

STATE OF OREGON
DEPARTMENT OF CONSUMER AND BUSINESS SERVICES
DIVISION OF FINANCE AND CORPORATE SECURITIES

In the Matter of

Case No. S-13-0146

RBC Capital Markets, LLC,
Respondent.

FINAL ORDER TO COMPLY,
ASSESSMENT OF CIVIL PENALTY
AND CONSENT TO ENTRY OF ORDER

WHEREAS, RBC Capital Markets, LLC (“RBC”) is a broker-dealer licensed in Oregon, with a Central Registration Depository (“CRD”) number of 31194; and State securities regulators have conducted coordinated investigations into the licensing¹ of RBC Client Associates (“CAs”) and RBC’s supervisory system with respect to the licenses of CAs; and

RBC has cooperated with regulators conducting the investigations by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

RBC has advised regulators of its agreement to resolve the investigations pursuant to the terms specified in this Final Order to Comply, Assessment of Civil Penalty and Consent to Entry of Order (the “Order”); and

RBC agrees to make certain changes in its supervisory system with respect to the licensing of CAs, and to make certain payments in accordance with the terms of this Order; and

RBC elects to waive permanently any right to a hearing and appeal under Oregon Revised Statutes (“ORS”) 59.295, ORS 59.305 and ORS chapter 183 with respect to this Order; and

¹ With respect to securities professionals and the entities with which they are associated, the Oregon Securities Law uses the term “licensing” in the same manner other jurisdictions may use the term “registration”. For the purposes of this Order, the two terms should be considered synonymous.



1 Solely for the purpose of terminating the multi-state investigations, and in
2 settlement of the issues contained in this Order, RBC, without admitting or denying the
3 findings of fact or conclusions of law contained in this Order, consents to the entry of this
4 Order; and

5 RBC admits the jurisdiction of the Director of the Department of Consumer and
6 Business Services for the State of Oregon (the "Director") in this matter.

7 NOW, THEREFORE, the Director, as administrator of the Oregon Securities
8 Law, ORS chapter 59 and Oregon Administrative Rules chapter 441, hereby enters this
9 Order:

10
11 I. FINDINGS OF FACT

12 The Director FINDS that:

13 Background on Client Associates

14 1. The CAs function as sales assistants and typically provide administrative and
15 sales support to one or more of RBC's registered representatives ("RRs"). There are
16 different CA positions, including Registered Client Associate and Registered Senior
17 Client Associate.

18 2. The primary job duties vary depending on the specific CA position. In
19 varying degrees, the "Major Job Accountabilities" of a CA include:

- 20 A. Handling client requests;
- 21 B. Resolving client inquiries;
- 22 C. Determining if client issues require escalation to the RR or the branch
23 management team; and
- 24 D. Processing of operational documents such as letters of authorization and client
25 check requests.

26 3. In addition to the responsibilities described above, and of particular





1 significance to this Order, some CAs are permitted to accept unsolicited orders from
2 clients; others are permitted, with the assistance of a RR, to prospect for new clients,
3 open new accounts, gather assets and select investments to recommend to clients. As
4 discussed below, RBC's written policies and procedures require that any CAs accepting
5 client orders first obtain the necessary licenses and registrations.

6 4. Notably, RRs might have a "primary CA" and a "secondary CA", or a
7 "primary CA team" and a "secondary CA team". As suggested by the designation, the
8 customary practice is that the primary CA or team would handle the RR's administrative
9 matters and client orders. However, if the primary CA or team was unavailable, the
10 secondary CA or team would step in to handle the RR's administrative matters and client
11 orders.

12 5. During the period from 2005 to 2009, RBC employed an average of
13 approximately 672 CAs per year.

14 Securities Salesperson License Required

15 6. Pursuant to ORS 59.165(1), it is unlawful for any person to transact business
16 in Oregon as a securities salesperson unless the person is licensed under the Oregon
17 Securities Law.

18 7. Pursuant to the general prohibition under ORS 59.165(1) a person cannot
19 accept unsolicited orders in Oregon unless the person is licensed pursuant to ORS 59.175.

20 8. Pursuant to ORS 59.165(3) and ORS 59.995(1), a broker-dealer may be
21 subject to a civil penalty for selling securities in Oregon through salespersons other than
22 licensed securities salespersons.

23 RBC Requires Licensing of Client Associates

24 9. In order for a CA to accept client orders, RBC generally required each CA to
25 pass the series 7 and 63 qualification exams and to license in the appropriate
26 jurisdictions.



1 10. At all times relevant to this Order, RBC’s policies and procedures specified
2 that each CA maintain licenses in the same jurisdictions as his or her RR, or broadly
3 required that each CA maintain licenses in all necessary jurisdictions.

4 Regulatory Investigations and Findings

5 11. During late 2009, RBC received regulatory inquiries regarding CA licenses.

6 12. The multi-state investigation focused on systemic issues with RBC CA
7 licenses and related supervisory structure. Specifically:

8 A. After accepting an order from a client, CAs accessed the electronic order entry
9 system to place the order;

10 B. The order entry system automatically recorded the identity of the person
11 entering the order using the user’s login information. If the order was received from the
12 client by someone other than the person entering the order, the person entering the order
13 was required to identify the person who accepted the order from the client by typing the
14 name or initials in a text box;

15 C. RBC’s trading system checked the license of the RR assigned to the account,
16 but did not check the license status of the person accepting the order, if different from
17 the RR, (the “who accepted field”) to ensure that the person was licensed in the
18 appropriate jurisdiction.

19 13. The multi-state investigation identified instances in which CAs supported RRs
20 licensed in Oregon when the CAs were not licensed in Oregon as agents of RBC. This
21 difference in license status increased the possibility that CAs who were not licensed in
22 Oregon would accept unsolicited orders from customers.

23 14. The multi-state investigation determined that it was highly likely that certain
24 RBC CAs accepted unsolicited orders in Oregon at times when the CAs were not
25 appropriately licensed in Oregon.

26 15. As a result of the inquiries by state regulators, RBC conducted a review of its



1 CA licensing practices.

2 16. RBC's review found that as of November 2008, the firm had 692 licensed
3 CAs. While CAs were licensed in approximately seven states, at that time RRs were
4 licensed, on average, in 17 states. Approximately 454, almost 66%, of those licensed
5 CAs were only licensed in their home state or their home state and one additional state.

6 17. Many RBC CAs were not licensed in the same jurisdictions as their respective
7 RRs. RBC's review identified incidences where CAs who were not properly state
8 licensed accepted orders they had not solicited.

9 18. Beginning in 2010, RBC took steps to enhance its policies and procedures
10 regarding CAs' state licenses, and added a substantial number of CA state licenses.

11 A. In January 2010, RBC amended its licensing policy to require that each CA
12 license in the same states as the RRs whom they support. RBC alerted the field to this
13 policy.

14 B. In November 2010, supervisors in RBC's branches and complexes reviewed
15 the current CA licenses to ensure the CAs were properly licensed prior to the annual
16 renewals.

17 C. RBC updated its training to include additional information on license
18 requirements and on the firm's policies on CA licenses. RBC also, as part of the annual
19 license renewal process, added to the annual renewal notice information regarding the
20 CA licensing policy.

21 D. RBC modified its procedures regarding the manner in which it grants
22 electronic order entry access to client accounts. The required forms were revised to
23 identify supporting CAs and the forms are provided to the Licensing and Registration
24 department to verify that proper licenses are in place for RRs and CAs when access is
25 granted.

26 E. RBC conducted Compliance Training sessions for CAs covering information



1 on order entry procedures and license requirements.

2 F. RBC revised its license forms to identify assigned CAs on RRs' license forms
3 and assigned RRs on CAs' license forms. This allows the registration and licensing
4 group to submit licenses for the CAs that mirror those held by the RRs whom they
5 support.

6 19. RBC has also undertaken to implement enhancements to its order entry
7 systems and to its supervision of the order entry procedures. The order entry systems will
8 require the individual entering an order either to attest that he or she also accepted the
9 order or to identify the person who accepted the order by entering that person's system
10 ID. RBC policies and procedures prohibit RBC personnel from using any credentials but
11 their own to log on to the order entry systems. RBC is developing an exception report to
12 identify any trades entered in an account for which the person who accepted the order did
13 not hold the necessary state license.

14 20. RBC provided timely responses and substantial cooperation in connection
15 with the regulatory investigations into this issue.

17 II. CONCLUSIONS OF LAW

18 The Director CONCLUDES that:

19 21. The Director has jurisdiction over this matter pursuant to ORS 59.235 and
20 ORS 59.245.

21 22. RBC's failure to establish an adequate system to monitor the license status of
22 persons accepting client orders constitutes failure to establish, maintain and enforce
23 reasonably designed procedures, in violation of OAR 441-205-0210(3).

24 23. RBC's failure to ensure its CAs were licensed in the appropriate jurisdictions
25 constitutes a failure to enforce its established written procedures, and is a violation of
26 OAR 441-205-0210(3).



1 24. Pursuant to ORS 59.165(3), RBC's acceptance of orders in Oregon through
2 CAs who were not properly licensed in Oregon constitutes violations of ORS 59.165(3)
3 by employing unlicensed salespersons to act in Oregon.

4 25. Pursuant to ORS 59.995(1), the violations described above constitute bases for
5 the assessment of a civil penalty against RBC.

6 26. The Director finds the following relief appropriate and in the public interest.

7
8 III. UNDERTAKINGS

9 27. RBC hereby undertakes and agrees to establish and maintain policies,
10 procedures and systems that reasonably supervise the trade process so that a person can
11 only accept client orders that originate from jurisdictions where the person accepting the
12 order is appropriately licensed.

13
14 IV. ORDER

15 On the basis of the Findings of Facts, Conclusions of Law, and RBC's consent to
16 the entry of this Order,

17 IT IS HEREBY ORDERED:

18 28. This Order concludes the investigation by the Oregon Department of
19 Consumer and Business Services, Division of Finance and Corporate Securities, and any
20 other action that the Director could commence against RBC under applicable Oregon law
21 as it relates to unlicensed activity in Oregon by RBC's CAs and RBC's supervision of CA
22 licenses during the period from January 1, 2005 through the date of this Order.

23 29. This Order is entered into solely for the purpose of resolving the referenced
24 multi-state investigation, and is not intended to be used for any other purpose. For any
25 person or entity not a party to the Order, this Order does not limit or create any private
26 rights or remedies against RBC, limit or create liability of RBC, or limit or create



1 defenses of RBC, to any claims.

2 30. RBC is hereby ordered to pay the sum of \$57,370.17 (fifty-seven thousand,
3 three hundred seventy dollars and seventeen cents) to the Oregon Department of
4 Consumer and Business Services (“DCBS”) within ten days of the date of this Order, by
5 check payable to “Department of Consumer and Business Services” for \$57,370.17 (fifty-
6 seven thousand, three hundred seventy dollars and seventeen cents). Upon receipt of the
7 check, DCBS will allocate the payment from RBC as follows: civil penalty of \$54,501.66
8 (fifty-four thousand, five hundred one dollars and sixty-six cents) for the General Fund of
9 the Oregon State Treasury, pursuant to ORS 59.995(1), and \$2,868.51(two thousand,
10 eight hundred sixty-eight dollars and fifty-one cents) for the DCBS Consumer Financial
11 Education Account.

12 31. RBC is hereby ordered to comply with the Undertakings contained herein.

13 32. This order is not intended by the Director to subject any Covered Person to
14 any disqualifications under the laws of the United States, any state, the District of
15 Columbia, Puerto Rico, or the U.S. Virgin Islands including, without limitation, any
16 disqualification from relying upon the state or federal registration exemptions or safe
17 harbor provisions. “Covered Person,” means RBC or any of its affiliates and their current
18 or former officers or former officers, directors, employees, or other persons that would
19 otherwise be disqualified as a result of the Orders (as defined below).

20 33. This Order and the order of any other State in related proceedings against
21 RBC (collectively, the “Orders”) shall not disqualify any Covered Person from any
22 business that they otherwise are qualified, licensed or permitted to perform under
23 applicable securities laws of the State of Oregon and any disqualifications from relying
24 upon this state’s registration exemptions or safe harbor provisions that arise from the
25 Orders are hereby waived.

26 34. This Order shall be binding upon RBC and its successors and assigns as well

1 as to successors and assigns of relevant affiliates with respect to all conduct subject to the
2 provisions above and all future obligations, responsibilities, undertakings, commitments,
3 limitations, restrictions, events, and conditions.

4 Dated this 1st day of November , 2013.

5 PATRICK M. ALLEN, Director
6 Department of Consumer and Business Services

7 /s/ David Tatman
8 David C. Tatman, Administrator
9 Division of Finance and Corporate Securities

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1 CONSENT TO ENTRY OF ORDER BY RBC

2 RBC hereby acknowledges that it has been served with a copy of this Final Order
3 to Comply, Assessment of Civil Penalty and Consent to Entry of Order (“Order”), has
4 read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and
5 has waived the same.

6 RBC admits the jurisdiction of the Director, neither admits nor denies the
7 Findings of Facts and Conclusions of Law contained in this Order, and consents to entry
8 of this Order by the Director as settlement of the issues contained in this Order.

9 RBC agrees that it shall not claim, assert, or apply for a tax deduction or tax credit
10 with regard to any state, federal or local tax for any administrative monetary penalty that
11 RBC shall pay pursuant to this Order.

12 RBC states that no promise of any kind or nature whatsoever was made to it to
13 induce it to enter into this Order and that it has entered into this Order voluntarily.

14 Joe Fleming represents that s/he is SR. V.P. Compliance Director
15 of RBC and that, as such, has been authorized by RBC to enter into this Order for and on
16 behalf of RBC.

17 Dated this 22 day of October, 2013.

18 RBC Capital Markets, LLC

19 By: /s/ Joe Fleming

20 Title: SR. V.P. Compliance Director

21 SUBSCRIBED AND SWORN TO before me this 22nd day of October, 2013.

22 [Affix seal]

23 /s/ Helen Ann Morrell

24 Notary Public in and for the
25 State of Minnesota

26 My Commission expires:
1-31-2018