

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019061442501**

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

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

Pursuant to FINRA Rule 9216, Respondent RBC Capital Markets, LLC 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 Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

A. Respondent hereby accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

RBC has been a FINRA member since 1993 and is headquartered in New York City. The firm conducts a general securities business, self-clearing securities transactions for its own customers and clearing securities transactions for customers of its introducing broker-dealers. It has approximately 2,400 registered representatives and 300 branches.¹

In December 2021, RBC was censured, fined \$550,000 and ordered to pay \$456,155, plus interest, in restitution. RBC failed to establish, maintain, and enforce a supervisory system, including written procedures, reasonably designed to achieve compliance with FINRA and Municipal Securities Rulemaking Board rules with respect to representatives' recommendations of high-yield corporate and municipal bonds. RBC therefore violated NASD Rule 3010, FINRA Rule 3110, and MSRB Rule G-27.

In December 2020, RBC was censured and ordered to pay \$685,520, plus interest, in restitution. RBC failed to establish and maintain a supervisory system reasonably designed to supervise representatives' recommendations to customers to purchase particular share classes of 529 savings plans in violation of MSRB Rule G-27.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

In April 2020, RBC, pursuant to an Offer of Settlement with the Securities and Exchange Commission, was censured and ordered to pay disgorgement of \$2,607,676, plus interest, and a civil penalty of \$650,000. RBC consented to findings that it disadvantaged certain brokerage customers by failing to ascertain they were eligible for a less expensive share class and recommending and selling them more expensive share classes in mutual funds when less expensive share classes were available, and that it did not disclose that the more expensive share classes would result in greater compensation for RBC while negatively impacting the overall return on the customers' investments. RBC thus violated Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933.

OVERVIEW

From January 2017 to December 2018, RBC failed to establish and maintain a reasonable supervisory system to monitor whether its registered representatives recommended to retail customers short-term trading of syndicate preferred stocks that was unsuitable, including for the purpose of capturing sales concessions and commissions. While the firm's procedures called for supervisors to closely examine representatives' short-term trading of preferred stocks, the firm's electronic surveillance of short-term trading in preferred stock was unreasonably designed, and it failed to monitor for that activity. During the relevant period, representatives recommended a number of the firm's retail customers purchase syndicate preferred stocks, and then sell the positions within 180 days, and the customers sustained losses on these transactions. Based on the above conduct, RBC violated FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

A. RBC's Sales of Syndicate Preferred Stock

During the relevant period, RBC permitted representatives to recommend customers purchase syndicate preferred stocks. Preferred stocks are income-generating securities, which are priced at issuance at a fixed par value and over time typically pay dividends based on a percentage of that par value. They typically offer more consistent dividends than common shares and higher payments than bonds. Therefore, preferred stock generally is purchased for its income features and held long-term.

For each of the preferred stocks at issue here, RBC was a member of the selling syndicate. Thus, when RBC's customers purchased these preferred stocks, the issuer paid RBC a sales concession (typically 2%), a portion of which RBC shared with the representatives.² In addition, where customers later sold the preferred stocks, RBC sometimes charged customers sales commissions, which RBC also shared with the representatives.

² Generally, customers could only learn of the sales concession by consulting the prospectus or discussing with the representative.

Trading in syndicate preferred stock is subject to potential abuse where representatives make recommendations to customers to purchase the security, collect the sales concession, and then recommend a short-term sale of the security. This practice is particularly questionable if the representative then solicits the customer to purchase a different syndicate preferred stock, again receiving a front-end sales concession. Multiple RBC representatives engaged in repeated short-term buying and selling of syndicate preferred stock.

B. RBC Failed to Establish and Maintain a Supervisory System Reasonably Designed to Achieve Compliance with its Suitability Obligations in Connection with Syndicate Preferred Stock

FINRA Rule 3110(a) requires a member firm 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.

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

RBC's supervisory obligations include maintaining a supervisory system reasonably designed to achieve compliance with the suitability rule, FINRA Rule 2111. Under the suitability rule, members and associated persons must have a reasonable basis to believe that a recommended transaction involving a security is suitable for the customer. Patterns of short-term trading in syndicate preferred stock, where the representative may be recommending transactions that are unsuitable, including for the purposes of obtaining selling compensation, may violate Rule 2111.

During the relevant period, RBC's procedures provided that when supervisors review transactions for excessive trading activity, they should consider the holding period for the securities. Those procedures stated that "[s]hort term trading (held less than six months) of securities generally intended as long-term investments must be examined closely" and identified preferred stock as an example of a security that is "normally purchased for income/growth and therefore intended to be held for longer periods of time."

RBC supervised trading in customer accounts through its electronic surveillance system. Although the surveillance system had certain alerts that specifically monitored for short-term trading in other products, such as closed-end funds, it did not have any alerts that specifically monitored for short-term trading in preferred stock. Additionally, RBC did not have any other alerts that flagged the purchase and sale within 180 days of syndicate preferred stock at issue here. For example, although the firm did use a daily Flip Trade Alert, which could identify trades where a customer sold a recently purchased security, including preferred stock, the Flip Trade Alert failed to identify the short-term trading of preferred stock at issue because it fell outside this alert's parameters. Because the

surveillance system did not flag this short-term trading of preferred stock, supervisors were unaware of the trading.

Nearly 40 RBC representatives engaged in short-term trading of syndicate preferred stock. One representative (Representative A) accounted for a significant portion of this trading. During the relevant period, Representative A recommended a total of 186 purchases of syndicate preferred stock in multiple customer accounts where he then recommended a subsequent short-term sale that resulted in a loss. Oftentimes, he would buy another syndicate preferred stock soon after the sale of the first preferred stock, receiving another sales concession.

RBC's surveillance system failed to flag any of Representative A's purchases of syndicate preferred stocks that were followed by sales within 180 days. Most of the positions were held for fewer than 180 days but more than 30 days. However, the Flip Trade Alert did not identify these as potentially unsuitable because one of its parameters was a holding period of 30 days or fewer. Even when Representative A's recommended positions were held for fewer than 30 days, the Flip Trade Alert still did not identify these transactions because other alert parameters were not met.

During the relevant period, firm-wide, there were at least 798 recommended syndicate preferred stock purchases with a holding period of 180 days or less where there was a realized loss on the sale, even after accounting for dividend income. RBC earned \$653,313 in selling concessions from the syndicate purchases (collected from the issuer) and \$128,643 in sales commissions from the subsequent sales (collected from the customers).

RBC conducted a substantial syndicate preferred stock business yet did not maintain a reasonable supervisory system to monitor whether its representatives recommended short-term trading of syndicate preferred securities that was unsuitable, including for the purpose of capturing sales concessions and commissions. While the firm's procedures called for supervisors to closely examine whether brokers were engaging in short-term trading of preferred stocks, the firm did not implement a supervisory system reasonably designed to monitor for that trading activity. The firm used its automated surveillance system to monitor trading, but employed no alerts specific to preferred stocks, and its more general alerts, such as the Flip Trade Alert, were not sufficiently reasonably tailored to monitor for potentially unsuitable short-term trading of preferred stock.

Therefore, RBC violated FINRA Rules 3110 and 2010.

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

- a censure;
- a \$300,000 fine;

- restitution of \$128,643.17 plus interest as described below;³
- disgorgement of \$653,312.83 plus interest as described below;⁴
- an undertaking that, within 120 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Rule 3110 regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Ilya Feldsherov, Counsel, FINRA Department of Enforcement, 200 Liberty Street, New York, NY 10281, and ilya.feldsherov@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$128,643.17, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 § U.S.C. 6621(a)(2), from December 31, 2018, until the date this AWC is accepted by the National Adjudicatory Council (NAC).

A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each Eligible Customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org, with a copy to ilya.feldsherov@finra.org, from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org, with a copy to ilya.feldsherov@finra.org, no later than 120 days after the date of the notice of acceptance of the AWC.

³ The amount of restitution being paid to customers is equal to the commissions paid by the customer on the subsequent sales of the preferred.

⁴ The disgorgement amount equals RBC's \$781,956 of ill-gotten gains from the trading at issue less the \$128,643.17 to be paid as restitution to the customers.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Respondent's plan, not unacceptable to FINRA, to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

The imposition of a restitution order or any other monetary sanctions in this AWC, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

Disgorgement of concessions and commissions received (less amounts paid out as restitution, as explained in footnote 4, above) is ordered to be paid to FINRA in the amount of \$653,312.83, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621 from December 31, 2018, until the date this AWC is accepted by the NAC.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanctions 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 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 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 its acceptance or rejection.

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:

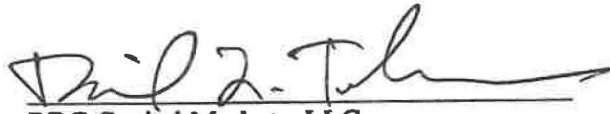
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:
 - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 - 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 its subject matter in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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 Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

- 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

3/15/23
Date


RBC Capital Markets, LLC
Respondent

Print Name: Daniel L. Torbenson

Title: Head, Business Risk Oversight

Reviewed by:

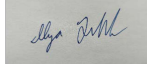

Steven M. Malina
Counsel for Respondent
Greenberg Traurig, LLP
77 West Wacker Drive
Suite 3100
Chicago, IL 60601

Accepted by FINRA:

April 14, 2023

Date

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



Ilya Feldsherov
Counsel
FINRA Department of Enforcement
200 Liberty Street
New York, NY 10281

ATTACHMENT A

SCHEDULE OF RESTITUTION

Customer #	Account #	Restitution Amount (Exclusive of Interest)
1		\$6,161.36
2		\$5,758.00
3		\$4,804.44
4		\$3,809.61
5		\$3,484.45
6		\$3,200.00
7		\$2,382.74
8		\$2,368.59
9		\$2,104.87
10		\$2,000.00
11		\$1,961.71
12		\$1,825.00
13		\$1,574.26
14		\$1,565.69
15		\$1,450.00
16		\$1,450.00
17		\$1,350.00
18		\$1,310.00
19		\$1,252.28
20		\$1,250.00
21		\$1,225.00
22		\$1,220.31
23		\$1,200.00
24		\$1,200.00
25		\$1,200.00
26		\$1,195.00
27		\$1,101.64
28		\$1,100.00
29		\$1,100.00
30		\$1,098.00
31		\$1,052.34
32		\$1,008.33
33		\$1,000.00
34		\$1,000.00
35		\$1,000.00
36		\$945.94
37		\$930.20
38		\$900.00

39				\$900.00
40				\$870.13
41				\$830.57
42				\$807.05
43				\$800.00
44				\$773.04
45				\$736.24
46				\$732.63
47				\$700.00
48				\$661.67
49				\$650.00
50				\$650.00
51				\$640.44
52				\$638.75
53				\$625.00
54				\$615.00
55				\$613.02
56				\$600.00
57				\$600.00
58				\$600.00
59				\$600.00
60				\$600.00
61				\$599.02
62				\$589.45
63				\$579.45
64				\$578.23
65				\$576.98
66				\$572.17
67				\$550.00
68				\$525.63
69				\$525.00
70				\$522.38
71				\$511.11
72				\$502.64
73				\$499.00
74				\$499.00
75				\$487.07
76				\$460.01
77				\$458.74
78				\$450.00
79				\$450.00
80				\$450.00
81				\$443.55
82				\$430.72

83				\$423.38
84				\$423.31
85				\$417.61
86				\$415.00
87				\$409.22
88				\$405.39
89				\$400.00
90				\$400.00
91				\$400.00
92				\$400.00
93				\$400.00
94				\$400.00
95				\$400.00
96				\$395.79
97				\$395.00
98				\$380.00
99				\$371.30
100				\$364.75
101				\$361.35
102				\$359.64
103				\$355.00
104				\$350.00
105				\$345.00
106				\$318.69
107				\$315.00
108				\$315.00
109				\$314.82
110				\$300.00
111				\$299.00
112				\$293.12
113				\$280.00
114				\$275.00
115				\$265.00
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