

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2016049821601**

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

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

RBC Capital Markets Arbitrage S.A., Respondent  
CRD No. 121263

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Respondents RBC Capital Markets LLC (“RBC-CM”) and RBC Capital Markets Arbitrage S.A. (“RBC-CMA,” together with RBC-CM, “RBC” or “Respondents”), submit 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 Respondents alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondents hereby accept and consent, 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-CM has been a FINRA member since 1993. RBC-CM, headquartered in New York, New York, engages in a general securities business. It employs approximately 5,213 registered representatives and approximately 3,837 non-registered fingerprint persons. RBC-CM maintains 254 branch offices nationwide.

RBC-CMA has been a FINRA member since 2002. RBC-CMA is headquartered in New York, New York. RBC-CMA’s sole line of business is trading for its own account including equities, futures, options, swaps and foreign currency. RBC-CMA employs approximately 36 registered representatives and 6 non-registered fingerprint persons.

**RELEVANT DISCIPLINARY HISTORY**

Respondents have no relevant disciplinary history.

## **OVERVIEW**

RBC-CM from 1998, and RBC-CMA from 2002, and continuing to the present (the “Relevant Period”), failed to maintain a vast number of electronic brokerage records in non-erasable and non-rewritable format, known as WORM format, as required by Section 17(a) of the Exchange Act of 1934 (the “Exchange Act”), Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. WORM stands for “write once, read many,” and is intended to prevent the alteration or destruction of broker-dealer records stored electronically.

RBC also experienced related audit and attestation deficiencies affecting the ability to adequately retain and preserve electronic records, in violation of Exchange Act Rule 17a-4(f), NASD Rule 3110 and FINRA Rule 4511. Finally, RBC failed to enforce written supervisory procedures reasonably designed to achieve compliance with the WORM requirement, in violation of NASD Rule 3010 and FINRA Rule 3110.

## **FACTS AND VIOLATIVE CONDUCT**

Over the past decade, the volume of sensitive financial data stored electronically by broker-dealers has risen exponentially. These broker-dealer electronic records must be complete and accurate, not only to assist FINRA and other regulators in their efforts to protect investors through periodic examinations, but also to ensure member firms can carry out their audit functions. Recent years also have seen increasingly aggressive attempts to hack into electronic data repositories, enhancing the need for firms to keep these records in WORM format.

Section 17(a) of the Exchange Act and Rule 17a-3 thereunder require broker-dealers to make certain records relating to its business, including trade blotters, asset and liability ledgers, order tickets, trade confirmations and other records. Rule 17a-4 specifies the manner and length of time that those records must be maintained.

NASD Rule 3110(a) provides, in part, that each member “shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and...[t]he record keeping format, medium and retention period shall comply with” Rule 17a-4.”<sup>1</sup>

FINRA Rule 4511 provides, in part, that each member “shall make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules” ... and all “books and records required to be made pursuant to the FINRA rules shall be preserved in a format and media that complies with” Rule 17a-4.

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<sup>1</sup> NASD Rule 3110 was replaced by FINRA Rule 4511, effective December 5, 2011.

These requirements are an essential part of the investor protection function because preservation of these records is the “primary means of monitoring compliance with applicable securities laws, including antifraud provisions and financial responsibility standards.”<sup>2</sup>

*1. RBC Failed to Retain Electronic Records in WORM Format*

When broker-dealers use electronic storage media to retain records, Rule 17a-4(f)(2)(ii) requires the firms to “[p]reserve the records exclusively in a non-rewritable, non-erasable” or WORM format. Pursuant to a service agreement with RBC-CM, RBC-CMA relied upon RBC-CM to maintain its books and records.

During the Relevant Period, RBC failed to retain in WORM format a vast number of electronic records pivotal to their brokerage business. This deficiency affected up to 21 categories of electronic records. For example, from January 1, 2014 to June 9, 2016, RBC failed to retain in WORM format broker-dealer records relating to approximately 172 million trades. Other affected records include records of bills payable, records of derivative trades and positions, broker-dealer agreements, ledgers and records relating to policies, procedures and internal control systems.

Based on the foregoing, Respondents violated Exchange Act Rule 17a-4(f)(2)(ii), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.<sup>3</sup>

*2. RBC Failed to Implement an Audit System Regarding the Inputting of Records in Electronic Storage Media*

Exchange Act Rule 17a-4(f)(3)(v) requires a broker-dealer to “have in place an audit system providing for accountability regarding inputting of records required to be maintained and preserved pursuant to Rules 17a-3 and 17a-4 to electronic storage media and inputting of any changes made to every original and duplicate record maintained and preserved thereby.” During the Relevant Period, RBC did not have an audit system as required by Rule 17a-4(f)(3) for those records they failed to maintain in WORM format.

Based on the foregoing, Respondents violated Exchange Act Rule 17a-4(f)(3)(v), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

*3. RBC Failed to Obtain an Attestation from their Third-Party Vendor*

Exchange Act Rule 17a-4(f)(3)(vii) requires a broker-dealer using electronic storage media to retain a third-party vendor “who has access to and the ability to download information from the [broker-dealer’s] electronic storage media” to any acceptable medium and to obtain an undertaking from the vendor that it will provide these records to the SEC, FINRA or any other regulatory authority in the event the firm is unable to provide the records. During the Relevant

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<sup>2</sup> Commission Guidance to Broker Dealers on the Use of Electronic Storage Media under the Electronic Signatures in Global and National Commerce Act of 2000 with Respect to Rule 17a-4(f), SEC Interpretation Release No. 34-44238, 17 C.F.R. Part 241, at p. 3 of 15 (May 1, 2001).

<sup>3</sup> FINRA Rule 2010 replaced NASD Rule 2110, effective December 15, 2008.

Period, RBC failed to obtain an attestation from their third-party vendor that they will supply electronically stored records to regulatory authorities in the event Respondents are unable to provide the electronically stored records.

Based on the foregoing, Respondents violated Exchange Act Rule 17a-4(f)(3)(vii), NASD Rules 3110 and 2110, and FINRA Rules 4511 and 2010.

*4. RBC's Supervisory System was not Reasonably Designed*

NASD Rule 3010(b) and FINRA Rule 3110(b) both require a member firm to establish, maintain and enforce written procedures to supervise the types of business in which it engages that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.<sup>4</sup>

Pursuant to RBC-CMA's written procedures, supervisors were to refer to RBC-CM's written procedures which contained a section titled "Electronic Storage of Records" detailing steps to comply with Exchange Act Rule 17a-4(f). During the Relevant Period, however, RBC failed to enforce specific procedures concerning storage of electronic broker-dealer records in WORM format, as required by Exchange Act Rule 17a-4(f)(2), the audit system, as required by Exchange Act Rule 17a-4(f)(3)(v), and third-party attestations, as required by Exchange Act Rule 17a-4(f)(3)(vii).

Based on the foregoing, Respondents violated NASD Rules 3010(b) and 2110, and FINRA Rules 3110(b) and 2010.

B. Respondents also consent to the imposition of the following sanctions:

1. Censure; and
2. Fine in the amount of \$3.5 million (to be paid jointly and severally).

Respondents also consent to the following undertaking:

3. Review of Policies and Procedures:
  - a. Within 60 days of Notice of Acceptance of this AWC, the Chief Compliance Officers of RBC-CM and RBC-CMA shall submit to FINRA a written plan of how the firms will undertake to conduct a comprehensive review of the adequacy of the relevant policies and procedures (written and otherwise), including a description of remedial measures leading to full compliance, relating to the conduct addressed in this AWC.
  - b. FINRA will review the plan submitted by Respondents. In the event FINRA objects to the plan, Respondents shall address FINRA's objections and resubmit the plan within 30 days of being notified of FINRA's objections.

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<sup>4</sup> FINRA Rule 3110 replaced NASD Rule 3010, effective December 1, 2014.

- c. If Respondents' proposed plan is not unacceptable to FINRA, Respondents shall promptly implement its comprehensive review.
- d. At the conclusion of Respondents' comprehensive review, which shall be no more than 180 days after the Notice of Acceptance of the AWC, the Chief Compliance Officers for Respondents shall certify in writing to FINRA that Respondents have adopted and implemented policies and procedures reasonably designed to achieve compliance with the federal securities laws and FINRA rules cited in this AWC.
- e. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

Respondents agree to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fine imposed.

Respondents specifically and voluntarily waive any right to claim that they are 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**

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudice 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 Respondents; and
- C. If accepted:
  - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against them;
  - 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. Respondents 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. Respondents 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 Respondents': (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. Respondents may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they 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 Respondents, certify that a person duly authorized to act on Respondents' 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 Respondents 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 Respondents to submit it.

12/13/2016  
Date (mm/dd/yyyy)

[Signature]  
Respondent  
RBC Capital Markets LLC

By: Maria E. Douvas

12/13/2016  
Date (mm/dd/yyyy)

[Signature]  
Respondent  
RBC Capital Markets Arbitrage S.A.

By: Maria E. Douvas

Reviewed by:  
Ben A. Indek  
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[Signature]  
Counsel for Respondents

Accepted by FINRA:

12/2/16  
Date

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

[Signature]  
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FINRA Department of Enforcement  
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