

**THE NASDAQ OPTIONS MARKET LLC
NOTICE OF ACCEPTANCE OF AWC**

Via Certified Mail, Return Receipt Requested

**TO: RBC Capital Markets, LLC
Mr. Christopher Walmsley
Managing Director
30 Hudson Street
Jersey City, NJ 07302**

**FROM: The NASDAQ Options Market LLC (“Nasdaq”)
c/o Financial Industry Regulatory Authority (“FINRA”)
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850**

DATE: October 2, 2019

RE: Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. 2016050933605

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent (“AWC”) has been accepted on **October 2, 2019** by the Nasdaq Review Council’s Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration (“Form BD”) to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or Nasdaq if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions, and Nasdaq’s Finance Department will send you an invoice regarding the payment of any fine.

RBC Capital Markets, LLC
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If you have any questions concerning this matter, please contact me at (646) 430-7030.


W. Kwame Anthony
Senior Counsel
Department of Enforcement, FINRA

Signed on behalf of Nasdaq

Enclosure

FINRA District 10 – New York
William St. Louis
Senior Vice President and Regional Director
(Via email)

RBC Capital Markets, LLC
Ms. Alexandra Wheat
Director, US Regulatory Relations
30 Hudson Street
Jersey City, NJ 07302

THE NASDAQ OPTIONS MARKET LLC
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016050933605

TO: The NASDAQ Options Market LLC
c/o Department of Enforcement
Financial Industry Regulatory Authority (“FINRA”)

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

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC (“Nasdaq”)¹ Code of Procedure, RBC Capital Markets, LLC (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, Nasdaq will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

The firm registered as a broker-dealer with the Securities and Exchange Commission in 1992, became a FINRA member in 1993, became a Nasdaq member in 2006, and became approved as an Options Participant for trading on The NASDAQ Options Market (“NOM”) in 2009. The firm is a global investment bank that is a subsidiary of Royal Bank of Canada and maintains its United States headquarters in New York City. It has more than 5,000 registered representatives. The firm does not have a relevant disciplinary history.

SUMMARY

On NOM’s behalf, the Options Regulation section of the Financial Industry Regulatory Authority’s (“FINRA”) Department of Market Regulation reviewed the firm’s compliance with NOM rules and federal securities laws and regulations governing the use of origin codes. Options Regulation also reviewed the firm’s supervision for compliance with these rules. In addition, the Trading and Financial Compliance Examinations section of the Department of Market Regulation reviewed, among other things, RBC’s

¹ All NASDAQ Options Market LLC disciplinary matters are governed by the Nasdaq Code of Procedure.

supervision of the use of origin codes. From February 4 to April 18, 2016, the firm violated federal securities laws and NOM rules by entering and executing 670 principal orders with incorrect origin codes, indicating that the orders were for customers instead of the firm. In addition, the firm failed to supervise its activities to assure compliance with applicable securities laws and rules in that it ignored red flags indicating that it was routing orders with incorrect origin codes and failed to remedy the pattern of routing orders with incorrect origin codes. For the calendar year 2018, RBC conducted eleven of twelve monthly origin code reviews late.

FACTS AND VIOLATIVE CONDUCT

Origin Code Violations

1. Applicable NOM rules require that when accepting an order, a member must obtain and record an appropriate code to identify the origin of the order. Each options market has its own origin codes, but at a minimum, all have codes to indicate that an order is being executed for a customer, a firm, or a market maker. Origin codes are important because they are part of the audit trail data for every transaction. They also affect the accuracy of a firm's books and records and NOM's audit trail, which may impact the priority of order execution and NOM's surveillance for compliance with NOM rules and federal securities laws. Finally, they are important for clearing purposes when trades are reported to the Options Clearing Corporation ("OCC").
2. From February 4 to April 18, 2016, on 34 separate days, the firm entered 670 principal orders with incorrect origin codes, indicating that the orders were for customers instead of the firm. The firm entered the orders in an order management system that it used for principal orders. The order management system was hard-coded to place the "firm" origin code on orders to indicate that the orders were principal orders. The firm also used a third-party system to route orders, but due to a mapping error, the third-party system incorrectly placed the "customer" origin code on the firm's principal orders, indicating that the orders were for customers instead of the firm. These orders were routed to and executed on fourteen exchanges, including NOM, resulting in 7,032 executions with a volume of 118,871 contracts, of which 6,178 contracts, or 5.2 percent, traded on NOM.
3. Each instance in which the firm executed an order with an incorrect origin code potentially had adverse consequences, such as inadvertently impacting the priority of order execution, creating inaccurate records of purchases and sales, creating an inaccurate audit trail, reporting trades to OCC with inaccurate trade details, and impeding NOM's ability to surveil for and detect potential violations of its rules and federal securities laws.
4. Because the firm entered and executed these orders with the wrong origin code, the trades cleared incorrectly as "customer" trades at OCC instead of as "firm" trades.

5. By marking orders with incorrect origin codes, the firm violated the following laws and rules:
- a. Section 17(a)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”) and Rule 17a-3(a)(7) thereunder requiring a broker-dealer to make and keep a memorandum of each purchase and sale for the account of the broker-dealer (a record that must be accurate); Chapter IX, Section 1 of the NOM rules, which requires each Options Participant to make and keep records as prescribed by NOM and by the Exchange Act and rules thereunder; and Chapter V, Section 7(a) of the NOM rules, which requires that “[w]hen entering orders on NOM, each Options Participant shall submit order information in such form as may be prescribed by Nasdaq in order to allow NOM to properly prioritize and match orders and report resulting transactions to [OCC].”
 - b. Nasdaq Rule 2010A² requiring an Options Participant to observe high standards of commercial honor and just and equitable principles of trade.
 - c. Chapter III, Section 1 of the NOM rules, which prohibits an Options Participant from violating the Exchange Act or rules thereunder, NOM rules, or OCC rules as they relate to reporting or clearing any NOM transactions.
 - d. Chapter III, Section 2 of the NOM rules, which requires an Options Participant to ensure transactions comply with the Options Participant’s obligations under NOM and OCC rules and any other relevant laws or rules.

Supervisory Violations

6. Chapter III, Section 1 of the NOM rules requires an Option Participant to supervise associated persons with respect to compliance with the Exchange Act and rules thereunder, NOM rules, and OCC rules as they relate to reporting or clearing NOM transactions. Chapter III, Section 2 makes an Options Participant responsible for ensuring that all arrangements made and systems used in connection with business on NOM, and the transaction of such business, comply with the Options Participant’s and associated persons’ obligations under NOM rules, OCC rules, and any other relevant laws and rules. Section 2 also requires that an Options Participant have adequate arrangements to ensure that its staff is suitable, adequately trained, and properly supervised; that the Options Participant be responsible for the acts of its associated persons; and that the Options Participant ensure that accurate information is entered into NOM’s trading system. Chapter V, Section 1(b)(iii) and (iv) prohibit an Options Participant from failing to supervise adequately to ensure compliance with Chapter V, Section 1(b) and failing to

² Chapter I, Section 2(b) of the NOM rules states that except to the extent specific NOM rules govern, the provisions of the Nasdaq rules apply to Options Participants and to the trading of option contracts on NOM.

maintain adequate procedures and controls to monitor and supervise the entry of orders to prevent practices prohibited by Chapter V, Section 1(b) and Chapter III, Section (2).

7. The firm's operations department received and reviewed real-time and end-of-day reports that allowed it to detect and remedy discrepancies between trades and positions as they appeared on the firm's records versus OCC's records. When the firm detected instances of routing orders with an incorrect origin code, the firm focused solely on correcting the origin code for that particular trade. The increasing frequency of these instances constituted a red flag of the larger problem that a system issue was causing the firm to route "firm" orders as "customer" orders. Despite these reviews and despite resolving individual instances of using the wrong origin code in real time, the firm still failed to identify the pattern of origin code errors or the cause of such errors that occurred on 34 separate days from February 4 through April 18, 2016. In addition, RBC should have been alerted to the origin code problem by the fact that proprietary orders entered into a system that was hard-coded to apply the "firm" origin code to orders nevertheless cleared as "customer" with OCC. On April 18, 2016, the operations department discovered the mapping issue described in paragraph 2 and remedied the issue on April 19.
8. By ignoring red flags and failing to remedy the pattern of entering and executing orders with incorrect origin codes, the firm violated Chapter III, Sections 1 and 2 and Chapter V, Section 1(b)(iii) and (iv) of the NOM rules.
9. In addition to the foregoing, RBC's written supervisory procedures provided for a monthly review of a sample of orders to verify that accurate origin codes were placed on orders. For the calendar year 2018, RBC conducted eleven of twelve monthly origin code reviews late. The firm conducted these reviews from five to fifty-three days after the due date for the reviews. RBC's failure to enforce its procedures requiring timely origin code reviews constitutes violations of Chapter III, Sections 1 and 2 and Chapter V, Section 1(b)(iii) and (iv) of the NOM rules. In January 2019, to remedy this issue, RBC moved responsibility for its origin code reviews from surveillance analysts to the firm's Regulatory Supervisory Group where reviews would be conducted by people with supervisory responsibility. The examination revealed that since this change, the reviews for January, February, and March 2019 were conducted timely.

B. The firm also consents to the imposition of the following sanctions:

A censure and a fine of \$100,000, of which \$5,687 shall be payable to NOM and the balance of which shall be paid to Cboe Exchange, Inc., Cboe BZX Exchange, Inc., Cboe C2 Exchange, Inc., Nasdaq ISE, LLC, Nasdaq PHLX LLC, NYSE American LLC, and NYSE Arca, Inc.³ Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between RBC and each of these self-regulatory organizations.

³ Although, as set forth in paragraph 2, the violations occurred on fourteen exchanges, the fine is allocated among eight exchanges.

The firm agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. It has submitted a Payment Information form showing the method by which it proposes to pay the fine imposed.

The firm 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

The firm specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal 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 Nasdaq Review Council and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudice of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

The firm 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 FINRA's Department of Enforcement and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq 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 Nasdaq or any other regulator against the firm;
 - 2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and
 - 3. 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 Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 Nasdaq, nor does it reflect the views of Nasdaq 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 it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

08/22/19
Date

RBC Capital Markets, LLC
Respondent

By: 

Name: Curlew Williams

Title: Managing Director

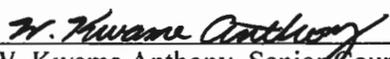
Reviewed by:

Senior Counsel

Attorney Name
Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

Accepted by The NASDAQ Options Market LLC:

Oct. 2, 2019
Date


W. Kwame Anthony, Senior Counsel
Department of Enforcement

Signed on behalf of The NASDAQ Options
Market LLC, by delegated authority from
the Director of ODA

PAYMENT INFORMATION

The fine amount will be reflected on an upcoming invoice and will be direct debited from the account for your firm that Nasdaq currently has on file. *Please DO NOT submit payment at this time.*

Please inform your finance or applicable department of this forthcoming debit.

If you need to arrange for an alternative method of payment, please contact Nasdaq at (301) 978-8310 by no later than the last business day of the month in which the Notice of Acceptance of the AWC was issued. *Otherwise, a direct debit will process from the account for your firm that Nasdaq currently has on file.*

Respectfully submitted,

Respondent

RBC Capital Markets, LLC

08/12/19

Date

By: 

Name: CHRIS W. ALMSLEY

Title: MANAGING DIRECTOR
& SENIOR COUNSEL