

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014043628201**

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

RE: RBC Capital Markets, LLC ("RBC," "Respondent" or "Firm")
CRD No. 31194

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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. Respondent 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 has been registered as a FINRA regulated broker-dealer since March 19, 1993, although predecessor entities have been members of FINRA since 1936. The Firm's principal place of business is in New York, New York. The Firm has over 5,200 registered representatives and 275 branch offices. 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 is indirectly owned by Royal Bank of Canada, a foreign bank.

RELEVANT DISCIPLINARY HISTORY

In February 2016, RBC consented to findings that between January 1, 2013 and June 30, 2015, the Firm, in 41 instances, failed to amend, or timely amend, the Uniform Applications for Securities Industry Registration or Transfer ("Forms U4") for registered representatives to report unsatisfied tax liens and civil judgments in violation of Article V, Section 2(c) of FINRA's By-Laws and FINRA Rule 2010. Additionally, RBC consented to findings that, during the same time period, the Firm failed to establish and maintain a supervisory system and

written supervisory procedures reasonably designed to ensure that it disclosed reportable unsatisfied liens and judgments of registered representatives on Forms U4, in instances in which a garnishment notice was sent to the Firm's Payroll Department, in violation of NASD Rule 3010(a) and FINRA Rule 2010. For this conduct, the Firm was censured, fined \$300,000 and required to certify as to its supervisory system revisions within 30 days of approval of the AWC. *See* AWC No. 2013039474902.

In April 2015, RBC consented to findings that the Firm violated NASD Rules 3010(a), 2310 and 2110 and FINRA Rule 2010 by failing, between 2008 and 2012, to have supervisory systems and procedures reasonably designed to ensure compliance with applicable securities laws and regulations and its internal guidelines concerning the suitability of reverse convertibles. For this conduct, RBC was censured, fined \$1 million, and paid total restitution of \$433,898.10. *See* AWC No. 2010022918701.

In August 2012, RBC consented to findings that the Firm violated Section 15(c) of the Securities Exchange Act of 1934 ("Exchange Act"), Exchange Act Rules 15c3-3, 15c3-1, 17a-3 and 17a-5, NYSE Rules 416(c) and 440.20 and NASD Rules 3010(a) and (b) and 2110 for failing to accurately prepare its customer reserve formula, take accurate net capital charges, maintain accurate books and records, maintain suspense accounts in accordance with the rules, file accurate FOCUS and Key Operational Indicator reports, and maintain an adequate system to supervise, and written procedures related to, the computation of its customer reserve and net capital formulas. For this conduct, RBC was censured and fined \$250,000. *See* AWC No. 2009019725701.

In January 2012, RBC consented to findings that the Firm violated NASD Rules 3010 and 2110 and FINRA Rule 2010 by failing, from June 4, 2008 through June 26, 2009, to reasonably supervise markups and markdowns on 234 Collateralized Mortgage Obligations ("CMOs") and failing to establish, maintain and enforce a supervisory system and written supervisory procedures ("WSPs") reasonably designed to ensure that the Firm only charged customers markups and markdowns on CMO transactions that were fair, reasonable and compliant with NASD Conduct Rule 2440. For this conduct, RBC was censured and fined \$25,000. *See* AWC No. 2009020904501.

OVERVIEW

FINRA Rule 2081, which became effective on July 30, 2014, prohibits conditioning settlement on a customer's consent to, or to not oppose, the member's or associated person's request to expunge customer dispute information from the Central Registration Depository ("CRD") system. In October 2014, RBC conditioned settlement in a FINRA Dispute Resolution arbitration by including a provision in the settlement agreement that former customers KP and

TP ("Claimants") agree not to object to, or oppose any efforts to seek, expungement of all reference to the arbitration or customer dispute information from the CRD system. As a result of its conduct, RBC violated FINRA Rules 2081 and 2010.

From July 30, 2014 through the present, RBC failed to establish and maintain a supervisory system, including written procedures, reasonably designed to ensure compliance with FINRA Rule 2081. Specifically, the Firm failed to: enact any procedures until February 27, 2015, ensure and document that the requirements of FINRA Rule 2081 were communicated to relevant staff, designate a supervisor responsible for enforcing the Firm's procedures regarding FINRA Rule 2081, and designate a supervisor responsible for establishing, maintaining or testing a reasonable supervisory system for compliance with FINRA Rule 2081. As a result of its conduct, RBC violated NASD Rule 3010(a) from July 30, 2014 through November 30, 2014, FINRA Rule 3110(a) from December 1, 2014 through the present and FINRA Rule 2010.

From February 27, 2015 through the present, the Firm also failed to establish, maintain and enforce written supervisory procedures ("WSPs") reasonably designed to achieve compliance with FINRA Rule 2081. The Firm's procedures merely restate the text of FINRA Rule 2081 and certain explanatory information from Regulatory Notice 14-31, but do not include any of the required elements found in WSPs. As a result of its conduct, RBC violated FINRA Rules 3110(b) and 2010.

FACTS AND VIOLATIVE CONDUCT

Violation of FINRA Rules 2081 and 2010

FINRA Rule 2081, which became effective July 30, 2014, provides that "[n]o member or associated person shall condition or seek to condition settlement of a dispute with a customer on, or to otherwise compensate the customer for, the customer's agreement to consent to, or not to oppose, the member's or associated person's request to expunge such customer dispute information from the CRD system." A violation of FINRA Rule 2081 is inconsistent with high standards of commercial honor and just and equitable principles of trade and, therefore, also constitutes a violation of FINRA Rule 2010.

On July 3, 2013, former RBC customers Claimants KP and TP filed an arbitration claim with FINRA Dispute Resolution against RBC, a predecessor entity of RBC and ST, a registered representative formerly registered with RBC (collectively with the Claimants, "the Parties").

On October 1, 2014, the Parties mediated the dispute and reached a settlement. The preliminary settlement agreement signed at the mediation included as a "term or condition" of the settlement that "Claimants will not oppose expungement." The preliminary settlement agreement contemplated that a final, formal agreement would be signed by the Parties later.

On October 20, 2014, the Parties signed the final, formal written settlement agreement, which included the following paragraph:

Claimants hereby consent to any Motion Respondent or the Broker may make to amend its Answer to include an expungement request, if the amendment is limited to the request for expungement without including any factual averments or any argumentation. Moreover, Claimants will not object to or oppose any efforts made by Respondent or the Broker to seek expungement of all reference to the Arbitration, including any related customer complaint(s).

As a result of the Firm's conditioning settlement of a customer dispute on the customers' agreement not to oppose expungement, RBC violated FINRA Rules 2081 and 2010.

Violation of NASD Rule 3010(a) and FINRA Rules 3110(a) and 2010

NASD Rule 3010(a), which was effective until November 30, 2014, and FINRA Rule 3110(a), which became effective on December 1, 2014, require firms to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules. A violation of NASD Rule 3010 and FINRA Rule 3110 is inconsistent with high standards of commercial honor and just and equitable principles of trade and, therefore, also constitutes a violation of FINRA Rule 2010.

The Firm failed to establish and maintain a supervisory system, including written procedures, reasonably designed to ensure compliance with FINRA Rule 2081 in the following ways.

From July 30, 2014 through the present, the Firm failed to have an adequate system to address the prohibition in the rule on conditioning or seeking to condition settlement of a dispute with a customer on the customer's agreement to consent to, or not to oppose, expungement. Specifically, the Firm failed to take sufficient steps to achieve compliance with the prohibition in the Rule. In fact, shortly after the Rule was enacted, the Firm entered into a settlement with Claimants that contained, as a term and condition of the settlement, Claimants' agreement not to object to any efforts by the Firm or Broker to seek expungement.

For example, from July 30, 2014 until February 27, 2015, although the Firm was aware of the new requirements of FINRA Rule 2081 at or around the time it became effective, the Firm failed to establish any procedures addressing the proscriptions of the Rule until February 27, 2015, seven months after the Rule became effective and after FINRA began this investigation. Moreover, the Firm failed to take adequate steps to ensure and document that the requirements of the new Rule were communicated to all relevant personnel until it published its new procedures on February 27, 2015.

Additionally, from February 27, 2015 through the present, the Firm failed to have a designated supervisor who was responsible for enforcing the requirements of FINRA Rule 2081.

From July 30, 2014 through the present, although a Firm employee was designated as the "business stakeholder" who had responsibility to establish an adequate supervisory system, including written procedures, related to Rule 2081, that individual acted only in a legal capacity. Accordingly, the Firm failed to provide evidence that it had a business employee in charge of establishing, or that it had established, an adequate supervisory system related to Rule 2081.

As a result of the Firm's failure to establish and maintain a supervisory system, including written procedures, reasonably designed to ensure compliance with FINRA Rule 2081, RBC violated NASD Rule 3010(a) from July 30, 2014 through November 30, 2014, FINRA Rule 3110(a) from December 1, 2014 through the present, and FINRA Rule 2010.

Violation of FINRA Rules 3110(b) and 2010

FINRA Rule 3110(b) requires firms to establish, maintain and enforce written procedures to supervise the types of business in which the firm engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations and applicable FINRA Rules.

On February 27, 2015, seven months after the effective date of FINRA Rule 2081, RBC published updates to its Compliance Manual's section on Customer Complaints, and Branch Management Supervisory Procedures' section regarding Dispute Resolution. The WSPs in both documents merely restate the text of FINRA Rule 2081 and some explanatory text on the Rule from Regulatory Notice 14-31. The WSPs fail to include (1) a designated supervisor responsible for conducting supervision regarding compliance with Rule 2081; (2) a description of the review process that such a supervisor would take to review for compliance; (3) the frequency of such reviews; (4) how such reviews will be documented; or (5) what the Firm will do when it identifies deficiencies in compliance.

As a result of failure to establish, maintain and enforce WSPs that are reasonably designed to achieve compliance with FINRA Rule 2081, RBC violated FINRA Rules 3110(b) and 2010.

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

1. A censure;
2. A fine of \$125,000; and
3. An undertaking requiring RBC, within 90 days of the issuance of a

Notice of Acceptance of this AWC, to adopt and implement supervisory systems and written procedures reasonably designed to achieve compliance with the requirements of FINRA Rule 2081. RBC shall, within the time period specified, notify the Department of Enforcement in writing when it has adopted and implemented the supervisory systems and written procedures described above. The Department of Enforcement may, upon a showing of good cause and in its sole discretion, extend the time for compliance with this provision.

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

Respondent 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

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondent 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

Respondent 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 the Firm; and**
- C. If accepted:**
 - 1. this AWC will become part of the Firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the Firm;**
 - 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**
 - 4. The Firm 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. The Firm 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 the Firm's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.**
- D. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 I have 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 the Firm to submit it.

RBC Capital Markets LLC

05/19/2016
Date (mm/dd/yyyy)

By: [Signature]

Reviewed by:

[Signature]
Sandra Grannum
Counsel for Respondent
Drinker Biddle & Reath LLP
600 Campus Drive
Florham Park, NJ 07932-1047
Phone: (973) 549-7015

Accepted by FINRA:

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

6/10/16
Date

[Signature]
Richard Chin
Chief Counsel
FINRA Department of Enforcement
One World Financial Center
200 Liberty Street
New York, New York 10281-1003
Phone: (646) 315-7322 Fax: (202) 689-3415