

NYSE MKT LLC
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2016-07-01315

TO: NYSE MKT LLC

RE: UBS Securities, LLC, Respondent
CRD No. 7654

Date: June 12, 2017

UBS Securities, LLC violated NYSE MKT Rule 995NY(c) by improperly hedging its anticipated facilitation of a customer order before it disclosed all material terms and conditions of the customer order to the trading crowd. Consent to a censure and a \$30,000 fine.

* * *

Pursuant to Rule 9216 of the NYSE MKT LLC ("NYSE MKT" or the "Exchange") Code of Procedure, UBS Securities, LLC ("UBS" or the "Firm") submits this Letter of Acceptance, Waiver, and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, NYSE MKT will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I. ACCEPTANCE AND CONSENT

- A. UBS hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NYSE MKT, or to which NYSE MKT is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NYSE MKT:

BACKGROUND AND JURISDICTION

1. UBS is a limited liability company registered in the State of Delaware. UBS became an AmEx Trading Permit (ATP) Holder in 2009, and a member of the Exchange in 1988.

PROCEDURAL HISTORY

2. This matter arises from a referral to NYSE Regulation by the Market Regulation Department of the Financial Industry Regulatory Authority, Inc. ("FINRA"). On behalf of the Exchange, FINRA conducted a review of certain transactions effected by a Firm trader on the Trade Date. NYSE Regulation then also conducted a review

of the transactions and the Firm's compliance with NYSE MKT rules.

VIOLATIONS

3. On October 31, 2014 (the "Trade Date"), UBS violated NYSE MKT Rule 995NY(c) by hedging its anticipated facilitation of a customer's block order to sell call options and buy stock of a certain company ("XYZ") before disclosing all material terms and conditions of the customer order to the trading crowd. Specifically, a former Firm trader (the "Firm trader") sold more equity than needed to hedge the disclosed portion of an order, and thereby improperly pre-hedged an imminent, but undisclosed partial order.
4. NYSE MKT Rule 995NY provides that certain activities constitute prohibited conduct. NYSE MKT Rule 995NY(c) provides:

Anticipatory Hedging and Front Running - It will be considered conduct inconsistent with just and equitable principles of trade for any ATP Holder or person associated with an ATP Holder, who has knowledge of all material terms and conditions of an originating order, a solicited order, or a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument until either:

- (1) All the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the ATP Holder or person associated with the ATP Holder has knowledge are disclosed to the trading crowd, or
- (2) The trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

For the purposes of this rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

5. When an ATP Holder engages in anticipatory hedging, or otherwise uses undisclosed information about an imminent option transaction, to trade the relevant option or a related instrument, it can disadvantage market participants who are unaware of the information or who refrain from trading based on it. As set forth in NYSE MKT Rule 995NY(c), such conduct is considered inconsistent with just and equitable principles of trade.
6. Here, on October 31, 2014, a Firm trader, based on his knowledge of the terms and conditions of a block order, effected transactions as hedges prior to the terms and

conditions of the full block order being disclosed.

7. Specifically, on October 31, 2014, a Firm trader received a client order to sell 10,000 call options, and buy 175,000 shares of XYZ stock. The Firm trader elected to trade half of the options order (5,000 call options) on the Exchange, tied to all 175,000 shares of XYZ.
8. The Firm trader purchased 2,800 of the 5,000 contracts and sold 98,000 shares of XYZ to facilitate the client's order. Additionally, the Firm trader sold 220,000 XYZ shares as a hedge prior to the options execution.
9. At the completion of the 5,000-contract (half) order, the Firm trader was over-hedged. The remainder of the client order had not yet been disclosed. By selling more XYZ shares than needed to hedge the disclosed portion of an order, the Firm trader improperly pre-hedged the undisclosed partial order.
10. By engaging in the trading activity described above, UBS violated NYSE MKT Rule 995NY(c).

RELEVANT PRIOR DISCIPLINARY HISTORY

11. UBS has no relevant prior disciplinary history.

SANCTIONS

- B. The Firm also consents to the imposition of the following sanctions:

Censure and fine in the amount of \$30,000

The Firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. The Firm has submitted a Method of Payment Confirmation form showing the method by which it will pay the fine imposed.

The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The Firm agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification from any source, including but not limited to payment made pursuant to any insurance policy, with regard to any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts. The Firm further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any federal, state, or local tax for any fine amounts that the Firm pays pursuant to this AWC, regardless of the use of the fine amounts.

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

II. WAIVER OF PROCEDURAL RIGHTS

The Firm specifically and voluntarily waives the following rights granted under the NYSE MKT Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the Firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the Exchange's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Firm specifically and voluntarily waives any right to claim bias or pre-judgment of the Chief Regulatory Officer of NYSE MKT; the Exchange's Board of Directors, Disciplinary Action Committee ("DAC"), and Committee for Review ("CFR"); any Director, DAC member, or CFR member; Counsel to the Exchange Board of Directors or CFR; any other NYSE MKT employee; or any Regulatory Staff as defined in Rule 9120 in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The Firm further specifically and voluntarily waives any right to claim that a person violated the ex parte communication prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III. OTHER MATTERS

The Firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed by NYSE Regulation, and accepted by the Chief Regulatory Officer of NYSE MKT pursuant to NYSE MKT Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the Firm; and
- C. If accepted:
 1. The AWC shall be sent to each Director and each member of the Committee for Review via courier, express delivery or electronic means, and shall be deemed final and shall constitute the complaint, answer, and decision in the matter, 25 days after it is sent to each Director and each member of the

Committee for Review, unless review by the Exchange Board of Directors is requested pursuant to NYSE MKT Rule 9310(a)(1)(B);

2. This AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by the Exchange, or any other regulator against the Firm;
 3. NYSE MKT shall publish a copy of the AWC on its website in accordance with NYSE MKT Rule 8313;
 4. NYSE MKT may make a public announcement concerning this agreement and the subject matter thereof in accordance with NYSE MKT Rule 8313; and
 5. The Firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The Firm may not take any position in any proceeding brought by or on behalf of the Exchange, or to which the Exchange is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Firm's (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which the Exchange is not a party.
- D. A signed copy of this AWC and the accompanying Method of Payment Confirmation form delivered by email, facsimile or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy.
- E. The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of NYSE Regulation or its staff.

The Firm certifies that, in connection with each of the Exchange's requests for documents in connection with this matter, the Firm made a diligent inquiry of all persons who reasonably had possession of responsive documents, and that those documents have been produced or identified in a privilege log. The Firm acknowledges that, in agreeing to the AWC, the Exchange has relied upon, among other things, the completeness of such document production.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

June 12, 2017
Date

UBS Securities, LLC,
Respondent

By: D. Christopher Walker

D. Christopher Walker
Executive Director and Regulatory Attorney

Reviewed by:

Janet M. Angstadt

Janet M. Angstadt
Katten Muchin Rosenman LLP
525 W. Monroe Street
Chicago, IL 60661-3693
Counsel for Respondent

Accepted by NYSE Regulation

June 13, 2017
Date



David A. Feldman
Senior Enforcement Counsel
NYSE Regulation

Signed on behalf of NYSE MKT LLC, by
delegated authority from its Chief
Regulatory Officer