



## UBS SECURITIES LLC

### FUTURES CLEARING MERCHANT FIRM DISCLOSURE DOCUMENT

The U.S. Commodity Futures Trading Commission ("CFTC") requires each futures commission merchant ("FCM"), including UBS Securities LLC ("UBS-S" or "Firm"), to provide the following information to a customer prior to the time the customer first enters into an account agreement with the FCM or deposits money or securities ("funds") with the FCM. Except as otherwise noted below, the information set out is current as of December 31, 2018<sup>1</sup>. UBS-S will update this information annually and as necessary to take account of any material change to its business operations, financial condition or other factors that UBS-S believes may be material to a customer's decision to do business with UBS-S. Nonetheless, UBS-S' business activities and financial data are not static and will change in non-material ways frequently throughout any 12-month period.

By entering into an account agreement with UBS-S, the customer acknowledges that the disclosures contained within this document are not static and may be updated from time-to-time to reflect material changes in these disclosures, as determined in UBS-S' sole discretion. UBS-S will inform, on a good efforts basis, its customers of material changes to these disclosures, and a customer's receipt of such notice will be satisfied when posted to the UBS-S public website.

UBS-S is an indirect wholly owned subsidiary of UBS Group AG ("Parent"). UBS-S is owned by (i) UBS Americas Inc., holding 100% of the Class A Interests, 99% of the Class B Interests and 100% of the Preferred Interest; and (ii) UBS Americas Holding LLC (an intermediate holding company), holding 1% of the Class B Interests.<sup>2</sup> Information that may be material with respect to UBS-S for purposes of the CFTC's disclosure requirements may not be material to the Parent, UBS Americas Inc., or UBS Americas Holding LLC for purposes of applicable securities laws.

This disclosure document was first used on July 14, 2014.

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<sup>1</sup> Amended

<sup>2</sup> Amended

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## **Background Information of the Firm and Its Principals**

UBS-S is a premier FCM whose customers benefit from a global firm with a solid balance sheet and one of the highest Tier 1 capital ratios in the industry. UBS-S manages a significant volume of exchange traded derivative transactions daily, leveraging our global presence to guide customers toward optimal results. The FCM is part of ICS Execution and Clearing ("ICS"), an umbrella group consisting of Exchange Traded Derivatives (trading and clearing), OTC Client Clearing, FX Prime Brokerage and FX, Rates & Credit agency execution. ICS allows the team to maximize synergies, optimize risk and resources, and create greater critical mass.

The Firm's goal is to deliver efficient front-to-back cross-asset class solutions. UBS-S' multi-asset class and global approach to execution and clearing enables UBS-S to provide a client-centric clearing and financing proposition across all asset classes and regions. UBS-S is in a position to offer customers the benefits of prime brokerage-operational efficiency, risk and collateral management expertise, consolidated reporting-together with a choice of clearing and settlement solution.

### **Firm Contact Information**

UBS Securities LLC  
1285 Avenue of the Americas  
New York, NY 10019  
Phone: 212-713-2000  
[comments@ubs.com](mailto:comments@ubs.com)

*Important note: Please do not email any confidential or account information or instructions (such as order to trade, to transfer funds or to change account information). UBS-S is not liable for any acts or failure to act as a result of your email.*

If you have any futures related complaints, please contact the Chief Compliance Officer of the FCM at 312-525-6518 between 9:00am and 5:00pm (CST), Monday through Friday, or write us at:

UBS Securities LLC  
Chief Compliance Officer of the FCM  
1 North Wacker Drive, 31<sup>st</sup> Floor  
Chicago, IL 60606

### **Futures Designated Self-Regulatory Organization ("DSRO")<sup>3</sup>**

The Chicago Board of Trade  
[www.cmegroup.com](http://www.cmegroup.com)

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<sup>3</sup> DSRO means a self-regulatory organization that has been delegated the responsibility for monitoring and examining an FCM for compliance with the minimum financial and related reporting requirements of the self-regulatory organizations of which the FCM is a member, and for receiving the financial reports required by such minimum financial and related reporting requirements from such FCM.



## Firm Principals<sup>4</sup>

### **Samuel Kendall**

Group Managing Director  
President and CEO  
Head of Corporate Client Solutions, Americas  
Global Head of Equity Capital Market Solutions  
1285 Avenue of the Americas  
New York, NY 10019

Mr. Kendall joined UBS in 1996. For over 20 years, Mr. Kendall has held extensive leadership roles globally within the organization that span sales, trading and capital markets. As President and CEO of UBS-S, Mr. Kendall is responsible for driving UBS's growth strategy, increasing collaboration and profitability across business divisions, ensuring regulatory compliance and representing the firm to the public-at-large. He is also responsible for ensuring that the FCM's strategies, as part of the broker dealer, are effectively managed. As Head of Corporate Client Solutions ("CCS"), Americas, he has responsibility across the region for the organization's traditional investment bank product suite as well as specialized equity and debt financing solutions. This complement's his role as Global Head of Equity Capital Markets Solutions, and follows a previous role as Head of Corporate Client Solutions, APAC. Mr. Kendall also chairs the CCS Americas Management Committee and CCS Americas Risk Committee

### **Scott W. Anderson**

Chief Compliance Officer  
1285 Avenue of the Americas  
Stamford, CT 06901

Mr. Anderson has been in the financial services industry for over 20 years. Prior to joining UBS, Mr. Anderson was a Senior Vice President in the Compliance Department with Fidelity Investments. He previously worked for UBS from 2000-2012 in Legal and Compliance roles, most recently as Managing Director and Head of Americas Equities Compliance. Earlier in his career, Mr. Anderson worked as an attorney in Nasdaq Office of General Counsel and the NASD (now FINRA) Enforcement Department.

As a Managing Director, Mr. Anderson is Head of Investment Bank Americas Compliance and Operation Risk Control. As CCO of UBS-S, he is responsible for managing risk and compliance with respect to regional business practices, policy and regulatory requirements.

### **Patrick DiMarco**

Chief Compliance Officer of the FCM  
1 North Wacker Drive  
Chicago, IL 60606

Mr. DiMarco has extensive regulatory experience including roles at the Chicago Board of Trade, ABN AMRO Futures Inc. and UBS Securities LLC in the futures and OTC Cleared business. He began his career at the Chicago Board of Trade as a Staff Examiner and from there advanced in the roles of Senior Examiner and Business Analyst within the Office of Investigations and Audits. He previously worked for UBS-S as a Futures Compliance Officer and then joined ABN AMRO Inc. as Head of Futures Compliance.

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<sup>4</sup> Amended



UBS Securities LLC  
FCM Specific Disclosure Document  
For Public Distribution

As a result of UBS' acquisition of ABN AMRO Inc.'s futures business, Mr. DiMarco became Head of Exchange Traded Derivatives Compliance, Americas.

As an Executive Director, Mr. DiMarco is responsible for overseeing the FCM's compliance program with respect to local business practices and its compliance with CFTC regulations related to the futures commission merchants and swap dealers.

**Mary Hurd**

Americas Head of Investment Bank Operations  
600 Washington Blvd  
Stamford, CT 06901

Mary Hurd joined UBS in 2005. Prior to this time she worked at JPMorgan Chase for 18 years. Her career across both firms has been primarily focused in Operations. As a Managing Director, Ms. Hurd oversees the US based Operations for UBS' Investment Bank division. She is responsible for ensuring that Operations provides accurate, well controlled and timely operational processing support to clients and business partners. As the Operations Principal for UBS-S she is also responsible for ensuring compliance with the rules that apply to clearing operations, as well as, maintenance of the firm's books and records.

**Ralph Mattone**

Chief Financial Officer and Controller  
1285 Avenue of the Americas  
New York, NY 10019

Mr. Mattone has been in the financial services industry for 33 years. Prior to joining UBS, Mr. Mattone has held various positions which included Head of US Regulatory and Financial Reporting at Nomura Securities for over 7 years. He held similar roles at Deutsche Bank and ABN AMRO. Prior to his financial services career, he was with the accounting firm Murphy, Hauser, O'Conner and Quinn in the Tax and Audit departments.

As a Managing Director, he is the Head of Americas Regional Controlling. He is also Controller of the Intermediate Holding Company, UBS Americas Inc. As Chief Financial Officer of UBS-S, Mr. Mattone is responsible for managing the financial accounting of the firm. He is also responsible for providing complete, correct and auditable reporting for all external regulatory and statutory bodies.

**Sam Molinaro**

President of UBS Americas Holding LLC and COO UBS Americas  
600 Washington Boulevard  
Stamford, CT 06901

Mr. Molinaro brings extensive industry experience from his years at Bear Stearns where he was Chief Financial Officer and later Chief Operating Officer. Before joining UBS, he worked in several advisory roles and was CEO and Chairman of Braver Stern Securities. Mr. Molinaro also has served as Director of Securities Industry and Financial Markets Association.

As a Managing Director, he is President of UBS Americas Holding LLC and his responsibilities include the enhancement of governance of UBS' US operations consistent with the Federal Reserve's Enhanced Prudential Standards requirements and regulatory expectations.



**Chris Hagstrom**

Americas Head of Global Financing Services  
1285 Avenue of the Americas  
New York, NY 10019

Chris Hagstrom is Managing Director and Americas Head of Global Financing Services. In his role, Chris is responsible for the Prime Brokerage business, Equity Finance business and growing the firms GCE business.

Chris has more than 22 years of experience within equities and has been working with hedge funds for the majority of his career. Since joining UBS in May 2004, Chris has overseen the Equity, Swaps and Securities Lending businesses, the Prime Brokerage Sales Team and most recently ran Prime Brokerage in the Americas, before becoming Co-Head of Equities Distribution in 2015.

Before joining UBS, Chris worked in Equity finance at Societe Generale for ten years in both London and New York. In his tenure he set up the New York financing desk and ran the Global Equity Finance Sales Team from London/Paris.

**Reinhardt Olsen**

Head of Equities  
1285 Avenue of the Americas  
New York, NY 10019

Reinhardt Olsen is the Head of Americas Equities. Reinhardt joined UBS in 2003, after spending 14 years at Merrill Lynch in senior positions across Fixed Income Sales and Trading. During his extended career at UBS, Reinhardt has served as President of UBS Securities LLC and played an instrumental role in the success of the firm's Financing Services franchise in the region and globally.

**Dylan Roy**

Head of Foreign Exchange, Rates and Credit, Americas  
1285 Avenue of the Americas  
New York, NY 10019

Mr. Roy has over 20 years of substantial derivatives trading. Mr. Roy joined UBS London in 2010 as the Global Head of Vanilla Interest Rate Options. In 2012, he moved to New York and was subsequently appointed Head of US Rates Trading. Prior to joining UBS, he spent 14 years with Barclays Capital trading G3 interest rate derivatives in both London and New York.

As a Managing Director, his leadership role includes ensuring diligent local supervision and achieving focused coordination across businesses.

**Description of the Firm's Business**

UBS-S is registered with the CFTC and National Futures Association ("NFA") as a clearing FCM. UBS-S provides execution and clearing services for all major US commodities exchanges, as well as, access to major global derivatives exchanges and markets. The Firm is also a participant at several swap execution facilities. UBS-S is registered as a broker dealer under the Securities Exchange Act of 1934 and is a

member of the Financial Industry Regulatory Authority and other principal US equities and equity options exchanges. UBS-S is also a primary dealer in US Government securities and provides a full range of investment banking services, including corporate finance, mergers and acquisitions, capital markets, trading and sales, fixed income, equity research and prime brokerage operations.

The focus of this document is primarily on the FCM related activities of UBS-S.

### Futures/Commodities Exchange and Swap Execution Facility Memberships

Exchange Memberships	SEF Memberships <sup>5</sup>
Bourse de Montreal / Montreal Exchange	BATS Hotspot SEF LLC
CBOE Futures Exchange (CFE)	Bloomberg SEF LLC
Chicago Board of Trade (CBOT)	GFI Swaps Exchange LLC
Chicago Mercantile Exchange Inc. (CME)	GTX SEF LLC
Commodities Exchange Inc. (COMEX)	ICAP Global Derivatives Limited
Dubai Mercantile Exchange (DME)	ICAP SEF (US) LLC
Eris Exchange	ICE Swap Trade LLC
ICE Futures US Inc. (ICE)	MarketAxess SEF Corporation
ICE Futures Europe	SwapEX LLC
Minneapolis Grain Exchange Inc. (MGEX)	Thomson Reuters (SEF) LLC
NASDAQ OMX Futures Inc. (NFX)	tpSEF Inc.
New York Mercantile Exchange Inc.	Tradition SEF Inc.
Nodal Exchange	trueEX LLC
OneChicago LLC	TW SEF LLC
TrueEx LLC	

### Clearinghouses Used

Clearing Organization	UBS-S Membership	UBS-S Affiliate Membership
ASX Clear (Futures)		√
CME Clearing	√	
Eurex Clearing		√
ICE Clear US Inc.	√	
ICE Clear Europe	√	
ICE Clear Credit LLC	√	
LCH.Clearnet LLC	√	
LCH.Clearnet Limited	√	
Minneapolis Grain Exchange Clearing House	√	
Options Clearing Corporation	√	
Singapore Exchange Derivatives Clearing		√

### Carrying Brokers Used

Carrying Brokers (US/Non-US)	UBS-S Affiliate (Y/N)
BMO Nesbitt Burns, Canada (Non-US)	N
UBS Limited, United Kingdom (Non-US)	Y
UBS AG, Australia (Non-US)	Y
UBS AG, London (Non-US) <sup>6</sup>	Y

<sup>5</sup> The FCM does not act as Principle in any over-the-counter transaction.

### FCM Customer Base

- Institutional (assets managers, insurance companies, banks) and Commercial (agricultural, energy) customers<sup>7</sup>
- Local market access to financial, agricultural, energy, security futures, swaps products
- International market access to Canada, Mexico, Europe, Asia/Pacific, Brazil

### Permitted Depositories and Counterparties

UBS-S has policies and procedures in place to address the choice of bank depositories and custodians, including counterparties to permitted transactions under CFTC Rule 1.25<sup>8</sup>. These entities are vetted in accordance with Firm policy, which at a minimum takes into consideration:

- Creditworthiness
- Jurisdiction / counterparty type (credit counterparties are subject to credit analysis and internal ratings)
- Capital and credit risk exposure
- Operational reliability / industry expertise
- Type of services offered
- Access to liquidity
- Concentration of customer funds
- Know Your Client and Customer Identification Program checks

These entities are also subject to ongoing monitoring and periodic risk-based reviews. UBS-S also has arrangements in place for a back-up bank depository as required by regulation.

### Depositories Used

Depositories (US/Non-US)	UBS-S Affiliate (Y/N)
BMO Harris Bank, N.A., Chicago, IL (US)	N
Brown Brothers Harriman, New York, NY (US)	N
BNY Mellon, New York, NY (US)	N
Citibank N.A., London, UK (Non-US)	N
Citibank N.A., New York (US)	N
UBS AG, Stamford Branch, CT (US)	Y

<sup>6</sup> Amended

<sup>7</sup> UBS-S also maintains accounts for its affiliates and their customers.

<sup>8</sup> CFTC Rule 1.25 authorizes an FCM to invest customer segregated funds, cleared swaps customer collateral and 30.7 customer funds in permitted investments. For more information please refer to the FIA Law and Compliance Division's "Guide to Customer Fund Protections - Frequently Asked Questions" website at [www.futuresindustry.org](http://www.futuresindustry.org)

### Other Business Activities

The following table is a breakdown of the significant types of business activities and product lines engaged in by the Firm, along with the approximate percentage of the Firm's assets and capital that are used in each type of activity.

<b>Activity/Product Line</b>	<b>Percentage of Assets</b>	<b>Percentage of Capital</b>
Financing (Resales, Borrows)	59%	2%
Inventory by Business Line:		
<i>US Govt. Securities, Corporate Debt, US Govt. Securities, CDs, MBS, Municipals</i>	19%	11%
Equities	4%	5%
Other Inventory ( <i>Mutual Funds, CEFs</i> )	Less than 1%	1%
Goodwill and Tangible Assets	1%	0%
Receivable from Broker-Dealers and Customers	14%	4%
Investments in Subsidiaries and Receivable from Affiliates	Less than 1%	1%
Fixed and All Other Assets	3%	9%

## **Material Risks of the Firm**

There are many risks associated with futures and securities trading. While this document does not address all of the risks, it does attempt to highlight significant risks that customers should be aware of.

### Credit and Market Risk

- UBS-S is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, UBS-S may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Firm's policy to review, as necessary, the credit standing of each counterparty.
- UBS-S' customer activities involve the execution, settlement and financing of various securities transactions. In addition, UBS-S executes and clears customer and affiliated customer transactions for the purchase and sale of commodity futures contracts and options on futures contracts. These activities are transacted on either a cash or margin basis. In margin transactions, the Firm extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. Such transactions may expose the Firm to off-balance sheet risk in the event that margin requirements are not sufficient to fully cover losses that the customers incur, or contra brokers are unable to meet the terms of the contracted obligations.
- UBS-S enters into collateralized resale and repurchase agreements and securities borrowing and lending transactions that may result in credit exposure in the event the counterparty to the

transaction is unable to fulfill its contractual obligations. The Firm minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by UBS-S when deemed necessary. In addition, UBS-S manages credit risk by entering into netting agreements with counterparties.

- Futures and forward contracts provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates, foreign currency exchange rates or market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Firm has recorded an unrealized gain.

### Insolvency Risk

Futures customers of UBS-S have different types of insolvency risks relating to their futures account. The five most obvious are: (1) those related to the risk that UBS-S will become insolvent (an FCM bankruptcy); (2) those related to risks for the insolvency of other UBS-S futures clients (especially in the case wherein a customer default threatens the solvency of the FCM); (3) those related to the risk that a UBS-S affiliate providing omnibus account services will become insolvent; (4) depository insolvency risk; and (5) exchange clearinghouse default risk. UBS-S is not responsible for losses of customer funds resulting from the failure of an affiliate, depository (including intermediate broker) or exchange clearing house. The most relevant risk to a futures customer in the event of insolvency of another futures customer is the ability of UBS-S to meet the obligations caused by its customer's default.

- If in the unlikely event UBS-S is forced into bankruptcy as a result of a default by one or more of its futures customers, Chapter 7, Subchapter IV of the Bankruptcy Code, Section 20 of the Commodity Exchange Act and Part 190 of the CFTC regulations provide for a pro rata distribution of customer segregated funds among the public customer of UBS-S prior to all other claims except costs of administration. "Public customers" does not include UBS-S, with respect to its own trading account and its officers, directors or other affiliates with respect to their personal trading accounts. For purposes of determining this pro rata distribution, all property segregated on behalf of or otherwise traceable to, a particular account class is to be allocated to that class in conformity with CFTC Regulation 190.08(c)(1). All other property is allocated among all account classes using a formula intended to equalize the percentage of each claim for each class of accounts. Specifically identifiable property may be returned or transferred on behalf of the customers, rather than liquidated, under certain circumstances, pursuant to CFTC Regulation 190.08(a)(1)(ii)(C). CFTC regulations require that, if funds in the public customers' segregated accounts are insufficient to fully satisfy all futures customer claims, UBS-S' remaining FCM assets will be used to satisfy these public customer claims. Any remaining assets of the FCM would then be available for distribution to the FCM's general creditors.
- While futures trading on US markets come with inherent risks, customers trading on foreign markets assume additional risks. Customers that engage in trading on foreign markets are subject to fellow customer risk in foreign jurisdictions where laws and regulations will vary depending on the foreign jurisdiction. Therefore in the event of bankruptcy by a foreign broker or foreign depository (this would include a UBS-S foreign affiliate), a customer that trades only in one country or in one foreign market is exposed to fellow customer risk from losses that may be incurred in other countries and other markets. If a foreign broker or foreign depository carrying UBS-S' customer assets fails, the foreign broker or foreign depository will be liquidated

in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the US Bankruptcy Code. Return of customer assets to the US will be delayed and likely will be subject to the costs of administration of the failed foreign broker or foreign depository in accordance with the law of the applicable jurisdiction, as well as, possible other intervening foreign brokers, if multiple foreign brokers were used to process the US customer's transactions on foreign markets. UBS-S is not responsible for losses of customer funds resulting from the failure of a foreign broker or foreign depository (including an exchange clearing house).

UBS-S seeks to control the risk associated with these activities by requiring customers or brokers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Firm monitors required margin levels daily and, pursuant to such guidelines, requires customers or brokers to deposit additional collateral or reduce positions, when necessary.

### Affiliate Risk<sup>9</sup>

UBS-S' primary foreign broker is UBS Limited. UBS Limited is a direct wholly-owned UK banking subsidiary of UBS AG. UBS Limited is authorized and regulated by the UK Financial Conduct Authority ("FCA"). FCA has established client money rules with respect to customer assets. The FCA rulebook

can be found at <http://fshandbook.info/FS/html/handbook/CASS/>. Accordingly, customer cash required to be posted as margin is deposited with UBS Limited in omnibus accounts that are appropriately designated as belonging to the futures customers of UBS-S. While UBS Limited complies with the client money rules and customer cash held on behalf of UBS-S' customers is segregated from UBS Limited's assets, certain risks exist.

- In certain circumstances and in accordance with the client money rules, some overseas exchanges and their clearing houses (and consequently intermediate brokers) may not recognize the segregated status of customer cash.
- UBS Limited is required to exercise due skill, care and diligence in the selection of banks, settlement agents and intermediate brokers. However, provided that UBS Limited has made its selection in accordance with that duty, in the event of a default of a bank, exchange, clearing house or intermediate broker holding client money in a segregated account, UBS Limited is not liable to make good any shortfalls in such client money.
- Custody assets (non-cash) treatment is governed by FCA custody rules. The custody rules attempt to (i) prevent the use of custody assets belonging to a customer on UBS Limited's own account (except with the customer's expressed consent), and (ii) ensure that custody assets are, wherever possible, safe from claims of general creditors of UBS Limited's estate in the event of its insolvency.

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<sup>9</sup> As part of the UBS Brexit planning strategy in response to the decision of the United Kingdom to leave the European Union ("Brexit"), UBS AG London Branch will become the primary foreign broker for UBS-S. As a result, customer assets held by UBS Limited will migrate in waves to UBS AG London Branch. The migration will be completed by March 31, 2019. UBS AG London Branch is authorized and regulated by the Financial Market Supervisory Authority in Switzerland. In the United Kingdom it is authorized by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. UBS AG London Branch is located at 5 Broadgate, London, EC2M 2QS.

UBS-S holds cash belonging to its customers in depository accounts at UBS AG, Stamford Branch. UBS AG, Stamford Branch operates as a subsidiary of UBS AG and falls under the supervision and regulation of the Federal Reserve Bank's Division of Banking Supervision and Regulation.

In the unlikely event of insolvency by UBS Limited and/or UBS AG, Stamford Branch, futures customers would face a significant amount of risk, which may include loss of customer funds and liquidation of futures and options on futures contracts. Funds should however be segregated according to appropriate applicable rules. In addition, UBS-S would face a significant amount of operational risk, including the ability to continue transacting in futures and options on futures contracts.

Furthermore, UBS-S also deposits cash belonging to its customers with UBS AG, Australia Branch. UBS AG, Australia Branch is an authorized foreign Authorised Deposit-taking Institution under the Banking Act 1959 (Cth), and is supervised by the Australian Prudential Regulation Authority. In the unlikely event of insolvency by UBS AG, Australia Branch, UBS-S would continue to transact futures and options on futures contracts since its risk exposure to UBS AG, Australia Branch is not as significant as with the aforementioned UBS affiliates, however customer funds may still be at risk to the extent they were not returned in full or at all.

## **Current Risk Practices, Controls and Procedures**

Prospective customers are evaluated through the UBS-S' on-boarding process. As part of the on-boarding process, relevant information will be requested from the prospective customer to assist in the evaluation by the UBS Credit Risk Control and Global Financing Services Risk departments. These standards, to name a few, will typically cover:

- Analysis of financial statements
- Review of client underlying business and organizational set-up
- Understanding how and why the client uses futures and OTC derivatives
- Evaluation of sample portfolio and associated risk exposures
- Sales/Business case for account opening

Further, due diligence calls may be conducted with the prospective customer to obtain additional insight into:

- Key metrics such as leverage, capital, fund size, financing capabilities and performance
- Trading/hedging strategy, frequency of trading, internal risk management
- Non-standard documentation issues (if any)

UBS-S applies these standards to any prospective customer including those being transferred from another FCM clearing member. Once a customer is on-boarded, UBS-S follows a comprehensive and independent internal risk management framework to calculate risk exposure on its customer portfolios on a daily basis, and monitor the differential between the Firm's internal stress-based calculation and the minimum exchange margin requirements. For any stress loss-taking observed on customer portfolios defined as the difference between UBS-S internal stress metric and the exchange margins, additional collateral may be requested to mitigate the counterparty risk exposure the Firm may face. The level of additional margin requirement is determined based on the dynamics of the portfolio, including the magnitude of price, liquidity, short options and basis risks, the credit quality of the counterparty, and the level of transparency provided by the customer.

UBS-S maintains a comprehensive compliance program. Group Risk Control is an independent advisory and risk control function that includes the Compliance Department and Operational Risk Control ("CORC"). CORC responsibilities include ensuring the necessary risk frameworks are appropriately designed and operating effectively across the full operational risk taxonomy, pro-actively identifying and analyzing risk and providing constructive challenge to achieve an appropriate balance between risk and return.

### Customer Funds Segregation

Section 4d(a)(2) ("Customer Segregated Account") of the Commodity Exchange Act ("Act") requires each FCM to segregate from its own assets all money, securities, and other property deposited by futures customers to margin, secure, or guarantee futures contracts and options on futures contracts trades on designated contract markets. Part 30 ("30.7 Account") of the CFTC regulations requires the FCM to set aside from its own assets all money, securities, and other property deposited by futures customers to margin, guarantee, or secure foreign futures and foreign options transactions, and all funds accruing to those customers as a result of such foreign futures and foreign options transactions.

Section 4d(f) ("Cleared Swaps Customer Account") also provides that the FCM shall treat and deal with all money, securities, and property of any swaps customer received to margin, guarantee, or secure a swap cleared by or through a Derivatives Clearing Organization ("DCO") (including money, securities, or property accruing to the swaps customer as a result of such a swap) as belonging to the swaps customer.

UBS-S maintains three different types of accounts for its futures customers, depending on the products a customer trades:

- Customer Segregated Account (1.20) for customers that trade futures and options on futures listed on US futures exchanges;
- Secured Account (30.7) for customers that trade futures and options on futures listed on foreign boards of trade; and
- Cleared Swaps Customer Account (Part 22) for customers trading swaps that are cleared on a DCO registered with the CFTC.

The requirement to maintain these separate accounts reflect the different risks posed by the different products. Cash, securities and other collateral deposited by a futures customer or owed to a futures customer (collectively, Customer Funds) required to be held in one type of account, e.g., the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, e.g., the 30.7 Account, except as the CFTC may permit by order.

Customer Funds may not be commingled with the funds of UBS-S, nor be used to meet the obligations of the FCM or any other person, including another customer. CFTC regulations require the FCM to maintain at all times a sufficient amount of funds (based on type of account) to prevent the FCM from using the funds of one customer to margin or guarantee the account of another customer.

CFTC regulations permit Customer Funds to be commingled in a single account, i.e. a customer omnibus account, and held as follows:

- Customer Segregated Account – (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO.
- 30.7 Account – (i) a bank or trust company located in the US; (ii) a bank or trust company located outside the US that has in excess of \$1 billion regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or (vii) such clearing organization's or foreign broker's designated depositories.
- Cleared Swaps Customer Account – (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) a DCO; or (iv) another FCM.

The above accounts must each be specifically titled according to type and make clear that the funds belong to, and are being held for the benefit of the FCM's customers.

### Investment of Customer Funds

Customer Funds held in the above mentioned accounts are usually in excess and therefore, CFTC Rule 1.25 permits the FCM to invest the excess cash. **UBS-S however does not exercise its rights under CFTC Rule 1.25 and does not invest any Customer Funds.**<sup>10</sup> UBS does however invest its Residual Interest (above any customers' aggregated undermargined amounts) and strictly adheres to the allowable investments and concentration limits under CFTC Rule 1.25. Permitted investments include:

- Obligations of the US and obligation fully guaranteed as to principal and interest by the US (US government securities);
- General obligations of any State or political subdivision thereof (municipal securities);
- Obligations of any US government corporation or enterprise sponsored by the US government (US agency obligations<sup>11</sup>);
- Certificates of deposit issued by a bank (certificates of deposit) as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Insurance Corporation;
- Commercial paper fully guaranteed as to principal and interest by the US under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and;
- Interests in money market mutual funds.

The duration of the securities in which an FCM invests its Residual Interest cannot exceed, on average, two years.

An FCM may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transaction are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions must be held in the appropriate customer account type (i.e., Customer

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<sup>10</sup> Effective 5-23-2016

<sup>11</sup> Obligations issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Association are permitted only while these entities operate under the conservatorship or receivership of the Federal Housing Finance Authority with capital support from the US.



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Segregated Account, 30.7 Account or Cleared Swaps Customer Account.) Further, in accordance with the provisions of CFTC Rule 1.25, all such funds or collateral must be received in the appropriate customer account type on a delivery versus payment basis in immediately available funds.

UBS-S recognizes that any losses resulting from the investment of its Residual Interest is the sole responsibility of UBS-S. As UBS-S does not invest Customer Funds, there will be no investment losses on such funds.

### **No Securities Investor Protection ("SIPC")**

Although UBS-S is a registered broker-dealer, it is important to understand that the funds you deposit with UBS-S for the purpose of trading futures and options on futures on either US or foreign markets or cleared swaps are not protected by SIPC.

Further, CFTC rules require UBS-S to hold funds deposited to margin futures and options on futures contracts traded on US designated contract markets in Customer Segregated Accounts. Similarly, UBS-S must hold funds deposited to margin cleared swaps and futures and options on futures contracts trade on foreign boards of trade in a Cleared Swaps Customer Account or a 30.7 Account, respectively. In computing its Customer Funds requirements under relevant CFTC rules, UBS-S may only consider those Customer Funds actually held in the applicable Customer Accounts and may not apply free funds in an account under identical ownership but of a different classification or account type (e.g., securities, Customer Segregated, 30.7) to an account's margin deficiency. In order to be used for margin purposes, the funds must actually transfer to the identically-owned undermargined account.

For additional information on the protection of customer funds, please refer to the Futures Industry Association's "Protection of Customer Funds Frequently Asked Questions" located at [www.futuresindustry.org](http://www.futuresindustry.org).

## **Material Complaints or Actions**

UBS-S operates in a legal and regulatory environment that exposes it to significant litigation risks. As a result, UBS-S makes certain public disclosures of legal and regulatory matters as per the applicable laws and regulations and also makes relevant filings, as appropriate, in accordance with applicable account standards in its audited accounts. The following material administrative, civil, enforcement or criminal complaints or actions have been filed against UBS-S during the last three years<sup>12</sup>:

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<sup>12</sup> Regulatory actions filed and settled against UBS-S for FCM related activity can be found on NFA's website at [www.nfa.futures.org/basicnet/](http://www.nfa.futures.org/basicnet/). Additionally, as a registered broker-dealer, UBS-S is required to make disclosure of disciplinary actions in its Form BD, the Uniform Application for Broker-Dealer Registration. Disciplinary disclosures in the Form BD cover matters involving UBS-S, its Parent and other material entities. The disclosures are publicly available on the BrokerCheck program operated by the Financial Industry Regulatory Authority at [www.finra.org](http://www.finra.org). SEC filings are publicly available via EDGAR at [www.sec.gov](http://www.sec.gov) and may also be obtained in the Investor Relations section of the UBS website at [www.ubs.com](http://www.ubs.com).

- Auction Rate Securities. UBS-S and an affiliate have been named in several arbitration and litigation claims asserted by issuers of auction rates securities ("ARS") arising out of the February 2008 ARS market dislocation. As of December 31, 2017, all but one of the actions have been dismissed or resolved. The remaining claim (which is presently tolled pursuant to agreement) seeks damages based on allegations of violations of state and federal securities law.
- Residential Mortgage-backed Securities and Mortgages ("RMBS"). From 2002 through 2007, prior to the crisis in the US residential loan market, UBS-S was a substantial underwriter of US RMBS. UBS-S has been named as a defendant in lawsuits relating to its role as underwriter of RMBS. In April 2017, UBS-S reached a final settlement in a lawsuit brought in the US District Court for the District of Kansas by the National Credit Union Administration ("NCUA"), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering document for \$1.15 billion in original principle balance of RMBS purchased by the credit unions. UBS-S and the NCUA settled this matter for \$445 million.

The Parent and UBS-S have also received and responded to subpoenas from the New York State Attorney General and other state attorneys relating to its RMBS business. UBS-S has also responded to inquiries from both the Special Inspector General for the Troubled Asset Relief Program and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through 2014. UBS-S is cooperating with the authorities in these matters.

- Equities Trading Systems and Practices. UBS-S is responding to inquiries concerning its securities order routing and execution practices from various authorities, including the SEC and the NYAG, who reportedly are pursuing similar investigations industry-wide. UBS-S is cooperating in the ongoing regulatory matters.
- Government Bonds. Putative class actions have been filed in US federal courts against UBS-S, the Parent and other banks on behalf of persons who participated in markets for US treasury securities since 2007. The complaints generally allege that the banks colluded with respect to and manipulated prices of treasury securities sold at auction. They assert claims under the antitrust laws and the Commodity Exchange Act and for unjust enrichment. The cases have been consolidated in the Southern District of New York. Following filing of these complaints, UBS-S, the Parent and reportedly other banks have received requests for information from various authorities regarding US treasury securities and government bond trading practices. As a result of its review to date, UBS-S has taken appropriate action and is cooperating with the authorities.
- Interest Rates Swaps and CDS Matters. In 2016, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against numerous financial institutions and others, including UBS-S and the Parent, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in the market for Interest Rate Swap ("IRS") trading in over-the-counter market. Plaintiffs assert claims on behalf of all purchasers and sellers of IRS that transacted directly with any of the dealer defendants since January 1, 2008, and seek unspecified trebled compensatory damages and other relief. The operators of two swap execution facilities ("SEF's") have also filed complaints raising similar allegations. In July 2017, the court granted in part and denied in part defendants' motions to dismiss, limiting the claims to the time period 2013-2016, and dismissing certain state-law claims and claims against certain other defendants. In June 2017, one of the two SEF plaintiffs filed a complaint raising allegations similar to those in the IRS litigation with respect to trading of credit default swaps.

Additional information pertaining to legal matters can be found in the UBS Securities Statement of Financial Condition under "Legal Proceedings" at [www.ubs.com/global/en/investment-bank/](http://www.ubs.com/global/en/investment-bank/) .

## **FCM Financial Health**

UBS-S is fully capitalized on a standalone basis (its Parent does not guarantee the obligation of UBS-S.) As of December 31, 2017<sup>13</sup>, UBS-S held assets of \$10.5 billion in Customer Segregated, 30.7 and Cleared Swaps Customer Accounts, in addition to \$5.3 billion in excess net capital.<sup>14</sup>

### **UBS-S' credit ratings – Standard & Poor's Ratings Services**

<b>Issuer Credit Rating</b>	<b>Ratings</b>
Foreign Long Term	A
Foreign Short Term	A-1
Local Long Term	A
Local Short Term	A-1

### **Relevant Financial Data**

For information related to the items below, please refer to UBS-S' "Daily Segregation Calculation" and "Statement of Financial Condition" which can be found at <http://www.ubs.com/global/en/investment-bank/llc-financials.html>.

- Daily segregated, 30.7 and cleared swaps schedule for the most current 12-month period;
- A summary schedule of the adjusted net capital and excess net capital, and reflecting balances as of the month-end for the 12 most recent months;
- The statement of financial condition, segregated, 30.7 and cleared swaps segregation schedules and all related footnotes contained in UBS-S' most recent certified report;

The following table<sup>15</sup> represents certain financial information for UBS-S, computed in accordance with U.S. Generally Accepted Accounting Principles and CFTC Regulation 1.17, as of December 31, 2017<sup>16</sup>:

<b>Total Assets:</b>	<b>46,101,108,925</b>
<b>Ownership Equity:</b>	<b>2,137,249,010</b>
<b>Regulatory Capital:</b>	<b>7,012,249,010</b>
<b>Leverage Ratio:</b>	<b>5.524</b>

<sup>13</sup> Will be updated when 2018 data is available

<sup>14</sup> Will be updated when 2018 data is available

<sup>15</sup> Will be updated when 2018 data is available

<sup>16</sup> Will be updated when 2018 data is available

UBS-S engages in proprietary futures related trading in the broker dealer. However it does not hold the inventory for liquidity purposes. The proprietary margin requirement, as of December 31, 2017<sup>17</sup>, was less than 1% of the aggregated margin requirements for segregated, 30.7 and cleared swap customers.

The number of segregated customers, 30.7 customers and cleared swap customers that comprise 50% of the FCM's total funds held for such customers, respectively;

Type	Number
Segregated	2
30.7	2
Cleared Swap	2

### Liabilities and Other Commitments

- Futures and 30.7 customer write-offs have been immaterial (less than one percent). To date, there has been no cleared swaps customer uncollected receivables.
- UBS-S has a revolving subordinated loans agreement with UBS Americas Inc., which has a credit line of \$6,000,000 with a final maturity at December 31, 2019. As of December 31, 2017<sup>18</sup>, UBS-S has drawn down \$2,350,000 of the \$6,000,000.
- UBS-S has subordinated borrowings with UBS Americas Holding LLC, consisting of term loans of \$525,000 maturing on December 29, 2020, \$750, maturing on November 30, 2022, \$750,000 maturing on April 30, 2023 and \$500,000 maturing on January 31, 2024<sup>19</sup>.
- Loans with UBS Americas Inc. bear interest at rates that reset at variable intervals as determined by the Parent, based upon similar fund costs charged by the Parent, which approximated one month LIBOR at December 31, 2017<sup>20</sup>.
- UBS-S enters into unsecured short-term lending agreements with UBS Americas Inc. Short-term borrowings are due on demand and bear interest based on variable rates ranging from 1.50% to 2.25% as of December 31, 2017<sup>21</sup>.
- Information pertaining to UBS-S' liquidity, principal liabilities, balance sheet leverage and other lines of business, equity, regulatory capital and net worth (computed in accordance with US Generally Accepted Accounting Principles and CFTC Rule 1.17) are also contained in the "Statement of Financial Condition".
- UBS-S does not provide financing for futures, 30.7 or cleared swaps customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices.

<sup>17</sup> Will be updated when 2018 data is available

<sup>18</sup> Will be updated when 2018 data is available

<sup>19</sup> Will be updated when 2018 data is available

<sup>20</sup> Will be updated when 2018 data is available

<sup>21</sup> Will be updated when 2018 data is available

### Industry Resources for Financial Information

All FCMs must file certain monthly financial reports with the CFTC. Information related to those reports is available on the CFTC's website at <http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>. NFA publishes on its website certain financial information with respect to each FCM. The FCM Capital Report provides each FCM's most recent month-end adjusted net capital, required net capital, and excess net capital. Information for a twelve-month period is also available on the website.

In addition, NFA publishes twice-monthly a Customer Segregated Funds report, which shows for each FCM: (i) total funds held in Customer Segregated Accounts; (ii) total funds required to be held in Customer Segregated Accounts; and (iii) excess segregated funds, i.e., the FCM's Residual Interest. This report also shows the percentage of Customer Segregated Funds that are held in cash and each of the permitted investments under Commission Rule 1.25 (if FCM is exercising such rights). Finally, the report indicates whether the FCM held any Customer Segregated Funds during that month at a depository that is an affiliate of the FCM.

The report shows the most recent semi-monthly information, but the public will also have the ability to see information for the most recent twelve-month period (eleven months preceding the last month-end). A 30.7 Customer Funds report and a Customer Cleared Swaps Collateral report provides the same information with respect to the 30.7 Account and the Cleared Swaps Customer Account.

The above financial information reports can be found by conducting a search for a specific FCM in NFA's BASIC System at [www.nfa.futures.org/basicnet/](http://www.nfa.futures.org/basicnet/) and then clicking on "View Financial Information" on the FCM's BASIC Details page.

## **Additional Regulatory Information**

### **Filing a Complaint**

The following options may be used to file tips or complaints concerning UBS-S' futures related activities:

- CFTC's Whistleblower Program  
[www.cftc.gov/ConsumerProtection/WhistleblowerProgram/index.htm](http://www.cftc.gov/ConsumerProtection/WhistleblowerProgram/index.htm)
- CFTC Division of Enforcement  
Toll Free (866) 366-2382  
[www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm](http://www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm)
- CME Group  
Attn: CME Financial and Regulatory Surveillance<sup>22</sup>  
20 South Wacker Drive  
Chicago, IL 60606  
(312) 930-3230  
Toll Free (US Only) 1-866-716-7274
- National Futures Association  
[www.nfa.futures.org/basicnet/Complaint.aspx](http://www.nfa.futures.org/basicnet/Complaint.aspx)

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<sup>22</sup> Amended



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