

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090197257**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: RBC Capital Markets, LLC, Respondent
Member
CRD No. 31194

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, RBC Capital Markets, LLC ("RBC" or the Firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. RBC hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

RBC was established in 1981 and has been a member of the NASD (now known as FINRA) and a member of the New York Stock Exchange Group, Inc. ("NYSE") since 1993. The Firm is indirectly owned by the Royal Bank of Canada, which is a publicly listed company on the NYSE. The Firm has two main lines of business, a Capital Markets division, which engages in dealing, underwriting, and customer facilitation activities, and a Wealth Management division, which provides private client, asset management, and correspondent brokerage services. The Firm operates approximately 285 branches and has approximately 5,100 registered representatives.

RELEVANT DISCIPLINARY HISTORY

The Firm has no relevant disciplinary history.

OVERVIEW

Following a merger and a back-office system conversion in March 2008, RBC failed to: (1) prepare an accurate customer reserve formula in violation of Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 15c3-3 and NASD Rule 2110; (2) take accurate net capital charges in violation of Exchange Act Rule 15c3-1 and NASD Rule 2110; (3) maintain accurate books and records in violation of Exchange Act Rule 17a-3 and NASD Rule 2110; (4) maintain suspense accounts outside the suspense account range and move aged items to suspense accounts in violation of NYSE Rule 440.20 and NASD Rule 2110; (5) file an accurate FOCUS report in violation of Exchange Act Rule 17a-5 and NASD Rule 2110; (6) file accurate Key Operational Indicator reports ("KEOP reports") in violation of NYSE Rule 416(c) and NASD Rule 2110; and (7) establish and maintain an adequate system to supervise, and written procedures related to, the computation of its customer reserve and net capital formulas in violation of NASD Rule 3010(a) and (b), NASD Rule 2110, and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

In March 2008, the Firm underwent a merger combining the institutional firm RBC Capital Markets Corporation with its affiliated retail firm RBC Dain Rauscher. In connection with the merger, RBC Dain Rauscher converted its back office processing systems from BETA to ADP Broadridge, the back office system used by RBC Capital Markets Corporation. RBC Dain Rauscher also converted to ICI Impact for fixed-income and back-office processing.

Following the merger and conversion, the Firm experienced difficulties in reconciling its accounts, which resulted in the customer reserve, net capital, recordkeeping, and supervisory violations described below.

A. Customer Reserve

With respect to customer reserve, the Firm: (1) failed to prepare an accurate customer reserve formula as of April 30, 2008; (2) made a late deposit to its customer reserve account on March 11, 2008 resulting in an eight-minute hindsight deficiency of approximately \$317 million; and (3) made three late withdrawals from customer reserve and proprietary accounts of introducing brokers ("PAIB accounts") between March 1, 2008 and May 31, 2008.

1. Failure to Prepare an Accurate Customer Reserve Formula as of April 30, 2008

The Firm failed to prepare an accurate customer reserve formula as of April 30, 2008, which resulted in an apparent hindsight deficiency of approximately \$51 million. The Firm's customer reserve calculation was inaccurate because it: (a) failed to include approximately \$453 million of aged credit balances from suspense, clearance, and wash accounts; and (b) overstated fails to receive and aged dividends of approximately \$228 million. In November 2008, an independent consultant hired by the Firm at the request of FINRA found that had the Firm properly calculated its customer reserve formula it would not have had a hindsight deficiency as of April 30, 2008.

First, the Firm failed to include approximately \$453 million of aged credit balances from suspense, clearance, and wash accounts in its April 30, 2008 customer reserve formula. With respect to balances in purchase and sale ("P&S") suspense accounts, the Firm failed to include approximately \$131 million of aged items in its customer reserve formula. Prior to the merger and conversion, the Firm used one suspense account. Following the merger and conversion, however, the Firm began setting up new suspense accounts on a daily basis in an attempt to control the increased number of P&S suspense differences. As a result, there were numerous offsetting correcting entries in 43 different "daily" suspense accounts. Due to the Firm's inability to timely resolve the volume of unresolved transactions, the Firm began netting suspense items seven days or older against each other, regardless of whether they were related. As of April 30, 2008, the Firm's suspense accounts included approximately \$131 million of debits offsetting unrelated credits, which the Firm failed to include in its customer reserve formula.

With respect to balances in other accounts, the Firm: (1) failed to move approximately \$127 million of items, seven days or older, from Bank of New York ("BONY") clearance accounts to suspense accounts, and failed to include the balance in its customer reserve Formula; (2) failed to take a customer reserve formula credit for seven aged, short positions of foreign shares held in BONY Depository Account of approximately \$37 million, which had been in the account for periods ranging from 16 to 23 business days; (3) failed to include two, aged, credit balances in a Money Difference account of approximately \$20 million and \$9.7 million, which were resolved after 49 and 63 business days; (4) failed to include an aged balance of approximately \$18 million in a Treasury Suspense account, which remained unresolved for 43 business days; (5) failed to move seven, aged cash breaks of approximately \$3.6 million from a Merrill Lynch reconciliation account to a suspense account or include them in the customer reserve formula, two of which remained unresolved as of June 30, 2008, and five of which remained open for periods ranging from 19 to 47 business days; and (6) failed to include an aged item in its NSCC CNS suspense account in the amount of approximately \$2.2 million in its customer reserve formula, which was resolved after 69 business days.

Second, the Firm overstated fails to receive and aged dividends of approximately \$228 million in its April 30, 2008 customer reserve formula. The Firm failed to pair off approximately \$192 million of fails to receive against suspense longs, and erroneously included this amount in the customer reserve formula. In addition, the Firm failed to net aged stock dividends in the amount of approximately \$35 million with related items and erroneously included that amount in the customer reserve formula.

The Firm's failure to prepare an accurate customer reserve formula as of April 30, 2008 violates Exchange Act Rule 15c3-3 and NASD Rule 2110.

2. Late Deposit into Customer Reserve Account

On March 11, 2008 at 10:08 a.m. EST, the Firm made a deposit of approximately \$374 million into its customer reserve account. As a result, the account was underfunded for eight minutes, creating a hindsight deficiency in the amount of approximately \$317 million. As a result of the merger of RBC Dain Rauscher, which was based in Minneapolis, into RBC Capital Markets

Corporation, which was based in New York, the deposit into the customer reserve account was due at 10:00 a.m. EST, not 10:00 a.m. CST.

The Firm's late deposit into its customer reserve account and resulting hindsight deficiency on March 11, 2008 violates Exchange Act Rule 15c3-3 and NASD Rule 2110.

3. Late Withdrawals from Customer Reserve and PAIB Accounts

Between March 1, 2008 and May 31, 2008, the Firm withdrew funds after 10:00 a.m. EST on two occasions from its customer reserve account, and withdrew funds after 10:00 a.m. EST once from its PAIB account. On March 11, 2008, the Firm withdrew \$25 million at 10:09 a.m. EST. On March 18, 2008, the Firm withdrew \$125 million at 11:21 a.m. EST. On April 22, 2008, the Firm withdrew \$225 million at 10:05 EST. For the same reason as noted above, these withdrawals were required to be made on or before 10:00 a.m. EST not 10:00 a.m. CST.

The Firm's late withdrawals from its customer reserve and PAIB accounts between March 1, 2008 and May 31, 2008 violate Exchange Act Rule 15c3-3 and NASD Rule 2110.

B. Net Capital

As of April 30, 2008, the Firm failed to take net capital charges of approximately \$366 million for aged debits in five accounts. This amount reduced the Firm's excess net capital from approximately \$627 million to \$260 million, but did not result in a deficiency.

First, as of April 30, 2008, a MBSCC wash account contained four unresolved debit items of approximately \$191 million, which remained unresolved for periods ranging from 34 to 54 business days. The Firm failed to include this account in the suspense range of accounts and failed to take a net capital charge on the balance.

Second, between March 3, 2008 and April 30, 2008, there were over 1,900 breaks between the Firm and BONY for government securities. The Firm failed to move aged exceptions to BONY suspense accounts and failed to take a net capital charge of approximately \$91 million.

Third, as of April 30, 2008, the Firm failed to account for two aged debit balances in a Money Difference account in the amounts of approximately \$1.2 million and \$1 million. These balances were resolved after 60 business days and 37 business days, respectively. The Firm failed to move these balances to a suspense account or include the approximately \$2 million debit in its April 30, 2008 net capital calculation.

Fourth, as of April 30, 2008, pair-off wash account, RBC CM Corp., had a balance of approximately \$2.1 million. The Firm failed to include this account in the suspense range of accounts, and failed to take a net capital charge on the balance.

Fifth, a Merrill Lynch reconciliation account included an aged cash break of approximately \$630,000. The Firm failed to move this item to a suspense account or include it in its April 30, 2008 net capital computation.

The Firm's failure to take these net capital charges as of April 30, 2008 violates Exchange Act Rule 15c3-1 and NASD Rule 2110.

C. Recordkeeping

The Firm's recordkeeping failures include violations related to: (1) books and records; (2) suspense accounts; (3) a FOCUS report; and (4) KEOP reports.

1. Inaccurate Books and Records

As of April 30, 2008, the Firm's books and records were inaccurate. In connection with the Firm's customer reserve and net capital violations, the Firm's books and records were inaccurate in that it: failed to include numerous suspense balances in the customer reserve formula; failed to provide evidence that netted balances in suspense accounts were related; failed to timely move aged balances from various accounts to suspense accounts where they would have increased its reserve requirement; and failed to take net capital charges for aged debits in five accounts.

In addition, the Firm was unable to provide documentation regarding certain of its customer reserve calculations. For example, the Firm was unable to provide documentation regarding whether balances of approximately \$1.3 million and \$51,000 in two Bear Stearns accounts were customer-related. In addition, the Firm was unable to provide evidence of why the long allocation report "fail to receive v. CNS fail to deliver" of approximately \$9.9 million had a material difference when compared to the short allocation of approximately \$15 million.

Accordingly, from March 3, 2008 to June 30, 2008, the Firm violated Exchange Act Rule 17a-3 and NASD Rule 2110 by failing to maintain accurate books and records with respect to customer reserve and net capital.

2. Suspense Accounts

As discussed above, from March 3, 2008 to June 30, 2008, the Firm had numerous accounts that held open aged items, until the Firm researched and resolved the items and made the appropriate correcting entries. These accounts were functioning as suspense accounts, but were erroneously maintained outside the suspense account range. Numerous transactions posted to these accounts were not resolved within seven business days. As a result, these accounts contained unresolved differences that were not recognized and classified on the Firm's books and records as suspense balances, and the unresolved balances were not moved to suspense accounts after seven business days.

By maintaining suspense accounts outside the suspense account range and failing to move aged items to suspense accounts from March 3, 2008 to June 30, 2008, the Firm violated NYSE Rule 440.20 and NASD Rule 2110.

3. Inaccurate FOCUS Report

In connection with the adjustments required to the Firm's customer reserve formula computations and net capital calculations discussed above, the Firm's FOCUS Report as of April 30, 2008 was inaccurate. In addition, the Firm failed to complete the Financial and Operational Data (Potential Operational Deductions from Capital) section.

The Firm's inaccurate FOCUS Report filing on April 30, 2008 constitutes a violation of Exchange Act Rule 17a-5 and NASD Rule 2110.

4. Inaccurate KEOP Reports

As a result of the aged suspense and balancing differences discussed above, the Firm filed inaccurate KEOP Reports with FINRA for the period March to May 2008 in violation of NYSE Rule 416(a) and NASD Rule 2110.

D. Supervision

From April 2008 to August 2009, when the Firm established new procedures, the Firm failed to establish and maintain an adequate system to supervise, and written procedures related to, the computation of its customer reserve and net capital formulas.

The Firm's written procedures related to customer reserve and net capital, in place for the period April 2008 to August 2009, provided an overview of the relevant rules, an overview of the operations department, and flow charts and worksheets related to the review of accounts to ensure that balances were accurate and that outstanding items were cleared in a timely manner.

The Firm's system of supervision and written procedures was inadequate, however, in that it failed to address system and operational changes that occurred at the time of the April 2008 conversion, failed to assign responsibility for various customer reserve and net capital computation functions, and failed to provide for an adequate system of review. Firm employees were not adequately trained on how the new systems worked to be able to foresee and properly address the back-office posting problems caused by the conversion. At the time of the conversion, there were inconsistencies and miscommunications between departments due to the lack of adequate training and insufficient written procedures. For example, various manual entries made by the operations department in New York to correct suspense items were being counted as new breaks by the internal controls department in Minneapolis; and accounts reconciled in Minneapolis used cusip number aging (effective on the old BETA system), whereas the new ADP Broadridge system used date-aging. As a result, the Firm experienced a large volume of stock record breaks and money and security differences that it was unable to resolve, which resulted in the Capital Reserve, net capital, and recordkeeping violations discussed above.

Accordingly, from April 2008 to August 2009, the Firm violated NASD Rules 3010(a) and (b), NASD Rule 2110, and FINRA Rule 2010 in that it failed to establish and maintain an adequate

system to supervise, and written procedures related to, the computation of its customer reserve and net capital formulas.

B. RBC also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine of \$250,000.

RBC agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. RBC has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

RBC specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

RBC specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, RBC specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

RBC further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

RBC understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against it; and
- C. If accepted:
 - 1. this AWC will become part of RBC's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about RBC's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. RBC may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. RBC may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects RBC's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. RBC may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. RBC understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that RBC has agreed to its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce RBC to submit it.

June 11, 2012
Date

RBC Capital Markets, LLC

By: *Ralph DeSena*
Ralph DeSena
Director & Senior Counsel

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Accepted by FINRA:

7-13-12
Date

Signed on behalf of the
Director of ODA, by delegated authority

[Signature]

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