UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9961 / October 13, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16891

In the Matter of	:	
	:	
UBS AG	:	**ORDER INSTITUTING CEASE AND**
	:	**DESIST PROCEEDINGS PURSUANT TO**
Respondent	:	**SECTION 8A OF THE SECURITIES**
	:	**ACT OF 1933, MAKING FINDINGS AND**
	:	**IMPOSING REMEDIAL SANCTIONS**
	:	**AND A CEASE AND DESIST ORDER**

I.

The Securities and Exchange Commission ("Commission") deems it appropriate and in the public interest that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 ("Securities Act") against UBS AG ("UBS" or "Respondent").

II.

In anticipation of the institution of these proceedings, UBS has submitted an Offer of Settlement ("Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission's jurisdiction over it and the subject matter of these proceedings, which are admitted, UBS consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and UBS's Offer, the Commission finds that:

Summary

1. These proceedings involve structured notes issued by UBS which were linked to a proprietary foreign exchange ("FX") trading strategy called the V10 Currency Index with Volatility Cap ("V10" or Index). UBS offered and sold approximately $190 million of medium term notes linked to the V10 (Notes) in registered offerings under the Securities Act to

approximately 1,900 retail investors ("V10 Investors") in the United States between December 2009 and November 2010 (Relevant Period). In the wake of the financial crisis, UBS perceived that investors interested in diversifying their stock and bond portfolios were attracted to these types of structured products so long as the underlying trading strategy was transparent. UBS stated to investors that the V10 was a "transparent" and "systematic" currency trading strategy. UBS further stated that the V10 was calculated using "market prices" for the relevant underlying financial instruments.

2. UBS engaged in three types of conduct that were undisclosed to investors — taking unjustified markups, engaging in hedging trades with non-systematic spreads and trading in advance of certain hedging transactions — that negatively impacted or, in the case of trading before hedging transactions, had the potential to negatively impact, pricing inputs used to calculate the V10. In reality, the V10 was neither transparent nor systematic, market prices were not consistently used to calculate the Index, and V10 Investors were thereby misled as to certain key features of this complex financial instrument. As a result of the markups and spreads, the Index was depressed by approximately five percent causing investor losses of approximately $5.5 million.

Respondent

3. UBS is a Swiss corporation headquartered in Switzerland. UBS is one of the largest issuers of structured notes in the world. UBS issued and registered with the Commission $2.7 billion of structured notes in 2014. UBS issued the Notes.

Facts

Note Offering

4. Between December 2009 and November 2010, UBS issued approximately $190 million of Notes linked to the V10. The public offering price was approximately $10 and the underwriting discount was approximately $0.25. Most of the Notes had a three year term. UBS paid no interest on the Notes. Investors were entitled to a cash payment at maturity dependent upon the performance of the V10.

5. The V10 was a proprietary index, developed and sponsored by UBS, that measured the performance of a hypothetical algorithmic trading strategy designed to identify and exploit trends in G10 foreign exchange forward rates. G10 currencies are the US dollar (USD), Euro (EUR), Japanese yen (JPY), British pound (GBP), Swiss franc (CHF), Australian dollar (AUD), New Zealand dollar (NZD), Canadian dollar (CAD), Norwegian krone (NOK) and Swedish krona (SEK). In lower volatility environments, the trading strategy hypothetically went long the three highest yielding G10 currencies and short the three lowest yielding G10 currencies using six month forward contracts which is commonly referred to as a "carry trade." In higher volatility environments, the strategy reversed this carry trade. The occasions on which the hypothetical portfolio of forward contracts changed were known as "switch days."

6. UBS sold the Notes in a series of registered offerings with the Commission under automatic shelf registration statements including through a Prospectus dated January 13, 2009; Prospectus Supplements dated December 16, 2009 and September 21, 2010; and Free Writing

Prospectuses and Prospectus Supplements (entitled "Pricing Supplements") for eleven offerings from December 23, 2009 through November 24, 2010 (collectively Offering Documents).

Relevant Statements

7. In the wake of the financial crisis, UBS perceived that investors interested in diversifying their stock and bond portfolios were attracted to these types of structured products so long as the underlying trading strategy was transparent. In an article discussing FX-based structured products entitled "Pushing frontiers in FX" that was published in The Banker on April 1, 2010, and which referenced the V10, a senior UBS employee was quoted as saying, "[i]n the current market, investors are looking for uncorrelated and highly transparent products and since the algorithmic model is pre-defined and the rules are made available, it is a glass box rather than a black box." Similarly, in an article discussing the structured products market, entitled "Structured Products: Time to rebuild trust" that was published in The Banker on May 1, 2010, and which also referenced the V10, a senior UBS employee was quoted as saying, "[t]he overall trend has been to focus on more transparent and liquid structured products" and "[i]nvestors want pay-off formulas and fees that are easier to understand."

8. UBS stated in the "Index benefits at a glance" section of the Free Writing Prospectuses, which are part of the Offering Documents, that the V10 provided investors, "[a]ccess to a transparent and systematic currency trading strategy which has proven successful in both live and back-tested results." UBS stated in the "Risk Factors" section of the Prospectus Supplements and the "Key Risks" section of the Prospectus Supplements (entitled "Pricing Supplements") that "UBS will determine the market price of the foreign exchange forward contracts underlying the Index. The foreign exchange contracts underlying the Index are foreign exchange forward contracts traded in the over-the-counter-market with terms of up to approximately six months. The prices of such contracts used to calculate gains and losses from notional settlement of hypothetical positions will be based on the market prices at 3:00 p.m. London time (or shortly thereafter taking into consideration available prices for the number of foreign exchange forward contracts that would need to be hypothetically settled as a result of such determination), on the applicable valuation date."

Undisclosed Effects or Potential Effects of Conduct

9. UBS hedged its obligations under the Notes by purchasing and selling FX forward contracts mirroring the hypothetical positions held by the V10. On switch days UBS used prices on its hedge transactions to calculate the V10; on other days UBS used mid-market prices. UBS's hedge transactions originated in London, were routed through a Swiss intermediary and then executed by the FX spot desk in Switzerland. Pricing information flowed from the FX spot desk back through the Swiss intermediary to London where the V10 was calculated on a daily basis.

10. UBS employees in Switzerland engaged in three types of conduct that either negatively impacted, or had the potential to negatively impact, pricing inputs used to calculate the V10. First, between May and October 2010, a UBS employee acting as an intermediary added markups to hedge transactions executed on switch days, which led to prices being used to calculate the Index that were not consistent with market prices. Given the intermediary's largely

administrative function, there was little, if any, legitimate business justification for the amount of these markups. Their impact on the Index was to reduce it by approximately one percent.

11. Second, between May 2010 and December 2011, the FX spot desk at UBS added spreads, which were not adequately disclosed, to internal transactions undertaken to hedge UBS's exposure to V10 instruments on switch days. These spreads were not added systematically, but rather were determined largely at the discretion of the FX spot desk. The prices of the hedge trades (including the spreads) were used as inputs to calculate the Index. The impact of the spreads on the Index was to reduce it by approximately four percent. Some UBS employees on the FX spot desk used colorful and sometimes obscene language in electronic communications via chat rooms while executing the V10 hedge transactions.

12. Third, between May 2010 and August 2011, the FX spot desk at UBS, including the head of the desk, engaged in over two dozen trades in management trading books shortly before executing potentially market-moving, internal V10 hedging transactions, which were directionally consistent with those hedging transactions. UBS did not have in place meaningful controls or restrictions during the Relevant Period over trading ahead of internal V10 hedging transactions.

13. UBS did not disclose the existence and effect, or potential effect, of this conduct to V10 Investors in the Offering Documents or otherwise. As a result, UBS's statements that the V10 was "transparent" and "systematic" and that "market prices" were used to calculate the Index were false and misleading. UBS also made a number of incomplete statements and omissions in monthly performance reports. Beginning in May 2010 and continuing through the Relevant Period, UBS filed with the Commission as Free Writing Prospectuses monthly performance reports for the V10 (Monthly Reports). The reports stated that the V10 was up X percent or down Y percent and generally attributed changes to macroeconomic events. No reference was made to the effect, or potential effect, that the conduct described above had on the Index, some of which contributed to the depression of the value of the Index.

<u>UBS's Negligence</u>

14. As an issuer of securities, UBS had a duty to disclose all material information necessary to make statements contained in the Offering Documents, in light of the circumstances under which they were made, not misleading. UBS breached that duty by failing to have in place an effective policy, procedure or process to make the individuals with primary responsibility for drafting, reviewing and revising the Offering Documents and Monthly Reports aware that UBS employees in Switzerland were engaged in conduct that negatively impacted, or had the potential to negatively impact, pricing inputs used to calculate the V10. As a result, those individuals with primary responsibility for drafting, reviewing and revising the Offering Documents and Monthly Reports were not in a position to make informed disclosure decisions.

15. The Offering Documents were drafted and reviewed by UBS employees in the United States with no meaningful input from UBS employees in Switzerland. UBS employees in the United States did not know that UBS employees in Switzerland were taking unjustified markups, and engaging in internal V10 hedging trades with non-systematic spreads, which negatively impacted pricing inputs used to calculate the V10, thereby negatively impacting the

performance of the Notes. Also, UBS employees in the United States did not know that UBS employees in Switzerland were trading ahead of certain V10 hedging transactions, which had the potential to negatively impact pricing inputs used to calculate the V10. UBS employees in London with responsibility for calculating the V10 were likewise unaware of this conduct and did not have the ability to critically assess pricing information provided to them.

* * *

16. As a result of the negligent conduct and materially misleading statements and omissions described above, UBS violated Section 17(a)(2) of the Securities Act which prohibits obtaining money or property by means of misstatements and omissions in the offer or sale of securities.

17. In determining to accept the Offer, the Commission considered UBS's substantial cooperation afforded the Commission staff. UBS conducted an internal investigation, and it provided information and analysis to the Commission staff. Many of the critical witnesses were located in Europe, and UBS made arrangements for them to travel to the United States for interviews with the staff. The Commission also considered certain remedial measures UBS implemented voluntarily. These include centralizing and improving the systems and controls relating to the operations, calculation and administration of indices including the V10.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in UBS's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, it is hereby ORDERED that:

A. UBS cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.

B. UBS shall pay disgorgement and prejudgment interest as follows:

1) UBS shall pay a total of $11.5 million consisting of disgorgement of $10 million and prejudgment interest of $1.5 million. $5.5 million of the disgorgement funds shall be deposited into a segregated account and used to compensate V10 Investors for each investor's incremental losses resulting from the markups and spreads described in this Order that occurred over their investment period (Disgorgement Fund). UBS shall be responsible for administering the Disgorgement Fund. The remaining $6 million shall be paid to the Commission within ten (10) days of the entry of the Order for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 17 C.F.R. § 201.600;

2) Within sixty (60) days of the entry of the Order, UBS shall make such payments to those V10 investors who still have accounts at UBS. UBS shall use its best efforts to make such distribution payments as soon as possible to those V10

investors who held their securities through non-UBS, third party dealers. UBS must complete the distribution within ninety (90) days of the entry of this Order;

3) UBS agrees to be responsible for all tax compliance responsibilities associated with distribution of the Disgorgement Fund and may retain any professional services necessary. The costs and expenses of any such professional services shall be borne by UBS and shall not be paid out of the Disgorgement Fund;

4) Upon completion of the distribution, UBS will pay any and all remaining monies from the Disgorgement Fund that have not been distributed to the Commission for transmittal to the United States Treasury. If UBS does not distribute any portion of the Disgorgement Fund for any reason, including if UBS is unable to locate and make payment to those investors who no longer maintain accounts at UBS or who held their securities through non-UBS, third party dealers, or due to factors beyond UBS's control, UBS shall transfer any such undistributed funds to the Commission for transmittal to the United States Treasury. Any such payment shall be made in accordance with Section IV.C below;

5) Within 120 days after the date of entry of this Order, UBS shall submit to the Commission staff a final accounting and certification of the disposition of the Disgorgement Fund not unacceptable to the Commission staff. UBS shall submit proof and supporting documentation of such payment (whether in the form of cancelled checks, or otherwise) in a form acceptable to the Commission staff and under a cover letter that identifies UBS as a Respondent in these proceedings and the file number of these proceedings to Reid A. Muoio, Deputy Director, Complex Financial Instruments Unit, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549. UBS shall provide any and all supporting documentation for the accounting and certification to the Commission staff upon its request and shall cooperate with any additional requests by the Commission staff in connection with the accounting and certification; and

6) The Commission staff may extend any of the procedural dates set forth in this Subsection B for good cause shown. Deadlines for dates relating to the Disgorgement Fund shall be counted in calendar days, except that if the last day falls on a weekend or federal holiday the next business day shall be considered to be the last day.

C. UBS shall, within ten (10) days of the entry of this Order, pay a civil monetary penalty in the amount of $8 million to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury in accordance with Exchange Act Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment to the Commission must be made in one of the following ways:

1) UBS may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

2) UBS may make direct payment from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

3) UBS may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments must be accompanied by a cover letter identifying UBS as a Respondent in these proceedings and the file number of these proceedings. Proof of payment must be sent to Reid A. Muoio, Deputy Director, Complex Financial Instruments Unit, Division of Enforcement, Securities and Exchange Commission, 100 F St. NE, Washington, DC 20549.

By the Commission.

Brent J. Fields
Secretary