

## FA Compensation Policy Changes

The most obvious effect on the proposed FA compensation Plan changes should be an increase in InsightOne assets, as the FA has a higher incentive to convert their book to wrap business (Grid +4%).

There are other changes to the compensation plan that may possibly cause confusion or may have other possible negative effects on InsightOne. These are discussed below.

Net ticket charge comparison:

Commission Policy	InsightOne Policy	Proposed Solution
New net ticket charge applied to all Equity and Option trades completed in most commission-based accounts.	Current net ticket charge applies to accounts discounted below .75% that do not meet asset revenue threshold of \$2,500 per relationship	Apply net ticket charge to accounts that generate less than \$30 in revenue per trade.
\$12 Net ticket charge on Listed equity, OTC and Option trades	\$14 Net ticket charge on all eligible, non-fixed income trades (equities, options, mutual funds, UITs)	\$12 Net ticket charged on all eligible non-fixed income trades.
No trade will result in payout below zero	If trading is excessive, payout may be negative	If trading is excessive, payout may be negative - create reporting to warn FA.
Trainees net ticket charge is less (\$6, \$8, \$10)	Trainee net ticket charge is the same (\$14)	Trainee net ticket charge is the same (\$12)
FAs capped at 24% are exempt from \$12 ticket charge	All FAs are subject to ticket charge regardless of their payout rate.	All FAs are subject to ticket charge regardless of their payout rate.
Net ticket charge is applied in the same month in which the trade is completed.	Net ticket charge is applied at the end of the quarter after revenue test is applied.	Net ticket charge is applied at the end of the quarter after revenue test is applied.

### Other Potential Issues:

**New accounts, not yet funded:** If an account is not yet funded (awaiting ACAT) it cannot be approved as InsightOne (billed on assets in the account on day of approval). If one of these accounts wishes to trade commission-free before being approved for InsightOne, the branch may process the trade at TD100 (trade discount 100%) or process the trade with commissions and then do a cancel/correct after approved as InsightOne.

*Solution: Work with systems to prevent an undue penalty on the FA.*

**Employee accounts:** It may now be cheaper for FAs to trade in a commission account, and get hit with the \$12 ticket charge, than through InsightOne. We may lose much of the InsightOne employee assets (@ \$3b).

*Solution: Need to find out how the minimum equity ticket charge (\$49.99) is applied on employee accounts - charge may then be \$61.99. More of a reason to implement the revenue per trade policies.*

**Employee Self-Directed Account:** This ticket charge of \$12 is inconsistent with the Employee Self-Directed account (\$14 per equity and option trade). Changes would require a P&S system enhancement which will probably not be completed by January 2002.

## FA Compensation Policy Changes

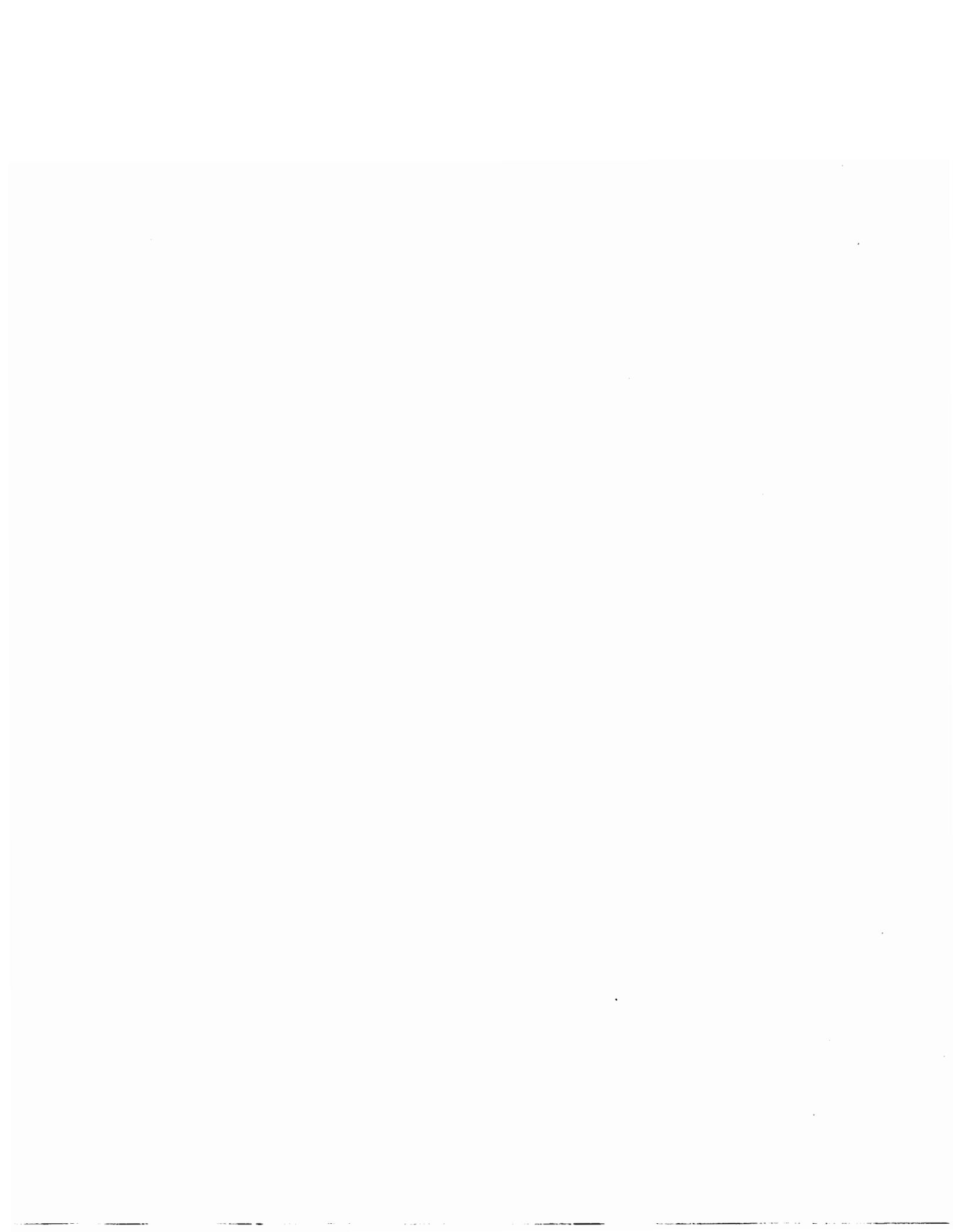
*Solution: Review with Ron Safir and then work with systems to implement the change as soon as possible.*

*Leveled Accounts: FAs often moved from leveled account payouts (e.g., account charged cents per share) to InsightOne to increase their pay.*

*Solution: We will need to see how the policy change will effect this. Ensure DMACs understand this effect.*

### **Another Potential Benefit:**

*Net New Assets: With Net new assets having a more prominent role in asset awards, we may be able to capitalize on reporting requirements and push InsightOne as an asset gathering tool (48% net new assets). Double win proposition - a higher payout and additional asset awards.*



**From:** [Redacted]  
**Sent:** Tuesday, February 24, 2004 6:26 PM  
**To:** Bursey, Bruce A.  
**Subject:** As requested, the revise memo

February 24, 2004

For internal use

[Redacted]

cc: Bruce Bursey

[Redacted]

re: Subject

[Redacted] Judgment Issues

Bruce asked me to summarize for you a few examples of judgment problems exhibited by [Redacted] in connection with his InsightOne management duties. Set forth is a brief list of such issues.

1. Failure to raise up a serious resource issue when confronted with an inability to deal with the Trading and Investment Guidelines.
2. Assumed authority to interpret policy/procedure on a sensitive matter (termination letters) without first discussing it with management. [Redacted] told [Redacted] that no termination letters would be sent in January 2004 because the low trading warning letters, which should have been sent in April 2003, didn't get mailed until October. And therefore, termination letters wouldn't be needed for another six months.) When I asked [Redacted] how he could give such advice without asking me, he responded that he was just repeating the policy.
3. Allowing FA to skirt policy requirements. [Redacted] allowed [Redacted] to "trade out" of the requirement of sending low trading letters after the time period for counting trades but before the letters were sent. This included delaying the date for sending the letters in order to execute trades.
4. Authorized exceptions to the minimum account size and the contribution billing process that are contrary to the IO contract. For example, [Redacted] agreed to waive contribution billing on certain accounts simply because an FA called and said his client didn't want to pay them. Similarly, our minimum account size for "related" accounts is \$10,000. Thanks to [Redacted] exception largess, we now have many accounts dramatically below that requirement. Some accounts have as little as \$1000 - \$2000.
5. The point of these examples (and others if we chose to list them) is that [Redacted] did

not understand one of the fundamental responsibilities of the job; that is to identify and manage risk exposure. If you would like to discuss these issues or any others, please let me know.

ABC/abc

Enclosure



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# Proposed InsightOne Trading Guidelines & Controls

UBS Financial Services Inc.

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# Proposed Trading Guidelines

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## Compare Actual Fees Paid vs. Commissions Waived

- Rationale:

- Provides the most "fair" comparison and satisfies NASD request
  - Counting trades does not capture large accounts paying too much and captures accounts "getting a good deal" (MFs)
  - Revenue per trade does not take the size of the trade into account
- The majority of securities (stock, bonds, options) have commissions calculated that Firm systems already capture
  - Would need to develop methodology for mutual funds, UITs, managed future funds and annuities (will use an average "load" until we can link into current breakpoint logic in trading systems)
- May eliminate need to review cash% as client is taking advantage of program with other 50-60% of assets
- May eliminate need to review rev/trade for excessive trading



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# Proposed Trading Guidelines

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## Compare Actual Fees Paid vs. Commissions Waived

- **Review Process:**
  - Review would be completed in January for all accounts opened for at least 6 months. Additional review in July for accounts opened in second half of year
    - Maximum time before review 1 year
    - Minimum time 6 months and a day
  - System would highlight those accounts that paid X% more in fees than commission waived (full commissions)
    - Analysis being taken to determine a fair % (20%?)
    - For those accounts highlighted --should system then look at prior year (if available) to obtain a more complete picture?
      - Clients may pay 50% less in year 1 and 30% more in year 2 -- still saved 20%



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# Proposed Trading Guidelines

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## Compare Actual Fees Paid vs. Commissions Waived

- Client Communication:
  - Warning letter sent if account's Fees Paid is X% more than commissions waived
    - Letter would inform them of fees paid and what they would have paid in commissions
  - Accounts flagged as "paying x% more" would then be reviewed in another 6 months
    - If still paying x% more, client will be sent termination letter and terminated within 30 days.
    - Maximum period before terminating = 19 months
    - Minimum period before terminating = 13 months
  - We may automatically send termination letter (skip 6-month waiting period) if account is paying an excessive amount more (2 times X?)



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# Proposed Trading Guidelines

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## Compare Actual Fees Paid vs. Commissions Waived

- Branch Communication:
  - Memo to announce new policy - early 2004
  - Online screen that will provide rolling 12-month trades, fees, commissions waived, rev/trade(?)
  - Quarterly report that will show:
    - Which accounts are paying x% more(?)
    - Which accounts were sent warning letter ( and date)
    - Which accounts were sent termination letter
  - We may automatically send termination letter (skip 6 month waiting period) if account is paying an excessive amount more XX%.



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## INSIGHTONE TALKING POINTS

1. In 1999, [Redacted] met with the SEC to request guidance on fee-based brokerage accounts. The objective was to push the SEC to state publicly that the Investment Advisers Act should NOT govern fee-based brokerage accounts.
2. SEC later issues one no-action letter stating that such accounts are brokerage accounts if they provide the essential services of brokerage accounts – execution services and advice that is incidental to brokerage services
3. InsightOne grows very rapidly but no other regulator offers any guidance about the application of other regulatory rules.
4. Because of regulatory vacuum, the positioning of InsightOne – from a marketing perspective – was vague at best. In fact, InsightOne was probably misunderstood and thus sold incorrectly.
5. The existing surveillance tools (the trade counting and cash concentration reports) were introduced at the end of 2002 after management struggled (for almost a year) to introduce a reasonable method to examine suitability for clients in InsightOne.
6. In 2003 the NASD begins examining broker/dealers' fee-based brokerage programs to determine (i) how these programs are working, and (ii) whether customers are being treated fairly. In November the NASD issues a Notice to Members providing guidance on the issue of how Members must determine suitability in relation to fee-based accounts.
7. The Notice makes it quite clear that an economic determination should be applied. In the NASD's words - if a Member places a customer in an account with a fee structure that reasonably can be expected to result in a greater cost than an alternative account... that provides the same services and benefits, the Member will have violated just and equitable principals of trade.
8. It is important to note that we believe most InsightOne accounts are suitable, and that it is an excellent alternative to commission accounts. These new guidelines are intended to alert us to clients who are likely served better in a different program.





Wealth  
Management - USA

STRICTLY PRIVATE AND CONFIDENTIAL

# Strategic Business Plan Summary 2004 – 2006

New York, November 24, 2003

Now that we have activated the entity of the Bank, we will begin to look at expanding our offering of products and services that we currently provide to our current and prospective clients in order to increase net new assets, wallet penetration and client retention. We are currently looking at the needs of small and medium size enterprises and plan to add services that are consistent with growing our wealth management business.

### 3.1.2. UBS Mortgage LLC

Our approach to wealth management is holistic. It extends beyond traditional investments, including the liability side of a client's "personal balance sheet." As our Financial Advisors make the transition to balance sheet advisors, we cannot ignore what may be our clients' largest liability: their home mortgage. In order to enter this market quickly and economically, we partnered with the largest originator of mortgages in the U.S., Wells Fargo Home Mortgage, to form UBS Mortgage LLC. In late August of 2003, we received local licensing from New Jersey and New York thereby allowing us to offer mortgages in all 50 states.

UBS Mortgage LLC offers a full array of both primary and secondary mortgage products including home equity lines and loans, conforming and nonconforming mortgages and super-jumbos all with various rate structures and maturities. Also available are 100% mortgages and combo loans, which combine our non-purpose lending products with a home mortgage to offer the client solutions tailored to their needs. We recently introduced the flexible mortgage program, which utilizes the 30-day LIBOR index.

### Trust

Accelerating demand for sophisticated, tax-efficient, inter-generational planning from the pre-retiree and retiree populations (where most wealth is concentrated) has spurred growth in the personal trust market. We have identified this opportunity as a key growth area, and we are currently looking to expand our current offering.

We believe that winners in this growing market will be those players who can deliver not just personal trust services but a compelling overall wealth management value proposition. In other words, the successful strategy will be to combine specialized trust capabilities with a knowledgeable sales force that can position these services within a comprehensive wealth management solution.

UBSWM-USA currently has approximately \$8.6bn invested assets in personal trust accounts and over \$38bn in additional inter-vivos trust assets. We have created wealth management teams that, in addition to personal trust (in partnership with Comerica), provide portfolio strategy, wealth management advice and estate planning services to HNW clients with \$2m+. We plan to increase this platform further either organically or by teaming up with a leading trust firm, who can provide resources for administrative services (e.g., trust operations/systems platform and tax returns), management expertise and recruiting capabilities. As we are currently pursuing this alliance, we are not able to present specific projected financials at this point.

### 3.1.4. Recurring fees

Our focus has been to "annuitize" our revenue stream by offering clients products with asset based pricing. Besides responding to client demand for these products, this enables us to better withstand down market environments. During the recent bear market our recurring fees have proven to be quite resilient despite the significant declines in market indices. In fact, 2003 recurring fees are expected to be 8.4% higher than in 2000. Today about 37% of our revenues are recurring fees as compared to 34% in 2001. A prolonged market downturn, however, entails the risk of putting downward pressure on the pricing of wrap products.

We plan to increase recurring fees<sup>15</sup> by launching new offerings and enhancing existing ones as well as by continuing to align FA compensation to support these products. For instance, in the past, in order to support recurring revenues, grid payouts were increased for the distribution of wrap-fee products (grid +4%) and fee-paying accounts (grid +1%). However, this practice will be systematically eliminated going forward, while asset awards will continue to be paid to increase net new money and Invested Assets.

Recurring fees consist of wrap and managed products (48% of total), Investment management fees (20% of total), Non-proprietary fees (17% of total), Account fees, insurance, etc (15% of total). While, we project recurring fees to increase as a proportion of revenues over the planning period, there are three primary reasons why the growth in recurring fees as a % of total revenues will be relatively tamed:

- As the UBS Bank USA initiative grows, *net interest revenues* (which are not recurring fees) will become a larger portion of our P&L
- In the event of an acquisition, we expect the acquired firm to have less recurring fees as a proportion of revenues than we do; this, therefore, should "dilute" our ratio.
- Transactional-based revenues are also expected to rebound during the planning period.

<sup>15</sup> Recurring fees are asset based and advisory revenues including fees from mutual funds, wrap fee products and insurance products





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**Fee-Based Programs**

**Business Review  
February 2002**

# Fee-Based Programs Financial Summary

(\$'s in Thousands)

	Full Year Actual	Full Year Actual	Full Year Actual	Full Year Actual	Proposed 2002 Budget		
	1998	1999	2000	2001	Run Rate*	Incremental	Full Year Target
<b>BRANCH REVENUE</b>							
<b>REVENUE</b>							
COMMISSIONS							
SALES CREDITS							
TRADING PROFITS							
MANAGEMENT FEES							
RECURRING FEES							
OTHER FEES							
NET INTEREST							
TOTAL REVENUE							
<b>VARIABLE EXPENSE</b>							
PRODUCTION COMPENSATION							
EPL EXPENSES							
VARIABLE PAYROLL TAXES							
SUPPLEMENTAL COMPENSATION							
TOT EXEC & FLOOR BRKRG							
OTHER VARIABLE EXP							
TOTAL VARIABLE EXPENSE							
<b>SEMI-FIXED &amp; FIXED EXPENSE</b>							
SALARIES							
TEMPORARY SERVICES							
TOTAL OVERTIME							
PAYROLL RELATED							
COMMUNICATIONS							
BAD DEBTS							
ERRORS							
ADVERTISING & PROMOT							
TRAVEL & ENTERTAINMENT							
STAT, STAT, & POSTAGE							
PROFESSIONAL SERVICES							
OCCUPANCY							
AMORT & DEPRECIATION							
COMPUTER RELATED							
OTHER EXPENSES							
TOTAL SEMI-FIXED & FIXED EXPENSE							
<b>TOTAL VAR &amp; SEMI F&amp;F EXP</b>							
<b>PRE-TAX, PRE ALLOCATIONS</b>							
NON-CORPORATE COSTS							
CORPORATE COSTS							
TOTAL ALLOCATIONS							
<b>PRE-TAX, PRE-INCENTIVES</b>							

\*Run Rate 2002 is the annualized 2001 4Q1 quarter.

UBS

# Fee-Based Programs Headcount Census

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## Fee-Based Programs Strategic Review

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**Business Strategies:** What are the strategies and tactics your business is employing to drive client asset acquisition, development and retention and bring net new assets into the firm?

### Advice Consistency/Process Integration

- Integration of PACE and InsightOne into the Advisor
- ICS Research Center - ACCESS & MAC (PACE in Phase II)
- Offer Mutual Fund Model portfolios off Advisor platform for InsightOne and PACE

### Core Affluent Services

- Multiple Discipline Accounts
- Tax Efficient Platform - ACCESS
- Inception to date performance - ACCESS, MAC, PMP, SELECTIONS
- Introduce performance reports for affluent InsightOne relationships

### Business Efficiency

- Expand MAC electronic trading platform
- Enhance ICS Trading system to allow purchases and rebalancing of Models for InsightOne accounts
- Online account opening and maintenance

### Asset Accumulation

- Repositioning of fees and pricing (i.e. special schedule for larger accounts) - ACCESS, MAC
- Expand composite reporting for PMP FAs that would allow them to better market themselves - PMP
- Develop new program for an all ETF portfolio - PMP
- Education (see distribution model)
- Develop program to transition Selections FAs to model portfolios

## Fee-Based Programs Strategic Review

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Competitive Review: What is the competition doing and how does it impact your business (include and cite relevant charts or stats)?

### Salomon Smith Barney

- Mutual Fund Model Portfolios
- Exchange Traded Fund Models
- Multiple Discipline Accounts (in-house managers)
- No retention
- Offers invoicing of IRAs
- Charge only on 10% of cash in fee-based brokerage account
- Proprietary investment managers (\$62 billion in assets- according to Cerulli)

### Merrill Lynch

- Mutual Fund Model Portfolios
- Offers invoicing of IRAs
- Pays sales credits and asset-based fee on syndicate purchases in fee-based brokerage account
- Captures assets weekly for UA program - no contribution fees required
- Proprietary investment managers (\$62 billion in assets- according to Cerulli)

### Prudential

- Mutual Fund Model Portfolios
- Offers invoicing of IRAs

### Morgan Stanley

- Mutual Fund Model Portfolios
  - No retention
  - Allow invoicing of IRAs
  - Began paying FAs 50% on fee-based brokerage activity (4Q2001)
  - Pays sales credits and asset-based fee on syndicate purchases in fee-based brokerage account
  - Optional charge for cash/money market portion of fee-based brokerage account
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\* NB215105XPPP\*

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# Fee-Based Programs Strategic Review

## Competitive Review: Continued

<b>McLagan Results -</b>				
<b>Total Revenue: All Firms</b>	<b>Rank</b>		<b>Market Share</b>	
	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>
Wrap Fees Broker Mgd	1-15	1-14	33.5%	27.4%
Wrap Fees Internally Mgd	4-16	5-16	6.2%	4.8%
Wrap Fees Externally Mgd	3-15	3-14	16.6%	17.4%
Wrap Fees Mutual Funds	3-12	2-13	17.4%	17.5%
<b>Total Wrap Fees</b>	<b>2-18</b>	<b>2-18</b>	<b>18.4%</b>	<b>17.9%</b>
Non-Discretionary Fee Trading	3-11	3-10	11.6%	13.2%
<b>Revenue/Salesperson: All Firms</b>	<b>Rank</b>		<b>% of Other</b>	
	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>
Wrap Fees Broker Mgd	5-15	6-14	326.9%	253.1%
Wrap Fees Internally Mgd	11-16	12-16	42.6%	33.8%
Wrap Fees Externally Mgd	3-15	3-14	129.7%	141.6%
Wrap Fees Mutual Funds	7-12	6-13	136.8%	142.8%
<b>Total Wrap Fees</b>	<b>7-18</b>	<b>6-18</b>	<b>146.2%</b>	<b>146.5%</b>
Non-Discretionary Fee Trading	3-11	2-10	84.8%	102.3%

# Fee-Based Programs Strategic Review

## Competitive Review: Continued

<b>McLagan Results-</b>				
<b>Total Revenue: Trend Firms</b>	<b>Rank</b>		<b>Market Share</b>	
	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>
Wrap Fees Broker Mgd	1-4	1-4	46.3%	38.3%
Wrap Fees Internally Mgd	3-4	3-4	10.3%	7.2%
Wrap Fees Externally Mgd	3-4	3-4	18.9%	19.7%
Wrap Fees Mutual Funds	n/a	2-4	22.9%	23.4%
<b>Total Wrap Fees</b>	<b>2-4</b>	<b>2-4</b>	<b>22.8%</b>	<b>21.8%</b>
Non-Discretionary Fee Trading	3-4	3-4	12.5%	14.3%
<b>Revenue/Salesperson: Trend Firm</b>	<b>Rank</b>		<b>% of Other</b>	
	<b>2000</b>	<b>2001</b>	<b>2000</b>	<b>2001</b>
Wrap Fees Broker Mgd	1-4	1-4	363.7%	260.5%
Wrap Fees Internally Mgd	3-4	3-4	48.7%	32.6%
Wrap Fees Externally Mgd	2-4	2-4	98.6%	102.8%
Wrap Fees Mutual Funds	n/a	3-4	125.9%	127.9%
<b>Total Wrap Fees</b>	<b>2-4</b>	<b>2-4</b>	<b>125.1%</b>	<b>117.0%</b>
Non-Discretionary Fee Trading	2-4	2-4	60.3%	70.1%

# Fee-Based Programs Strategic Review

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Strategic Drivers: What are your business' strategic drivers - how will you measure success of your strategies?

## Advice Consistency/Process Integration

- Integration of PACE and InsightOne into the Advisor (4Q2002)
- ICS Research Center - ACCESS & MAC (PACE in Phase II) (3Q2002)
- Offer Mutual Fund Model portfolios off Advisor platform for InsightOne and PACE (4Q2002)

## Core Affluent Services

- Multiple Discipline Accounts (3Q2002)
- Tax Efficient Platform - ACCESS (4Q2002)
- Inception to date performance - ACCESS, MAC, PMP, SELECTIONS (4Q2002)
- Introduce performance reports for affluent InsightOne relationships (2Q2002)

## Business Efficiency

- Expand MAC electronic trading platform (2Q2002)
- Enhance ICS Trading system to allow purchases and rebalancing of Models for InsightOne accounts (2Q2002)
- Online account opening and maintenance - Phase 1 (4Q2002)

## Asset Accumulation

- Repositioning of fees and pricing (i.e. special schedule for larger accounts) - ACCESS, MAC (2Q2002)
- Expand composite reporting for PMP FAs that would allow them to better market themselves - PMP (3Q2002)
- Develop new program for an all ETF portfolio - PMP (2Q2002)
- Education (see distribution model)
- Develop program to transition Selection FAs to model portfolios (3Q2002)

# Fee-Based Programs Strategic Review

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**Barriers & Risks:** What are the risks, obstacles or barriers to success and the plans for overcoming them?

**Barriers:**

1. Systems resources

Solution: Prioritization of projects vs. resources

2. Protracted flat stock market

Solution: FA education/retention marketing

3. Legal resources

Solution: Prioritization of projects vs. resources

**Risks:**

1. Maintaining two PACE platforms, thereby incurring increased and unleveraged trading, systems and operations costs and increased frustration from the field

Solution: Merge PACE Select and PACE Multi programs and implement through the Advisor platform

2. Inability to turn Selections attrition around

Solution: Develop program to transition Selections FAs to model portfolios

3. Converting unsuitable accounts to InsightOne

Solution: Implement new trading and investment guidelines

## Fee-Based Programs 2001 Highlights & Disappointments

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### What were your accomplishments in 2001?

#### ACCESS

- Due Diligence - Addition of 7 new managers, including exclusive offering of PIMCO Total Return

#### PACE

- Added 22 fund families and over 400 new funds to the PACE Multi Program Rolled-out browser tool to assist FAs with the Capital Market Assumption changes

#### PMP/Selections

- Developed Model Equity Portfolios,
- Added 62 FA's to PMP, 93 to Selections

#### MAC

- Researched 125 managers
- Published MAC Summaries on 60+ Researched managers
- Introduced Accelerated Compensation Program

#### InsightOne

- Implemented new InsightOne enrollment system (added features and enhanced navigation)
- Introduced Accelerated Compensation Program
- Developed and implemented tax worksheet (allocation of fee to eligible trades)
- Added hundreds of additional eligible mutual funds and a new managed future fund

#### Administration

- Periodic disbursements for ACCESS
- Added Confirm bulking for PMP and Selections
- Introduced automation of ACCESS manager communication (e.g., ICS Manager Link)

## Fee-Based Programs 2001 Highlights & Disappointments

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Which results against business & financial goals were most disappointing in 2001?

### ACCESS

- Delay in introducing ICS Research Center

### PACE

- Delay in introducing Mutual Fund Models
- Delay in introducing a new PACE front-end

### PMP/Selections

- Decline in the number of Selections accounts and assets under management, due to performance of Highlighted List

### MAC

- Delay in introducing the new MAC Application / Agreement - in legal review for almost one year
- Delay in introducing MAC electronic trading

### InsightOne

- Net sales were \$5.7 billion (with 14,223 accounts) - much lower than planned, due to the difficult market conditions

### Administration

- Delay in introducing electronic account approval



## Fee-Based Programs 2002 Business Initiatives

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**Describe your 2002 business initiatives and how they support your strategies and strategic drivers.**

### **ACCESS**

- Create competitive Multiple Discipline Account (MDA) platform, allowing diversification across multiple investment management styles for portfolio diversification within one account.
- Make the ICS Manager Research reports (e-Vals) legally suitable for client use.
- Put the ICS Research Center on the FA workstation, providing them with the ability to create managed account proposals in the branch office.

### **PMP/Selections**

- To increase FA participation in PMP & SELECTIONS by providing additional tools such as portfolio models and easy to use screening tools and execution of securities through the ICS Trading System.
- Develop an all Exchange Traded Funds (ETFs) portfolio program for FAs to manage client assets.

### **PACE**

- Improve PACE performance stability

### **MAC**

- Rollout the MAC Summaries, Brochure and New Application. The application will make it easier to do MAC business. Having information available on managers will also help market the program to FAs.
- Automate MAC trading to improve efficiency and reduce financial errors.

### **InsightOne**

- Enhance ICS Trading system to allow purchase and rebalancing of Models - improved business efficiency.
- Introduce performance reports (>\$1mm) - an additional core affluent service.
- InsightOne account enrollment function migrated into Advisor - another step in process integration.

### **Administration**

- Begin process of automating account opening / maintenance (will improve efficiency and reduce financial errors)
- Implement inception performance
- Consolidate confirms in statements
- Automate tax loss processing

## **Fee-Based Programs 2002 Business Initiatives**

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**Describe your process for tracking and measuring initiatives going forward (i.e. Planner system)**

Projects and delivery dates are tracked by ICS Business Analysts using Microsoft Project.

Assets, accounts and other relevant statistical information is tracked using Business Intelligence.

## Fee-Based Programs Key Drivers: Qualitative

Program	2001	2002
MAC		<ul style="list-style-type: none"> <li>New Contract</li> <li>Summaries</li> </ul>
ACCESS	<ul style="list-style-type: none"> <li>Reduced retention for ACCESS fixed income accounts</li> <li>Addition of 7 new managers</li> </ul>	<ul style="list-style-type: none"> <li>MDAs</li> </ul>
PACE	<ul style="list-style-type: none"> <li>Added over 400 new funds</li> <li>Rolled-out browser tool for Capital Market Assumptions changes</li> <li>Added 22 fund families, 957 funds</li> </ul>	<ul style="list-style-type: none"> <li>Updated Capital Market Assumptions</li> <li>Cosmetic changes to the PACE Portfolio Review</li> </ul>
PMP/Sel	<ul style="list-style-type: none"> <li>New contracts</li> <li>Model Portfolios</li> <li>Increased Pricing Flexibility</li> </ul>	<ul style="list-style-type: none"> <li>Performance Composites</li> <li>ETF Portfolios</li> <li>Recruiting Tools</li> </ul>
InsightOne	<ul style="list-style-type: none"> <li>Implemented new InsightOne enrollment system</li> <li>Introduced Accelerate Compensation Program</li> <li>Developed and implemented tax worksheet</li> <li>Added hundreds of additional eligible mutual funds and a new managed future fund</li> </ul>	<ul style="list-style-type: none"> <li>Performance reports (&gt;\$1mm)</li> <li>ICS Trading system</li> <li>Integration with Advisor</li> </ul>



### Did You Know?

- **Low-cost funds are more likely to outperform their peers**
  - Have outperformed the average in 14 of 15 fund categories this year\*
  - Fund expenses can become more important than manager performance over time
  - 25% of *Personal Finance's* Top 150 Performers\* are InsightOne eligible (based on 3-year return)
  - At least one top performing fund in every category is InsightOne eligible
- **There are thousands of eligible mutual funds in InsightOne**
  - There are 86 fund families with over 2,000 mutual funds that are eligible for InsightOne.
  - These includes our primary vendors and other popular fund companies
  - There are 25 fund families with over 250 mutual funds that are eligible for InsightOne that cannot be purchased in a commission-based account (no-load and advisor series funds)
- **Most eligible funds are load-waived class A shares**
  - This fund class generally has a lower expense ratio than other share classes
  - All 12b-1 trailers paid by the fund company are paid to the FA at Grid +1%
- **You can search for eligible mutual funds that meet specific criteria**
  - Utilizing the Mutual Funds Research tool on the FA Mirror application
  - You can search based on performance, risk, portfolio composition, net assets, or region

For more information refer to InfoNet (Products >> Services >> InsightOne >> Eligible Trades >> Participating Mutual Funds)



**Additional Disclosure**

Mutual Funds are sold by prospectus only, which includes additional information on risks, charges and expenses. Investors should read the prospectus carefully before investing.

**Investor Suitability**

UBS PaineWebber InsightOne is a non-discretionary brokerage account designed for investors focused on long-term investment strategies, which may include the use of a full range of brokerage services offered through a UBS PaineWebber Financial Advisor. UBS PaineWebber InsightOne is suitable for clients who desire to maintain control over their investment decisions and participate actively in portfolio adjustments. UBS PaineWebber InsightOne is available for all types of accounts except discretionary, commodities/futures, DVP and managed accounts, subject to suitability.

**Investor Concerns**

UBS PaineWebber InsightOne may not be appropriate for investors who anticipate very little or no trading, do not seek or accept periodic advice from their Financial Advisor, maintain consistently high levels of cash or money market funds, purchase and hold primarily no-load mutual funds, or who trade excessively on a short-term basis. UBS PaineWebber does not provide tax or legal advice. Clients should consult their attorney or tax advisor regarding their specific situations.

**Important Note**

UBS PaineWebber InsightOne is not an investment advisory account. The minimum account size is \$50,000 for the initial account, \$10,000 for additional related accounts. The InsightOne Account is charged a fee based on the market value of eligible assets, with a minimum fee charged in the amount of \$1,250 for the account relationship. Additional fees and expenses may be incurred, such as block charges, SEC fees for sales and other service fees. Payment of a fee based on the value of the Account may produce income tax results different from those resulting from the payment of brokerage commissions on a per trade basis. For a more complete discussion on terms and conditions, please see the Client Agreement and Account Information Booklet. Many of UBS PaineWebber InsightOne services and advice are available through commission-based relationships, sometimes subject to other charges.

Not For Public Use

1





**Unknown**

---

**From:** Redacted  
**Sent:** Thursday, December 11, 2003 6:09 PM  
**To:** Redacted  
**Cc:**  
**Subject:** RE: Compliance Inquiry NG 38589

Because the excessive trading is an economic issue and not a suitability issue -- it does not have the same "cooling off period". To re-enroll requires that the account sign new paperwork at the higher fee to bring the rev/trade over \$12 -- with BOM and RCO approval. Other resolution may be to add assets -- but also requires new paperwork and approvals.

Please pass any you find onto us as ICS will be doing the follow-up.

Redacted

-----Original Message-----

**From:** Redacted  
**Sent:** Thursday, December 11, 2003 3:55 PM  
**To:** Redacted  
**Cc:**  
**Subject:** Compliance Inquiry NG 38589

***This message is: COMPANY CONFIDENTIAL***

Redacted

Recently, account Redacted came up on a I/O trading before Inception report with several buy and sell transactions. I sent out an inquiry to the branch and they responded that this client was kicked out of the I/O program due to excessive trading. Business Intelligence confirms this on the "as of 30-Sep-03" report. The branch reinstated the client back into the I/O program as of 11/17/03. Redacted stated that the clients are ineligible for I/O for 12 months after termination and explained that your area would be dealing with clients that were terminated due to high velocity.

Thank you,

Redacted



# InsightOne Procedures Manual

As of December 2003

## Table of Contents

Program Highlights.....	4
Account Opening Steps .....	6
InsightOne System Navigation.....	9
<i>Quick Guide - Account Opening</i> .....	9
<i>Profiling (Optional)</i> .....	9
<i>Account Approval</i> .....	10
<i>Fee Change</i> .....	10
<i>Block Charge Exemption</i> .....	10
<i>View Activity History</i> .....	10
<i>View Performance Reports</i> .....	10
<i>Account Status</i> .....	11
InsightOne System Account Opening Messages.....	12
<i>Profiling Messages</i> .....	12
<i>Other Front-end Message</i> .....	12
InsightOne System Processes.....	13
<i>Updating Profile</i> .....	13
<i>Printing</i> .....	13
<i>Viewing Asset Allocation</i> .....	13
<i>View Today's Activity</i> .....	13
Trading and Approval.....	14
<i>Approval &amp; Order Entry</i> .....	14
<i>Account Opening on CDB</i> .....	14
Account Inquiry.....	15
Statements and Confirms.....	15
Relating/Linking Accounts.....	16
<i>InsightOne Family Relationship Definition</i> .....	16
<i>Relating Accounts - below the minimum asset level</i> .....	17
Pricing/Fee Range.....	18
Financial Advisor Pricing for InsightOne .....	19
Relationship Pricing.....	20
FA Compensation.....	21
<i>FA Payout</i> .....	21
<i>Discount Sharing</i> .....	22
<i>Administrative Retention</i> .....	23
<i>Accelerated Compensation</i> .....	25
SAVE.....	27
<i>Process</i> .....	27
<i>Inquiries</i> .....	27
Overcredit.....	28
Billing.....	29
<i>Initial Fee</i> .....	29
<i>Quarterly Fee</i> .....	29
<i>Contributions</i> .....	30
<i>Withdrawals</i> .....	30
<i>Syndicates</i> .....	31
Long Value vs Net Equity .....	32
Equity Linked Notes.....	33
Terminations.....	34
<i>Mutual Funds (24 Month Rule)</i> .....	35

<b>Other Fees and Charges</b> .....	<b>37</b>
<i>SEC Charges</i> .....	37
<i>Block Charges</i> .....	37
<b>UBS PaineWebber Online Services and Online Trading</b> .....	<b>39</b>
<i>UBS PaineWebber Online Services Enrollment</i> .....	39
<i>Who is Eligible</i> .....	41
<i>Online Trading Enrollment</i> .....	41
<b>STAR Procedures</b> .....	<b>43</b>
<b>Converting to/from InsightOne</b> .....	<b>44</b>
<b>Invoicing Accounts</b> .....	<b>45</b>
<b>Discretion and Power of Attorney</b> .....	<b>46</b>
<i>Discretion Background</i> .....	46
<i>Power of Attorney</i> .....	46
<b>Escalation</b> .....	<b>47</b>
<b>Exceptions</b> .....	<b>47</b>
<b>Mutual Funds</b> .....	<b>48</b>
<b>Unit Investment Trusts</b> .....	<b>51</b>
<b>Annuities</b> .....	<b>52</b>
<b>Offshore Mutual Funds</b> .....	<b>55</b>
<b>Managed Futures</b> .....	<b>56</b>
<b>Portfolio Models</b> .....	<b>57</b>
<i>Equity Models</i> .....	57
<i>Fixed Income Models</i> .....	57
<i>Municipal Bond Models</i> .....	57
<b>Placing Orders</b> .....	<b>60</b>
<b>Reports</b> .....	<b>62</b>
<i>Opportunity Reports</i> .....	62
<i>Sales Reports</i> .....	62
<i>Portfolio Management Reports (PMR)</i> .....	62
<i>Billing Preview Reports</i> .....	63
<i>Tax Worksheet</i> .....	67
<b>Margin</b> .....	<b>68</b>
<b>Premium Credit Line</b> .....	<b>68</b>
<b>InsightOne Trading and Investment Guidelines</b> .....	<b>69</b>
<b>InsightOne Portfolio Trading System</b> .....	<b>75</b>
<b>Questions and Answers</b> .....	<b>77</b>

## Program Highlights

- **Account minimum** : \$50,000 of eligible assets in at least one InsightOne account; accounts with a minimum of \$10,000 in eligible assets for the beneficial owner's spouse, parent, children of all ages, children's spouses, grandparents, grandchildren, grandchildren's spouses siblings and sibling's spouses may also be linked to the lead account.
  - A single, flat fee with no breakpoints or split schedules based on asset type. There is wide latitude for FAs to charge an appropriate fee for superior advice and service, while also enabling them to compete on price when it makes sense.
  - Flat fee ranges from .75% to 2.5%, intended for equity and balanced accounts. For accounts priced above 2%, the eligible commission payments for the prior 12 months or anticipated trading activity must substantially justify the InsightOne fee. Accounts priced above 2% require Branch Manager approval.
  - The client fee may be reduced to 0.30% to accommodate predominantly fixed income and/or larger accounts. However, when the client fee is less than 0.75%, the Financial Advisor will be charged a net \$12 transaction fee on any non-fixed income trades. An InsightOne relationship in which the client fee is at least \$2,500 per quarter is exempt from the \$12 transaction charge.
  - A minimum fee may be charged for each billing period. The annual minimum fee for accounts in an InsightOne relationship is \$1,250. If the combined asset-based fees for linked accounts are below \$1,250, then the minimum fee will be prorated for each account based on eligible assets in the account. If the combined asset-based fees for linked accounts are above \$1,250, then the minimum fee does not apply.
  - A termination fee may be charged in the first year for each account. The first year consists of the partial quarter in which the account was opened, plus the next three quarters. The termination fee will be prorated for the remainder of the year. Termination fees are waived for all IRA/QP accounts.
  - A transfer fee (\$50 per transaction) may be applied to accounts with excessive withdrawals of eligible assets, including accounts terminating from the program where the transfer activity is deemed to circumvent the payment of InsightOne fees. In addition, in abusive circumstances, a transfer fee equal to 1% of the value of eligible mutual funds purchased in the last 12 months may also be charged.
  - For large trades, the client will be assessed a block charge of \$0.02 per share on all equity shares over 5,000 and \$2.00 per contract on option contracts over 50. All account block charges will be paid to FAs at Grid plus 1% and credited in the

month in which the trade settles. In addition, upon Branch Manager approval, block charges may be waived on an individual account basis.

- Since there are no commissions, no Resource Management Account<sup>®</sup> / Business Services Account<sup>®</sup> fee, no IRA fee, no postage and handling charge on eligible transactions and no charge for standard check printing, a 0.10% administrative retention (charged to FA payout) will apply on the first \$500,000 of eligible assets for the InsightOne relationship.
- Eligible assets are equities, fixed income, cash/MMF, options, participating mutual funds, participating UITs and participating annuities.
- Ineligible assets may be held and traded in the same account but are excluded from the InsightOne fee and will be subject to standard commission charges.
- Online services and online trading (only equities to start) are available as a service convenience, not as a substitute for the Financial Advisor.
- InsightOne is not intended for excessive levels of trading (e.g., "day trading"), but rather for long-term investment relationships where it is appropriate both for the client and the Firm from a pricing perspective.

## Account Opening Steps

### 1. Account Application

The Financial Advisor and client should complete the appropriate Client Agreement. (Note: because the Agreement contains important information, the FA should encourage the client to read it and ask questions if necessary.). Remember that requirements will vary, depending on whether the client is a new or existing UBS client.

There are separate kits for:

Individuals and their IRAs, estates, trusts and custodial accounts - Rochester order # CL-IO-IND-KIT

Organizations, businesses and certain trusts (including ERISA Plans) - Rochester order # CL-IO-BUS-KIT

#### New UBS Accounts

For a new client (complete all sections of Application)  
For new accounts, collect and submit any additional required documents (e.g., Trustee Certification, Corporate Resolution, etc.) as for any regular commission-based account.

#### Existing UBS Account

Convert an existing RMA/BSA account to InsightOne (Only need to complete Yellow highlighted areas on Application, Sections 4 and 9 on Individual and Sections C and E on Business)  
Convert an existing cash account InsightOne Only need to complete Yellow highlighted areas on Application, Sections 4, 6 and 9 on Individual and C,D and E on BSA)  
Open a new IRA account (complete sections 4 and 9 and 6 only if IRA is approved for distribution plus complete an IRA Application).

*See Exhibit A*

Note: International clients should complete the current InsightOne Applications

Fill in the fee on the InsightOne Account Agreement. If the account is a qualified retirement plan (e.g., profit-sharing, 401[k], etc.), indicate whether the client wants to have his or her InsightOne fees invoiced on the InsightOne application. Important: Invoicing is not available for IRAs or non-qualified plans.

To access Business Intelligence from ConsultWorks2, click on:

**My Business tab**

**Assets/Rev, and then**

**Business Intelligence**

The InsightOne reports are located under the Product Specific tab on the left side menu.

To access Business Intelligence from ConsultWorks, click on:

**Start,**

**Products & Investments, and then**

**Business Intelligence Portal**

The InsightOne reports are located under the Product Specific tab on the left side menu.

#### **InsightOne Turnover Screen**

To assist you in monitoring the daily eligible activity of your current InsightOne accounts, the InsightOne Turnover screen was introduced in 2000. Revenue per trade will be added to this screen by 1Q 2004.

To access the InsightOne Turnover screen from ConsultWorks click on:

- **Start,**
- **Client Info, and then**
- **Managed Accounts Billing system**
- **The InsightOne Turnover Screen is option # 6.**

To access the InsightOne Turnover screen from ConsultWork2 click on:

- **My Business**
- **Fees, and then**
- **Managed Accounts Billing system**
- **The InsightOne Turnover Screen is option # 6.**

January 2003

Sam Sample  
123 Hilltop Lane  
Town, State 90210



Deleted: (Sent after 12 months of < 3 trades)

Dear Mr. Sample

UBS and your Financial Advisor remain committed to investing in long-term relationships. We would like to take this opportunity to thank you for your business.

A review of your InsightOne account (XX12345) indicates that your account has been relatively inactive during the last 12 months. The ability to effect transactions in eligible securities on a fee basis is only one feature of InsightOne, which offers you the opportunity to access a wide range of brokerage services and products, for one inclusive asset-based fee.

We suggest you discuss the effectiveness of your current asset allocation with your UBS Financial Advisor. This may be an opportune time to discuss reallocation strategies in light of your personal investment needs and financial objectives.

We thought it helpful to bring this to your attention so that you may evaluate your pricing alternatives. Please feel free to call your Financial Advisor to discuss your account or any additional services we offer. Again, thank you for your business.

Sincerely,

InsightOne Program Manager

cc: Branch Office Manager

January 2003

Sam Sample  
123 Hilltop Lane  
Town, State 90210



Dear Mr. Sample

UBS and your Financial Advisor remain committed to investing in long-term relationships. We would like to take this opportunity to thank you for your business.

A review of your InsightOne account (XX12345) indicates that your account has held a large portion in money market funds for an extended period of time. InsightOne offers you the opportunity to access a wide range of brokerage services and products for one inclusive asset-based fee. This fee applies to all "eligible" assets, which include cash and money market funds.

We suggest you discuss the effectiveness of your current asset allocation with your UBS Financial Advisor. This may be an opportune time to discuss reallocation strategies in light of your personal investment needs and financial objectives. For example, you may wish to consider investing in certain short-term fixed income securities with potentially higher returns. As with all investments, you should consider and understand the potential risks and rewards specific to the security before making a purchase.

We thought it helpful to bring this to your attention so that you may evaluate your pricing alternatives. Please feel free to call your Financial Advisor to discuss your account or any additional services we offer. Again, thank you for your business.

Sincerely,

InsightOne Program Manager  
cc: Branch Office Manager

## **InsightOne Portfolio Trading System**

The InsightOne Portfolio Trading System, a new user-friendly, web-based system, allows the FA to purchase and sell equity models using one system order instead of multiple entries. The FA can also use this system to help rebalance the client's portfolio to the most recent equity models.

The InsightOne Portfolio Trading System is not just a trading system - It's a portfolio management system. The FAs have the ability to assign investment categories to your InsightOne accounts and then purchase equity models based on the investment objectives for each account. In addition, they can search for InsightOne accounts that contain specific securities, amounts of cash, or cash percentages in their portfolios.

### **System Benefits**

Makes it easy for the Financial Advisor to purchase equity models - with only one system order required. The system will automatically generate the 30 individual orders based on the invested amount and model selected.

Offers the flexibility to customize the equity models by allowing the user to replace a security with a selected alternate security in that sector.

Enables the user to exclude or include current holdings from being sold when purchasing the model.

Provides the ability to rebalance an InsightOne client's portfolio to match the most recent equity model.

Efficient method to liquidate the portfolio, or a portion of the portfolio, if the client requires cash.

And since this system is exclusively for InsightOne accounts -- all purchases, sales and rebalancing are completed commission-free.

### **Equity Models/ Portfolio Analytics Group (PAG)**

Models are developed by the Portfolio Analytics Group (PAG) and are updated periodically. The models are developed based upon research provided by the Firm's Global and European Research teams, both ranked #1 by Institutional Investor (Dec 2001 and Feb 2002, respectively).

### **Getting Started**

The InsightOne Portfolio Trading System is available to all FAs and can be used to purchase equity models only for InsightOne client accounts. There are no specific user entitlements for this system.

The system can be used to place equity model trades for current InsightOne accounts as well as accounts that are approved on the InsightOne system today.

2. Input the Annual Fee Percentage and then click on Next.
3. Verify the account information is correct and then click on Submit.
4. Pass the completed paper-based InsightOne Application to your Branch Manager or Series 8 designee to obtain his/her signature and electronic approval of the account on this system.
5. Scan the InsightOne Application and keep the original Application in the Branch.

For detailed information on using the InsightOne system refer to the Help function within the InsightOne system on ConsultWorks or ConsultNet.

If the client wishes to utilize Online Services and its Online Trading functions, the client must be enrolled through the Online Services Enrollment system on ConsultWorks.

**Q7: How do I approve an account?**

Click on the Approve Accounts link.

1. Search for the account #.
2. Select the desired account #.
3. Review the account detail.
4. If appropriate, approve the account.

**Q8: How do I profile an account?**

1. Click on the Profile a Client or Prospect link.
2. Search for the account #.
3. Select the desired account #.
4. Complete the 7 mandatory questions of the Investor Profile Questionnaire.
5. Select the Save/View Allocation button.

**Q9: How do I view/print a performance report?**

Click on the View Performance Reports link

1. Enter the client information or specific search criteria and then click on Find to view matching accounts
2. Click on the drop down box and choose the desired report date then click View
3. You can print the report by clicking on the printer icon. Choose the " Shrink to Fit " option and click OK.

## Account Opening

- Q1: What is the simple process to open an InsightOne account?**
6. Click on the Open an Account link.
  7. Select an Account.
  8. Input the Annual Fee Percentage and then click on Next.
  9. Verify the account information is correct and then click on Submit.
  10. Pass the completed paper-based InsightOne Application to your Branch Manager or Series 8 designee to obtain his/her signature and electronic approval of the account on this system.
  11. Scan the InsightOne Application and keep the original Application in the Branch.\*

**\*Note:**

If your Branch **does not have scanning capabilities**, the original InsightOne application should be sent to the RMA New Accounts department at the home office and a signed copy should remain at the Branch.

For detailed information on using the InsightOne system refer to the Help function within the InsightOne system on ConsultWorks or ConsultNet.

If the client wishes to utilize UBS Online Services and its Online Trading functions, the client must be enrolled through the UBS Online Services Enrollment system on ConsultWorks.

- Q2: How can I open a related InsightOne account that is less than \$50,000?**
- To open smaller accounts:  
Ensure that an InsightOne account with \$50,000+ in eligible assets that is part of the InsightOne relationship is already approved on the InsightOne system.  
Profile the smaller account on the InsightOne system.  
Open a STAR case to I.C.S. using the "InsightOne Linking" task. Be sure to include the account number and fee of the smaller account and to identify the larger account that this account needs to be linked to. InsightOne Administration will input the fee and electronically submit the account for online approval by your BOM or designee. Your BOM or BOM designee must approve the account on the InsightOne system.  
The accounts entered must be valid InsightOne accounts for the same beneficial owner or their spouse, parents, children (all ages), children's spouses, grandparents, grandchildren, grandchildren's spouses, siblings, or sibling's spouses.  
Submit the account agreement for approval by your BOM or designee so that he/she may approve it at the same time that he/she electronically approves the InsightOne account.

- Q3: The account was just opened on CAI/CDB. Can it be approved today for InsightOne?**
- No, the InsightOne system can not recognize the account until the next day. Trades

done that day will trade on a commission basis. Accounts already set up on CDB may be approved for InsightOne on the same day the client approves the Agreement.

- Q4: What marketing materials are available?**  
Client brochures are available through the Rochester Service Center. The InsightOne Application may be used for new accounts as well as current accounts and may be ordered through Rochester. See the "Sales & Marketing" section for more information.
- Q5: How long do we have to submit the paperwork?**  
The signed InsightOne Application/Agreement should be scanned the day that the Branch Manager approves the account on the InsightOne system.
- Q6: Are there any other forms I need to fill out for new IRAs?**  
Yes. In addition to the InsightOne Application, an IRA agreement must be completed.
- Q7: What is the policy for migrating clients from PACE Multi to InsightOne?**  
Requests for termination of the PACE Multi Advisor account must be forwarded to PACE Administration (wire code PWPP, Att: PACE) when converting the account to InsightOne. Do not use the PACE System to terminate the account unless the client wants to automatically liquidate all eligible mutual funds in the account. PACE Multi eligible mutual funds that are also eligible for InsightOne do not have to be liquidated. PACE Administration will notify the branch when the account is terminated. Once the notification is received, the FA can proceed to open an InsightOne account using the standard account opening procedures.
- Q8: What is the policy for converting a managed account to InsightOne?**  
Terminate management of the account through normal ICS procedures. Management fees will be refunded for the unearned portion of the quarter as called for by the managed account Agreement. The day after ICS removes the managed account code, you will be able to set the account up for InsightOne and submit it along with the signed InsightOne agreement for Branch Manager approval.
- Q9: What do I need to do if my client chooses to transfer from InsightOne to a commission-based account?**  
All requests to terminate an InsightOne account must be made using the STAR system. The "InsightOne Termination" task is available in the STAR system under the "ICS" service center.  
After receiving the STAR request, InsightOne Administration will remove the "A" indicator from the "MNGD" field of the name page of the Client Database and assess a termination fee, if applicable. InsightOne Administration will respond via a STAR memo to the branch confirming the successful termination of the InsightOne account.

## Pricing

- Q1: What is the overall cost to the client?**  
The fee may be customized to the client's specific needs (asset size, asset mix, services required and expected transaction activity) and can range from 2.5% to .30%. For accounts priced above 2.0%, the commission revenue on eligible trades for the prior 12 months, or the anticipated trading activity, must substantially justify the InsightOne fee. The FA will be prompted to complete the online InsightOne Pricing Review Form when an account is priced above 2.0% using the InsightOne System (prompted in the Account Preparation page) and submit for approval by the Branch Manager.  
The asset-based fee is assessed upon eligible assets held in the account (including securities held on margin, excluding margin debits and short positions) on the day that the account is approved on the InsightOne system and quarter end for all subsequent quarterly billings. Other fees may apply to trading on margin, security transfers out of the account, termination of an account and trading in ineligible assets.
- Q2: What is the minimum fee for the InsightOne program?**  
The annual minimum fee for accounts in a InsightOne relationship is \$1,250. If the combined asset-based fees for linked accounts are below \$1,250, then the minimum fee will be prorated for each account based on eligible assets in the account. If the combined asset-based fees for linked accounts are above \$1,250, then the minimum fee does not apply.
- Q3: Why is the client's account subject to the minimum fee when he/she has other accounts that are much larger and are paying above the minimum?**  
It is an economic decision. Many of the services and transactions associated with InsightOne, such as RMA/BSA, IRA and waived confirm charges, are costly.
- Q4: Can a InsightOne be priced at a fee greater than 2.5% or less than 0.30%?**  
The fee entered can not be greater than 2.5%. Customized pricing below 0.30% is only available for accounts or relationships with over \$5,000,000 in eligible assets. Please contact your Associate Divisional Managed Accounts Consultant or program management staff.
- Q5: How does the block charge work?**  
A block trade charge applies to all equity shares over 5,000 (\$.02 per share) and options contracts over 50 (\$2 per contract). The annual RMA/BSA fee is waived, but additional charges will apply for standard cash management functions (insufficient funds, wire transfers, etc.)
- Q6: Will the InsightOne fee be generally more or less than what my clients were previously paying?**  
The InsightOne fee was not designed to cause clients to pay more or less than what was paid in a traditional commission-based account. Instead, it is intended to remove commissions from the relationship and allow you to provide a method of payment which recognizes and rewards your services in helping clients grow their assets.

- Q7:** Is a client with a large account going to pay the same fee rate as a client with a small account?  
Probably not, but there are a number of factors -- including the overall relationship, the amount of trading and level of service -- that you and the client should consider when determining a fee rate that will reflect each client's circumstances.
- Q8:** Over time, is there going to be a continued downward trend in fees across our industry?  
Probably. Many industry analysts feel that the market trend is towards lower fees, not higher, as we have seen with commission rates. We believe this trend should not be as great as the downward pressure on transactional-based business. This is because a fee is based on the "value added" services you provide -- not simply price alone -- and for this reason, your fee can command premium pricing.  
However, the overall downward trend on fees will compel Financial Advisors to focus on gathering all assets in a relationship in order to maximize revenue. The good news is that the new expanded family relationship pricing structure of InsightOne lends itself to this type of situation. Under these "relationship pricing" guidelines, you are able to link a wide variety of related accounts under the same fee structure.
- Q9:** Why should a client pay between 0.75% to 1.5% on a bond portfolio?  
In such an account, typically the fee should be lower, consistent with the level of appropriate service.
- Q10:** What are some considerations when estimating an appropriate fee for a bond portfolio within a InsightOne<sup>SM</sup> account?  
You should take into consideration the total allocation of assets (what percentage of the account is stocks and what percentage is bonds) -- as well as the amount of individualized service and the client's long-term needs -- when estimating a fee for a InsightOne account. Generally, a InsightOne account that consists primarily of bonds should be priced lower than a similar account consisting entirely of equities.  
For example, if a hypothetical allocation of a client's assets consisted of 50% stocks and 50% bonds, you might price the fee for the stock portion of the account at 1.25% and the bond portion at .75%. Then, you can average the two estimates and end up with a total fee of 1%. Of course, this is just one way you can consider when estimating a fee. There may be other important factors that influence the way you price an account -- such as the size of the portfolio (most FAs generally feel that the larger the portfolio, the smaller the fee they charge), the amount of time you spend with a client or the work it takes to service the account.
- Q11:** In a InsightOne account, do clients get charged a markup or sales credit when they make a trade with the Bond Desk?  
No, they do not. In a InsightOne account, the bond is purchased for the client at the base price. However, the Bond Desk at UBS continues to earn a profit, or take a loss, as a result of taking securities into inventory. It is important to remember that these are risk positions and the Bond Desk is subject to the inherent risk of owning these securities.

- Q12: Why don't you offer a lower fee if the client trades online instead of through their Financial Advisor?**  
InsightOne is not designed for dedicated online traders who want no personalized service or support. Rather, online trading is offered as a convenience for clients who want to enter orders online.
- Q13: Can the \$250 Personal Financial Plan (PFA) fee be waived for this account?**  
Yes, for InsightOne relationships exceeding \$1 million.
- Q14: A recruit's prior firm had different pricing policies. Can these policies be grandfathered?**  
Accounts participating in comparable programs at their predecessor firms will be evaluated on an individual basis. New accounts must be opened under the InsightOne program structure.

### **Changing Fees**

- Q1: How do I change the InsightOne fee for an existing account?**  
The InsightOne fee can be changed on the InsightOne system by clicking on the Change a Client Fee link, selecting an account, changing the fee and submitting to your BOM for approval. You will be prompted to complete an online InsightOne Pricing Review Form for all accounts priced above 2.0% for approval by the Branch Manager.
- Q2: How do I change the block charge for a new and existing account?**
- For new accounts , check the "Yes" Block Charge Exemption box on the Set-up screen of the InsightOne system.
  - For existing accounts where the block charge exemption is "No" , click on Change Block Charge Option link on the InsightOne system home page, search for account and select "Yes".
  - For existing accounts where the block charge exemption is "Yes" , you can not change the option to "no" on the InsightOne system. You must send a wire to PWPP Attn: InsightOne.

### **FA Compensation**



## Unknown

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**From:** Redacted  
**Sent:** Monday, April 26, 2004 5:45 PM  
**To:** Redacted  
**Subject:** FW: New InsightOne inactivity letter initiative

FYI

-----Original Message-----  
**From:** Redacted  
**Sent:** Monday, April 26, 2004 3:06 PM  
**To:** Redacted  
**Cc:**  
**Subject:** New InsightOne inactivity letter initiative

This initiative puts distracting discussions of transaction costs back in our dialogue with clients, neatly contradicting the supposed reason we encouraged fee-based accounts in the first place. It will now take even more time to discuss investment alternatives since we will have to explain all possible combinations of commissions, loads, discounts, discount sharing arrangements, internal and external product incentives as well as new compliance policies and full disclosure requirements for each trade. These alternative calculations will be to our industry what the Alternative Minimum Tax is to the accounting industry. Whereas alternative calculations create billable hours for accountants, they waste time for us. Besides this sad fact, we will be back on the defensive when trying to explain, *once again*, why 1) our firm recommended converting to fees in the first place and 2) why we are now unilaterally closing some of these accounts, without reviewing them for suitability. If these accounts are ipso facto unsuitable, the fee rebates and closing letters should probably include an apology from our Chairman and Board of Directors. Oddly enough, the advance copy of the soon-to-be-mass-mailed inactivity letter is silent about this.

We financial advisors were advised that InsightOne would enable us to make recommendations to our clients based on investment merit and we would not be regulated by mathematical formulae designed and enforced by our Legal and IT Departments, as long as these accounts were not abused by heavy traders who just wanted to job the system. They were designed for the benefit of intelligent investors, in collaboration with their advisors. There was a firm wide-campaign informing us that InsightOne was the wave of the future and that it was designed to help our clients, save time for everyone, eliminate compliance issues and, in general, be in everyone's best interest to use, especially since transactional business was going to become obsolete industry wide. It would be a simple matter of our survival to adopt it as our business model or perish. Those who persisted in doing transactional business, have been discouraged from doing so by increased ticket charges, new transaction fees, changes to the grid, etc.. These charges even apply in cases where a conversion to fees is not appropriate. They are applied across the board, with no exceptions. Now, with the abrupt execution of this new compliance-generated policy initiative, we are faced with yet another counterproductive make-work project designed to eliminate management's possible accountability for yet another *appearance* of impropriety. Whereas this new initiative will probably not inspire customer confidence, it will probably plant doubt about our firm's motivation, i.e., about whom we are trying to protect. It sends an *official* message that, since the risk of the firm's financial advisors plundering our clients' accounts is always *possible*, we must be unilaterally regulated, regardless of the situation. The risk to the firm is apparently just too great to take a chance on situational supervision. The accompanying fee rebates carry a rather sanctimonious undertone that UBS will bear any burden, pay any price, etc. to protect clients from *possibly unscrupulous* advisors, even though the rebates are not legally necessary. Financial advisors have also been informed that the punitive nature of the current ticket charges on transactional business may have to be reviewed for a possible appearance of impropriety in this area too. I'm assuming this will be explained in another pending policy memo.

Situational account supervision and the know-your-customer rule have apparently been replaced by management-by-the-numbers and computer-based decision making. Under this modern high tech system, investment firms, unlike their financial advisors, are apparently neither responsible nor accountable for anything. It's a remarkably efficient system to implement,

but it paints a rather unattractive picture for clients, especially ours, since we think of ourselves as a large, but intimate, "two person firm".

Ironically, unnecessary trades during the arbitrarily short, twelve month monitoring period, might have neatly avoided the inactivity "problem". These trades probably would have satisfied our Computer Monitoring System since it is numbers driven. Trades of this nature might also have satisfied our Legal Department's criteria as well, since clients would not have been specifically charged for them, and therefore could not accuse us of churning. I hope our policies don't inadvertently encourage this sort of obvious legal fiction.

Unfortunately, last year's rewarding market climate may not continue through our InsightOne computer's next twelve month monitoring period. It's therefore possible that we may be precluded from making some important recommendations to these former InsightOne clients this year since they will not be appropriate because of transaction costs. Adjustments, especially smaller ones, are frequently too costly to be practical in non fee-based accounts. I'm not sure how I can discuss this dilemma with my clients intelligently, since our policies, while straight forward, send mixed messages. I assume there will be a new policy directive addressing these very real issues. I hope that this time management accepts some input from clients and financial advisors before taking more remedial action. Clients might show some sympathy for us if we showed some occasional *apparent* interest in them once in awhile too. To outsiders (read clients), we are perceived to be in a CYA mode. The more we CYA, the more we look like Richard Nixon during Watergate. I, for one, have no reason to apologize for anything and would be out of my mind to sign the pending inactivity letters, ostensibly for "undertraded" accounts with very short histories. Cancelling these accounts and rebating fees is like settling a suit to avoid a guilty judgment when is totally unwarranted by evidence. I also think it will be a horrendous PR mistake for branch managers to send these letters to clients before reviewing the accounts individually. I just hope their "talking points" are more intelligent than those distributed to us for "rehearsal" purposes. If not, it will become immediately apparent to potentially hostile callers that we don't have our stories straight. I'm sorry for our industry's troubles but I have my own to worry about. This sort of preemptive initiative doesn't help me or my clients. It may not help the firm as planned either.

I am very aware that we have different priorities. I have responded to the firm's exhortations regarding InsightOne and have invested an enormous amount of time, money and effort following orders, making it a cornerstone of my business. This latest initiative is especially disappointing. It is also a very peculiar way to encourage trusting future relationships among UBS personnel and valued long time clients.



Unknown

From: [Redacted]  
Sent: Monday, September 13, 2004 5:04 PM  
To: [Redacted]  
Cc: [Redacted]  
Subject: RE: we are on a call... but

[Redacted] - in response to your voice-mail regarding the below chain of e-mails... 90BPs is OK per [Redacted] and me. You may reinstate at the branch. Thanks.

[Redacted]

> -----Original Message-----  
> From: [Redacted]  
> Sent: Monday, September 13, 2004 1:31 PM  
> To: [Redacted]  
> Cc: [Redacted]  
> Subject: RE: we are on a call... but

> I understand your position, but today is not 1999 and we are living  
> with guidance coming from the NASD, senior management and Legal.  
> There has to be recognition that this account is coming through an "exception"  
> committee - our guidelines are strict and I do not believe that the  
> committee has granted any exceptions in a circumstance like this one  
> without a corresponding fee reduction. The number of clients  
> requesting an exception that have been successful is somewhere around 25 percent.  
> [Redacted] and I want to work with you and your client on this - but as the  
> account was over 200% - it is a place that a regulator can clearly  
> tell us the account was overcharged (I am not suggesting that you  
> deliberately overcharged your client - I am merely putting the  
> regulatory spin on the  
> situation) - for us to allow it in the program going forward we need  
> to be cognizant of that - hence the fee reduction. Imagine our  
> position when the folks upstairs ask us what we did to ensure this  
> client got fair pricing and our only response is we priced the account  
> at exactly the same % fee as when it was 200%. Not a place we can be.

[Redacted]

> -----Original Message-----  
> From: [Redacted]  
> Sent: Monday, September 13, 2004 1:10 PM  
> To: [Redacted]  
> Subject: RE: we are on a call... but

> [REDACTED] All i ask for is an explanation and your reason. I am flexible  
> when reason is given. Please remember direct fee to commission  
> comparison was never sold by dmacs or marketing material.Account was  
> changed 4 years after .... Done @ .90 bps then will move into  
> Strategic advisor @ proper time. I will not comment "argument can be  
> made that he overcharged the client in the past. Will forward that  
> comment and theory. Thank you for the discount rate.

> From: [REDACTED]  
> Sent: Monday, September 13, 2004 9:12 AM  
> To: [REDACTED]  
> Cc: [REDACTED]  
> Subject: RE: we are on a call... but

> [REDACTED] - the issue we continue to face is that this account paid over  
> 200% in a direct fee to commission comparison. We feel that allowing  
> the account another chance at a reduced fee is generous given the  
> previous disparity. Our initial reaction was to not allow the account  
> at all, we then moved to allowing it at 30 BPs and finally, if [REDACTED]  
> could demonstrate that trades would be occurring at a sufficient level  
> to make this account worthwhile for the client we would allow 90 BPs.  
> [REDACTED]'s analysis does not take into account that from a regulatory  
> standpoint a strong argument can be made that he overcharged the client in the past.  
> This account is seeking access to InsightOne through a very limited  
> exception process - if [REDACTED] really wants what is best for his client  
> - then he needs to be flexible. We would like to make a final  
> decision on this today. Thank you.

> [REDACTED]

Redacted

-----Original Message-----

> From: [REDACTED]  
> Sent: Monday, September 13, 2004 10:12 AM  
> To: [REDACTED]  
> Cc: [REDACTED]  
> Subject: FW: we are on a call... but

[REDACTED]

> We have gone back and forth on this numerous times. We have given  
> our position. If I can be so bold and suggest that you discuss this  
> [REDACTED] so we can put this to bed. I understand [REDACTED] points below  
> but I am not certain enough consideration is being given to the fact  
> that this account was recently classifies as category I. Please give  
> me your thoughts. Then we can close this issue for everyone. Thx

-----Original Message-----

> From: [REDACTED]  
> Sent: Friday, September 10, 2004 7:51 PM  
> To: [REDACTED]  
> Subject: RE: we are on a call... but

> .90 bp's is news to me. What do you base that number on.  
> Why are you pricing my business @ a discount. Do I raise it in six  
> months back to 1.25% which is a below ave rate for the street. I do  
> not think we should overcharge... but It is not fair to undercharge.

> Currently the way this thing is set up client has paid us fee all year  
> for advice ,now taken off fee, will pay us full commission, to sell  
> 1500 brocade,1500 calpine,3400 cisco,500 EMC,2950 GE,2450 intel,300  
> JNJ cov.call on 200 JNJ leave 200 long, sell 1000 juniper,keep MSFT until Nov,sell 900  
merck,300  
> oracle,200 pfe, cov call on ups and pfe.. With proceeds, rebalance with  
> our dividend ruler stocks B1,B2 research (fee pays our research also)  
> 50% to 75%(depening on market) of the rebalance will be in our  
> covered call (buy /write) program of our dividend rulers listed on UBS option research.  
> Also writing calls on portion of the GE,Intel,and Cisco. Once full  
> commission is paid (sell/buy), client will then be placed into strategic  
> advisor @1.25% as per clients letter in two months. If I zip my lips and  
> proceed they way you have set this up via arm twist attorney regulators  
> I get paid almost twice the amount. I suppose regulators like this  
> because it will keep them busy with lawsuits flying off the wall  
> .Stand up to the regulators, We should have insisted not to touch  
> insightone until OUR clients have the proper account to transfer into. It is the  
> right thing for the client...Furthermore it is our duty to follow our  
> clients instructions(LOA) if they want a fee account not a commission  
> driven account. It is wrong to charge clients commission / fee and it  
> is wrong to price your UBS advisors business at a discount. 1.25% is  
> fair and reasonable. 1% is a deal. .90 is being taken advantage of.  
> Insightone was sold to me and my clients as a "advice, one fee  
> account" as per marketing materials . Now you are forcing the client  
> and advisor into a commission driven account; putting both parties  
> on the wrong side of the page, and introducing conflict of interest into the  
relationship.  
> Frankly, my clients nor myself are interested in commission driven  
> conflict of interest accounts. Client wants to do the trades on Monday  
> and would like his original fee account live.

> To: [Redacted]  
> Cc: [Redacted]  
> Subject: we are on a call... but

> I recall that we left this as we would reconsider going to 90BPs -  
> instead of 30 - but you needed to show up the specific trades  
> intended, not just an aggregate dollar amount for the trades.

> [Redacted]



Unknown

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From: [Redacted]  
Sent: Friday, April 16, 2004, 4:09 PM  
To: [Redacted]  
Subject: InsightOne

[Redacted]

Let me preface these remarks by saying that I think you are more likely than not trying to do the right thing for people. I also suspect you are a good guy, and that you find yourself in a situation (the InsightOne mess) in which you would rather not be. And maybe it is premature to get all worked up about this stuff. Having said that, the more I think about this, the more I think we will be having a protracted discussion, and one from which we are unlikely to walk away easily.

It's not that I have an objection to the intent behind the SEC and NASD guidance: I support it. What is so upsetting is that UBS has made a series of strategic business decisions that are, at best, regrettable. Whatever awareness UBS had about this shift in the regulatory winds has long been disconnected from an allocation of resources toward solving the problem. Instead of creating systems that can put us, the Financial Advisors, in charge of and responsible for proactively changing the pricing for our clients, UBS has instead spent its time figuring out how to pass the buck to someone else -- the FAs -- and making them eat the nearsightedness and incompetence of our Compliance Department.

People like [Redacted] like to say, "At other firms (insert rationalization here)." Smith Barney figured this out well ahead of us, and, as you know, didn't stick it to their FAs. It is a matter of convenience that we are not hearing any specific comparisons with other firms, other than the vague... "This affects everyone."

While I do not think we have been lied to by UBS (the jury is still out on that, though), we have certainly been misled. From where I sit it does not seem unreasonable to expect someone to soon declare that RMA accounts that don't write checks will be reimbursed a portion of the \$125 it costs to have the account, and to have that come out of our pockets. The trend toward that is already in place. What we are being put through is a retroactive change of the rules which is driven by corporate fear instead of common sense. It would be the same as playing out a 9-inning baseball game, and then the umpire declares that the winner will not be determined by which team scored more runs but by which team had more hits... and that the game actually ended in the 7th inning.

Finally, I hope you haven't overlooked the significant irony of InsightOne accounts, once touted in marketing materials as the right way to price an "advisory" relationship. Now they seem to render the title "Financial Advisor" obsolete. It can't be long from now before someone at UBS -- probably a lawyer -- decides that we can't use that title any more. If our current experience is any indication, our titles will be stripped, but not replaced until months later, and after our attorneys figure out what might be acceptable to the SEC.

We await the (mysteriously unavailable) listing of clients who are being affected by the new UBS position. At that point, I am sure we will be back in touch with you.

[Redacted]





## Business Session Questions

1. I think you know that I have a pretty significant interest in the InsightOne program and that a lot of my business is done through that. And I do recognize that it's a new product and that there's a small handful of accounts that probably shouldn't have been in the fee structure, and I've already taken them off.

But for the rest of us, the reality is that that fee is viewed by clients as a combination of pricing plus advice on a non-discretionary basis. The reality is that in some business and some moments in the marketplace, NOT doing transactions IS in the client's best interest and we all know that. I mean, we're not asleep at the switch. Assuming the accounts are suitable to begin with, there are moments when you should not be trading irrespective of what the SEC thinks or you should be trading at half the volume you did the previous year.

We have to find a way to resolve that problem, I believe, for us to move forward and make this a powerful product. Between our discretionary fee-based accounts, which many clients are happy with, and the non-discretionary fee-based accounts for all the rest of those clients that are not giving discretion to anybody, we've got to find a way to solve that issue, so that I don't feel compelled to do a trade that's not important to avoid having the client dropped from the fee structure. Can you address that? Are we gonna solve this?

2. [REDACTED] we appreciate that you're paying us for the second quarter for the alleged bad accounts. In the communication on what accounts were affected, we dropped the ball. Cause each of us get 50-100 emails a day.

Second, we could put these people in Access accounts at 2.8 percent, the manager could sit with the stocks forever, and never get a letter. We're going to get a letter and we could be at 1 percent, and I think we can give better service. We could have better flexibility, we could hedge, options, whatever.

I know the regulators are living with us and it's hard for us to call our own shots, but it just doesn't make sense to me that in a traditional brokerage account you can have discretion, you could churn it, but in InsightOne where churning is impossible, you can't have discretion.

I'm glad you're making it an advisory account that's really the ultimate answer and I hope in the architecture that you make the cost the same as InsightOne now, so that the brokers and the clients will do it in some relatively short manner.

3. I have a comment about the regulatory environment generally. The last six months have been brutal. I've dealt more with ethical and compliance issues more in the last six months than I have in 20 years as a professional, and it's been painful, it's been time-consuming and it's been difficult. I understand the environment we're in, and I do believe in some respects the firm is doing the right thing. But one thing I think we can do better is that our compliance department just paints with a broad brush. They create rules, they put things in boxes, and then they apply every single incident without looking at individual case on the merits and they come to conclusions.

I think they should have a little more common sense and a little more judgment and look a little more carefully at individual cases rather than just handout punishment based on generalities.

In terms of InsightOne, we've been in a difficult environment and I think disclosure is the issue here. I think you need to give us some credit for having discussed this with our clients, and positioned these accounts the right way from the beginning. Explained what we're doing, what we're trying to accomplish, what the inherent conflicts can be in a commission-based account. Now we're going back to them and telling them we're going back to the very thing that we told them was wrong to begin with.

I've called all my clients already on this InsightOne issue, and not one of them had any objection to the way it was being handled because we talked to them about this from the beginning and I think that is something you guys need to think about.

4. I saw the InsightOne report on Friday, and I had three clients who were affected. I called them, it was a great conversation to say "hey, we can save you some money going forward," so they appreciated that. This morning, my CSAs are re-coding the accounts to remove them as InsightOne accounts. That being the case, will these three clients avoid this letter because we've uncoded them?
5. Having worked for an unnamed competitor "Smith Barney" with a Compliance department that's stifling, even moreso than here, please don't let that happen here.

I have a problem that I receive the report on a Friday and the first deadline I have is while I'm here.

The second thing is that all the clients on my reflect list all seem to be mutual fund clients who have avoided 4 percent loads and have gotten 75 basis point fees instead, and I seem to be encouraged to trade mutual funds to avoid this problem.

I have a couple of questions relative to InsightOne. Going forward, if we assume this account continues, if there are periods of inactivity, which there will be, why can't we deal with something with a written flow. That we have indeed reviewed these accounts, we have talked to the client and because there is no activity does not mean we're not fulfilling our obligation.

The next issue that ties to that is, if you're working with a family, we don't do a good job of dealing with families. If you're working with families, you can have children or other people within the network who are not active but the family wants uniformity and are very happy with our InsightOne concept. How can that be integrated?

The next question I have is, if we're already discounting these people do to a 0.75 or even lower fee, was that taken into consideration when you were doing your top-down statistical analysis of the situation? The only comment I have about this is, if we've performed and our clients are happy with the net result, is that being taken into account? Across the board, we're looking at InsightOne, legal and compliance, and the people who are raising these issues are very justified in what they're saying. But is someone taking a look at what I'll call the "reasonable person" rule? You look at the forms we're asked to send to clients today and they don't want to sign them. Take a look at the trustee certification form or these other things. I think that what we're doing by doing this is creating some suspicion on their part which we don't want to do. These people have had decade-after-decade relationships with us.

6. You talked about growth in terms of what the firm's doing. And they're moving to hire trainees as well know have a tough time. You're hiring recruits? many of us ? including me ? were recruited but that's an expensive proposition.

I think the challenge going forward, if you want us to grow our business. You're gonna have to look at each one of us individually and say, "how can I help you grow your business?" What I mean is, when you get to a certain amount of assets and production, you have to invest in infrastructure to go forward. Maybe that's people, maybe that's something else.

What I see is that the onus for growth is on me. You say, "grow your business," which I want to do, but I have to do it within a process of can I get some extra resources on a case-by-case basis, can we partner up so that I can grow, and I think that's a real challenge that we've always had. When times get tough, headcount comes down and everybody gets sliced. My question is, is there a way that we can look at individual units on a productivity and a case-by-case basis and have it so the firm can add resources and partnership of expenses so that we can grow our business.

7. Hi [redacted] At the beginning of the year, I did a major review for one of my 401k clients. An 11-year client. A \$75 million account and it's with Fidelity and we have A shares, at NAV. And we did a review and we said, "what if we had retail shares?" and the difference between the retail shares and the A shares for one year was \$200,000 cheaper using the retail shares.

The client understood that they'd have to spend about \$100,000 for an administrator which was being included in the A-share advisor funds? there are 11 funds that we have in our asset allocation.

8. We also had Fidelity come in as a partner. They did a very good job of showing that this asset allocation that we have that we've been working on on my team for 11 years was absolutely the best allocation they had, and all of the advisor 401k plans that they have. The return for the funds for the year was 26 percent. Then, we looked at the returns for the retail shares. The A shares outperformed the retail shares by \$2.5 million to the good. I think the regulators think that all the fees are useless and worthless and an overcharge. My client doesn't think so.

9. I took a look at my list of InsightOne accounts that were Category 1 accounts on Friday, and when I went through the list of 23 names and did the calculations myself, I found that the calculation process to determine these accounts were Category 1 was erroneous. I came up with different number and found that 16 accounts were related accounts, and they were related throughout the scrubbing period, and apparently that wasn't taken into consideration.

If there's a way to appeal those accounts I want to know that, and if there's a way to do it, I'd like to know how to do it here.

10. Thank you for the leadership over the years. When I go back on commissions, I think the problem is "what is fair" and "how do you price the relationship" I think an issue is householding. When somebody has alternative investments. OR their money is in Access. Some in Insight. It gets confusing. So when I sit down with a prospect, I discuss how I charge and how I price. In the world of commissions, we never had a piece of paper that said what we charged, and here we are trying to be fair and ourselves, it'd be nice if we had a guideline, and let's consider households.

11. Looking forward, should we be putting our crash helmets on for PACE? Do you think there will be issues looking forward having to do with fees associated with that account—the internal expenses associated with the mutual funds, and do you think that that's an area in which we're okay?

(Follow up) Say you're charging 75 basis points for PACE, the FA fee, and then you also have the internal fee for the funds. Are you saying that we're going to a platform where the Investment Company of America charges 0.67 percent internal expense and you've owned it two years or longer you get 25 basis points there, plus the 75 basis points fee to have the account. Are you saying we're going to platform where that will be disclosed on the billing statement?

12. Many of us use non-proprietary database managers for our clients. Where do you see the firm's protocol for non-firm owned PDAs and laptops, and non-firm proprietary software for database management.

13. Most of my business is 401k and working with fiduciary committees, and when the articles came out about the major brokerage firms selling shelf space for mutual funds, the committees looked at me and were wondering whether my PIMCO, American Funds, Fidelity Advisor funds were put in place solely on the merits or because that's the menu that the company put in front of me to use. It was difficult for me, because I didn't really know how to answer the question of firm's selling shelf space. Are we going to see more articles about these deals? In dealing in a fiduciary environment, that puts us in a very difficult position.
14.  12b-1 fees are an important part of our compensation. Do you anticipate that these could go away?



## Unknown

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**From:** Eursey, Bruce A.  
**Sent:** Friday, January 31, 2003 3:36 PM  
**To:**  
**Subject:** FW: InsightOne Trading Guidelines

I know we sent out information to this effect explaining that it is not an advisory account. Do you think he is right about doing it again?

-----Original Message-----  
**From:**  
**Sent:** Friday, January 31, 2003 2:45 PM  
**To:** Eursey, Bruce A.  
**Subject:** FW: InsightOne Trading Guidelines

FYI

We are getting lots of this which tells me that the FA's and ECM's don't truly understand the difference between this account and an advisory account. Should we put together a piece that can go out to those affected by this explaining the rationale. In the absence of this, they feel we have done a flip flop (like that?) on the issue. appreciate your thoughts.

-----Original Message-----  
**From:**  
**Sent:** Friday, January 31, 2003 2:29 PM  
**To:** Redacted  
**Cc:**  
**Subject:** InsightOne Trading Guidelines

Redacted

I am writing in reference to the memos we received on the "New" InsightOne Trading Guidelines, in particular the Low Trading and High Cash guidelines.

I have opened and converted a good part of my business over the last 2 years to InsightOne. The "One Simple Fee" concept is a great way for a client to pay us for a wide range of services and investment options. Our new UBS PaineWebber InsightOne brochure has a laundry list of "services" and "investment options". The cover of the brochure lists-

- "Service"
- "Flexibility"
- "Advice"

"One Fee"

In light of how we promote this type of account in our new marketing material, I fail to understand how we developed "new" guidelines for low trading and high cash accounts. Until December 2002, all InsightOne accounts were presented and sold to our clients without these guidelines. How can we implement them now without any grand fathering. Also, a high service, low trading account is usually charged a fee (with the clients consent) because it is "high" service and low cost basis stock and fixed income, where "trading" is unsuitable. As far as high cash accounts are concerned, a cash position over the past 3 years has been the right place to be for certain clients. If the client is consenting to the fee (1% or less), what is our problem with charging it.

I understand the need to review and change procedures from time to time, but our new trading guidelines for low trading and high cash accounts is out of step with UBS PaineWebber's "Wealth Management" consultative approach to our clients.

I look forward to your response.



Unknown

From: [Redacted]  
Sent: Friday, November 30, 2001 5:15 PM  
To: Bursey, Bruce A.; [Redacted]  
Subject: FW: Factoid from Registered Rep-Updated

Interesting turn of events!

-----Original Message-----

From: [Redacted]  
Sent: Friday, November 30, 2001 4:33 PM

To: [Redacted]

Subject: FW: Factoid from Registered Rep

An interesting event occurred. The Registered Rep news item that appeared on the web site of Thursday (UES PW Brokers 'Furicus' Over New Policy -- second article below) disappeared from the website sometime this morning. This afternoon a different news item on the same topic appeared (see first article below). The replacement article is much more balanced showing that the change is actually good for some brokers. It also points out that UBS PW is not the only one making this type of change.

[Redacted]

UES PW Pushing Fee-Based Business, Transactional Reps Upset

By Rick Weinberg

Online Exclusive, Nov 30 2001

Mirroring an industry wide trend, UBS PaineWebber is encouraging its brokerage force to go fee-based by increasing the payout on fee-based business by an average of two to four percent net, according to brokers from the firm. At the same time, UBS PaineWebber management is penalizing transaction-oriented brokers by instituting a \$12 fee for every stock/option ticket brokers write. The plan goes into effect on Dec. 1. Perhaps Mark Sutton, the firm's private client group president, put it best in a video released to the brokerage staff: "If you do fee-based business, you just got a raise," according to a Bethesda, MD, broker who saw the video. "I like it," the rep says. "I do a good fee-based business and, yes, I just got a raise."

The new compensation policy will hurt traditional, transaction-oriented brokers who still don't do a meaningful fee-based business.

"It's a terrible policy," says a UBS PaineWebber West Coast rep. "The average broker writes about 5,000 tickets per year. That's \$60,000. This policy will personally cost me \$20,000."

Just about every brokerage is pushing the fee-based, individually managed money concept. Most recently, Merrill Lynch raised the percentage it pays out on fee-based accounts. But Merrill also raised the payout for commission trades—but only for large accounts. The behemoth cut payouts for orders of less than \$100. Obviously, brokerage brass believe that the only way to break the old, well-entrenched transaction business is to punish the traditional "stock jockey" while rewarding the new paradigm.

A Louisiana-based UBS PaineWebber fee-based financial adviser sees a revolution taking place in the trenches. "I've been transitioning to fee-based for a few years now and the new payout is great for me," he says. "I can see how [transactional] brokers are

complaining, but hey, you've got to change with the times and get up to speed. Fee-based is the way to go. It's the future and the future is now."

-----Original Message-----  
From: [REDACTED]  
Sent: Friday, November 30, 2001 8:43 AM  
To: [REDACTED]  
Subject: "Factoid from Registered Rep"

UBS PW Brokers 'Furious' Over New Policy  
by Rick Weinberg  
Online Exclusive, Nov 29 2001

UBS PaineWebber brokers are "outraged" over a new policy that states they will be charged \$12 for every stock and option ticket order they write beginning Dec. 1, rrmag.com has learned.

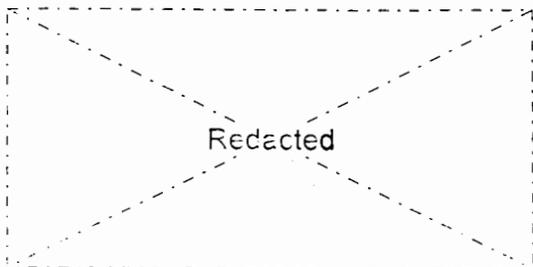
"It's a terrible policy," says a UBS PaineWebber West Coast rep. "The average broker writes about 5,000 tickets per year. That's \$60,000 [in ticket-writing charges]. This policy will personally cost me \$20,000."

The charges will be taken directly out of the brokers' paycheck. Brokers are so upset over the policy that many have "packed up and left the firm," according to the rep.

The firm did not return calls to provide a comment.

Complaints are running rampant at the firm over the policy, which is in place regardless of the size of the account. "Everyone feels they're getting screwed," says the rep.

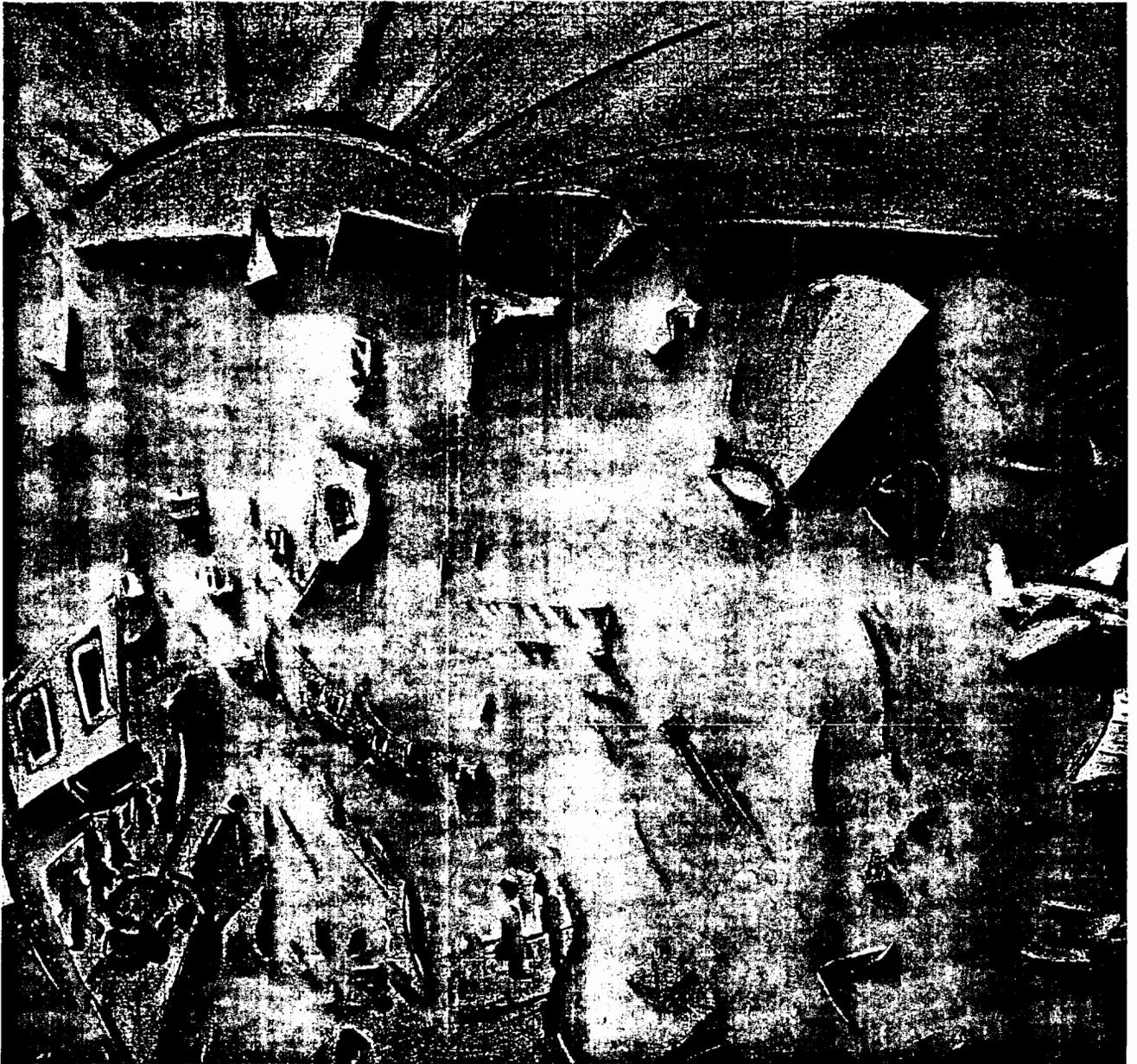
Realistically, brokers cannot alter their business practices to avert being charged for ticket writing "because then you're not doing what's best for your clients," the rep says.



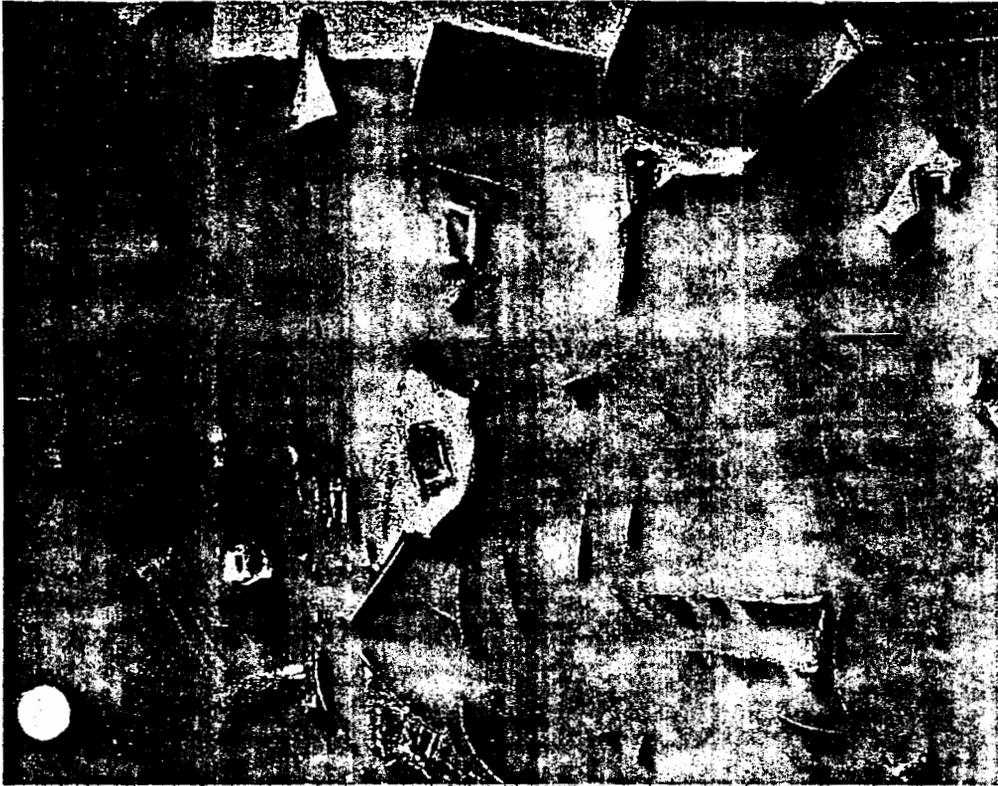




InsightOne<sup>SM</sup>



UBS Financial Services Inc.



Employing a total wealth management approach, our Financial Advisors can provide customized investment strategies that are designed to help investors accumulate, preserve and transfer their wealth. We view it as an all-encompassing approach to your investment and financial life – taking into account your asset and liability needs.

Our Financial Advisors have access to the global resources of UBS AG, which enables them to offer you a wide range of financial services and solutions designed to help work toward your asset and liability management requirements.

# Insight: Seeing the Inner Nature of Things.

Our insight is about understanding the complexities of helping you manage your wealth. It's about simplifying your financial life through a relationship that can provide focused creative financial solutions and personal service. It's knowing you, what you want and when you need it.

InsightOne is a non-discretionary brokerage account with an alternative pricing structure to commission-based accounts. If you are reasonably active in the market and prefer consistency of costs, you may find that, just like a commission-based accounts, InsightOne gives you access to the services and investment solutions you may need to work toward your financial objectives...<sup>1</sup>

- UBS Investment Research provided by UBS Securities LLC
- Non-discretionary Brokerage Services
- Special Family Relationship Pricing
- Asset Allocation Services
- Education Planning Strategies

- Retirement Planning Strategies
- Estate Planning Strategies
- Stock Option Planning Strategies
- Resource Management Account<sup>®</sup> or Business Services Account BSA<sup>®2</sup>
- Online Account Access, Trading, Research and Portfolio Tracking
- Equities
- Exchange Traded Funds
- Participating Mutual Funds, Unit Investment Trusts, Annuities, and Managed Futures Funds
- Mortgage-backed Securities
- Corporate Bonds
- Municipal Bonds
- Other Fixed Income Securities
- Options
- Rights and Warrants
- Cash/Money Market Funds

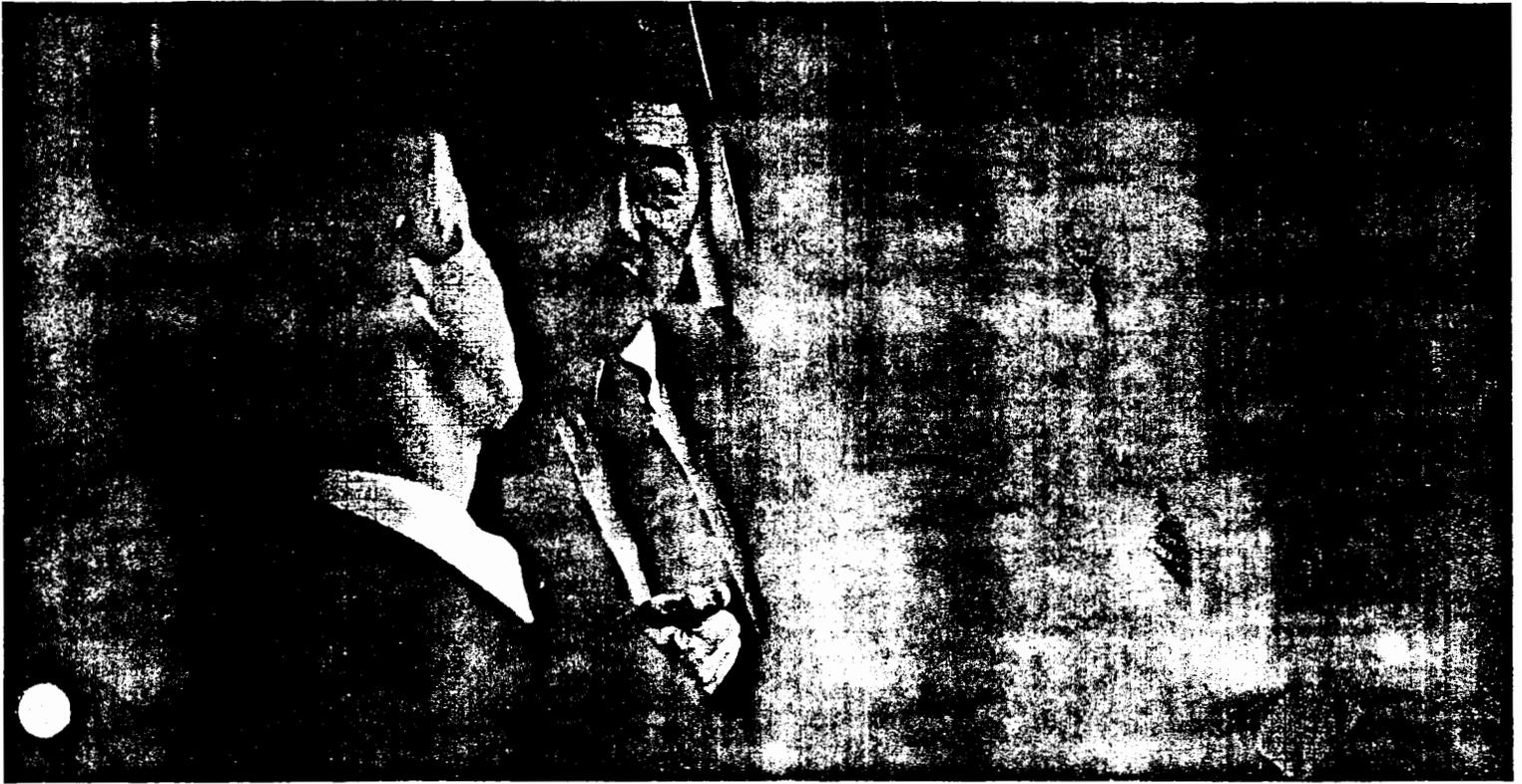
...with the convenience of an asset-based fee.

<sup>1</sup>InsightOne is a non-discretionary brokerage account designed for investors focused on long-term investment strategies and who anticipate a moderate level of trading given the size of the portfolio and the types of securities held. InsightOne is suitable for clients who desire to maintain control over their investment decisions and participate actively in portfolio adjustments. InsightOne is available for all types of accounts except discretionary, commodities/futures, DVP and managed accounts, subject to suitability.

InsightOne is not an investment advisory account. The minimum account size is \$50,000 for the initial account, \$10,000 for additional related accounts. The InsightOne Account is charged a fee based on the market value of eligible assets, with a minimum fee charged in the amount of \$1,250 for the account relationship. Additional fees and expenses may be incurred, such as block charges, SEC fees for sales and other service fees. Payment of a fee based on the value of the Account may produce income tax results different from those resulting from the payment of brokerage commissions on a per trade basis. For a more complete discussion on terms and conditions, please see the Client Agreement and Account Information Booklet. Many of InsightOne services and advice are available through commission-based relationships, sometimes subject to other charges.

<sup>2</sup>For a more complete discussion on the terms and conditions of the Resource Management Account RMA<sup>®</sup>/Business Services Account BSA features and the costs and limitations associated with these services, please see the Client Agreement and Account Information booklet.

UBS Financial Services Inc. does not provide tax or legal advice. Consult with your tax and legal advisors regarding your individual needs.



### Equity Research

Research is at the heart of the Firm's efforts to help clients pursue their individual investment goals. Analysts and strategists seek to identify opportunities based on established and emerging economic, market, industry and company trends. The coverage of both domestic and international stocks continues to grow, with coverage of over 900 domestic stocks and 2,000 non-U.S. stocks. UBS Investment Research provided by UBS Securities LLC currently has over 450 research analysts and economists

worldwide who cover over 3,000 stocks, representing 83% of the S&P 500 and 83% of the Nasdaq 100.

This research team has long been recognized as one of the leaders on Wall Street. In 2003, *Institutional Investor's* survey ranked UBS Investment Research at UBS Securities LLC (formerly UBS Warburg) #1 for the Global Equity Research Team, #1 for the All-Europe Research Team, #1 for the All-Asia Research Team, #5 for the All-American Research Team and #5 for the All-Japan Research Team.

Our Financial Advisors have the opportunity to leverage the capabilities of a group of investment professionals who serve as liaisons between investment strategy and research, and who also provide portfolio analysis and recommendations. By utilizing these research capabilities, your Financial Advisor can provide you with investment advice based on your needs, goals, risk profile and time horizon.

# Customized for You

The flexibility you need to make the most of your assets... and your time.

## InsightOne RMA\*

The Resource Management Account\* (RMA) offers the benefits of cash management tools and brokerage by providing an automatic investment of idle cash in a sweep account earning a competitive rate of return.<sup>1</sup> In addition, the RMA offers flexibility and easy access to your money.

RMA is available either through InsightOne or a commission-based account.

With RMA you have:

- The use of the Platinum MasterCard® debit card<sup>2</sup>
- Access to a convenient and time-saving Concierge Service, provided by MasterCard International, Inc., 24 hours a day, seven days a week, which can provide you with:
  - City-specific information on what's available in entertainment and events, and where to get gourmet foods and premium tickets
  - A sample itinerary showing you how to get the most from your travels

- Check-writing with no minimum per-check limit or usage fees<sup>2</sup>
- Bill payment services<sup>2</sup>
- Electronic Funds Transfer capabilities via our Online Services or ResourceLine®, our interactive voice response telephone system
- UBS Rewards program with no annual fees for individual accounts<sup>3</sup>

## Monthly Statements

Your monthly RMA statement provides a comprehensive view of your financial picture in one simple document. You can select alternative formats and customize the information you see. And, if you choose, you can access your account information online.

## Business Services Account BSA

Small businesses can take advantage of the cash management opportunities offered by the Business Services Account BSA. With features similar to the RMA, the Business Services Account BSA is designed to help small-business owners manage their cash flow more effectively, keep assets invested and enhance their financial control.

<sup>1</sup> An investment in the money funds or other sweep option is neither insured nor guaranteed by the U.S. government, and there can be no assurance that any money fund or other sweep option will be able to maintain a stable net asset value of \$1.00 per share. For more complete information about RMA money market funds or other sweep options, including charges and expenses, please obtain a prospectus by contacting your Financial Advisor. Read it carefully before you invest.

If you are an Eligible Participant (each as defined in the Client Agreement), unless you affirmatively elect one of the alternative offerings, uninvested cash will automatically sweep to the UBS Bank USA Deposit Account Sweep option. Once your account or accounts exceed \$100,000 in the aggregate (\$200,000 for joint accounts), your aggregate funds on deposit with UBS Bank USA will exceed FDIC insurance coverage limits. UBS Financial Services Inc. will not be responsible for any insured or uninsured portion of the UBS Bank USA deposit accounts. UBS Bank USA, UBS AG and UBS Financial Services Inc. may receive substantial financial benefits for activities related to the deposit accounts. UBS Bank USA (Member FDIC) is an affiliate of UBS Financial Services Inc. See the Client Agreement for more details.

<sup>2</sup> May not be available to IRA accounts. Feature is not available for a Designated Trustee Account.

<sup>3</sup> A \$50 annual fee applies to all Business Services Accounts BSA, including accounts in an InsightOne or Preferred Client relationship. The UBS Rewards catalog contains a complete description of the program, including terms and conditions.



#### **UBS Rewards**

Leave your checkbook at home and enjoy the ease of using one card for all your purchases. Your Platinum MasterCard® debit card can be used anywhere MasterCard is accepted. Use your Platinum Card for everyday expenses, recreation and vacations. The greater the purchases, the greater the rewards for you. You will earn one point for each U.S. dollar in net purchases on your card.

Redeem your Rewards points for merchandise, travel on any airline without blackout periods, or gift certificates for just about anything. Best of all, your Rewards points never expire as long as you are enrolled in the program.

# Always Available

Review your daily account activity and enter orders online...all before your first cup of coffee.

## Online Services

Delivered over the Internet in a secured area of our Web site, the online component of your relationship enables you to:

### Customize Your Home Page

View the information you want, the way you want it—24 hours a day, seven days a week. See a consolidated summary of your accounts, get real-time quotes, monitor market indices, read the latest market commentary, create, monitor and launch a watch list of over 50 securities, and more.

### Review Your Account Information<sup>1</sup>

Review your account information throughout the trading session, including an account summary, unrealized and realized gain/loss details, intraday portfolio updates, open orders and securities activity.

### Track Your Favorite Securities

Create customized portfolios of securities you wish to monitor, including equities, mutual funds and options through Portfolio Tracker. This e-mail feature allows delivery of a personalized portfolio snapshot up to three times a day.

### Access Market Information

Get stock quotes on all the equities and equity/index options you hold or quotes on mutual funds and securities that you might be interested in. You'll also get the latest news, market commentaries, economic calendars and IPO information.

### Review Leading Research

Access the latest research from our analysts, investment strategists and economists—updated throughout the day. View UBS Investment Research's insight on the markets, investment trends, the economy, international opportunities, and more. Our online services provide dynamic access to research reports from the Global Investment Strategy group and research analysts, as well as several search tools, including one that screens our research universe by criteria that is important to you. You can easily search for equity and fixed income research by ticker/name, analyst, time period, sector, state, industry, and more.

With Mutual Funds research, you can obtain fund profiles and search for funds based on specific criteria.

### Pay Bills Online and Transfer Funds Electronically

With minimal effort, you can pay your bills and transfer money between UBS Financial Services Inc. accounts and accounts at other financial institutions. These services allow you to initiate one-time or recurring transfers or payments and review scheduled and historical transactions online.

### Trade Online

Enter equity and mutual fund orders with the touch of a button.<sup>2</sup>

### Get Help in Person or Online

You will have access to dedicated service representatives by telephone or e-mail.

<sup>1</sup> Market quotes are delayed 20 minutes based on positions from previous business day's close.

<sup>2</sup> Order executions depend upon market hours and conditions.



### **Preferred Client Services**

Preferred Client Services is a complimentary program offering a suite of enhanced services and information to investors with substantial assets who are focused on building, managing and protecting their wealth. From sophisticated financial expertise to customized portfolio reporting, our goal is to enrich and simplify your working relationship with UBS Financial Services Inc. and your Financial Advisor.

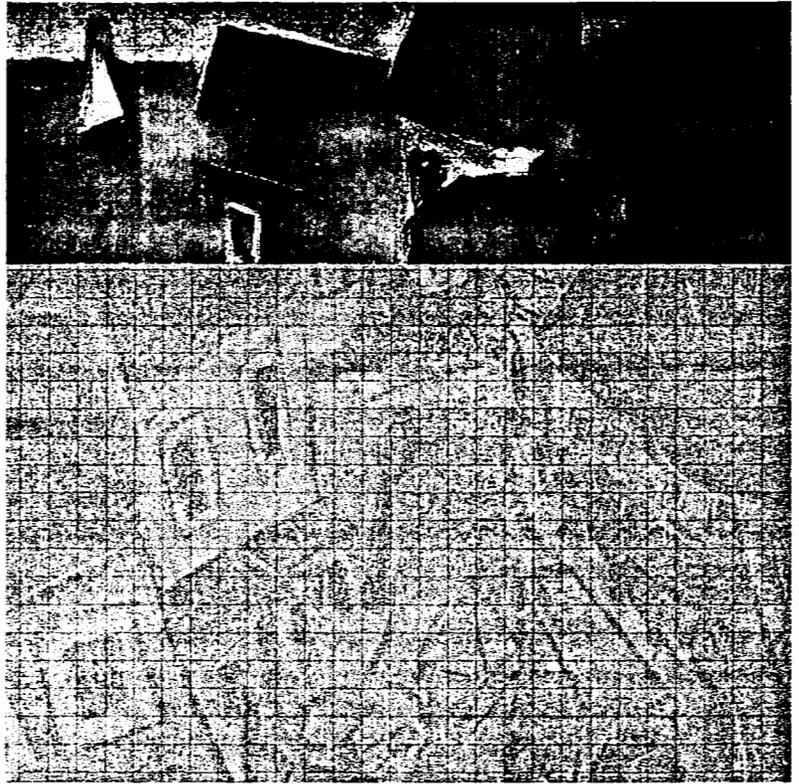
Participation in Preferred Client Services is extended to clients with \$2 million or more in assets at UBS Financial Services Inc.

# Focused on You

In today's world of investment magazines, self-help books, Internet questionnaires and financial television, gathering information has never been easier. You don't need more information, you need services that are tailored to you. That can be much harder to come by.

From identifying the goals most important to you, to helping you create personal investment plans, your Financial Advisor can provide the insights you need and the solutions you want.

Investing is complicated. We believe your personal relationship with your Financial Advisor is one of your best investments.



# Get Started Today!



Getting started with InsightOne is easy. To see if InsightOne is right for you, please speak to your Financial Advisor or visit our Web site at [www.ubs.com/financialservicesinc](http://www.ubs.com/financialservicesinc).



## About UBS

UBS AG is a leading global financial services firm, serving a diverse client base that includes affluent individuals, corporations, institutions and governments.

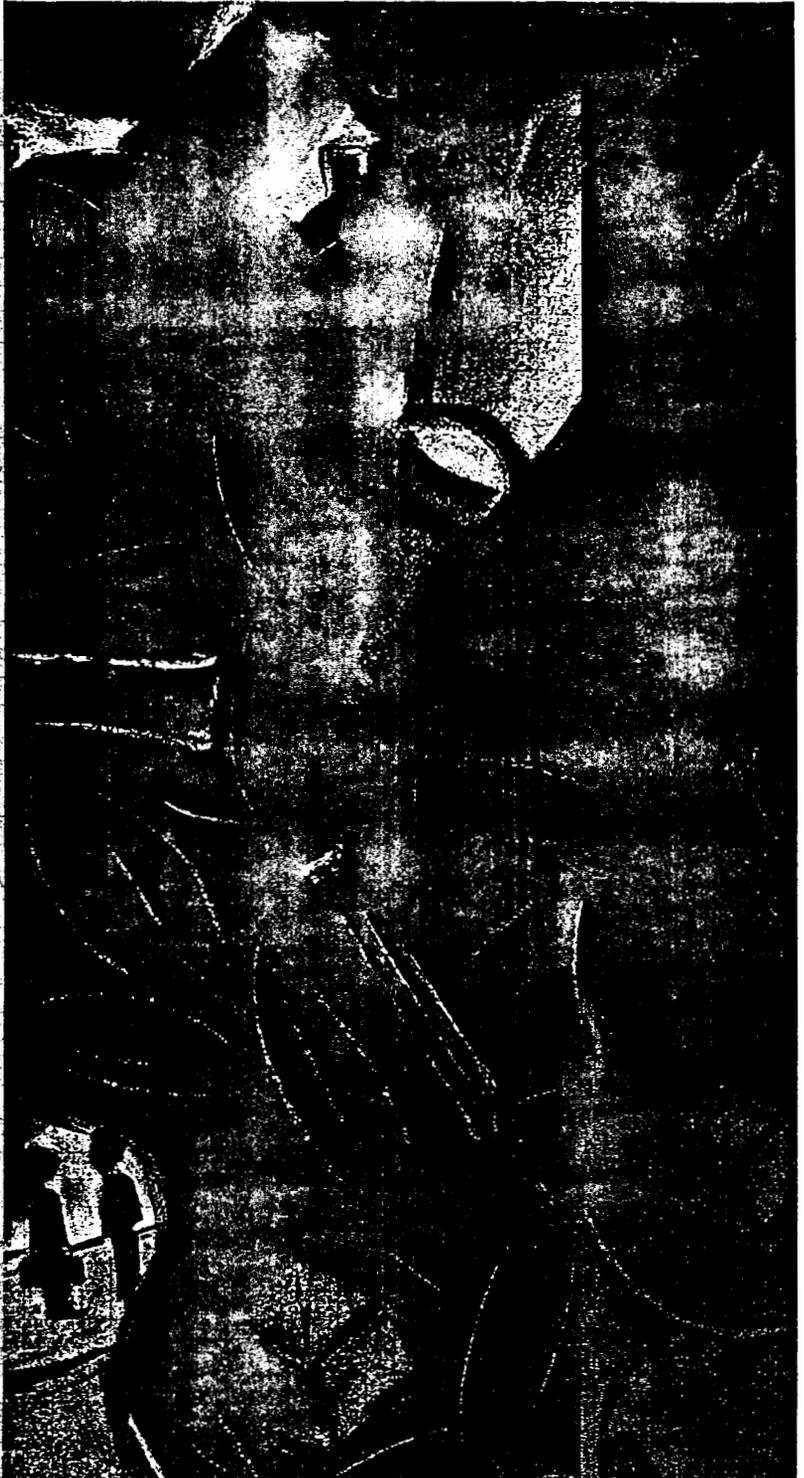
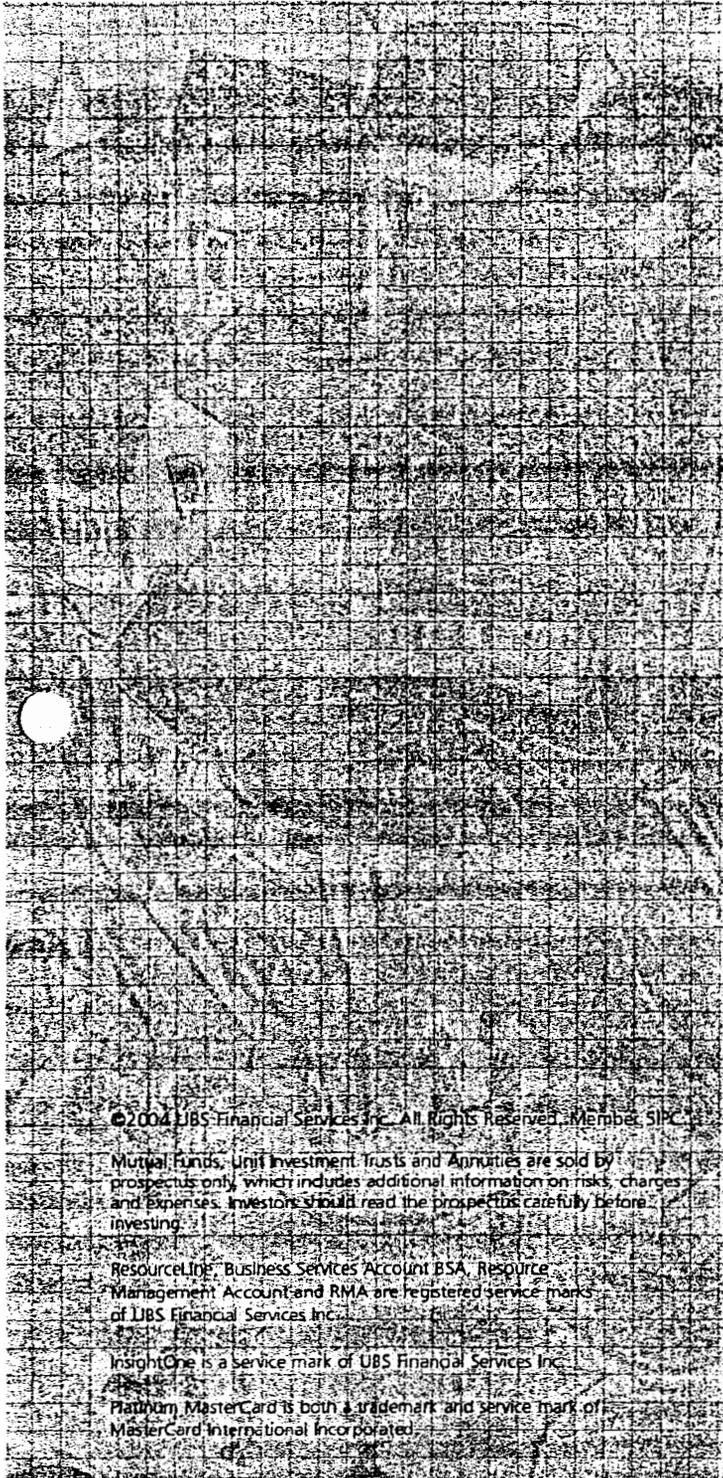
By integrating and leveraging the combined resources, expertise and best practices of its business units, UBS offers products and services designed to provide appropriate solutions to its clients, regardless of where they are located.

UBS has significant operations in all of the world's major financial centers and strong long-term credit ratings.

From investment banking to asset management services, our Financial Advisors have at their command a broad array of financial resources to help clients accumulate, preserve and transfer their wealth.



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Mutual Funds, Unit Investment Trusts and Annuities are sold by prospectus only, which includes additional information on risks, charges and expenses. Investors should read the prospectus carefully before investing.

ResourceLine, Business Services Account, BSA, Resource Management Account and RMA are registered service marks of UBS Financial Services Inc.

InsightOne is a service mark of UBS Financial Services Inc.

Platinum MasterCard is both a trademark and service mark of MasterCard International Incorporated.



UBS Financial Services Inc.  
[www.ubs.com/financialservicesinc](http://www.ubs.com/financialservicesinc)  
040116-0078-CL-IO-BROCHURE

UBS Financial Services Inc. and UBS Securities LLC are both subsidiaries of UBS AG.



[Client Presentation - updated 10/04/02]

# UBS PaineWebber InsightOne<sup>SM</sup>

Service.  
Flexibility.  
Advice.

One Fee.

 UBS PaineWebber.

UBS PaineWebber<sup>SM</sup> insight is about understanding the complexities of helping you manage and protect your wealth, and about simplifying your financial life through a relationship that offers focused, creative financial solutions and attentive, personalized service.

It's knowing you, what you want and when you need it.

Before we get into the program, I'd like to talk a little bit about something that makes UBS PaineWebber special – our insight.

What is UBS PaineWebber insight? It's UBS PaineWebber's knowledge of the markets, UBS Warburg Research, thematic investing, our products and services, and my insight into *you*.

Simply put, it's about understanding the complexities of helping you manage and protect your wealth, and about simplifying your financial life through a relationship that offers focused, creative financial solutions and attentive, personalized service.

It's knowing you, what you want and when you need it.

## UBS PaineWebber InsightOne

- A non-discretionary brokerage account
  - You stay fully involved in all investment decisions
- Includes a broad spectrum of products, services and technology UBS PaineWebber has to offer
- With the insight of your personal Financial Advisor
- For one annual, asset-based fee\*

\*UBS PaineWebber InsightOne is not an advisory account. There is a minimum annual fee of \$1,250 associated with the UBS PaineWebber InsightOne relationship. In some instances, additional fees and expenses may be incurred including charges for terminating accounts in the first year. For a more complete discussion on the terms and conditions, please see the Client Agreement and Account Information booklet. This account is designed for investment purposes and is not intended to be used for day trading or other excessive trading activity. Many of UBS PaineWebber InsightOne services and advice are available through commission-based relationships, subject to other charges where applicable. UBS PaineWebber does not provide tax or legal advice. Consult with your tax and legal advisors regarding your individual needs.

2

 UBS PaineWebber.

Now let's get into some of the specifics of the program...

What is UBS PaineWebber InsightOne?

First of all, UBS PaineWebber InsightOne is a non-discretionary brokerage account. This means that you, working together with your Financial Advisor, make all investment decisions as you and your FA build your investment portfolio.

UBS PaineWebber InsightOne blends the best products, services and technology UBS PaineWebber has to offer, with the insight of your personal Financial Advisor...for one annual, asset-based fee.

## UBS PaineWebber InsightOne

### Products & Services

- Personalized Financial Consultation
- UBS Warburg Research
- Non-discretionary Brokerage Services
- Asset Allocation Services
- Education Planning Strategies
- Retirement Planning Strategies
- Estate Planning Strategies
- Stock Option Planning Strategies
- Resource Management Account® or Business Services Account BSA®
- Online Account Access, Trading, Research and Portfolio Tracking
- Special Family Relationship Pricing
- Equities
- Exchange Traded Funds
- Participating Mutual Funds, Unit Investment Trusts, Annuities and Managed Futures Funds\*
- Mortgage-backed Securities
- Corporate Bonds
- Municipal Bonds
- Other Fixed Income Securities
- Options
- Rights and Warrants
- Cash/Money Market Funds\*

\* Mutual Funds, Unit Investment Trusts, Annuities and Money Market Funds are sold by prospectus, which contains details on risk, expenses and sales charges. Clients should read the prospectus carefully before investing and sending money.

3

 UBS PaineWebber

UBS PaineWebber InsightOne gives you easy access to all of UBS PaineWebber's services, advice, and investment solutions you may need to help you meet your financial objectives, including [read above list].

## Personalized Financial Consultation

### Focused on You

- Help you identify your goals
- Assess your financial situation
- Help you build an investment portfolio based on your needs
- Offer ongoing personalized service and consultation

 UBS PaineWebber

As I said earlier, UBS PaineWebber insight is about understanding the complexities of working with you to manage and protect your wealth, and simplify your financial life through a relationship that offers focused, creative financial solutions and attentive, personalized service.

How do we get there?

It starts with a personalized financial consultation with *me*. This is one of the most important things we will do together, because in this process, we can identify the goals most important to you, and assess your current financial situation.

This, in turn, enables me to help you build a customized portfolio based on your needs.

And, going forward, I will be available to provide you with the personalized service and consultation you need.

## UBS Warburg Research

- An Acclaimed Research Team: UBS Warburg has ranked:
  - #1 Global Research Team (*Institutional Investor*, Dec. 2001)
  - #1 in the Wall Street Journal's *Best on the Street* survey (June 2002)
  - #1 Research Team in Europe (*Institutional Investor*, Feb. 2002)
  - #1 Research Team in Asia (*Institutional Investor*, May 2002)
  - #1 Research Analysts in Airlines, Banking & Finance, Metals & Mining, Pharmaceuticals, Utilities, and Quantitative/Derivative Research (*Institutional Investor*, Dec. 2001)
  - World's Best Investment Bank (*EuroMoney Magazine*, July 2002)
- Over 350+ Analysts Globally
- Broader Research Capabilities
  - Research Conferences
  - Equity-linked products
  - 850+ U.S. stocks covered\*
  - 425+ non-U.S. stocks (up from 40)\*

\*as of August 2002

UBS PaineWebber clients receive their research through UBS Warburg, both of which are business units of UBS AG.

5

 UBS PaineWebber.

Research is at the heart of the firm's efforts to generate investment ideas for our clients.

UBS Warburg's Equity Research Department has long been recognized as a leader on Wall Street. And, with UBS PaineWebber InsightOne, you have access to UBS Warburg Research both online and through your Financial Advisor.

[Read highlights on slide.]

## UBS PaineWebber Resource Management Account

- Choice of taxable and tax-free money market funds for daily cash sweep\*
- Platinum MasterCard™ debit card\*\*
- Check writing with no minimum per-check usage fees\*\*
- Online bill payment\*\*
- Electronic funds transfer capabilities\*\*
- UBS PaineWebber Rewards \*\*
- 24-hour access

\* Money market funds are sold by prospectus, which includes more complete information on risks, charges, expenses and other matters of interest. Investors should read the prospectuses carefully before investing. An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Company or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in a money market fund.

\*\* May not be available to IRA accounts. Feature is not available for a Designated Trustee Account.

6

 UBS PaineWebber

The Resource Management Account (RMA), available with UBS PaineWebber InsightOne, offers the benefits of banking and brokerage by providing competitive money market rates, as well as flexibility and easy access to your money.

With RMA, you have: A choice of taxable and tax-free money market funds for a daily sweep of your uninvested cash balances, a Platinum MasterCard debit card, check writing with no minimum per-check usage fees, a bill payment feature, electronic funds transfer capabilities, and 24-hour access to our ResourceLine for automated account information.

Small businesses can take advantage of the BSA/Business Services Account. With similar features to the RMA, the BSA/Business Services Account offers many cash management opportunities.

## UBS PaineWebber Online Services

### Always Available

- Access to account information 24 hours a day, 7 days a week
- Personal home page
- Custom Portfolio Tracker
- Quotes via e-mail
- Trade online\*

\*Order executions depend upon market hours and conditions.

7

 UBS PaineWebber.

With UBS PaineWebber InsightOne, you have access to your account information 24 hours a day, 7 days a week through UBS PaineWebber Online Services.

UBS PaineWebber Online Services allow you to personalize your home page so that you get the information you want, the way you want it; monitor your performance with our custom portfolio tracker; get quotes and personalized alerts via e-mail; and trade online.

## Flexible Account Structure

- Available for different types of accounts and investment options
  - Individual, Joint, IRAs, Pensions, Estates, Trusts, Custodial
  - Business Accounts with specialized cash flow needs
  - Stock Options
- \$50,000 minimum eligible assets in primary account, and then additional, smaller accounts may be opened
- Ineligible assets\* can be held in the same account, and will automatically be excluded from the asset-based fee

\* Ineligible assets are subject to customary transaction charges, such as commissions, and include participating mutual funds purchased outside the UBS PaineWebber InsightOne program less than 24 months prior to the program start date, the purchase of non-participating products (e.g., Mutual Funds, Annuities, Unit Investment Trusts), as well as insurance and other packaged products.

8

 UBS PaineWebber

Another feature of UBS PaineWebber InsightOne is the flexibility of the account structure itself.

UBS PaineWebber InsightOne is available for many different types of accounts, including: Individual and Joint Accounts, IRAs, Pensions, Estates, Trusts, Custodial, Business Accounts with specialized cash flow needs, and Stock Option Accounts.

The minimum requirement for a primary account is \$50,000 in eligible assets, and then additional, smaller accounts may be opened.

In addition, ineligible assets can be held in the same account, and will automatically be excluded from the asset-based fee. Ineligible assets are subject to customary transaction charges.

Ineligible assets include participating mutual funds purchased outside the UBS PaineWebber InsightOne program, non-participating mutual funds, unit trusts, insurance and annuities, commodity futures funds, and other packaged products.

## Simple Pricing

- One asset-based fee\*
  - No commissions
  - No trade confirm/handling charge
  - No Resource Management Account/  
Business Services Account fee
  - No IRA fee
- Customized pricing based on assets, size, product mix and service
- Minimum annual fee is \$1,250 per InsightOne relationship
- In certain instances, additional fees may be incurred\*

\* Additional fees and expenses may be incurred including charges for terminating accounts in the first year. For a more complete discussion of terms and conditions, please see the Client Agreement and the Account Information booklet. Many of UBS PaineWebber InsightOne's services and advice are available through commission-based relationships, sometimes subject to other charges. UBS PaineWebber does not provide tax or legal advice. Consult with your attorney or tax advisor regarding your individual needs.

9

 UBS PaineWebber.

Simple pricing is one of the most appealing aspects of UBS PaineWebber InsightOne. You can take advantage of all the services and investment solutions I just mentioned -- for *one* asset-based fee.

For most clients, there are *no* commissions, *no* trade confirms or handling charges, and *no* RMA/BSA fees or IRA fees.

The minimum annual fee for UBS PaineWebber InsightOne is \$1,250 per UBS PaineWebber InsightOne relationship. Please keep in mind that, in certain instances, additional fees may be incurred. (For example, a block charge may be assessed on equity trades over 5,000 shares.)

## What Simple Pricing Means to You

- UBS PaineWebber is compensated for services it provides
- Fee is based on value of eligible assets
- No commissions
- Predictable investment expenses
- Focus on what's most important...building an investment portfolio designed to help meet your specific needs

10

 UBS PaineWebber.

So what does Simple Pricing mean to you?

Because you pay just one fee, UBS PaineWebber is compensated for the services that it provides -- not from commissions on individual trades. Therefore, your investment expenses are predictable. In a fee-based relationship, my success is more directly tied to your success. Our goals are aligned. This allows me to focus on what's *most* important... helping you build an investment portfolio designed to help you meet *your* specific needs.

## UBS PaineWebber InsightOne Benefits

- Full Service, Including Advice
  - Personalized Consultation with your Financial Advisor
  - UBS Warburg Research, UBS PaineWebber Products and Services
- Convenience, Access and Flexibility
  - Orders entered through your Financial Advisor or online
  - Research and account information online
  - Flexible account structure
- Simple Pricing
  - One asset-based fee
  - Customized pricing based on assets, size, product mix and service
  - Predictable expenses
  - Focused on results, not transaction costs

11

 UBS PaineWebber.

In conclusion, there are many benefits to UBS PaineWebber InsightOne.

**Advice and Full Service.** You get personalized consultation with your UBS PaineWebber Financial Advisor, access to all UBS Warburg Research, and access to all UBS PaineWebber products and services.

**Flexibility and Convenience.** You have the ability to enter orders through your Financial Advisor or online. You also have online access to UBS Warburg Research and your account information. And, the structure of the account itself is flexible.

**Simple Pricing.** UBS PaineWebber InsightOne is a fee-based brokerage account focused on results, not on transaction costs. It features customized pricing based on assets, size, product mix and service. Since there are no transaction charges or commissions in most instances, you and your Financial Advisor can focus on building an investment portfolio to help meet your specific goals.

11

## UBS PaineWebber Investment Planning

- Retirement Planning Strategies
- Education Planning Strategies
- Estate Planning Strategies
- Stock Option Planning Strategies

12

 UBS PaineWebber

Investment Planning is readily available with UBS PaineWebber InsightOne.

Wherever you are in life – whatever your goals happen to be – with UBS PaineWebber InsightOne, you can feel confident that you have established a plan of action that works for you.

You may be concerned about retirement planning, education funding, estate planning strategies, or stock option planning. UBS PaineWebber InsightOne and your Financial Advisor can help you find investment planning solutions.

## Asset Allocation with UBS PaineWebber InsightOne

- Balance your overall objectives with your tolerance for market fluctuations
- Work directly with your Financial Advisor to create an allocation that is appropriate for you

13

 UBS PaineWebber

Your Financial Advisor can use the technology behind UBS PaineWebber InsightOne to evaluate your investment objectives, risk tolerance, time horizon, income needs, and tax situation in order to help you establish an asset allocation that balances your overall objectives with your tolerance for market fluctuations.

UBS PaineWebber InsightOne enables your Financial Advisor to work directly with you to create a customized asset allocation that is appropriate for your specific situation.

## High Net Worth Services

### Preferred Client Services<sup>SM</sup>

- An enhanced level of consultation, information and service
- Sophisticated financial expertise and customized portfolio reporting
- Enrich and simplify your relationship with UBS PaineWebber and your Financial Advisor

14

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The specialized services available through Preferred Client Services are designed to meet the needs of individuals and families with substantial investment assets. With Preferred Client Services, you will benefit from an enhanced level of consultation, information and service to help bring your total financial picture into focus. From sophisticated financial expertise to customized portfolio reporting, our goal is to enrich and simplify your working relationship with UBS PaineWebber and your Financial Advisor. Preferred Client Services membership is extended to clients with \$2 million or more in assets at UBS PaineWebber.

## Convenience & Flexibility

Knowing what you want,  
how you want it,  
when you want it.

15

 UBS PaineWebber.

The hallmarks of UBS PaineWebber InsightOne are convenience and flexibility.

In today's busy world, UBS PaineWebber is committed to giving you the best service possible. As I mentioned earlier, UBS PaineWebber InsightOne is about knowing what you want, how you want it, when you want it.

15

## The Best of Both Worlds

### Personal Financial Advisor

plus...

- Access to account information 24 hours a day, 7 days a week
- Personal home page
- Custom Portfolio Tracker
- Quotes via e-mail
- Trade online\*

\*Order executions depend upon market hours and conditions.

16

 UBS PaineWebber.

With UBS PaineWebber InsightOne, you get the best of both worlds: A personal relationship with your Financial Advisor, plus access to your account information 24 hours a day, 7 days a week through UBS PaineWebber Online Services. You can personalize your home page, monitor your performance with our custom portfolio tracker, get quotes via e-mail and trade online.

 UBS PaineWebber  
*Thank you.*

 UBS PaineWebber.



Unknown

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From: [REDACTED]  
Sent: Friday, December 05, 2003 1:31 PM  
To: [REDACTED]  
Subject: FW: InsightOne web pages

Did [REDACTED] review this change with you?  
If we are going to change things -- I think we may want to get [REDACTED] involved. Legal may want to change the footnote and other stuff.

[REDACTED]

-----Original Message-----  
From: [REDACTED]  
Sent: Friday, December 05, 2003 1:21 PM  
To: [REDACTED]  
Cc: [REDACTED]  
Subject: RE: InsightOne web pages

[REDACTED] we first need to run these changes by the product owner, [REDACTED].  
[REDACTED] Not sure if you are already aware of these text changes, but if you have any comments please make them and then reply to all so that [REDACTED] and [REDACTED] can schedule & implement.  
[REDACTED] I told [REDACTED] about these changes, but they are required by compliance and we will need to schedule for both OLS and Public Site.

Thanks,  
[REDACTED]

-----Original Message-----  
From: [REDACTED]  
Sent: Friday, December 05, 2003 12:58 PM  
To: [REDACTED]  
Subject: InsightOne web pages

This message is: COMPANY CONFIDENTIAL

The following is the introductory language on the Online Services web page and the public web page for InsightOne:

InsightOne is not your typical brokerage account. It is a non-discretionary brokerage account that gives you easy access to all the services, advice, and investment options you may need to help you meet your financial objectives.

Please change the language to the following: (all that was deleted was the word "advice and the comma).

InsightOne is not your typical brokerage account. It is a non-discretionary brokerage account that gives you easy access to all the services and investment options you may need to help you meet your financial objectives.

Please advise when the updates can be made.

Thank you

[REDACTED]



**From:** [Redacted]  
**Sent:** Tuesday, February 17, 2004 11:45 AM  
**To:** [Redacted]  
**Subject:** FW: IMPORTANT - January InsightOne Suitability Client Communications

[Redacted] did you see this?

-----Original Message-----

**From:** [Redacted]  
**Sent:** Wednesday, February 11, 2004 7:36 AM  
**To:** [Redacted] Redacted  
**Cc:** [Redacted]  
**Subject:** RE: IMPORTANT - January InsightOne Suitability Client Communications

***This message is: UNCLASSIFIED***

I thought i forwarded your email to the product area at the time it was received for a response, but I apologize if i failed to do so.

Your view of the insight one account as described below is fundamentally incorrect. You should discuss the insight one account with your regional management or [Redacted] in the product area to confirm that you understand what it is (a pricing vehicle) and the mechanics concerning the process for contacting clients.

[Redacted]

-----Original Message-----

**From:** [Redacted]  
**Sent:** Tuesday, February 10, 2004 4:15 PM  
**To:** [Redacted]  
**Subject:** FW: IMPCORTANT - January InsightOne Suitability Client Communications

I never got a response to my email below. A reply would be greatly appreciated!!

Do I need to forward this to Bruce Bursey??

Thanks

[Redacted]

Not Bank Guaranteed/Not FDIC Insured/May Lose Value

-----Original Message-----

**From:** [REDACTED]  
**Sent:** Tuesday, January 20, 2004 9:47 AM  
**To:** [REDACTED]  
**Subject:** RE: IMPORTANT - January InsightOne Suitability Client Communications

Your email basically states if the I One account has a high amount of cash, a low # of trades or a high # of trades during the year that the client will get a letter. Will you clarify for me exactly what is the right number of trades for an I One account?

My view of the I One account is the client is paying me for my advice rather than a certain # of trades per year. If the client makes the decision to go to cash then this is no different than making a decision to buy a stock , mutual fund or bond.

When will I get the email giving me the list of my clients that will receive a low trading notification letter, a low trading conversion to commission account letter, a high cash notification letter, a high cash conversion to commission account letter and an excessive trading conversion letter?

Will the client have any say in whether the I One account should be converted to something else? It is the client's account and money.

Thanks



Not Bank Guaranteed/Not FDIC Insured/May Lose Value

-----Original Message-----

**From:** Bruce A. Eusey - Director, Investment Consulting Services  
**Sent:** Thursday, January 15, 2004 5:18 PM  
**To:** InsightOne Financial Advisors (E-mail)  
**Cc:** Division Staff (E-mail); ICS Directors (E-mail); DMACs (E-mail)  
**Subject:** IMPORTANT - January InsightOne Suitability Client Communications

### **I. Annual Suitability Letter**

All InsightOne clients will receive the attached letter with their January Statement mailed in early February. The letter recommends that the clients contact you to discuss how their InsightOne fees compare to other pricing alternatives.

The NASD recently issued guidelines concerning client suitability and the administration of non-discretionary, fee-based accounts. Consistent with these guidelines, we believe this letter is an important and appropriate method to help them understand the structure of this account. It also provides them with an

opportunity to evaluate InsightOne's appropriateness for their needs on an ongoing basis.

You should be prepared to assist your clients in the review of their InsightOne accounts, and to answer questions that may arise. To help you, we have some suggested review topics and FAQs regarding the letter. For example, some of the topics you should discuss in a review with your clients include:

- Their financial plans for this year and how InsightOne fits into such plans.
- Their current asset allocation and whether they expect it to change in the near future.
- The expected trading activity for this year and the extent to which market conditions may affect activity.

To help answer questions, ICS Sales will be hosting Financial Advisor conference calls. Please click for [Important InsightOne Suitability Client Communications Conference Calls in January](#).

Please also click for [InsightOne FAQs](#) and [Client Communications January InsightOne Timetable](#).

## **II. Trading and Investment Guidelines - Client Letters to be Mailed during the week of January 19, 2004**

In addition to the annual suitability letter, certain clients will receive separate letters, mailed during the week of January 19, 2004, that relate to InsightOne's Trading and Investment Guidelines. You should recall that a similar mailing occurred in October 2003, and this is the next quarterly mailing. For a complete explanation of the guidelines, please refer to Products > Services > InsightOne > What's New > Trading Guidelines Update. Generally, these letters fall into one of the following:

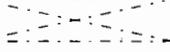
- [Low trading notification letter](#) -- for those clients who executed 4 or fewer eligible trades during the past 12 months, ended 12/31/03.
- [Low trading conversion to commission account letter](#) -- for those clients who executed 2 or fewer eligible trades during the past 21 months, ended 12/31/03, the account will be converted to a commission-based account.
- [High cash notification letter](#) -- for those clients who maintained greater than 40% in cash/money markets during the past 12 months, ended 12/31/03.
- [High cash conversion to commission account letter](#) -- for those clients who maintained more than 40% cash for the past 21 months, ended 12/31/03, the account will be converted to a commission-based account.
- [Excessive trading conversion letter](#) -- for those clients who traded excessively (less than \$12 per trade), during the past 15 months, ended 12/31/03, the account will be converted to a commission-based account.

**NOTE: Each affected Financial Advisor will receive a personalized email which will include a list of all his/her InsightOne accounts that will**

receive a letter, and the type of letter to be sent. We expect this email will be distributed at the close of business this Friday.

If you wish, you can now view your InsightOne client account information. Go to Business Intelligence "InsightOne Trading Guideline Report" under Product Specific reports - InsightOne Reports chapter.

**For More Information**

For more information, please contact your Divisional Managed Accounts Consultant (DMAC) or the UBS Service Group at  Option #3, Sub-Menu Option #9. Click [here](#) for a list of all DMACs.