

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 3356 / January 17, 2012

INVESTMENT COMPANY ACT OF 1940
Release No. 29920 / January 17, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14699

In the Matter of

**UBS Global Asset Management
(Americas) Inc.**

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 203(e) OF THE
INVESTMENT ADVISERS ACT OF 1940
AND SECTIONS 9(b) AND 9(f) OF THE
INVESTMENT COMPANY ACT OF 1940,
MAKING FINDINGS, AND IMPOSING
REMEDIAL SANCTIONS, CIVIL
PENALTIES AND A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(e) of the Investment Advisers Act of 1940 (“Advisers Act”) and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against UBS Global Asset Management (Americas) Inc. (“UBSGAM” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “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, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 203(e) of the Investment Advisers Act of 1940 and Sections 9(b) and 9(f) of the Investment Company Act of 1940, Making

Findings, and Imposing Remedial Sanctions, Civil Penalties and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

Summary

1. This proceeding concerns the misstatement of the Net Asset Values (“NAVs”) of certain registered investment companies (the “Funds”) managed by UBSGAM. UBSGAM failed to cause certain fixed-income securities in the portfolios of the Funds to be valued in accordance with the Funds’ fair valuation procedures. UBSGAM’s failure to properly fair value these securities resulted in a misstatement of the NAVs of the Funds.

2. In June 2008, UBSGAM purchased approximately 54 fixed-income securities from various broker-dealers for the Funds (“the Securities”) for an aggregate purchase price of approximately \$22 million. Most of the Securities were part of subordinated tranches of non-agency mortgage-backed securities. Non-agency mortgage-backed securities are issued by private institutions; their underlying collateral generally consists of mortgages which do not conform to the requirements (size, documentation, loan-to-value ratios, etc.) for inclusion in mortgage-backed securities guaranteed or issued by Ginnie Mae, Fannie Mae or Freddie Mac. The Securities also included asset-backed securities and collateralized debt obligations. These securities were not listed or sold on any exchange, and there was not an active market for them.

3. Upon the Funds’ purchases of the Securities, all but six of the Securities were valued at prices in excess of the transaction prices. The majority of the Securities were valued at prices at least 100% higher than the transaction prices.

4. The Securities were valued during this period using valuations provided by broker-dealers or a third-party pricing service (the “Pricing Sources”) that did not appear to take into account the prices at which the Funds had purchased the Securities.

5. UBSGAM did not fair value the Securities until it held a meeting of the Global Valuation Committee (“GVC”) on June 30, 2008, more than two weeks after UBSGAM began receiving reports (“Price Tolerance Reports”) identifying the discrepancies between the purchase prices and the valuation of the Securities based on the Pricing Sources.

6. By initially using the valuations provided by the Pricing Sources instead of the transaction prices, the Funds did not follow their own written valuation procedures. These procedures required the Securities to be valued at the transaction price until UBSGAM received a response to a price challenge based on the discrepancy identified in the Price Tolerance Report or

¹ The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

the GVC made a fair value determination. The procedures provided that the transaction price could be used for up to five business days until a decision would need to be made as to the fair value. By failing to implement these procedures, the Funds violated Rule 38a-1 under the Investment Company Act and UBSGAM aided and abetted and caused the violations.

7. Because the Funds did not properly or timely fair value the Securities, the NAVs of the Funds were misstated between one cent and ten cents per share for several days in June 2008. Consequently, the Funds sold, purchased, and redeemed their shares based on inaccurately high NAVs on those days. The Funds thus violated Rule 22c-1 adopted pursuant to Section 22(c) of the Investment Company Act. UBSGAM aided and abetted and caused the Funds' violations of Rule 22c-1 under the Investment Company Act.

Respondent

8. **UBS Global Asset Management (Americas), Inc.**, is a registered investment adviser incorporated in Delaware and currently headquartered in New York. At the time of the transactions at issue, UBSGAM was headquartered in Chicago, Illinois. UBSGAM served as an investment adviser to the Funds during the period of the transactions described herein.

The Funds' Stated Valuation Procedures

9. Rule 22c-1 under the Investment Company Act prohibits selling, redeeming, or repurchasing any redeemable security except at a price based on the current net asset value of such security. Under Section 2(a)(41)(B) of the Investment Company Act, registered investment companies must use: (1) market values for portfolio securities with readily available market quotations; and (2) fair value for all other portfolio assets, as determined in good faith by the board of directors.

10. The Boards of the Funds established the methodologies to be used for valuing the Funds' assets and delegated the responsibility for implementing those methodologies to UBSGAM. UBSGAM appointed the GVC to carry out its valuation responsibilities pursuant to a list of Price Sources for each type of securities ("Pricing Hierarchies"). In general, where broker-dealers supplied market quotes on mortgage-backed securities that were more than three percent different from the prices supplied by the designated third-party pricing vendor, UBSGAM used the broker-dealer price for valuation purposes in lieu of the prices supplied by the third-party vendor. For most of the Securities, the GVC designated a particular broker-dealer to provide daily market quotes. The GVC designated a third-party pricing vendor the remainder of the Securities. The Boards reviewed the GVC's valuations for the purposes of either ratifying or adjusting the GVC's decisions.

11. The Funds' valuation procedures provided for various exceptions and deviations from valuations received from the designated Pricing Sources.

12. One exception provided that whenever the difference between the transaction price for a security and the Pricing Source valuation (referred to in the Funds' procedures as the "vendor price") was three percent or more:

Fund Treasury will have the Funds'/Accounts' custodian(s) go with the 'Trade Price' until a response is received in regards to the price challenge or until a fair market price can be determined. Using the 'Trade Price' to value the security can be used for up to five (5) business days until a decision will need to be made in terms of fair valuing the security. During the five (5) day period, the Valuation Committee can advise the Funds'/Accounts' custodian to switch back to the vendor price if it is deemed appropriate. If no decision is made by the end of the 5th business day then the Valuation Committee shall make a valuation determination.

13. The procedures thus required the Funds to use the transaction price (referred to by UBSGAM as the "trade price") as the value for a security for up to five business days whenever there was a variance of three percent or more between the transaction price and the quote or value obtained from a Pricing Source. The procedures also required that UBSGAM issue a price challenge to request justification from the Pricing Source for the price quoted. After receiving a response to the price challenge, the GVC could revert to the Pricing Source's quote price if justified. If no resolution was reached by the end of five business days after issuance of a Price Tolerance Report, the procedures required the GVC at that point to make a valuation determination.

14. As part of its compliance procedures, UBSGAM conducted automated price checks comparing transaction prices with internal valuations for recently purchased securities, which resulted in the creation of Price Tolerance Reports when the transaction price and quote price for a given security varied by three percent or more. When generated, Price Tolerance Reports were sent to the UBSGAM compliance department for investigation. The Price Tolerance Reports put UBSGAM on notice that the quotes it received may not accurately reflect the market for the security, and then the GVC was required to follow the above procedures.

The Procedures Actually Used

15. Between June 5 and June 25, 2008, UBSGAM caused the Funds to purchase the Securities from various broker-dealers.

16. Immediately after each purchase and pursuant to the Pricing Hierarchies, UBSGAM began using broker-dealer quotations to price 43 of the Securities; 11 were valued by using third-party vendor pricing services.

17. The quotations received from the broker-dealers for 28 of the 54 Securities were more than 100% higher than the transaction prices and, in some cases, were more than 1,000% higher. Additionally, during this period certain of the broker-dealers' market quotes were stale and were not priced daily. And, in some cases the prices were based on prior month-end prices.

18. The prices supplied by the third-party vendors similarly substantially exceeded the transaction prices.

19. Given the large variance between the transaction prices and prices from the Pricing Sources, Price Tolerance Reports were generated for almost all of the Securities. Certain members of UBSGAM's GVC received the first Price Tolerance Report on June 16, 2008, and received Price Tolerance Reports for most of the remaining Securities as the Funds purchased them.

20. The Securities, however, were not valued at the transaction price, despite the requirement under the procedures.

21. Also in contravention of the Funds' valuation procedures, UBSGAM did not issue challenges to the Pricing Sources for a majority of the Securities that appeared on the Price Tolerance Reports. When UBSGAM did issue challenges, it received responses for only a handful of the Securities. For the remaining Securities, UBSGAM did not follow up with the challenged Pricing Source or make fair value determinations at the end of five business days, as required by the valuation procedures. Instead, UBSGAM continued to use the substantially higher broker-dealer quotes and third-party vendor prices until June 30, 2008, when the GVC finally met to discuss the valuation issues relating to the Securities.

22. At the conclusion of the June 30 meeting, the GVC members decided to fair value the securities at the midpoint between the transaction price and the quote prices from Pricing Sources until they received responses to price challenges. The Boards subsequently ratified this decision.

23. Price challenges were not issued for a majority of the Securities until July 1, 2008, and they were never issued for some Securities.

UBSGAM Caused the Funds to Misstate their NAVs

24. As a result of the conduct described in paragraphs 1 through 23 above, the NAVs of the Funds were misstated between one cent and ten cents for several days during June 2008.

Violations

25. The Funds misstated their NAVs and executed transactions in redeemable securities at prices not based on current net asset values. The Funds thus violated Rule 22c-1 under the Investment Company Act, which prohibits selling, redeeming, or repurchasing any redeemable security except at a price based on the current net asset value of such security. UBSGAM willfully² aided and abetted and caused these violations.

² A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

26. As described above, the Funds did not adequately implement valuation procedures and thus violated Rule 38a-1 under the Investment Company Act, which requires each registered investment company to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws by the funds. UBSGAM willfully aided and abetted and caused these violations.

IV.

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

Accordingly, pursuant to Section 203(e) of the Advisers Act and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent UBSGAM cease and desist from committing or causing any violations and any future violations of Rules 22c-1 and 38a-1 under the Investment Company Act.

B. Respondent UBSGAM is censured.

C. Pursuant to Section 203(i) of the Advisers Act and Section 9(d) of the Investment Company Act, Respondent shall, within 14 days of the entry of this Order, pay a civil money penalty in the amount of \$300,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by wire transfer, United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Securities and Exchange Commission, Office of Financial Management, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover letter that identifies UBS Global Asset Management (Americas), Inc. as a Respondent in these proceedings and includes the file number of these proceedings, a copy of which cover letter and wire transfer, money order or check shall be sent to Robert Burson, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Boulevard, Suite 900, Chicago, Illinois 60604.

By the Commission.

Elizabeth M. Murphy
Secretary