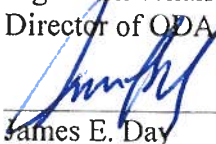
<p>Reviewed by:</p> <hr/> <p>Kenneth R. Lench Kirkland & Ellis LLP Counsel for Respondent UBSFS 655 Fifteenth Street, NW Washington, DC 20005-5793 Phone: 202-879-5270</p>	<p>Reviewed by:</p>  <hr/> <p>Fraser L. Hunter, Jr. Wilmer Cutler Pickering Hale and Dorr, LLP Counsel for Respondent UBSS 7 World Trade Center 250 Greenwich Street New York, NY 10007 Phone: 212-230-8882</p>
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Accepted by FINRA:

12/17/18

Date

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



James E. Day
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FINRA Department of Enforcement
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