

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9318 / May 1, 2012

SECURITIES EXCHANGE ACT OF 1934
Release No. 66893 / May 1, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14863

In the Matter of

UBS FINANCIAL SERVICES INC.
OF PUERTO RICO

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT
TO SECTION 8A OF THE SECURITIES
ACT OF 1933 AND SECTIONS 15(b)
AND 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, 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 public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) and Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against UBS Financial Services Inc. of Puerto Rico (“UBS PR” or “Respondent”).

II.

In anticipation of the institution of these proceedings, UBS PR 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, UBS PR consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of the Order and UBS PR's Offer, the Commission finds¹ that:

A. SUMMARY

1. During 2008 and 2009, UBS PR, its former CEO ("CEO") and its Head of Capital Markets ("HCM") made misrepresentations and omissions of material facts to numerous retail customers in Puerto Rico regarding the secondary market liquidity and pricing of UBS PR-affiliated, non-exchange-traded closed-end funds ("CEFs" or "Funds"). For example, UBS PR claimed CEF prices were based on market forces such as supply and demand. However, UBS PR did not disclose that CEF prices were set solely at the discretion of the trading desk. Moreover, although UBS had certain disclosures about liquidity in prospectuses (not supplied to secondary market customers) and on its website, it did not adequately disclose, among other things, that as the dominant CEF broker-dealer, UBS PR controlled the secondary market. In reality, any secondary market sales investors wanted to make depended largely on UBS PR's ability to solicit additional customers or willingness to purchase shares into its inventory.

2. As UBS PR, the CEO and the HCM promoted CEF sales throughout 2008, they knew investor demand was significantly declining relative to supply. For much of 2008, UBS PR purchased millions of dollars of CEF shares into its own inventory while promoting the appearance of a liquid market with stable prices, without disclosing UBS PR's actions were propping up prices and liquidity.

3. But in the spring of 2009, UBS PR's parent firm determined UBS PR's growing CEF inventory represented a financial risk to the firm. The parent company directed UBS PR to substantially reduce its inventory of CEF shares. To accomplish the reduction, UBS PR and the HCM executed a plan, dubbed "Objective: Soft Landing" in one document, in which UBS PR routinely offered and sold its CEF shares at prices that undercut pending customer sell orders.

4. During this period, numerous UBS PR customers were also attempting to sell their holdings but UBS PR's actions effectively prevented certain customers from selling their CEF shares. Between March and September 2009, UBS PR sold about \$35 million, or 75%, of its inventory to investors. At the same time, UBS PR increased its efforts to solicit sales of CEFs while continuing to misrepresent how it was setting secondary market prices and the liquidity of the market. UBS PR also did not disclose its withdrawal of market support. By September 2009, when UBS PR completed its CEF inventory reduction, the market price of certain funds had declined by 10-15%.

¹ The findings herein are made pursuant to UBS PR's Offer and are not binding on any other person or entity in this or any other proceeding.

B. RESPONDENT

5. UBS PR, a Puerto Rico corporation with its principal place of business in Hato Rey, Puerto Rico, is a broker-dealer registered with the Commission since 1982. UBS PR is a subsidiary of UBS Financial Services, Inc. (“UBSFS”). UBS PR is the largest broker-dealer in Puerto Rico, with about 49% of total retail brokerage assets. The firm employs about 230 registered representatives (“financial advisors”) and has nineteen branch offices throughout Puerto Rico.

C OTHER INDIVIDUALS AND ENTITIES

6. UBSFS is a Delaware corporation with its principal places of business in New York, New York and Weehawken, New Jersey. UBSFS is a wholly-owned subsidiary of UBS AG, a foreign private issuer based in Switzerland.

7. UBS Trust Company of Puerto Rico (“UBS Trust Company”) is not registered with the Commission. It shares offices and certain personnel with UBS PR, and serves as the administrator, transfer agent and custodian to fourteen of the twenty-three CEFs, while a division of UBS Trust Company serves as an investment adviser to all twenty-three CEFs. The CEFs are organized as corporations in Puerto Rico, and are exempt from Commission registration under the U.S. Territories exemption of § 6(a)(1) of the Investment Company Act of 1940. UBS PR personnel also served as members of the board of directors of all 23 CEF companies. The CEF company boards have a majority of independent directors.

D. UBS PR’s MARKETING AND SALES OF CEFS

8. Since 1995, UBS PR has been the primary underwriter of fourteen separately organized closed-end fund companies’ CEFs with a total market capitalization of approximately \$4 billion, and nine co-managed closed-end fund companies’ CEFs with more than \$1 billion in total market capitalization. The CEFs are not traded on an exchange or quoted on any quotation service, and are available only to Puerto Rico residents. The majority of the CEFs’ holdings of Puerto Rico securities are Puerto Rico municipal bonds. UBS PR has been the only secondary market dealer or liquidity provider for the sole-managed Funds and the dominant dealer for several co-managed CEFs.²

9. The CEFs represent the largest single source of revenue for UBS PR. For example, between 2004 and 2008, the CEF business generated 50% of annual total revenues for UBS PR and UBS Trust Company combined, which included Fund advisory and administration fees, and primary and secondary market sales commissions. During 2008, UBS PR’s CEF business produced \$94.5 million in revenue for the firm.

² UBS Trust Company serves as the sole manager for: Puerto Rico Fixed Income Funds I – VI; Puerto Rico Mortgage Backed & US Govt. Fund; Tax-Free Puerto Rico Funds I and II; Tax-Free Puerto Rico Target Maturity Fund; Puerto Rico AAA Portfolio Target Maturity Fund; Puerto Rico AAA Portfolio Bond Funds I and II; and Puerto Rico GNMA & U.S. Gov. Target Maturity Fund. UBS Trust Company serves as co-manager for Puerto Rico Investor’s Tax-Free Funds I – VI, Puerto Rico Tax-Free Target Maturity Fund I and II, and Puerto Rico Investors Bond Fund I.

10. UBS PR marketed its CEFs mainly to its Puerto Rico retail customer base. That customer base included some seniors and retirees, and a number of them who invested in CEFs depended on monthly dividend income from the CEFs to supplement their payments from Social Security.

11. Financial advisors also promoted UBS PR's dividend reinvestment program which was an important selling point of the CEFs. Under this word-of-mouth monthly program, investors could elect to receive dividend reinvestment shares – issued by the CEFs at the Net Asset Value of the Funds (“NAV”) – and immediately sell them back to UBS PR at the then-existing market price, earning premiums of up to 45%. This program was highly attractive to many of UBS PR's senior customers, who depended on the income from their CEF shares.

E. UBS PR, THE CEO AND THE HCM MISREPRESENTED AND OMITTED DISCLOSING MATERIAL FACTS ABOUT THE CEFS

Misrepresentations About CEF Prices

12. UBS PR knew investors were seeking stable, consistently-priced securities to protect their investment or retirement income. UBS PR was also aware that consistently high share prices were important to promoting the dividend reinvestment program which relied on high market price premiums relative to the Funds' NAVs.

13. Throughout 2008 and early 2009, UBS PR priced the CEFs to reduce volatility and maintain high premiums to NAV. UBS PR's pricing of the CEFs was left to the discretion of the HCM and the CEF head trader, who reported to the HCM. At the direction of the HCM, UBS PR used its CEF inventory account to purchase any excess supply of shares for which UBS PR could not find customers.

14. During the same time period, however, UBS PR misrepresented that market forces such as supply and demand determined CEF prices. For example, a January 2008 UBS PR brochure entitled “UBS Family of Funds” posted on the company's website stated that: “[m]arket forces such as supply and demand and the yield of similar type products determine the price of closed end fund shares.”

15. In addition, UBS PR provided CEF prices to the Puerto Rico daily newspaper *El Vocero* to publish those prices in the paper's business section. The newspaper simply listed CEF share “prices.” UBS PR omitted disclosing in the listings the prices represented only what UBS PR termed “indicative” prices. Indicative prices were simply what UBS PR thought the prices should be, but did not represent any commitment by UBS PR to buy or sell at that price. UBS PR's also failed to disclose that the prices included a 3% sales commission.

16. The CEF share prices in UBS PR customers' monthly account statements were similarly misleading in that they described “market values.” As with the newspaper prices, these prices were simply what UBS PR thought they should be, not true market prices.

The 2008-09 CEF Market Imbalance

17. As early as May 2008, the HCM noted a significant supply and demand imbalance in the CEF secondary market, because customers were placing sell orders in increasing numbers. By May 16, UBS PR executives knew the firm had \$37 million of CEF shares in its inventory, approaching the temporarily increased \$40 million limit that had been put in place in late April. In addition, there were \$16 million in unexecuted customer orders to sell shares at prices lower than UBS PR's bid. The HCM acknowledged in an email to senior executives that the trading desk should either execute these customer orders or lower the bid price of the Funds.

18. Rather than reduce CEF prices, for the next several months, the HCM continued to make repeated requests on behalf of UBS PR that UBSFS temporarily increase inventory limits, which increased to \$45 million at the end of July, and to \$50 million in December 2008.

19. Furthermore, on behalf of UBS PR, the HCM made only small changes to CEF share prices once or twice a month during this period. As UBS PR's CEF inventory grew from May through August 2008, the HCM did not change prices for 9 CEFs on any trading day. For example, from May through December, the HCM changed the price of one fund only one time. In the case of another fund, the trading desk quoted the same price every day from May through August 2008, and changed the price on just three trading days through December.

20. These unchanging and consistently high prices in the face of declining NAVs, increased customer selling relative to customer demand, and other unfavorable market conditions were in contrast to the representations of UBS PR that market forces determined CEF share prices.

21. UBS PR attempted to generate customer demand by promoting the CEFs at a UBS PR Investor Conference in June 2008. At that conference, a UBS PR managing director promoted the CEFs' extraordinary "market returns" and low risk and volatility, but failed to disclose that share prices and liquidity were increasingly dependent on UBS PR's support of the CEF secondary market.

22. After the Investor Conference, the HCM directed the CEF head trader to develop sales stories for brokers, regarding particular CEFs for which UBS PR had significant inventory positions. The HCM told the head trader to inform the sales force that the CEF desk was willing to offer the Funds with the highest inventory levels at reduced prices by reducing the typical five-cent-per-share markup the desk got on sales. The head trader met with financial advisors to provide information about those CEFs while omitting to disclose that the funds were those with the highest inventory levels.

23. By August 2008, customer demand for CEF shares was further ebbing. UBS PR's Group Management Board, including the CEO and the HCM, met on August 12. Among other things, the board minutes from that meeting show the attendees discussed the "market drag," "product fatigue," and "weak secondary market" for CEF shares. The CEO expressed uneasiness that financial advisors were concerned about the concentration of customers' investments in CEFs and about the continued CEF offerings.

24. After the board meeting, the CEO directed his subordinates to boost investor demand for CEF shares. On August 29, 2008, he told UBS PR executives “[i]t is clear to me that we have to ‘fix’ this.” He told them to “generate a story for each Fund” that the financial advisors could use to increase sales and facilitate large cross trades between customers, and work with the traders to coordinate bids and offers.

25. Notwithstanding his knowledge of the weak demand for CEF shares in the secondary market, the CEO repeatedly misled UBS PR’s financial advisors throughout the fall of 2008 into continuing to promote CEF sales. In numerous e-mails, he repeatedly misstated the strength, stability and liquidity of the CEF market. The CEO did not disclose to the sales force the liquidity issues in the secondary market, or that UBS PR was keeping the CEF prices high by increasing its CEF inventory.

26. The sales force solicited sales of the CEFs during this period, including two new primary CEF offerings totaling \$66 million. The CEO sent several emails to the UBS PR sales force strongly promoting the anticipated returns of the new offerings while assuring that the offerings would have little if any effect on the CEF secondary market. Yet privately, the CEO told the HCM and other executives he was directing that UBS PR move forward with the primary offerings regardless of UBS PR’s high CEF inventory holdings.

27. UBS PR prepared a presentation to the sales force in connection with the new CEF offerings. This presentation, provided as reasons that customers should invest in the new funds that, among other things, “[f]und inventory levels are low, trading volumes are at all-time high (annualized), and prices/yields are aligned with current market conditions.” These statements were false or misleading given the record high inventory levels and UBS PR’s support of market prices.

28. Although the prospectuses for the two new CEF offerings, which were provided to primary market customers, stated that UBS PR was not obligated to maintain a market in the CEF shares, may discontinue maintaining a market at any time and that in the event it discontinued there may be no other market for the shares, UBS PR failed to disclose material facts to investors: (1) concerning the significant secondary market supply and demand imbalance; (2) that UBS PR was using its inventory account to support CEF market prices and liquidity to prevent price declines and maintain yields; and (3) that CEF prices and liquidity were highly dependent on the efforts of UBS PR’s sales force to maintain customer demand for the shares.

29. The HCM misrepresented material information to the financial advisors during this same time. Prior to the fall of 2008, UBS PR had routinely displayed inventory levels for each CEF in the firm’s inventory sheets that were circulated to its financial advisors. For the entire month leading up to the new offerings, the HCM concealed UBS PR’s increasing inventory from the company’s sales force. He directed the head trader to change the daily CEF inventory sheets sent to financial advisors to reflect a maximum of 50,000 shares per Fund, rather than the actual number of shares the firm owned.

30. Ultimately more than 600 investors purchased shares in the primary offerings. The secondary market continued to experience supply and demand imbalances. UBS PR continued to

purchase shares into inventory throughout the fall of 2008 and early 2009, often from investors who wanted to sell shares they had obtained through the dividend reinvestment program.

F. UBS PR REDUCES ITS INVENTORY BY UNDERCUTTING
CUSTOMER SELL ORDERS

UBSFS Orders UBS PR To Reduce Inventory

31. In February and March 2009, UBS PR's persistently high CEF inventory levels and the CEF shares' significant price premiums over NAV raised concerns of UBSFS' then-Chief Risk Officer ("Chief Risk Officer") and other executives.

32. In March, the HCM emailed a number of UBSFS executives seeking a temporary increase of inventory levels from \$50 to \$55 million to buy shares from customers selling their reinvestment shares. The reason given for the request was because of the supply and demand imbalance in the CEF market.

33. On March 19, UBSFS' Chief Risk Officer rejected the request and directed UBS PR to begin reducing inventory levels to the historical limit of \$30 million. UBS PR executives told a UBSFS senior executive that they expected the imbalance in the Funds market to improve because of economic conditions and because UBS PR would increase demand using its sales force. A senior UBS PR executive added if that strategy failed, UBS PR would use "the ultimate weapon [of] aggressive use of pricing to bring balance back to the market. . . ."

34. Two weeks later, UBSFS' Chief Risk Officer expressed his concern to UBSFS senior executives, that, although a supply and demand imbalance existed in the CEF secondary market, CEF prices remained high with a significant "difference between NAV and the price quoted by the trading desk . . . in some cases over 40%." He further alerted the executives that due to the fact that UBS PR's internal CEF trading limits were already exceeded because UBS PR had not yet reduced its inventory to its permanent limit, "there is a significant likelihood that clients wishing to sell the shares received through the dividend reinvestment program will be unable to do so."

35. As a result, the senior executives directed a review of UBS PR's pricing method for the market values of the CEFs. After conducting their review, on May 19, 2009, the then-Head of Wealth Management Advisor Group ("Head of WMAG") and the Chief Risk Officer reported:

- UBS PR was the sole CEF liquidity provider;
- UBS PR should reduce its CEF inventory to limit its risk exposure and "promote more rational pricing and more clarity to clients . . . [so] prices transparently develop based on supply and demand;" and,
- UBS PR ran a significant concentration risk that was inherent to the CEF business, which could not "effectively be reduced."

36. UBSFS' Risk Control Committee mandated further reductions to inventory limits as a result of this review. On May 29, 2009, UBSFS' Chief Risk Officer directed UBS PR to further reduce its CEF inventory to \$12 million.

*UBS PR Reduced The Firm's Inventory By Undercutting
Pending Customer Sell Orders*

37. In response, in June 2009, the HCM made a presentation to members of UBSFS' Risk Committee in which he described UBS PR's strategy to reduce its inventory and bring prices in-line with NAVs as "Objective: Soft Landing." In a subsequent email to members of UBSFS' Risk Committee and the CEO, the HCM described the firm's strategy as: "1. [p]urchasing from clients the minimum amount of shares possible," and "2. [l]owering our price to keep ahead of any client open orders in terms of lowest offer price in the market."

38. Over the course of the next few months, the HCM and UBS PR pursued this strategy to execute UBSFS' directive and reduce its inventory by:

- Lowering CEF prices to undercut the pending customer sell orders in the firm's Good-Til-Cancelled ("GTC") order book;
- Soliciting new and existing customers to buy CEF shares without disclosing UBS PR's decision to reduce its inventory by lowering CEF share prices below customer orders;
- Limiting UBS PR's inventory purchases to dividend reinvestment share sellers; and,
- Arranging transactions in conjunction with offers by the affiliated CEF companies to repurchase newly issued shares from customers, so UBS PR could sell to those customers shares from the firm's aged inventory.

39. The HCM and the head trader discouraged financial advisors from placing market orders, which UBS PR had to execute before reducing its own position, by telling financial advisors that customers might not receive the best execution price. Numerous CEF customers (many of whom were unsophisticated retail clients) did not know the difference between market and limit orders. Thus, to comply with the trading desk's directives, the financial advisors placed the vast majority of sell orders as limit orders.

40. UBS PR's trading policy directed the firm to treat "marketable" limit orders, i.e., orders at or better than UBS PR's bid prices, like market orders. However, commencing in March 2009, the HCM directed the head trader to regularly eliminate pending marketable limit orders by reducing CEF prices to just below the customers' pending sell orders, to sell UBS PR's CEF inventory first.

41. For example, on March 3, 2009, UBS PR sent its GTC book to the sales force showing \$16 million in marketable, unexecuted customer sell orders. That day, the HCM instructed the head trader to "prepare a pricing where we eliminate the marketable GTC [customer] orders . . . This is top priority."

42. A few hours later, the head trader lowered market prices of 15 of the 23 funds to one penny below the best customer orders, rendering \$14 million of customer orders “non-marketable.” The GTC book the HCM and the head trader sent to financial advisors on March 4 reflected only \$2 million in marketable, unexecuted customer orders.

UBS PR Misrepresented Its Support of the CEF Market and Failed To Disclose Its Conflicts Of Interest to CEF Investors

43. UBS PR did not disclose to its customers it was substantially reducing the use of its inventory to support the CEF market. UBS PR also continued to accept customer limit orders without disclosing that it was undercutting those limit orders to sell UBS PR’s shares first. UBS PR also failed to disclose the conflict of interest created by recommending CEFs to investors while selling its own shares.

44. UBS PR’s conflicts of interest with its customers were exacerbated because the firm controlled the market for the CEFs, and investors could not go to another broker-dealer to sell their CEF shares. Customers had to compete with UBS PR to sell shares in a market UBS PR dominated and controlled. In addition, some UBS PR customers attempting to sell CEF shares during this time were senior retail investors who had substantial amounts of their net worth invested and concentrated in the CEFs.

While UBS PR Was Selling Its Inventory, UBS PR, the CEO and the HCM Pushed Financial Advisors To Boost Demand For CEF Shares

45. On March 31, 2009, UBS PR and the HCM made misrepresentations and omissions to hundreds of customers at a UBS PR Puerto Rico Investor Conference about the CEF’s superior returns and consistent liquidity levels.

46. Before the conference, the CEO urged UBS PR’s sales force to “call your clients, [because] the information presented will offer comfort to holders of Puerto Rico bonds and Funds” (emphasis in original). UBS PR also purchased full-page newspaper advertisements in *El Vocero* as well as television spots promoting the conference. In an e-mail sent on the morning of the conference, the HCM told the CEO and other executives his view that UBS PR should present the message to investors that the secondary market had “shown resiliency (high liquidity, stable price) during these times.” This directly contradicted the HCM’s statements two weeks earlier to UBS PR executives that the market was imbalanced because sellers significantly outnumbered buyers.

47. At the conference, the HCM made a presentation about the CEFs’ secondary trading market. The HCM misrepresented that CEF liquidity was increasing and CEF prices were stable and the result of supply and demand in an open market. In fact, the CEFs were experiencing a significant supply and demand imbalance and UBS PR had been using its own inventory to support CEF prices and disguise the lack of liquidity in the market. Furthermore, the HCM omitted disclosing UBSFS had recently ordered UBS PR to reduce inventory, and that to comply with this directive UBS PR had begun lowering share prices and buying fewer customer shares.

48. During the ensuing months, the CEO and UBS PR tried to create CEF demand while concealing the liquidity problems and inventory reduction. The CEO directed UBS PR's sales force to solicit customers to buy CEFs notwithstanding UBS PR customers' and financial advisors' concerns about CEF prices and liquidity.

49. The CEO further misled investors about the state of the CEF market. In a newspaper interview published in *El Vocero* on April 24, 2009, the CEO specifically addressed the CEF market, stating that in the face of other, poor-performing markets, CEF share prices had been stable and performed well. That same day, the CEO sent an email entitled "Creation of Value" in which he directed financial advisors to tell their customers that the CEFs would continue to trade at significant premiums to NAV and provide the "reinvestment kickers" of the dividend reinvestment program. These statements were made without disclosing the existing secondary market illiquidity, or that UBS PR was significantly reducing CEF market prices in order to sell its inventory.

50. From April to August 2009, UBS PR's executives, including the HCM, conducted multiple sales meetings with financial advisors encouraging them to solicit their customers to invest in the CEFs without disclosing UBS PR's significant inventory reduction and misleadingly blamed falling CEF prices on global economic conditions. During this period, the percentage of investors' CEF purchases that financial advisors solicited increased to approximately 70% to 90%.

51. In August 2009, despite expressing concerns in an email to UBSFS executives that UBS PR's inventory reduction had caused "huge losses" to investors, the CEO sent an e-mail to UBS PR's sales force urging them to "consider the present prices of our Funds" and increasing dividends as a buying opportunity for UBS PR customers. The CEO omitted any mention of UBS PR's inventory or share price reductions, or his belief the inventory reduction had drastically reduced market prices.

52. To assist the firm in selling its inventory, UBS PR also took advantage of a CEF share repurchase program the CEO and other CEF board members authorized. At a UBSFS Executive Committee meeting, UBSFS' Head of WMAG and Chief Risk Officer proposed petitioning the independent board of directors for UBS PR's 14 sole-managed proprietary CEF funds to approve a share repurchase program, which could be used to reduce UBS PR's CEF inventory. On May 27, 2009, the CEO and the other members of the Funds' board of directors approved the repurchase of a higher percentage of the Funds' outstanding shares than the board had previously approved.

53. After the board approved the repurchase, UBS PR and the HCM arranged for UBS PR customers, who had only seven months earlier purchased shares of the two new CEFs, to sell \$7 million of tendered shares back to the Fund companies. That same day, UBS PR solicited those customers to immediately purchase \$7 million of shares from Funds where UBS PR had the highest inventory. UBS PR did not disclose to those customers that a material basis for recommending those specific funds was to reduce UBS PR's largest aged inventory positions.

54. In June 2009, to discourage customer sales of CEF shares, UBS PR instituted a requirement that any customer order to sell over 10,000 CEF shares required approval of a branch office manager.

55. By September 30, UBS PR had reduced its CEF inventory to about \$12 million, the level UBSFS mandated. However, UBS PR's GTC order book on the same day detailed approximately \$72 million in unexecuted customer sell orders that had accumulated over the prior 6 months.

56. When UBS PR sold 75% of its inventory and ceased using its inventory to support the CEF secondary market, prices dropped. From March 3 to September 30, 2009, 21 of 23 CEFs experienced significant price declines. The prices of the seven CEFs with the largest UBS PR inventory positions declined 10% to 15%.

G. VIOLATIONS

57. As a result of the conduct described above, UBS PR willfully violated Section 17(a) of the Securities Act, which prohibits fraudulent conduct in the offer and sale of securities, and Sections 10(b) and 15(c) of the Exchange Act and Exchange Act Rule 10b-5, which prohibit fraudulent conduct in connection with the purchase or sale of securities.

H. UNDERTAKINGS

58. UBS PR agrees to retain, at UBS PR's expense and within sixty days of the issuance of this Order, an independent third-party consultant, not unacceptable to the staff, to review UBS PR's closed-end fund disclosures and trading and pricing policies, procedures, and practices for adequacy. After such review, which UBS PR shall require to be completed within ninety days of the issuance of this Order, UBS PR will submit to the Commission, the findings of the independent consultant making recommendations for any changes in or improvements to UBS PR's policies, procedures, and practices, and a procedure for implementing such recommended changes. Within ninety days of receipt of the report, UBS PR shall adopt the recommendations contained in the report; provided, however, that as to any recommendation that UBS PR considers to be, in whole or in part, unduly burdensome or impractical, UBS PR may submit in writing to the consultant and Commission staff, within thirty days of receiving the report, an alternative policy, practice, or procedure designed to achieve the same objective or purpose. Within forty-five days of receiving the report, UBS PR shall attempt in good faith to reach an agreement relating to each recommendation that UBS PR considers to be unduly burdensome or impractical. Within fifteen days after the discussion and evaluation by UBS PR and the consultant, UBS PR shall require that the consultant inform UBS PR and Commission staff of the consultant's final determination concerning any recommendation that UBS PR considers unduly burdensome or impractical, and UBS PR shall abide by the determinations of the consultant and adopt and implement all recommendations within the ninety-day time period set forth in this paragraph.

59. Within fourteen days of UBS PR's adoption of all of the recommendations that the consultant deems appropriate, UBS PR agrees to certify in writing to the consultant and Commission staff that UBS PR has adopted and implemented all of the consultant's recommendations. Thereafter, UBS PR agrees to require the independent third-party consultant to conduct an annual review for each of the following three years from the date of the issuance of the consultant's initial report, to assess whether UBS PR is complying with the consultant's

recommended policies, procedures, and/or practices that UBS PR adopted and whether the adopted policies, procedures, and/or practices are effective in achieving their stated purposes.

60. In connection with this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, Respondent (i) agrees to use all best efforts to make its principals, partners, officers, and employees available to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Respondent's counsel as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Respondent's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Respondent in any United States District Court for purposes of enforcing any such subpoena.

In determining whether to accept the Offer, the Commission has considered these undertakings.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act, and Sections 15(b) and 21C of the Exchange Act, it is hereby ORDERED that:

A. UBS PR cease and desist from committing or causing any violations and any future violations of Sections 17(a) of the Securities Act, Sections 10(b) and 15(c) of the Exchange Act, and Rule 10b-5 of the Exchange Act.

B. UBS PR is censured.

C. UBS PR shall, within 14 days of the entry of this Order, pay disgorgement of \$11,500,000.00, prejudgment interest of \$1,109,739.94, and a civil money penalty of \$14,000,000.00 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 or 31 U.S.C. 3717. Such payment shall be: (A) made by 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 Enterprise Services Center, Accounts Receivable, 6500 S. MacArthur Blvd., Oklahoma City, Oklahoma, 73169; and (D) submitted under cover letter that identifies UBS PR as a Respondent in these proceedings, the file number of these proceedings, a copy of which shall be sent to Jason R. Berkowitz, Division of Enforcement, Securities and Exchange Commission, Miami Regional Office, 801 Brickell Avenue, Suite 1800, Miami, FL 33131.

D. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, interest and/or penalties referenced in Paragraph C above. Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it, shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

E. Respondent shall comply with the undertakings enumerated in paragraphs 58 and 59 of Section III above.

By the Commission.

Elizabeth M. Murphy
Secretary