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## SFC reprimands and fines UBS Securities Asia Limited \$4.5 million in relation to facilitation trading activities

21 Mar 2018

The Securities and Futures Commission (SFC) has reprimanded and fined UBS Securities Asia Limited (UBS Securities) \$4.5 million for failing to put in place effective controls to record transactions and client consents in relation to its facilitation trading activities (Notes 1 & 2).

In the course of an SFC inspection in 2016 and a subsequent investigation, UBS Securities failed to provide the SFC with complete information on its client facilitation trades. In particular, UBS Securities was only able to locate client consent records for about half of the client facilitation trades it conducted between June 2015 and June 2016.

As a licensed corporation, UBS Securities is under a regulatory duty to have the resources and procedures which are needed for the proper performance of its business activities and implement them effectively. It is also expected to maintain and keep sufficient records to explain its client facilitation business.

In resolving the concerns with UBS Securities, the SFC took into account all the circumstances, including:

- the initiative of UBS Securities to bring this matter to a conclusion by cooperating fully with the SFC to resolve the regulatory concerns pertaining to the disciplinary action;
- the engagement of a reviewer to review the completeness and accuracy of the information provided by UBS Securities to the SFC;
- the introduction of an on-going supervisory review to ensure the adequacy of client consents; and
- the undertaking by the board of directors of UBS Securities of implementing effective controls to ensure that adequate records for facilitation trading are maintained and kept.

End

Notes:

1. UBS Securities is licensed under the Securities and Futures Ordinance to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts), and Type 4 (advising on securities) regulated activities.
2. General Principle 3 (Capabilities) provides that a licensed corporation should have and employ effectively the resources and procedures which are needed for the proper performance of its business activities.

[A copy of the Statement of Disciplinary Action is available on the SFC website](#)

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## STATEMENT OF DISCIPLINARY ACTION

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### The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has reprimanded and fined UBS Securities Asia Limited (**UBS Securities**) \$4.5 million pursuant to section 194 of the Securities and Futures Ordinance (**SFO**).
2. The disciplinary action is taken according to an agreement pursuant to section 201 of the SFO dated 16 March 2018 in respect of SFC's concerns about control deficiencies involving record keeping of the designation of transactions as facilitation trades and client consents in relation to facilitation trading activities conducted by UBS Securities.
3. UBS Securities is licensed under the SFO to carry on business in Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) regulated activities.

### Summary of facts

#### *Background*

4. During an inspection in 2016, the SFC requested UBS Securities to produce a list of client facilitation trades for the month of April 2016. Upon the SFC's further enquiries, UBS Securities submitted that the system from which the facilitation trades were extracted might "*not be a golden source of facilitation interactions*".
5. In December 2016, UBS Securities was asked to produce client facilitation trades without client consents handled or arranged through its sales traders for the period from June 2015 to June 2016.
6. The list of client facilitation trades was not produced until February 2017 because UBS Securities indicated that it required time to collate the information requested.
7. In March 2017, UBS Securities explained that it relied on the recollection of the sales traders for retrieving records of client consents because UBS Securities did not have a central repository for storing client consents between June 2015 and June 2016.
8. A revised set of client facilitation trades was produced to the SFC at the end of March 2017. UBS Securities, however, submitted that it was still in the process of conducting further checks to ensure the completeness of the trade data and would revert to the SFC with further amendments as soon as possible.
9. In May 2017, the SFC asked UBS Securities to produce information about the total number of client facilitation trades and the number of client consents obtained between June 2015 and June 2016.
10. In June 2017, UBS Securities updated the trade data and indicated that a reviewer was engaged to review the accuracy of the information provided to the SFC. The reviewer's report confirmed that the data extraction was complete

and accurate. On a sample basis, the reviewer found no client consent was obtained or it was inconclusive as to whether client consent was obtained for a total of about 11% of the trades. In about 83% of the trades with client consent obtained, the reviewer was unable to ascertain all trade specific information in the record, including date of trade, equity symbol, quantity to be traded, and/or execution price.

11. After having examined the trade data and records, the SFC concluded that client consent records for about half of the facilitation trades were missing.

#### *Concerns*

12. As a licensed corporation, UBS Securities should have and employ effectively resources and procedures which are needed for the proper performance of its business activities. UBS Securities is expected to have adequate records in relation to its client facilitation trading, which can readily show whether a trade is being facilitated and that the client consented to the trade.
13. On the information before the SFC, it is apparent that:
  - (a) a high percentage of the client facilitation trades at UBS Securities was conducted through the sales traders;
  - (b) UBS Securities' records could not readily identify if a trade was being facilitated; and
  - (c) client consent records were missing because there was no central repository for storing the records and the records could only be located through the retrieval or recollection of individual traders.
14. In short, UBS Securities failed to properly maintain and keep records to explain the client facilitation trades.

#### **Conclusion**

15. In resolving the concerns with UBS Securities, the SFC took into account all the circumstances, including:
  - (a) the initiative of UBS Securities to bring this matter to a conclusion by cooperating fully with the SFC to resolve the regulatory concerns pertaining to the disciplinary action;
  - (b) the engagement of a reviewer to review the completeness and accuracy of the information provided by UBS Securities to the SFC;
  - (c) the introduction of an on-going supervisory review to ensure the adequacy of client consents; and
  - (d) the undertaking by the board of directors of UBS Securities of implementing effective controls to ensure that adequate records for facilitation trading are maintained and kept.