

ENFORCEMENT INFORMATION FOR August 27, 2015

Information concerning the civil penalties process is discussed in OFAC regulations governing the various sanctions programs and in 31 C.F.R. part 501. On November 9, 2009, OFAC published as Appendix A to part 501 Economic Sanctions Enforcement Guidelines. See 74 Fed. Reg. 57,593 (Nov. 9, 2009). The Economic Sanctions Enforcement Guidelines, as well as recent final civil penalties and enforcement information, can be found on OFAC's Web site at <http://www.treasury.gov/ofac/enforcement>.

ENTITIES – 31 C.F.R. 501.805(d)(1)(i)

UBS AG Settles Potential Liability for Apparent Violations of the Global Terrorism Sanctions Regulations: UBS AG (UBS), a financial institution headquartered in Zurich, Switzerland, has agreed to remit \$1,700,100 to settle its potential civil liability for 222 apparent violations of § 594.201 of the Global Terrorism Sanctions Regulations, 31 C.F.R. part 594 (GTSR). From January 2008 to January 2013, UBS processed 222 transactions related to securities held in custody in the United States for or on behalf of an individual customer of UBS in Zurich, Switzerland (referred to hereafter as the “Client”¹) designated by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) in October 2001 pursuant to Executive Order 13224, “Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism.”

OFAC has determined that although UBS identified all of the apparent violations, the disclosures are not voluntary self-disclosures within the scope of OFAC's definition under the Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A, because they were substantially similar to another apparent violation of which OFAC was already aware. OFAC has determined that the apparent violations constitute a non-egregious case. The total base penalty amount for the apparent violations was \$3,778,000.

In 1993 and 1994, prior to the Client's designation, UBS in Zurich, Switzerland opened accounts for the Client denominated in different currencies, including a U.S. Dollar (USD) account, that were used to engage in a variety of investments in different markets. Around the same time as OFAC's designation of the Client in October 2001, other jurisdictions or international organizations — including Switzerland, the United Kingdom, the European Union, and the United Nations — imposed sanctions against the Client. Although UBS placed blocks and restrictions on the Client's accounts to comply with the Swiss law restrictions and prevent the Client from withdrawing or transferring any funds or assets outside of the bank, UBS continued to engage in investment-related activity on behalf of the Client, including processing USD securities-related transactions to or through the United States. In this regard, UBS processed purchases of U.S. securities, sales of U.S. securities, the receipt of dividends on U.S. securities, and capital calls, management fees, and cash distributions in connection with a U.S. private equity investment.

¹ UBS stated that it is prohibited by Swiss law from disclosing the name of the Client. The bank confirmed that the Client was an individual on OFAC's List of Specially Designated Nationals and Blocked Persons during the time period in question and that the transactions identified throughout the course of the investigation constituted apparent violations of the GTSR based on the Client's involvement and/or interest in the transactions.

UBS maintained a global OFAC policy at the time it processed these transactions that required the bank to conduct screening of all outbound and inbound funds transfers. UBS considered the securities-related transactions to be internal transfers since they did not involve external parties. Therefore, UBS's processing of the Client's U.S. securities transactions never generated any alerts (despite the Client's name appearing on the sanctions-related lists that UBS used to screen external funds transfers), because the only aspect of the securities transactions that identified the Client's name were the internal entries allocating securities and monetary transfers in the Client's accounts.

In March 2008, UBS instructed a U.S. custodian to research a potential non-sanctions related trading restriction on two stock certificates of a company that the U.S. custodian held on UBS's behalf for a separate entity (the "Entity"). While investigating UBS's request, the U.S. custodian was advised by the company that the Entity was associated with the Client, and identified the Client as an individual on OFAC's List of Specially Designated Nationals and Blocked Persons. The U.S. custodian subsequently obtained documentation from the company showing a link between the Client and the Entity and shared the information with UBS in or around July 2008. The U.S. custodian subsequently blocked the shares and filed a report of blocked property with OFAC.

In 2012, following the removal of the Client from the Swiss sanctions list, multiple units within UBS engaged in a discussion about the bank's relationship with the Client. At the end of November 2012, UBS elected to close the Client's accounts and initiated the process of liquidating several of the Client's positions, including U.S.-based securities. During the process of initiating external wire transfers to a third-country financial institution in order to transfer the Client's funds, UBS's sanctions filter generated alerts against the Client's name as an individual on OFAC's List of Specially Designated Nationals and Blocked Persons. UBS's Compliance department subsequently reviewed the Client's account activity and discovered that the bank had processed transactions related to the purchase and sale of U.S. securities over a period of several years in which the Client had an underlying interest.

The settlement amount reflects OFAC's consideration of the following facts and circumstances, pursuant to the General Factors under OFAC's Economic Sanctions Enforcement Guidelines, 31 C.F.R. part 501, app. A. The following were considered aggravating factors: UBS acted with reckless disregard for U.S. sanctions requirements by failing to implement adequate controls to prevent the apparent violations from occurring despite receiving numerous warning signs that its conduct could lead to violations of U.S. sanctions laws; multiple business lines and personnel within UBS, including supervisory and management staff within the bank's Compliance department, had actual knowledge of the conduct that led to the apparent violations; UBS processed 222 transactions for or on behalf of the Client and conferred economic benefit to a Specially Designated Global Terrorist, thereby resulting in harm to the GTSR and its associated policy objectives in the amount of \$2,466,195.01 (the total value of the transactions processed to or through the United States); UBS is a large and commercially sophisticated international financial institution; and although multiple personnel within UBS's Compliance department were aware of the Client's OFAC designation, including the most senior-level manager at UBS Switzerland responsible for sanctions compliance, the bank failed to implement any steps or

measures to prevent UBS from processing transactions for the Client to or through the United States.

The following were considered mitigating factors: UBS had not received a penalty notice or Finding of Violation from OFAC in the five years preceding the earliest date of the transactions giving rise to the apparent violations; UBS has a global sanctions policy in place that requires the bank to comply with the sanctions programs administered by OFAC; UBS took remedial action in response to the apparent violations, including by conducting a thorough internal investigation regarding the apparent violations; and UBS substantially cooperated with OFAC's investigation by submitting detailed and organized information, responding thoroughly and promptly to OFAC's requests for information, and executing a statute of limitations tolling agreement and an extension to that agreement.

This enforcement action highlights the importance of institutions taking appropriate measures to ensure compliance with all applicable sanctions when they have operations or otherwise conduct business in multiple jurisdictions that have implemented sanctions against particular persons (individuals or entities) or countries. This action should also raise awareness regarding the sanctions obligations for foreign financial institutions — including those that purchase, sell, transfer, or otherwise transact in U.S. securities — that process transactions to or through the United States.

For more information regarding OFAC regulations, please visit: <http://www.treasury.gov/ofac>.