

# Conducting business with UBS—important distinctions between brokerage and advisory services

As a wealth management firm providing services to clients in the United States, UBS Financial Services Inc. is registered with the U.S. Securities and Exchange Commission (SEC) as a broker-dealer and an investment adviser, offering both brokerage and investment advisory services.

Our clients work with their Financial Advisors to determine the services that are most appropriate given their financial goals and circumstances. Based on the services you request, we can act as a broker-dealer, as an investment adviser or as both. Most of our Financial Advisors are qualified and licensed to provide both brokerage and investment advisory services.

You may obtain information about your Financial Advisor, their licenses, educational background, employment history, and if they have had any problems with regulators or received serious complaints from investors through the FINRA BrokerCheck service available from FINRA at <http://www.finra.org>, or from the Securities and Exchange Commission at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

In addition, some of our Financial Advisors hold educational or professional credentials, such as the CERTIFIED FINANCIAL PLANNER™ (CFP®)<sup>1</sup> designation. Holding a professional designation typically indicates that the Financial Advisor has completed certain courses or continuing education. However, a Financial Advisor's professional designation does not change the obligations of UBS or the Financial Advisor in providing investment advisory or brokerage services to you.

It is important to understand that brokerage and investment advisory services are separate and distinct and each is governed by different laws and separate arrangements that we may have with you. The specific services we provide, our relationship with you and our legal duties to you in each arrangement are described in our applicable contracts with you.

This disclosure summarizes the key distinctions between

brokerage and investment advisory services and our respective duties and obligations. We encourage you to review this document carefully, along with your applicable contracts, and discuss it with your Financial Advisor.

## Our services as a broker-dealer and relationship with you

**Although a brokerage relationship can be a cost-effective way of investing your assets, it is not for everyone. As a brokerage client, you need to understand and agree to our service limitations and conflicts.**

- As a full-service broker-dealer, our services are not limited to taking customer orders and executing securities transactions. In our capacity as broker-dealer, we provide a variety of services relating to investments in securities, including investment research, trade execution and custody services. We may also make recommendations to our brokerage clients about whether to buy, sell or hold securities, and/or access banking-related services such as credit cards, mortgages, credit lines and margin for your accounts. We do not make investment decisions for you or manage your accounts on a discretionary basis. We will only buy or sell securities for brokerage clients based on specific directions from you.
- We receive **transaction-based compensation** for trades you decide to enter into, which includes commissions, administrative fees and compensation from third parties that are disclosed to you.
- Unlike how we charge for investment advisory services, **we do not charge or receive a separate fee for our advice or recommendations** and our recommendations are provided solely incidental to our brokerage services.

## Our responsibilities to you as a broker-dealer

- When UBS acts as a broker-dealer, including when

we recommend securities transactions and/or banking- related services in your account, recommend that you enroll in an investment advisory program or make any recommendation on an account that has terminated investment advisory services, **UBS does not act as a “fiduciary” under the federal securities or retirement laws nor as a registered investment adviser.**

- When we act as your broker-dealer, we are subject to the Securities Exchange Act of 1934, the Securities Act of 1933, the rules of self-regulatory organizations such as the Financial Industry Regulatory Authority (FINRA), the rules of the New York Stock Exchange and applicable state laws. The standards for broker-dealers under these rules and regulations include the following:
  - As your broker-dealer, we have a **duty to deal fairly** with you. Consistent with our duty of fairness, we are obligated to make sure that the prices you receive when we execute transactions for you are reasonable and fair in light of prevailing market conditions and that the commissions and other **fees we charge you are not excessive.**
  - We must have a reasonable basis for believing that any **securities recommendations we make to you are suitable and appropriate** for you, given your individual financial circumstances, needs and goals.
  - **We are permitted to trade with you for our own account (a practice termed “principal trading”)** or for an affiliate or another client and may earn a profit on those trades. When we engage in these trades, we disclose the capacity in which we acted on your confirmation, though we are not required to communicate this or obtain your consent in advance or to inform you of the profit earned on the trades. Absent special circumstances, **we are not held to the same legal standards that apply when providing investment advisory services to you.** Our legal obligations to disclose detailed information to you about the nature and scope of our business, personnel, fees, conflicts between our interests and your interests and other matters are more limited than when we are providing investment advisory services to you.
- You are responsible for understanding and agreeing to our service limitations and for considering and evaluating our conflicts.

#### **Conflict of interest: Transactional compensation**

- When we act as a broker-dealer, we are compensated by the **commissions and fees you pay us** as well as through **revenue we receive from third-parties** that often include the sponsors of investment products on our platform. Your Financial Advisor does not receive a portion of all of these amounts so that some conflicts apply at the Financial Advisor level and some apply only to UBS at the firm level.

**Financial Advisor conflicts** include incentives to recommend:

- Investments that result in greater compensation.
- That you trade more frequently.

**UBS firm-level conflicts** include incentives to:

- Offer products and services that we or our affiliates create.
- Offer products and services from companies that offer us revenue.
- Maintain a sweep program for uninvested cash balances using our affiliate bank or money market funds of our affiliates.
- Route trades to our affiliate for execution.

#### **Conflict of interest: Principal trades and underwriting**

- We may trade with you for our own accounts. This means that we can buy investments from you, or sell them to you, including securities that we buy in bulk [or in an underwriting/initial public offering (IPO)] and then distribute to individual investors.
- When we trade on a principal basis, we earn compensation by **marking up the price of securities** we sell to you, or **by marking down the price of securities** we buy from you, and from discounts and selling concessions for underwritings and IPOs.

This creates a **UBS firm-level incentive** to:

- Offer securities that we have in inventory or where we are participating in an underwriting syndicate; and
- Execute your trade against our proprietary accounts.

Types of securities commonly traded on a principal basis include fixed income securities, IPOs, certain closed-end funds and municipal securities.

#### **We have no duty to provide ongoing recommendations or monitor your investments**

- We are not obligated to provide recommendations to you, or to update recommendations made previously, and not doing so should not be viewed as a recommendation to hold an investment.
- We will not (and have no obligation to) monitor your account investments (including cash and cash equivalents) on an ongoing basis.
- You are responsible for independently ensuring that the investments in your retirement account remain appropriate given your investment objective, risk tolerance, financial circumstances and investment needs.

**By choosing brokerage for your retirement assets, you must understand these conflicts and limitations and agree that we are not acting as a “fiduciary” with respect to any recommendations we provide regarding the assets held in your brokerage account. You also acknowledge that “Understanding our Fees, Charges and other Compensation” disclosure at [ubs.com/understandingourfees](https://ubs.com/understandingourfees) contains a more detailed discussion of these conflicts, compensation practices and limitations.**

**If you want a fiduciary relationship with us under the federal securities laws, then consider enrolling in one of our investment advisory programs.**

## Our services as an investment adviser and relationship with you

**We believe that professional investment advisory programs can help investors pursue their investment objectives. However, the fees and expenses associated with advisory services may exceed those that apply to brokerage services. Advisory products are not for everyone. Please speak with your Financial Advisor for additional information.**

- In our capacity as an investment adviser, we offer a number of investment advisory services and programs, including fee-based financial planning, discretionary investment management and non-discretionary investment advisory programs, and advice on the selection of investment managers, mutual funds and exchange traded funds and other securities offered through our investment advisory programs.
- The fees for these services and programs are calculated as a percentage of assets in the account or a flat or annual fee and are charged on an ongoing basis.
- When we act as your investment adviser, we will enter into a written agreement with you expressly acknowledging our investment advisory relationship with you and describing our specific obligations to you. At the beginning of our advisory relationship, we will give you our Form ADV brochure, which provides detailed information about, among other things: the program(s) you select; the advisory services we provide; our fees, personnel, other business activities and financial industry affiliations; and conflicts between our interests and your interests.

### **Our responsibilities as an investment adviser**

When you participate in one of our investment advisory programs, we are considered to have a fiduciary relationship with you under the Investment Advisers Act of 1940. Our responsibilities include the obligation:

- To disclose all material facts, including conflicts

between our interests and your interests, to you. Please see **our Form ADV brochure for our conflicts of interest disclosure at [ubs.com/formadv](https://ubs.com/formadv).**

- To inform you if we or our affiliates receive additional compensation from you or a third party as a result of our relationship with you.
- Where we direct client brokerage, to seek best execution of your securities transactions.
- To obtain your informed consent before engaging in transactions with you for our own account or that of an affiliate or another client when we act in an advisory capacity (principal trades).
- To treat you and our other advisory clients fairly and equitably, without unfairly favoring one client to the disadvantage of another.
- To act in what we reasonably believe to be your best interests, and in the event of a conflict of interest, place your interests before our own.
- Provide recommendations that we reasonably determine are suitable for you given your individual financial situation, investment objectives and goals (based on information you provide) and that are consistent with any restrictions you have placed on us.
- When we provide investment advisory services, our fiduciary status under the federal retirement laws depends on the nature of the specific services we have agreed to provide to you. Please see your applicable agreement and related disclosures for more information.

### **Conflict of interest—asset-based compensation**

- When we act as your investment adviser, we and our representatives earn more when you invest more in your advisory account, and we earn the same advisory fee rate regardless of how frequently you trade. We also receive payments from third parties, including the investment products in which you invest, and their sponsors. These third-party fees are disclosed in our Form ADV Brochure and the investment product’s prospectus and other offering documents.
- This creates an incentive for us to recommend that you:
  - Increase the assets in your advisory accounts to increase our fees;
  - Invest in investment products that result in greater compensation to us (including products and services provided by us and our affiliates or those for which we receive a portion of product-level fees that you pay); and
  - Maintain cash balances in a sweep investment.

### **Conflict of Interest—principal trades and underwriting**

- We may trade with you for our own accounts—a practice known as **“principal trading.”** This means that we can buy investments from you, or sell them to you, including securities that we buy in bulk (or in an underwriting/IPO) and then distribute to individual investors. But, we can only do this upon **written disclosure and with your specific consent to each transaction.**
- When we trade on a principal basis, we earn

compensation by marking up the price of securities we sell to you, or by marking down the price of securities we buy from you, and from discounts and selling concessions for underwritings and IPOs.

This creates a UBS **firm-level incentive** to:

- Offer securities that we have in inventory or where we are participating in an underwriting syndicate; and
- Execute your trade against our proprietary accounts.

Types of securities commonly traded on a principal basis include fixed income securities, IPOs, certain closed-end funds and municipal securities.

### **Ongoing Advice and Monitoring**

If specified in your client agreement:

- We will provide advice and management services (as applicable) on an ongoing basis.
- We will also monitor your account investments (including cash and cash equivalents) and provide investment recommendations on an ongoing basis.

Termination of your advisory account or agreement will end our investment advisory fiduciary relationship with you as it pertains to the terminated account or services and, depending on the terms of your investment advisory agreement with us, will cause your account to be converted to, and designated as, a brokerage account only.

**By choosing an investment advisory program for your personal assets, you understand these conflicts and limitations and that, for certain programs, you will pay a separate ongoing asset-based fee for our services. You also acknowledge that our Form ADV Disclosure Brochure at [ubs.com/formadv](https://ubs.com/formadv) and "Understanding our Fees Charges and other Compensation" disclosure at [ubs.com/understandingourfees](https://ubs.com/understandingourfees) contain more detailed discussions of these conflicts, compensation practices and limitations. The Form ADV Disclosure Brochures for all of our advisory programs can be found at [ubs.com/accountdisclosures](https://ubs.com/accountdisclosures). If you have any questions or concerns, please talk to your Financial Advisor.**

**If you do not want to pay for fee-based ongoing investment advice and monitoring through an investment advisory program, then consider opening a brokerage account with us instead.**

<sup>1</sup> Certified Financial Planner Board of Standards Inc. owns these certification marks in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

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