



DIVISION OF
TRADING AND MARKETS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

October 7, 2014

David B. Rockwell, Esq.
Sullivan & Cromwell LLP
1 New Fetter Lane
London, EC4A 1AN
United Kingdom

Re: UBS AG
File No. TP 15-01

Dear Mr. Rockwell:

In your letter dated October 7, 2014, as supplemented by conversations with the staff, you request on behalf of UBS AG, a corporation organized under the laws of Switzerland (“UBS” and, together with its subsidiaries, the “Group”), and its wholly owned subsidiary UBS Group AG (“UBS Group”), an exemption from Rules 101 and 102 of Regulation M under the Securities Exchange Act of 1934 (“Exchange Act”) in connection with an exchange offer by UBS (the “Exchange Offer”).

You seek exemptive relief to permit UBS, UBS Group, and UBS’s Affiliates and Departments, including UBS IB, UBS Wealth Management, UBS Global Asset Management, and UBS GT, to conduct specified transactions (or Market Activities) outside the United States in UBS Group Shares during the Exchange Offer. Specifically, you request that: (i) UBS IB be permitted to continue to engage in market making and principal client facilitation activities as described in your letter; (ii) UBS IB be permitted to continue to engage in derivatives market making and hedging activities as described in your letter; (iii) UBS IB be permitted to continue to engage in unsolicited brokerage activities as described in your letter; (iv) UBS Wealth Management be permitted to continue to engage in wealth management activities as described in your letter; (v) UBS Global Asset Management be permitted to continue to engage in asset management activities as described in your letter; and (vi) UBS GT be permitted to continue to engage in employee share and option plan activities as described in your letter.

You also seek exemptive relief to permit certain UBS Affiliates and Departments to conduct specified transactions (or Market Activities) in the United States in UBS Shares during the Exchange Offer. Specifically, you request that: (i) UBS Securities LLC be permitted to continue to engage in unsolicited brokerage activities as described in your letter; (ii) UBS Wealth Management Americas be permitted to continue to engage in wealth management activities as described in your letter; and (iii) UBS Global Asset Management be permitted to continue to engage in asset management activities as described in your letter.

We have attached a copy of your letter. Each defined term in our response has the same meaning as defined, directly or by reference, in your attached letter, unless we note otherwise.

Response:

Based on the facts and representations that you have made in your letter, but without necessarily concurring in your analysis, the Securities and Exchange Commission (“Commission”) finds that it is necessary or appropriate in the public interest, and is consistent with the protection of investors, to grant, and hereby grants, UBS and UBS Group an exemption from Rules 101 and 102 of Regulation M to permit UBS IB, UBS Wealth Management, UBS Global Asset Management, UBS GT, and UBS Securities LLC (collectively, the “Companies”), to continue to engage in the transactions (or Market Activities) described in your letter during the Exchange Offer. In your letter, among other things, you make the following representations:

- UBS is a “foreign private issuer” as defined in Rule 3b-4(c) under the Exchange Act;
- On May 6, 2014, UBS announced that it intends to establish a group holding company through the proposed Exchange Offer in order to substantially improve the resolvability of the Group in response to Swiss “too-big-to-fail” requirements and applicable requirements in other countries in which the Group operates;
- In order to put in place the new group holding structure, UBS has created a wholly owned subsidiary, UBS Group. If the Exchange Offer is successful, UBS Group, which is a “foreign private issuer” as defined in Rule 3b-4(c) under the Exchange Act, will become the new listed parent company of entity of UBS, which is currently both the ultimate parent company and the primary operating entity of the Group. UBS Group will be a successor issuer to UBS pursuant to Rule 12g-3 of the Exchange Act;
- The Exchange Offer, which will consist of two separate offers to be conducted on substantially similar terms and subject to the same conditions, will essentially be a corporate reorganization without a change of control. Moreover, the Exchange Offer will be solely on a fixed one-for-one basis with no cash element and with no possibility for a change to the 1:1 exchange ratio. Accordingly, the Exchange Offer will be structured so that holders of UBS Shares maintain the same proportional interests in UBS Group as they held in UBS, with one UBS Group Share representing substantially the same investment in the same business that one UBS Share represented;
- Pursuant to the Exchange Offer, UBS Group will issue the new UBS Group Shares, which will be the ordinary shares of the successor issuer of the UBS Shares. The UBS Group Shares will be substantially identical to and will take the place of the existing UBS Shares. As the successor shares to the existing UBS Shares, the ordinary course activities regarding the UBS Shares will transfer to the new UBS Group Shares without any material changes to the UBS Group Shares. Accordingly, the market of the UBS Group Shares, with respect to share price, trading volume, and distribution, should behave in

substantially similar fashion to the existing market for UBS Shares prior to the Exchange Offer;

- During 2013, the worldwide average daily trading volume (“ADTV”) of UBS Shares was approximately 19 million shares, or CHF 319 million (or approximately US\$ 358 million at the exchange rate on December 31, 2013) in value, and in the first six months of 2014, the worldwide ADTV of UBS Shares was approximately 21 million shares, or CHF 373 million (or approximately US\$ 419 million at the exchange rate on June 30, 2014) in value;
- Following completion of the Initial Offer Period, UBS expects that the Group will engage in the Market Activities with respect to the UBS Group Securities at the same frequency as previously had applied to the UBS Securities. Therefore, UBS expects that the average daily worldwide trading volume represented by Market Activities with respect to the UBS Group Shares will be in line with the historical trading volume for UBS Shares prior to the Exchange Offer;
- UBS’s aggregate market capitalization as of December 31, 2013 was approximately CHF 65 billion (or approximately US\$73 billion at the exchange rate on December 28, 2007) and UBS’s free-float adjusted market capitalization was approximately CHF 61 billion (or approximately US\$ 68 billion at the exchange rate on December 31, 2013). As of June 30, 2014, UBS’s aggregate market capitalization was approximately CHF 63 billion (or approximately US\$ 70 billion at the exchange rate on June 30, 2014) and UBS’s free-float adjusted market capitalization was approximately CHF 59 billion (or approximately US\$ 66 billion at the exchange rate on June 30, 2014);
- The UBS Shares comprised 5.6% of the Swiss Market Index, 4.7% of the Swiss Performance Index, and 8.5% of the Swiss Leader Index as of June 30, 2014;
- The SIX is the principal trading market for UBS Shares and trading on the SIX accounted for approximately 52% of the worldwide ADTV in UBS Shares during 2013. In the first six months of 2014, SIX accounted for approximately 46% of the worldwide ADTV in UBS Shares;
- UBS and UBS Group maintain and enforce written “Information Barriers” policies and procedures that are reasonably designed to prevent price-sensitive information from passing between any area in which Market Activities are conducted and any other area of UBS and UBS Group in which price-sensitive information relating to UBS Group Shares would be available;
- UBS IB conducts its market making and principal client facilitation activities, derivatives market making and hedging activities, and unsolicited brokerage activities outside the United States;

- UBS Wealth Management and UBS Global Asset Management conduct their wealth management and asset management activities both outside and inside (as discussed below) the United States;
- UBS GT conducts its employee share and option plan activities outside the United States;
- UBS confirms that all of the Market Activities (described in its letter) together (counting all sides of each trade in which UBS participated) accounted for approximately 14% of the worldwide ADTV of UBS Shares in 2013 and approximately 11% of such total ADTV in the first six months of 2014;
- The ordinary course Market Activities involving the UBS Securities are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Securities (i.e., the Market Activities in respect of the UBS Group Securities will be substantially identical to the Group's current market activities in respect of the UBS Securities);
- If UBS IB cannot make a market in UBS Group Shares in a manner consistent with past practice (with respect to UBS Shares) for an extended period of time in what is expected to be the primary market for those shares, clients and market participants relying on liquidity provided by UBS IB could be negatively affected;
- As UBS IB is expected to be a principal market maker in derivatives on UBS Group Shares, preclusion of UBS IB from conducting market making activities in the derivatives could have serious adverse effects on the Swiss market for the derivatives, as well as on UBS IB's ability to manage hedge positions maintained by UBS IB and its customers previously established in connection with this activity;
- UBS IB, UBS Wealth Management, UBS Global Asset Management, and UBS GT have each confirmed that the activities for which it is requesting relief will not, in any way, be conducted in furtherance of or to facilitate the Exchange Offer but, instead, will be conducted in the ordinary course of its businesses and in accordance with applicable Swiss law, the Laws of the United Kingdom, among other laws and regulations;
- In the United States, UBS conducts a securities business through a separate subsidiary, UBS Securities LLC, which is registered with the Commission as a broker-dealer and is a member of the Financial Industry Regulatory Authority and the NYSE. UBS Securities LLC will only engage in unsolicited brokerage activities with respect to UBS Group Shares in the normal course of its business with its customers;
- In the United States, UBS Wealth Management Americas conducts its wealth management business principally through UBS Financial Services, Inc., UBS

International Inc. and UBS Financial Services Incorporated of Puerto Rico, each of which is registered with the Commission as a broker-dealer and investment adviser, as well as through UBS Trust Company NA and other OCC-regulated branches of UBS and through UBS Bank USA, a state-chartered FDIC-insured depository institution. Each of these entities will only engage in wealth management activities with respect to UBS Group Shares in the normal course of its business with its customers; and

- In the United States, UBS Global Asset Management conducts a business group through three separate sub-groups: Alternative & Quantitative, Real Estate and Equities, Fixed Income & Global Investment Solutions, which are registered investment advisers. Each of these entities will only engage in asset management activities in the normal course of its businesses with its customers.

The exemption is subject to the following conditions:

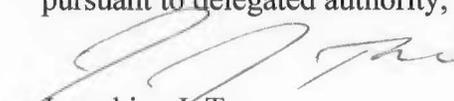
1. None of the transactions of the Companies described in your letter shall occur in the United States, with the exception of the unsolicited brokerage, wealth management, and asset management activities of certain UBS Affiliates and Departments as described in your letter;
2. All of the transactions described in your letter for which you seek relief shall be effected in the ordinary course of business and not for the purpose of facilitating the Exchange Offer;
3. The offer materials that will be distributed to United States investors that participate in the Exchange Offer will disclose the possibility of, or the intention to make, the transactions described in you letter;
4. UBS, UBS Group, and each of the Companies will provide to the Commission's Division of Trading and Markets ("Division"), upon request, a time-sequenced schedule of all such transactions made during the Exchange Offer. Such schedule will include:
 - (a) size, broker (if any), time of execution, and price of the transactions;
 - (b) the exchange, quotation system, or other facility through which the transactions occurred, and
 - (c) whether the transactions were made for a customer account or a proprietary account;
5. Upon request of the Division, UBS, UBS Group, and each of the Companies will transmit the information requested in item 4 (above) to the Division at its offices in Washington DC within 30 days of its request;

6. UBS, UBS Group, and each of the Companies shall retain all documents and other information required to be maintained pursuant to this letter for at least two years following the completion of the Exchange Offer;
7. Representatives of UBS, UBS Group, and each of the Companies shall be made available (in person at the offices of the Commission in Washington, DC or by telephone) to respond to inquiries of the Division relating to their records; and
8. Except as otherwise directed by this letter, UBS, UBS Group, and each of the Companies will comply with Regulation M.

This exemption is based on the facts presented and the representations made in your letter. Any different facts or conditions may require a different response. In the event that any material change occurs with respect to those facts or representations, transactions in the UBS Group Shares must be discontinued, pending presentation of the facts for our consideration.

In addition, your attention is directed to the antifraud and anti-manipulation provisions of the Exchange Act, including Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal securities laws must rest with the participants in the various transactions. We express no view with respect to any other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure concerning, and the applicability of any other federal or state laws to, the proposed transactions.

For the Commission,
by the Division of Trading and Markets,
pursuant to delegated authority,¹



Josephine J. Tao
Assistant Director

Attachment

¹ 17 CFR 200.30-3(a)(6).

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Regulation M
Rules 101 and 102

October 7, 2014

Division of Trading and Markets,
Securities and Exchange Commission,
100 F. Street, N.E.,
Washington, D.C. 20549,
United States of America.

Attn: Ms. Josephine J. Tao, Esq.
Assistant Director, Division of Trading and Markets

Re: UBS AG

Dear Ms. Tao:

We are writing on behalf of UBS AG, a corporation (*Aktiengesellschaft/société anonyme*) organized under the laws of Switzerland ("UBS" and, together with its subsidiaries, the "Group"), and its wholly owned subsidiary UBS Group AG ("UBS Group") about the application of Regulation M to transactions by UBS, UBS Group and UBS's other subsidiaries and subsidiary undertakings and their respective affiliates and separately identifiable departments ("Affiliates and Departments"), in the ordinary shares of UBS Group ("UBS Group Shares") and related securities.

On May 6, 2014, UBS announced that it intends to establish a group holding company through a share-for-share exchange offer. As discussed below under "Background—Regulatory Rationale for Exchange Offer," the Group is establishing a new group holding company in order to respond to Swiss and international regulatory developments in the financial services sector. After extensive discussions with its supervisory regulators in Switzerland, the United States and the United Kingdom, the Group believes that the establishment of a new group holding company will substantially improve the resolvability of the Group in response to Swiss "too-big-to-fail" requirements and applicable requirements in other countries in which the Group operates.

In order to put in place the new group holding structure, UBS has created a wholly owned subsidiary, UBS Group, which will become the new ultimate publicly traded parent company of the Group by way of a share-for-share exchange offer (the "Exchange Offer"). The Exchange Offer will be conducted on the basis of a 1:1 exchange ratio, and is expected to involve two separate offers (respectively, a Swiss offer and a U.S. offer) made on substantially similar terms and subject to the same conditions. The Exchange Offer will comprise an initial offer period (the "Initial Offer Period") and, if the Exchange Offer is successful, a subsequent offer period (the "Subsequent Offer Period"). If, in the Exchange Offer or within three months thereafter, UBS Group acquires more than 98% of the total amount of ordinary shares of UBS (the "UBS Shares") in issue, UBS Group will initiate a statutory squeeze-out procedure under Swiss law (the "SESTA Squeeze-Out"). If, during the same period or at any time thereafter, UBS Group acquires between 90% and 98% of the total UBS Shares in issue, UBS Group expects to conduct a squeeze-out merger under Swiss law (the "Squeeze-Out Merger") and, together with the SESTA Squeeze-Out, the "Squeeze-Out").¹ If the Squeeze-Out occurs, remaining holders of UBS Shares will receive one UBS Group Share for each UBS Share they hold.

As discussed further under "Application of Regulation M—Discussion," UBS expects that following the Exchange Offer the UBS Group Shares will be substantially the same as the existing UBS Shares prior to the Exchange Offer. UBS expects that the new UBS Group Shares, as the ordinary shares of the successor issuer of the UBS Shares, will take the place of the UBS Shares and that activities with respect to the UBS Shares will transfer to the new UBS Group Shares without any material changes to the UBS Group Shares. In case of a successful Exchange Offer, the UBS Group Shares are expected to replace UBS Shares in indices of the SIX Swiss Exchange (the "SIX"). The SIX has already approved, subject to certain conditions, the inclusion of the UBS Group Shares in the Swiss Market Index (the "SMI") and the Swiss Performance Index (the "SPI") starting on the first day of trading of the UBS Group Shares. The UBS Shares will be excluded from the SMI and SPI as of the same date. Thus, UBS believes that the market of the UBS Group Shares, from the perspective of share price and trading volume, should behave substantially the same as the existing UBS Shares. UBS intends to initiate the delisting of the UBS Shares from the SIX and the New York Stock Exchange (the "NYSE") as soon as practicable after consummation of the Exchange Offer. The Exchange Offer will be solely on a fixed one-for-one basis with no cash element and with

¹ As described further under "Application of Regulation M—Discussion," the Regulation M exemptive or no-action relief that UBS is requesting relates to the Initial Offer Period and the Subsequent Offer Period and not to the consummation of the Squeeze-Out.

no possibility for a change to the 1:1 exchange ratio. A Squeeze-Out of minority holders of UBS Shares will also be conducted on a one-for-one basis only. The UBS Group Shares will be issued pursuant to the Exchange Offer, which is in substance a corporate reorganization and which does not involve a change of control. Following the establishment of the new group holding company, UBS Group, the Group will continue to be substantially the same save for the changes to its legal structure. There will be no change to the Group's strategy, its governance and divisional structure or its service to its clients. The rights of holders of UBS Group Shares will be governed by the same Swiss laws that govern UBS Shares and by the articles of association of UBS Group, which are largely identical to the articles of association of UBS. In addition, the Exchange Offer will not involve any change to the board of directors and senior management of the Group. Thus, for the reasons mentioned above, following completion of the Exchange Offer, one UBS Group Share will represent substantially the same investment in the same business that one UBS Share currently represents.

While UBS is currently contemplating an accelerated timetable under which the new group holding company structure may be established before the end of 2014, this period may be extended depending, among other factors, on the availability of approvals and exemptions from multiple regulators internationally, with the result that the new group holding company structure may not be in place until 2015.

As previously discussed with members of the Staff (the "Staff") of the Securities and Exchange Commission (the "SEC"), we respectfully request on behalf of UBS and UBS Group that the Staff grant exemptive relief from, or will not recommend that the SEC take enforcement action under, Rules 101 and 102 of Regulation M in connection with UBS's, UBS Group's and the UBS Affiliates' and Departments' engaging in the activities listed below, in each case in the ordinary course of their respective businesses as described below and in accordance with applicable local law. Moreover, UBS confirms that the activities listed below will not, in any way, be conducted in furtherance of or to facilitate the Exchange Offer. In addition, the activities listed below in respect of the UBS Group Securities (as defined below) are substantially the same in nature and extent as the Group's current market activities in respect of UBS Securities. As used herein, "UBS Group Securities" refers to the UBS Group Shares, when these are issued in exchange for tendered UBS Shares and become the vehicle for common equity investment in the Group, and to derivatives related to such securities (including, without limitation, futures, forwards, options, swaps or similar instruments).

The activities include:

- ***Market Making and Principal Client Facilitation in UBS Group Shares:*** UBS Investment Bank ("UBS IB") expects to make bids and offers for UBS Group Shares

on the SIX, UBS MTF, BATS Chi-X Europe, Turquoise and expects to regularly purchase and sell UBS Group Shares on these platforms and in the over-the-counter market in Switzerland (and, in some cases, elsewhere outside the United States). UBS IB expects to effect these transactions for its own account in order to provide liquidity to the trading market for UBS Group Shares and to facilitate customer transactions.

- ***Derivatives Market Making and Hedging:*** As a derivatives market maker, UBS IB expects to issue, buy and sell derivatives on UBS Group Shares for its own account and for the account of its customers on the EUREX exchanges (“EUREX”), on Scoach and in the over-the-counter market in Switzerland and elsewhere outside the United States. These derivatives may include both currently existing and newly designed listed and over-the-counter options, warrants, convertible securities and other structured products (including exchange-traded funds and other portfolio-type instruments) relating to UBS Group Shares or to baskets or indices including UBS Group Shares, as well as futures on the foregoing. UBS IB expects to engage in derivatives market-making activities in order to provide liquidity to the derivatives market and to facilitate customers’ derivatives transactions. In addition, UBS IB expects to solicit and effect trades in UBS Group Shares for its own account and for the accounts of its customers for the purpose of hedging positions (or adjusting or liquidating existing hedge positions) of the Group and its customers that are established in connection with UBS IB’s derivatives market-making activities. These hedging transactions may be effected on the SIX, BATS Chi-X Europe, UBS MTF and Turquoise, as well as in the over-the-counter market in Switzerland (and, in some cases, elsewhere outside the United States).
- ***Unsolicited Brokerage in UBS Group Shares:*** UBS IB expects to effect unsolicited brokerage transactions in UBS Group Shares by placing orders on the SIX or BATS Chi-X Europe or effecting trades in the over-the-counter market in Switzerland and elsewhere outside the United States. These transactions will arise from unsolicited buy or sell orders received by UBS IB from its customers. In addition, UBS Securities LLC, UBS IB’s affiliated U.S. broker-dealer, may also engage in unsolicited brokerage activities of the kind described above with its customers in the United States. We ask that the requested relief also cover such activities.
- ***Trading in UBS Group Securities by UBS Wealth Management:*** UBS’s wealth management business divisions, Wealth Management and Wealth Management Americas (collectively, “UBS Wealth Management”) are comprised of the international and U.S. wealth management businesses. As part of its ordinary advisory investment management activities on behalf of its clients, UBS Wealth Management expects to buy and sell UBS Group Securities for its clients’ accounts. The market activities of UBS Wealth Management will be conducted both outside

and inside (through direct and indirect subsidiaries) the United States and primarily in Switzerland and the UK through the facilities of the SIX and in the United States through the facilities of the NYSE.

- ***Trading in UBS Group Securities by UBS Global Asset Management:*** UBS's asset management division, UBS Global Asset Management, provides traditional, alternative and real estate investment solutions to private clients, financial intermediaries and institutional investors worldwide. As part of its ordinary investment management activities on behalf of its clients, UBS Global Asset Management expects to invest in UBS Group Securities for its clients' accounts. The market activities of UBS Global Asset Management would be conducted outside the United States, except that investments in UBS Group Securities may also be carried out in the United States to execute quantitative and passive strategies and primarily in Switzerland and the UK through the facilities of the SIX and in the United States through the facilities of the NYSE.
- ***Trading in UBS Group Shares Pursuant to Employee Incentive Plans.*** UBS's group treasury department ("UBS GT") expects to regularly purchase UBS Group Shares on the open market to facilitate the grant of awards or the exercise of options pursuant to the terms of UBS's employee share and option plans, and buy back UBS Group Shares that are forfeited or sold in accordance with those plans. Furthermore, in order to hedge against the share price risks arising from the grant of notional shares to Group directors, members of management and employees, UBS GT expects to purchase and sell UBS Group Shares in the open market. These activities will be conducted outside the United States and in accordance with UBS's fiduciary duties arising from those plans.

The availability of the exemptive and/or no-action relief UBS and UBS Group are requesting would be conditioned on the disclosure and record-keeping undertakings outlined below.

We are acting as U.S. counsel to UBS and UBS Group in connection with the matters described in this letter. UBS has provided us with, and authorized us to make on its behalf, the factual representations set forth in this letter. The statements contained in this letter with respect to the application of Swiss law to the Exchange Offer or to UBS have been reviewed by Bär & Karrer AG, Swiss counsel to UBS.

I. Background

A. UBS

UBS is a global, integrated financial services firm with businesses in private banking, asset management, investment banking and retail and commercial banking. UBS has offices worldwide and its principal executive offices are located in Zurich and Basel, Switzerland. UBS is a foreign private issuer as defined in Rule 3b-4(c) under the Exchange Act, and the UBS Shares are registered under Section 12(b) of the Exchange Act. UBS Shares are currently listed on the SIX and on the NYSE. As of June 30, 2014, UBS had 3,844,030,621 issued UBS Shares, of which 91,236,602 were treasury shares.

B. UBS Group

UBS Group is a corporation (*Aktiengesellschaft/société anonyme*) organized under the laws of Switzerland. UBS Group has no revenue-generating business operations and no material assets or liabilities other than in connection with the Exchange Offer.

UBS Group is a “foreign private issuer” as defined in Rule 3b-4(c) under the Exchange Act and a “business combination related shell company” as defined in Rule 12b-1 under the Exchange Act and Rule 405 under the Securities Act. If the Exchange Offer is successful, UBS Group will become the new listed parent company of UBS, which is currently both the ultimate parent company and the primary operating entity of the Group. UBS Group will be a successor issuer to UBS pursuant to Rule 12g-3 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the UBS Group Shares will be deemed to be registered under Section 12(b) of the Exchange Act as confirmed with the Staff on October 1, 2014 pursuant to a separate no-action request.

C. Regulatory Rationale for Exchange Offer

The establishment of UBS Group as the new group holding company is intended, along with other measures UBS has already announced, to substantially improve the resolvability of the Group in response to Swiss “too-big-to-fail” requirements and applicable requirements in other countries in which the Group operates. Swiss “too-big-to-fail” requirements require systemically important banks, including UBS and the Group, to put in place viable emergency plans to preserve the operation of systemically important functions despite a failure of the institution, to the extent that such activities are not sufficiently separated in advance. The Swiss “too-big-to-fail” requirements provide for the possibility of a limited reduction of capital requirements for systemically important institutions that adopt measures to reduce resolvability risk

beyond what is legally required. These measures would involve an alteration of the legal structure of a bank group in a manner that insulates parts of the group to exposure from risks arising from other parts of the group, thereby making it easier to dispose of certain parts of the Group in a recovery scenario, to liquidate or dispose of certain parts of the group in a resolution scenario or to execute a “debt bail-in”. As a consequence of the announcements UBS has made regarding its legal structure, UBS believes that it is substantially enhancing the resolvability of the Group in response to evolving global regulatory requirements. UBS also anticipates that the exchange offer coupled with these other measures already announced will allow the Group to qualify for a reduction in the buffer capital requirements applicable to the Group as a systemically relevant Swiss bank under applicable Swiss “too-big-to-fail” requirements.

Establishment of a group holding company predominantly for the purpose of improving resolvability has been the subject of extensive discussions with the Swiss Financial Market Supervisory Authority (“FINMA”) and other regulators overseeing UBS. Creation of a non-operating holding company for the Group is seen as essential to a “single point of entry” resolution strategy, which is the preferred resolution strategy of UBS and of the Swiss, U.S. and UK authorities. As mentioned above, UBS also anticipates that these measures will allow it to qualify for a reduction in applicable buffer capital requirements under the Swiss “too-big-to-fail” requirements. This rebate would result in lower overall capital requirements for UBS.

D. The Exchange Offer

1. Structure of the Exchange Offer

UBS expects that the Exchange Offer will consist of two separate offers to be conducted on substantially similar terms and subject to the same conditions. In Switzerland, UBS Group initiated on September 29, 2014 a share exchange offer open to all holders of UBS Shares, wherever located, by publishing a Swiss offer prospectus (the “Swiss Exchange Offer”). UBS Group also filed on September 29, 2014 with the SEC a registration statement on Form F-4 relating to a separate share exchange offer addressed to holders of UBS Shares that are located in the United States (the “U.S. Exchange Offer”). UBS expects that the Exchange Offer will be eligible for the tier II relief (“Tier II Relief”) provided by Rule 14d-1(d) under the Exchange Act.

The Exchange Offer will be made for any and all UBS Shares (including UBS Shares held in treasury by UBS) on a one-for-one basis.

The Exchange Offer will comprise the Initial Offer Period and, if the Exchange Offer is successful, the Subsequent Offer Period. In order to comply with applicable Swiss and U.S. tender offer rules, the Initial Offer Period will remain open for

a minimum of 20 Swiss and U.S. business days. If the Exchange Offer is successful, UBS Group will accept for exchange and exchange all UBS Shares that have been validly tendered into, and not withdrawn from, the Exchange Offer by the end of the Initial Offer Period and will conduct the Subsequent Offer Period.

If, in the Exchange Offer or within three months thereafter, UBS Group acquires more than 98% of the total UBS Shares in issue, UBS Group intends to effect the SESTA Squeeze-Out by filing a request with the competent court in Switzerland to invalidate such shares pursuant to the Swiss Federal Act on Stock Exchanges and Securities Trading (the "SESTA"). Holders of the UBS Shares being invalidated in this process will receive UBS Group Shares on a one-for-one basis.

If, during the same period or at any time thereafter, UBS Group acquires between 90% and 98% of the total UBS Shares in issue, UBS Group expects to conduct the Squeeze-Out Merger pursuant to the Swiss Federal Act on Merger, De-Merger, Transformation and Transfer of Assets of October 3, 2003 (the "Merger Act"). In a Squeeze-Out Merger, UBS would merge into a subsidiary of UBS Group, with such subsidiary being the surviving entity. If a Squeeze-Out Merger occurs, remaining holders of UBS Shares will receive one UBS Group Share for each UBS Share they hold.

The board of directors of UBS Group will, after the first capital increase in connection with the settlement of the Initial Offer Period, be the same as the board of directors of UBS. UBS Group Shares will be governed by Swiss law and articles of association substantially similar to UBS's current articles of association. The management group of the UBS Group and the lines of business and business strategy of the UBS Group will also be the same as those of UBS.

Accordingly, UBS expects that the Exchange Offer will be structured so that holders of UBS Shares can maintain the same proportional interests in UBS Group as those they hold in UBS. As a result, the Exchange Offer will not involve a change of control. Instead, shareholders in the Group will effectively be asked to consent, by participation in the Exchange Offer, to the implementation of a corporate reorganization consisting of the formation a new group holding company (UBS Group).

II. Description of Market Activities

A. Background and Market for UBS Shares and Related Securities

The following information in respect of UBS Shares is provided because UBS believes that it provides the most informative data with regard to the expected trading volume in UBS Group Shares after they have been issued and are admitted to trading. As the UBS Group Shares will represent the successor shares to the UBS Shares,

UBS believes that future trading volume and distribution by market for UBS Group Shares can be expected to be in line with the historical trading volume and distribution by market for UBS Shares.

The UBS Shares are listed on the SIX and the NYSE. During 2013, the worldwide average daily trading volume of UBS Shares was approximately 19 million shares, or CHF 319 million (or approximately US\$ 358 million at the exchange rate on December 31, 2013) in value. In the first six months of 2014, the worldwide average daily trading volume of UBS Shares was approximately 21 million shares, or CHF 373 million (or approximately US\$ 419 million at the exchange rate on June 30, 2014) in value.

As of December 31, 2013, UBS's aggregate market capitalization was approximately CHF 65 billion (or approximately US\$ 73 billion at the exchange rate on December 31, 2013) and UBS's free-float adjusted market capitalization was approximately CHF 61 billion (or approximately US\$ 68 billion at the exchange rate on December 31, 2013). As of June 30, 2014, UBS's aggregate market capitalization was approximately CHF 63 billion (or approximately US\$ 70 billion at the exchange rate on June 30, 2014) and its free-float adjusted market capitalization was approximately CHF 59 billion (or approximately US\$ 66 billion at the exchange rate on June 30, 2014). As of June 30, 2014, UBS was the fourth largest listed Swiss company in terms of market capitalization.

The SIX is the principal trading market for UBS Shares. During 2013, the SIX accounted for approximately 52% of the worldwide average daily trading volume in UBS Shares. During 2013, the average daily trading volume of UBS Shares on the SIX was approximately 11 million shares, or CHF 177 million (or approximately US\$ 199 million at the exchange rate on December 31, 2013) in value. In the first six months of 2014, the SIX accounted for approximately 46% of the worldwide average daily trading volume in UBS Shares and the average daily trading volume of UBS Shares on the SIX was approximately 10 million shares, or CHF 184 million (or approximately US\$ 207 million at the exchange rate on June 30, 2014) in value.

The SIX, formerly SWX, was founded in 1995. It is a recognized investment exchange under the SESTA, supervised by the Swiss Financial Market Supervisory Authority (the "FINMA"). The procedure for listing Swiss blue chip equities is under the authority of the SIX.

The SIX provides for an electronic trading order book. It is an order-driven market with transactions occurring through the automatic matching of buy and sell orders. In general, orders are executed giving priority to price and then to time of entry.

In 2013, the aggregate turnover on the SIX was in excess of CHF 1,004 billion, of which CHF 702 billion related to Swiss equity securities. As of December 31, 2013, the overall market capitalization of equity securities traded on the SIX was approximately CHF 1.4 trillion. As of June 30, 2014, there were 291 equity securities admitted to trading on the SIX (excluding exchange-traded funds), of which 254 were Swiss securities and the remainder were foreign securities.

There are a number of key market indices under the authority of the SIX. These market indices include, among others, (i) the SMI, which is comprised of 20 equity securities of the most prominent companies listed on the SIX and, as of December 31, 2013, represented approximately 83% of the free-float total market capitalization of the SIX, (ii) the SPI, which mainly consists of SIX-traded equity securities of companies domiciled in Switzerland or the Principality of Liechtenstein, and (iii) the SLI Swiss Leader Index (the "SLI"), which includes the 30 most liquid domestic stocks traded on the Swiss equity market, including the equity securities included in the SMI. The SIX serves as a trading platform for the shares included in the SMI, SPI and SLI.

The UBS Shares are a significant component of the SIX. The UBS Shares comprised 5.6% of the SMI, 4.7% of the SPI and 8.5% of the SLI as of June 30, 2014.

The UBS Shares are also traded on UBS MTF, BATS Chi-X Europe and Turquoise:

- UBS MTF was created by UBS Investment Bank and is operated by UBS Limited. It is a non-displayed multilateral trading facility (or "dark pool") with a central counterparty model and clearing through SIX x-clear and EuroCCP. UBS MTF provides mid-point, bid and offer matching based on prevailing prices on the primary markets. Orders on UBS MTF only match when the primary market is in a trading phase for the relevant instrument. Trades executed on UBS MTF are reported post-trade in real time to Markit BOAT. Trading on UBS MTF accounted for approximately 1.24% of the worldwide average trading volume in UBS Shares during 2013.
- BATS Chi-X Europe is a securities firm authorized by the UK Financial Conduct Authority to operate as a multilateral trading facility for the trading of a wide range of European equities. BATS Chi-X Europe is a subsidiary of BATS Global Markets. Trading on BATS Chi-X Europe accounted for 9% of the

worldwide average daily trading volume in UBS Shares during 2013.

- Turquoise Global Holdings Limited is an investment firm authorized by the Financial Conduct Authority of the United Kingdom and currently majority owned by the London Stock Exchange Group. It operates Turquoise, a multilateral trading facility with two discrete trading platforms: one for cash equities and another for derivatives. The equity platform allows secondary trading for pan-European and U.S. equities, exchange traded funds, global depository receipts, American depository receipts, exchange-traded currency funds and exchange-traded commodity funds. Trading on Turquoise accounted for approximately 6% of the worldwide average trading volume in UBS Shares during 2013.

In May 2000, UBS listed the UBS Shares on the NYSE. The UBS Shares are listed on the NYSE in the form of shares; UBS is not aware of any UBS Shares trading in the form of American Depository Shares in the United States. During 2013, the average daily trading volume of UBS Shares on the NYSE was approximately 0.4 million shares, or CHF 6 million (or approximately US\$ 7 million at the exchange rate on December 31, 2013) in value. During 2013, the United States accounted for approximately 15% of worldwide average daily trading volume in the UBS Shares. In the first six months of 2014, the average daily trading volume of UBS Shares on the NYSE was approximately 0.3 million shares, or CHF 6 million (or approximately US\$ 7 million at the exchange rate on June 30, 2014) in value. In the first six months of 2014, the United States accounted for approximately 13% of worldwide average daily trading volume in the UBS Shares.

B. UBS's Business as a Financial Institution

In the ordinary course of their businesses, UBS and its Affiliates and Departments conduct an extensive array of trading and other market activities in connection with UBS Shares or derivatives related to such securities (including, without limitation, futures, forwards, options, swaps or similar instruments) (collectively, the "UBS Securities"). Following completion of the Exchange Offer, the activities described below involving the UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

UBS Investment Bank. UBS IB is part of the Group and operates as one of five separate business divisions. UBS IB conducts a full-service securities business. Although UBS IB has offices throughout the world outside the United States, its principal

executive offices are located in Zurich, and the Market Activities for which UBS is seeking relief will be managed principally by representatives in Zurich and London. UBS IB operations are conducted through entities regulated by and licensed under the Swiss Federal Act on Banks and Savings Institutions and the SESTA in Switzerland and the Financial Services and Markets Act in the United Kingdom, among other laws and regulations.

UBS Securities LLC. In the United States, UBS IB conducts a securities business through a separate subsidiary, UBS Securities LLC, which has its principal offices in Stamford, Connecticut and New York City. UBS Securities LLC is registered with the SEC as a broker-dealer and is a member of the Financial Industry Regulatory Authority and the NYSE. UBS Securities LLC will not engage in the UBS IB activities for which UBS is seeking relief (other than unsolicited brokerage and riskless principal activity, including for Wealth Management and Global Asset Management).

UBS Wealth Management. The Group's wealth management business divisions, Wealth Management and Wealth Management Americas (collectively, "UBS Wealth Management"), are comprised of the Swiss and other non-U.S. and U.S. wealth management businesses, respectively. Wealth Management's principal offices are located in Zurich. In the United States, Wealth Management Americas conducts its wealth management business principally through UBS Financial Services Inc. ("UBS Financial Services"), a registered broker-dealer and investment adviser, which is a wholly owned indirect subsidiary of UBS. UBS Financial Services is headquartered in Weehawken, New Jersey, and has more than 400 offices across the United States. In addition to UBS Financial Services, Wealth Management Americas also conducts its wealth management business through other entities, including UBS Financial Services Incorporated of Puerto Rico, an SEC-registered broker-dealer and investment adviser, UBS Bank USA, a state-chartered FDIC-insured depository institution, UBS Trust Company NA, a limited purpose trust company regulated by the Office of the Comptroller of the Currency ("OCC"), as well as through branches of UBS maintained in the United States and regulated by the OCC.

UBS Asset Management. The Group's asset management division, UBS Global Asset Management, operates as a separate business division. Outside the United States, its principal offices are in Zurich, Basel, London, Singapore and Hong Kong. In the United States, it is comprised of three separate business sub-groups: (a) Alternative & Quantitative, (b) Global Real Estate and (c) Equities, Fixed Income & Global Investments Solutions. All three sub-groups operate out of separate, wholly owned subsidiaries of UBS, which in the United States are U.S. registered investment advisers, and operate wholly independently of UBS IB. The principal U.S. offices for the Alternative & Quantitative and Equities, Fixed Income & Global Investments Solutions

sub-groups are in Chicago, Illinois, while the Global Real Estate sub-group has its principal U.S. offices in Hartford, Connecticut.

Group Treasury. UBS's group treasury department ("UBS GT") is part of UBS Corporate Center, a department of UBS, with principal executive offices in Zurich. UBS GT is principally responsible for the management of UBS's financial resources and financial infrastructure. Among other responsibilities, UBS GT manages the Group's equity, including UBS's treasury shares, taking into account financial ratios and regulatory capital requirements.

C. Market Activities by UBS and UBS's Affiliates and Departments

UBS has confirmed that the activities described below, for which it is requesting relief (the "Market Activities") in respect of the UBS Group Shares, once the UBS Group Shares are issued in the Exchange Offer and become the vehicle for common equity investment in the Group, are permitted under and will be conducted in accordance with applicable Swiss law or, at any time they are potentially prohibited by Swiss takeover rules, UBS will seek exemptive relief from the Swiss Takeover Board (the "TOB"), to the extent not already granted by the TOB's exemptive order dated June 30, 2014, and will conduct its Market Activities in accordance with such exemptive relief. In addition, UBS has confirmed that all of the Market Activities described below together (counting all sides of each trade in which it participates) accounted for approximately 14% of the average daily worldwide trading volume in UBS Shares in 2013 and approximately 11% of such total average daily trading volume in the first six months of 2014. Following completion of the Exchange Offer, UBS expects that the Group will engage in the Market Activities with respect to the UBS Group Securities at the same frequency as previously had applied to the UBS Securities. Therefore, UBS expects that the average daily worldwide trading volume represented by Market Activities with respect to the UBS Group Shares will be in line with the historical trading volume for UBS Shares prior to the Exchange Offer.

UBS and UBS Group maintain and enforce written policies and procedures that are reasonably designed to prevent the transfer of information to or from its Affiliates and Departments that might result in a violation of the U.S. federal securities laws (the "Information Barriers"). These Information Barriers, some of which are also required by Swiss rules and regulations, are intended to prevent improper motives from influencing the purchasing activity of the Affiliates and Departments and to prevent the flow of confidential information between the senior management and corporate development teams of UBS on the one hand, and the trading and investment management divisions of UBS, on the other hand. In their Market Activities, the UBS Group, UBS and UBS's Affiliates and Departments will comply with the applicable requirements

under Swiss and U.S. law, including the applicable rules and regulations of the relevant exchanges and trading facilities.

Market Making and Principal Client Facilitation in UBS Shares. UBS IB conducts its market-making activities outside the United States and manages these activities from Zurich and London. UBS IB purchases and sells UBS Shares as principal to facilitate customer transactions and provide liquidity to the market. Most of these market-making transactions are effected on the SIX, with the balance effected on UBS MTF, BATS Chi-X Europe, Turquoise and in the Swiss over-the-counter market and, in some cases, the over-the-counter markets elsewhere outside the United States. As noted above, the SIX is an order-matching system, not an inter-dealer market with formal, officially designated market makers. Thus, with regard to UBS Shares, neither UBS IB nor any other dealer is obligated to make a market or to comply with any particular market-maker requirements, and they are free to discontinue market making at any time. UBS IB's market-making activities accounted for approximately 0.2% of SIX average daily trading volume in UBS Shares in 2013 and approximately 0.5% of such average daily trading volume in the first six months of 2014. UBS IB engages in the Market Activities described above solely in the ordinary course of business and not in furtherance of or to facilitate the Exchange Offer. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

Derivatives Market Making and Hedging. UBS IB conducts its derivatives market-making activities outside the United States and manages these activities principally from Zurich. In Switzerland, UBS IB is admitted under EUREX rules as a market maker, and is one of the most significant market makers in derivatives on UBS Shares, accounting for approximately 16% of the average daily market-making volume in such derivatives in 2013 and approximately 13% of such total average trading volume in the first six months of 2014. This activity involves the issuance, purchase and sale of derivative products for its own account and for the accounts of its customers on SIX Structured Products (formerly Scoach) and EUREX and in the over-the-counter market in Switzerland and elsewhere outside the United States.² These derivative products may include both currently existing and newly designed listed and over-the-counter options, warrants and other securities (including exchange-traded funds and portfolio-type instruments) that are exercisable for or convertible into, or the value of

² This may include Swiss DOTS, NYSE Euronext, OMX, IDEM (the Italian Derivatives Exchange Market) or Bolsa de Madrid.

which is determined by reference to, UBS Shares or proprietary or third-party baskets or indices including UBS Shares. These derivatives may also include futures on the foregoing. UBS IB's derivatives market making involves issuing, purchasing and selling derivatives on UBS Shares in order to facilitate customer orders and provide liquidity to the market.

In addition, as a result of its derivatives market making, UBS IB maintains varying positions in these derivatives, and its financial exposure to movements in the price of the UBS Shares varies from time to time. In order to manage this financial exposure, UBS IB continually enters into hedging transactions that involve, in whole or in part, purchases and sales of UBS Shares for UBS IB's own account. UBS IB also effects brokerage transactions in UBS Shares, on an unsolicited basis, on behalf of its customers in order to assist them in hedging their derivatives positions.

UBS IB engages in the Market Activities described above solely in the ordinary course of its business and not in furtherance of or to facilitate the Exchange Offer. These Market Activities occur primarily on the SIX, with the balance occurring on BATS Chi-X Europe, UBS MTF, Turquoise and in the over-the-counter market in Switzerland and, in some cases, over-the-counter markets elsewhere outside the United States. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

Unsolicited Brokerage. UBS IB effects unsolicited brokerage transactions in UBS Shares by placing orders on the SIX or BATS Chi-X Europe or effecting trades as agent in the over-the-counter market in Switzerland and elsewhere outside the United States. These transactions arise from unsolicited buy and sell orders received from its customers. As noted above, UBS Securities LLC may also engage in unsolicited brokerage transactions with its customers in the United States. UBS IB and UBS Securities LLC engage in the Market Activities described above solely in the ordinary course of their respective businesses and not in furtherance of or to facilitate the Exchange Offer. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

Trading in UBS Securities by UBS Wealth Management. As part of its wealth management activities, UBS Wealth Management buys and sells securities, including UBS Shares and derivatives on UBS Shares, for its clients' accounts pursuant to discretionary or non-discretionary mandates. Under applicable laws, including Swiss laws and the laws of New York, among others, and subject to the terms of any contractual arrangements as in effect from time to time between UBS Wealth Management and its

clients, UBS Wealth Management has a fiduciary duty to conduct its investment advisory management activities in a manner that is in the best interests of its clients and is prohibited by contract and by law from taking into account any factors other than the interests of its clients in making investment decisions. In addition, UBS Wealth Management has fiduciary or similar duties to make recommendations as to non-discretionary advisory accounts in a manner that is in the best interests of its clients. UBS Wealth Management also has a contractual duty to follow the investment instructions of clients holding non-discretionary advisory and brokerage accounts.

Accordingly, UBS Wealth Management will be prohibited by contract and by law from following a directive by UBS to cease trading UBS Securities, unless UBS Wealth Management believed that cessation of such trading was in the best interests of its clients. Similarly, UBS Wealth Management will be prohibited by contract and by law from following a UBS directive to bid for or purchase UBS Securities unless it independently concluded that such bids or purchases were in the best interests of its clients.

For the 12 months ended December 31, 2013, these activities of UBS Wealth Management accounted for approximately 4% of the worldwide average daily trading volume in UBS Shares and approximately 3% in the first six months of 2014, all of which was executed through UBS IB. UBS Wealth Management engages in these Market Activities solely in the ordinary course of business and not in furtherance of or to facilitate the Exchange Offer. These Market Activities are conducted both outside and inside the United States and primarily in Switzerland and the United Kingdom through the facilities of the SIX and in the United States through the facilities of the NYSE. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

Trading in UBS Shares by UBS Global Asset Management. As part of its investment management activities, UBS Global Asset Management invests in securities, including UBS Shares and derivatives on UBS Shares, for its clients' accounts managed pursuant to various mandates, including actively managed core portfolios, growth, quantitative or passive strategies. However, in the United States, UBS Global Asset Management generally does not invest in UBS Shares and derivatives on UBS Shares for its clients' accounts except for accounts managed pursuant to quantitative and passive strategies. Under applicable laws, including Swiss laws and the U.S. Investment Advisers Act of 1940, among others, and subject to the terms of any contractual arrangements as in effect from time to time between UBS Global Asset Management and the relevant client accounts, UBS Global Asset Management has a fiduciary duty to oversee client accounts in a manner that is in the best interests of its clients. UBS Global

Asset Management is prohibited by contract and by law from taking into account any factors other than the interests of the beneficiaries of client accounts in making investment decisions.

Accordingly, UBS Global Asset Management will be prohibited by contract and by law from following a UBS directive to bid for or purchase UBS Securities unless it independently concluded that such bids or purchases were in the best interests of the beneficiaries of client accounts.

For the 12 months ended December 31, 2013, these activities of UBS Global Asset Management accounted for less than 0.3% of the worldwide average daily trading volume in UBS Shares and approximately 0.4% in the first six months of 2014, of which a substantial portion was executed through UBS IB. UBS Global Asset Management engages in these Market Activities solely in the ordinary course of business and not in furtherance of or to facilitate the Exchange Offer. These Market Activities are conducted outside the United States, except that investments in UBS Securities are also carried out in the United States to execute quantitative and passive strategies, and primarily in Switzerland and the United Kingdom through the facilities of the SIX and in the United States through the facilities of the NYSE. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

Trading in UBS Shares Pursuant to Employee Incentive Plans. UBS GT regularly purchases UBS Shares on the open market to facilitate the grant of awards or the exercise of options pursuant to the terms of UBS's employee share and option plans, and buy back UBS Shares that are forfeited or sold in accordance with those plans. Furthermore, in order to hedge against the share price risks arising from the grant of notional shares to UBS directors, members of management and employees, UBS GT purchases and sells UBS Shares in the open market.

UBS's Human Resources department has delegated the administrative function under the UBS Plans to a UBS organizational unit called "Corporate Employee Financial Services" ("CEFS"). While CEFS also serves third-party clients, it currently operates out of UBS and it relies on UBS GT to source UBS Shares for the UBS Plans. UBS GT also sells UBS Shares from time to time on the open market in order to cover social and tax expenses that are incurred when share awards vest.

These activities of UBS GT, which are conducted outside the United States and in accordance with UBS's fiduciary duties arising from those plans, historically have represented a small proportion of all trading in UBS Shares. For the 12

months ended December 31, 2013, the average daily trading volume of UBS Shares traded pursuant to these activities represented approximately 1% of the worldwide average daily trading volume in UBS Shares and approximately 1% in the first six months of 2014. UBS GT engages in the Market Activities described above solely in the ordinary course of its business and not in furtherance of or to facilitate the Exchange Offer. Following completion of the Exchange Offer, these Market Activities with respect to UBS Shares are expected to apply in respect of, and to continue unchanged in nature and extent with respect to, the UBS Group Shares.

III. Application of Regulation M

A. Relief Requested

We respectfully request that the Staff grant exemptive relief from, or confirm that the Staff will not recommend that the SEC take enforcement action under, Rules 101 and 102 of Regulation M in connection with the Market Activities in which UBS Group, UBS and UBS's Affiliates and Departments may engage in the ordinary course of their respective businesses in accordance with applicable local law, in respect of UBS Group Shares (consistent with the Market Activities currently being conducted in respect of the UBS Shares), when the UBS Group Shares are issued in exchange for tendered UBS Shares and replace the UBS Shares as the vehicle for common equity investment in the Group.

The availability of the exemptive or no-action relief UBS is requesting would be conditioned on the disclosure and record-keeping undertakings outlined below.

B. Discussion

Because the Exchange Offer includes a Subsequent Offer Period, UBS Group will offer and sell UBS Group Shares to U.S. investors and may, therefore, be engaged in a distribution in the United States for purposes of Regulation M at the same time as UBS Group, as the new listed parent company of the Group, UBS or their Affiliates and Departments may engage in Market Activities with respect to UBS Group Shares (substantially the same as the Market Activities in which UBS and its Affiliates and Departments currently engage with respect to the UBS Shares). Consistent with the Market Activities with respect to the UBS Shares, the contemplated Market Activities with respect to the UBS Group Shares would be solely in the ordinary course of business and not in furtherance of or to facilitate the Exchange Offer. Moreover, since only UBS Shares may be tendered into the Exchange Offer, any purchases of UBS Group Shares by UBS, UBS Group or Affiliates or Departments of UBS could not be for the purpose of tendering into the Exchange Offer.

UBS expects that the new UBS Group Shares, as the ordinary shares of the successor issuer of the UBS Shares, will take the place of the UBS Shares and that activities with respect to the UBS Shares will transfer to the new UBS Group Shares without any material changes to the UBS Group Shares. In case of a successful Exchange Offer, the UBS Group Shares are expected to replace UBS Shares in indices of the SIX. The SIX has already approved, subject to certain conditions, the inclusion of the UBS Group Shares in the SMI and the SPI starting on the first day of trading of the UBS Group Shares. The UBS Shares will be excluded from the SMI and SPI as of the same date. UBS intends to initiate the delisting of the UBS Shares from the SIX and the NYSE as soon as practicable after consummation of the Exchange Offer. The Exchange Offer will be solely on a fixed one-for-one basis with no cash element and with no possibility for a change to the 1:1 exchange ratio. A Squeeze-Out of minority holders of UBS Shares will also be conducted on a one-for-one basis only. The UBS Group Shares will be issued pursuant to the Exchange Offer, which is in substance a corporate reorganization and which does not involve a change of control. Following the establishment of the new group holding company, UBS Group, the Group will continue to be substantially the same save for the changes to its legal structure. There will be no change to the Group's strategy, its governance and divisional structure or its service to its clients. The rights of holders of UBS Group Shares will be governed by the same Swiss laws that govern UBS Shares and by the articles of association of UBS Group, which are in all material respects identical to the articles of association of UBS, subject only to minor differences.³ In addition, the Exchange Offer will not involve any change to the board of directors and senior management of the Group. Thus, for the reasons mentioned above, following completion of the Exchange Offer, one UBS Group Share will represent substantially the same investment in the same business that one UBS Share currently represents.

We have assumed that, under Regulation M, the restricted period for the Exchange Offer (the "Regulation M Restricted Period") would begin on the date of the mailing of the U.S. offer materials (but will have a practical impact on UBS Group, UBS and their Affiliates and Departments from the successful close of the Initial Offer Period and initiation of trading in the new UBS Group Shares) and would end upon completion of the Exchange Offer in the United States. Thus, the Regulation M Restricted Period may last several weeks.

³ The differences in the articles of association are: (i) the company name; (ii) the company domicile within Switzerland (to Zurich from Zurich and Basel); (iii) the company purpose (to reflect the function as holding company of UBS Group) and (iv) certain share capital provisions.

As Affiliates or Departments of UBS that regularly purchase securities for their own accounts and the accounts of others or recommend or exercise investment discretion with respect to the purchase of securities, UBS IB, UBS Securities LLC, UBS Wealth Management, UBS Global Asset Management and UBS GT may be deemed to be “affiliated purchasers” of the issuer, as defined in Rule 100 of Regulation M, by virtue of their affiliation with UBS Group.⁴

As such, market activities of UBS, UBS Group and their Affiliates and Departments would be subject to Rule 102 throughout the Regulation M Restricted Period, except to the extent that any of them acts as a “distribution participant” and is therefore subject to Rule 101 instead. While UBS Securities LLC will not underwrite any UBS Group Shares, as indicated above, it is expected to participate in the Exchange Offer by acting as dealer-manager. Accordingly, UBS Securities LLC may be deemed a “distribution participant” in the Exchange Offer and its Market Activities may be deemed subject to Rule 101 during the Regulation M Restricted Period, at least until it completes its participation, after which it will be subject to Rule 102 as an “affiliated purchaser” of the issuer until the Regulation M Restricted Period ends. Thus we request relief for the Market Activities under both Rules 101 and 102, whichever may apply.

Under both Rule 101 and Rule 102, UBS, UBS Group and their Affiliates and Departments will not be permitted to bid for or purchase, or attempt to induce any person to bid for or purchase, UBS Group Shares during the Regulation M Restricted Period unless one of the specified exceptions under the applicable rule is available.⁵

Regulation M normally would not interfere with market-making and other market activities in actively traded securities. However, the UBS Group Shares will not be actively traded during the Regulation M Restricted Period for purposes of Regulation M because they will not, immediately following issuance, have an ADTV (as defined by Regulation M) of at least \$1 million for a period of two full calendar months. Additionally, because UBS and the Affiliates and Departments of UBS and UBS Group

⁴ UBS IB would not qualify for the exception to the definition of “affiliated purchaser” because, among other things, it would act as a market maker and engage as a broker-dealer in solicited transactions in UBS Group Shares during the Regulation M Restricted Period.

⁵ While derivatives on UBS Group Shares generally would not be “covered securities” under Regulation M, the derivatives market making that UBS IB conducts may, in some cases, be regarded as involving inducements to purchase UBS Group Shares. To avoid uncertainty, we ask that the exemption and/or no-action relief we are requesting apply to the derivatives market making as well as the derivatives hedging and other activities in UBS Group Shares described in this letter.

are affiliated purchasers of the issuer, they would not be able to rely on the actively traded securities exception to do what market makers for large U.S. issuers or other market participants are normally allowed to do during distributions by those issuers.

As a result, there would be no exceptions available under Rule 101 or Rule 102 that would permit UBS, UBS Group and their Affiliates and Departments to engage in the Market Activities. Without the requested exemptive and/or no-action relief, UBS, UBS Group and their Affiliates and Departments would not be permitted to engage in the Market Activities for an extended period of time.

UBS Group believes that if UBS IB cannot make a market in UBS Group Shares in a manner consistent with past practice (with respect to UBS Shares) for an extended period of time in what is expected to be the primary market for those shares, clients and market participants relying on liquidity provided by UBS IB could be negatively affected.

As UBS IB is expected to be a principal market maker in derivatives on UBS Group Shares, if UBS IB is precluded from conducting market-making activities in the derivatives, the application of Regulation M could have serious adverse effects on the Swiss market for the derivatives, as well as on UBS IB's ability to manage hedge positions maintained by UBS IB and its customers previously established in connection with this activity.

UBS IB and UBS Securities LLC may also be unable to execute brokerage orders in UBS Group Shares submitted by their customers in the normal course, thereby forcing their customers to take their orders elsewhere or to refrain from trading in UBS Group Shares. It would be a significant burden on these customers to require them to transfer their UBS Group Shares to a securities account elsewhere or to have UBS IB or UBS Securities LLC place orders with another bank, in order to make trades with respect to UBS Group Shares.

As indicated above, UBS Wealth Management and UBS Global Asset Management have both fiduciary or similar duties under applicable laws to conduct their respective investment activities in the best interests of their respective clients. Accordingly, UBS Wealth Management and UBS Global Asset Management are prohibited from trading in UBS Group Securities unless doing so complies with the terms and conditions that govern their relationships with their respective clients.

UBS GT may also be unable to purchase UBS Group Shares in the open market to facilitate the grant of awards or the exercise of options pursuant to the terms of UBS Plans or to purchase UBS Group Shares from UBS Plans consistent with UBS GT's past practice and in accordance with UBS's fiduciary duties arising from those plans.

Moreover, UBS GT may be unable to hedge against the share price risks arising from grants of notional shares. UBS believes that these activities will not have a significant effect on the market price of UBS Group Shares.

C. *The Swiss Regulatory Market*

In Switzerland, the Market Activities will be primarily governed by the Swiss Federal Act on Banks and Savings Institutions, the SESTA and the Swiss Penal Code, as well as by the Swiss Code of Obligations and by rules of the SIX and other markets in which the Market Activities are conducted. The SESTA covers, among other things, professional trading in securities and related disclosure. Based on the authority conferred by the SESTA, the SIX oversees trading activities, *i.e.*, price formation, conclusion and execution of transactions to ensure that insider trading, price manipulation and other breaches of law may be detected. The SIX maintains a Surveillance Office, which has responsibility for market supervision and for reporting suspected breaches of the law to the FINMA, which coordinates investigations. If the FINMA becomes aware of potential criminal offenses, it is mandated to so notify the prosecuting authorities immediately.

Insider trading and price manipulation in Switzerland are criminal offenses prohibited under Articles 40 and 40a of the SESTA. Specifically, criminal sanctions are imposed if, among other things:

- (i) a member of the managing or supervisory body of a company, or of a company controlling or controlled by such person, or a person who due to his or her holding or activity has actual access to inside information, exploits inside information to gain a pecuniary advantage for himself, herself or another by buying or selling, or recommending to another to buy or sell, securities admitted to trading on a stock exchange or an institution which is similar to an exchange in Switzerland (a "Swiss Exchange") or employing financial instruments derived from such securities (together, "Prohibited Transactions"); or disclosing the inside information to another; or
- (ii) a person who substantially influences the price of securities admitted to trading on a Swiss Exchange with the intention of gaining a pecuniary advantage for himself, herself or another knowingly disseminates false or misleading information or directly or indirectly effects purchases and sales of such securities.

Furthermore, insider trading and market manipulation in Switzerland are impermissible market behaviors under Articles 33e and 33f of the SESTA. Specifically, administrative sanctions are imposed if a person:

- (i) who knows or should know he or she possesses inside information either (a) engages in, or recommends to another to engage in, any Prohibited Transactions or (b) discloses such inside information to another;
- (ii) publicly disseminates information which he or she knows or should know gives false or misleading signals regarding the supply, demand or price of securities admitted to trading on a Swiss Exchange; or
- (iii) carries out transactions or purchases or sales orders which he or she knows or should know would give false or misleading signals regarding the supply, demand or price of securities admitted to trading on a Swiss Exchange.

In addition, the SIX rule book (the “SIX Rule Book”), which is binding upon UBS as a participant of the SIX, prohibits in Article 9.2 sham transactions, *i.e.*, transactions that do not have any economic justification, including wash trades, improper matched orders or in-house crosses on the trading book. If a SIX participant violates stock exchange laws or regulations, breaches contractual agreements entered into with the SIX, including the SIX Rule Book, or engages in unfair trading activities, the SIX may impose sanctions. According to Article 19 of the SIX Rule Book the sanctions against a participant can consist of a reprimand, suspension or exclusion and a fine or contractual penalty of up to CHF 10 million. The sanctions against a trader can consist of a reprimand, suspension or revocation of registration. The SIX is entitled to publish sanctions and the reasons for imposing them.

Broker-dealers in Switzerland are required to keep a daily record of orders received and transactions carried out, in which all information necessary to enable the reconstruction of the transactions and the supervision of the related operations must be recorded (see Article 15 SESTA). As a rule, all on- and off-exchange transactions relating to securities of Swiss or foreign companies that are admitted to trading on a Swiss exchange, whether carried out in Switzerland or abroad, must be reported. This applies also to securities of Swiss companies that are listed and traded on the SIX. Under the SIX Rule Book, on-exchange transactions are automatically reported by the trading system (see Article 9.6 of the SIX Rule Book). If a trade is made off-order-book during

continuous trading, the report shall be made immediately, but no later than three minutes after the trade.

The SIX also takes measures to ensure that information necessary to maintain a transparent market is made public. This applies, in particular, to prices and volumes of listed securities traded on and off the SIX.

D. Conditions and Relief

In consideration of the foregoing, we respectfully request that the Staff grant exemptive relief from, or confirm that the Staff will not recommend that the SEC take enforcement action under, Rule 101 and Rule 102 of Regulation M in connection with the Market Activities during the Regulation M Restricted Period. UBS Group, UBS and their Affiliates and Departments would conduct these activities in the ordinary course of their respective businesses and in accordance with applicable law in the Swiss and other non-U.S. markets, all as described in this letter. UBS also asks for relief to permit UBS Securities LLC to engage in unsolicited brokerage activities, and to permit UBS Wealth Management and UBS Global Asset Management to trade UBS Group Shares, in each case in the normal course of business, in the United States as described in this letter.⁶

As a condition to the relief being requested, UBS Group would include disclosure in the U.S. offering materials that will be distributed to U.S. investors that participate in the Exchange Offer. The disclosure would be substantially as follows:

“During the distribution of UBS Group Shares in the Exchange Offer, UBS Group, UBS and certain of their affiliates and departments intend to engage in various dealing and brokerage activities involving UBS Group Shares when and to the extent permitted by applicable law. Among other things, UBS Group, UBS and certain of their affiliates and departments, as the case may be, intend (1) to make a market in UBS Group Shares by purchasing and selling UBS Group Shares for their own account or to facilitate customer transactions; (2) to make a market, from time

⁶ In connection with the relief requested by UBS in this letter, please note that the Staff has previously granted substantially similar exemptive and/or no-action relief from Regulation M. *See, e.g., UBS AG* (avail. Sept. 22, 2000); *Allianz AG* (avail. Apr. 10, 2003); *The Royal Bank of Scotland Group plc* (avail. July 23, 2007); *Barclays PLC* (avail. Aug. 7, 2007); and, especially, *UBS AG* (avail. Apr. 22, 2008) and *UBS AG* (avail. May 16, 2008).

to time, in derivatives (such as options, warrants, convertible securities and other instruments) relating to UBS Group Shares for their own account and the accounts of their customers; (3) to engage in trades in UBS Group Shares for their own account and the accounts of their customers for the purpose of hedging their positions established in connection with the derivatives market making described above; (4) to engage in unsolicited brokerage transactions in UBS Group Shares with their customers; (5) to trade in UBS Group Shares and derivatives on UBS Group Shares as part of their investment management activities for the account of their customers; and (6) to trade in UBS Group Shares in connection with employee incentive plans. These activities may occur on the SIX, the BATS Chi-X Europe, UBS MTF, Turquoise and in the over-the-counter market in Switzerland or elsewhere outside the United States of America. In addition, when and to the extent permitted by applicable law, UBS's affiliated U.S. broker-dealer, UBS Securities LLC, may engage in unsolicited brokerage transactions in UBS Group Shares, and UBS's investment management business groups may trade in UBS Group Shares and derivatives on UBS Group Shares, in the United States of America.

UBS Group, UBS and their respective affiliates and departments will not be obliged to make a market in or otherwise purchase UBS Group Shares or derivatives on UBS Group Shares and any such market making or other purchases may be discontinued at any time. These activities could have the effect of preventing or delaying a decline in the market price of UBS Group Shares.”

As a further condition to the relief being requested, UBS, UBS Group and the Affiliates and Departments of UBS will undertake to keep records (the “Records”) of the date and time at which UBS Group Shares are purchased or sold, the market in which the purchase or sale is effected, the amount of UBS Group Shares purchased or sold and the price of the purchase or sale, for each purchase or sale of UBS Group Shares that UBS, UBS Group and their Affiliates and Departments make during the Regulation M Restricted Period (this information will not include any client-specific data the disclosure of which is restricted under local law). UBS, UBS Group and the Affiliates and Departments of UBS will maintain the Records for a period of two years following the end of the Regulation M Restricted Period. Upon the written request of the Director of the Division, UBS Group will make the Records available at the SEC's offices in Washington, D.C.

* * * *

If you have any questions or require any additional information, please contact the undersigned at 011 (44) 20 7959 8575 or Lucas H. Carsley at 011 (44) 20 7959 8452.

Sincerely yours,


on behalf of
David B. Rockwell

cc: David Kelly
Daniel Morales
(UBS AG)

Rolf Watter
Dieter Dubs
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