

**NASDAQ PHLX 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: Nasdaq PHLX LLC ("PHLX")  
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. 2016050933606**


**Please be advised** that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **October 2, 2019** by the PHLX Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the PHLX Review Council, pursuant to PHLX 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 PHLX 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 if a suspension has been imposed and by Nasdaq's Finance Department regarding the payment of any fine if a fine has been imposed.

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 PHLX

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

**NASDAQ PHLX LLC**  
**LETTER OF ACCEPTANCE, WAIVER AND CONSENT**  
**NO. 2016050933606**

TO: Nasdaq PHLX LLC  
c/o Department of Enforcement  
Financial Industry Regulatory Authority ("FINRA")

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

Pursuant to Rule 9216 of Nasdaq PHLX LLC ("PHLX") Code of Procedure, RBC Capital Markets, LLC ("RBC" or the "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, PHLX will not bring any future actions against the Respondent 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 PHLX, or to which PHLX 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 PHLX:

**BACKGROUND**

RBC registered as a broker-dealer with the Securities and Exchange Commission in 1992, became a FINRA member in 1993, and became a PHLX member firm in 2008. Respondent 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. RBC does not have a relevant disciplinary history.

**SUMMARY**

On PHLX's behalf, the Options Regulation section of the Financial Industry Regulatory Authority's ("FINRA") Department of Market Regulation reviewed RBC's compliance with PHLX 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 supervision of the use of origin codes. From February 4 to April 18, 2016, RBC violated federal securities laws and PHLX 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, RBC failed to enforce its supervisory procedures to prevent or detect

violations of federal securities laws and PHLX 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. PHLX rules, policies, and practices require that when entering an order, a member must record the correct account type or origin code in each order record and as an order detail when entering orders into PHLX's systems to indicate the kind of account for which the order will be executed and cleared. 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 PHLX's audit trail, which may impact the priority of order execution and PHLX's surveillance for compliance with PHLX rules and federal securities laws. Finally, they are important for clearing purposes when trades are reported to the Options Clearing Corporation ("OCC").
2. Pursuant to PHLX Rule 785, a member must submit certain order information in a form prescribed by PHLX on an order record for each customer. Among other things, the origin code determines the order's priority and is part of the audit trail for every transaction.
3. PHLX operates a customer priority model in which PHLX Rule 1014(g)(i)(A) establishes two account categories: a controlled account, which is any account controlled by or under common control with a broker-dealer, and a customer account, which comprises all other accounts. Rule 1014(g)(i)(A) requires controlled accounts to yield priority to customer orders when competing at the same price.
4. From February 4 to April 18, 2016, on 34 separate days, RBC entered 670 principal orders with incorrect origin codes, indicating that the orders were for customers instead of the firm. RBC 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 PHLX, resulting in 7,032 executions with a volume of 118,871 contracts, of which 7,755 contracts, or 6.52 percent, traded on PHLX.
5. 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 PHLX's ability to surveil for and detect potential violations of its rules and federal securities laws.

6. 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.
7. By marking orders with incorrect origin codes, RBC 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), and PHLX Rule 760, which requires every member to make and keep records as prescribed by PHLX and by the Exchange Act and rules thereunder.
  - b. PHLX Rules 785(c) and 1014(g)(i)(A), which require members to submit trade information in such form as may be prescribed by PHLX so that option orders of controlled accounts yield priority to customer orders when competing at the same price.
  - c. PHLX Rule 707, which prohibits a member firm from engaging in conduct inconsistent with just and equitable principles of trade.
  - d. PHLX Rule 708, which prohibits a member firm from engaging in acts detrimental to the interest or welfare of PHLX
  - e. PHLX Rule 1053, which requires each member organization to supply trade information to PHLX in a form prescribed by PHLX covering each PHLX options transaction for which the member organization is responsible.
  - f. PHLX Rule 1063(e)(i), which requires each member organization's floor broker to contemporaneously upon receipt of an order and prior to the representation of such an order in the trade crowd record all options orders represented by the floor broker onto the electronic Options Floor Based Management System certain specified information, including the origin code, referred to in Rule 1063(e)(i) as the order type.

### **Supervisory Violations**

8. RBC'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 RBC 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 RBC to route "firm" orders as "customer" orders. Despite these reviews and despite resolving

individual instances of using the wrong origin code in real time, RBC still failed to prevent or detect 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 issued described in paragraph 4 and remedied the issue on April 19.

9. By ignoring red flags and failing to prevent or detect the pattern of entering and executing orders with incorrect origin codes, RBC violated PHLX Rule 748(h), which requires a member organization to establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, that are reasonably designed to prevent and detect, insofar as practicable, violations of applicable securities laws and regulations and PHLX’s bylaws and rules.
  10. 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 PHLX Rule 748(h). 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. Respondent also consents to the imposition of the following sanctions:

A censure and a fine of \$100,000, of which \$7,138 shall be payable to PHLX and the balance of which shall be paid to Cboe Exchange, Inc., Cboe BZX Exchange, Inc., Cboe C2 Exchange, Inc., Nasdaq ISE, LLC, Nasdaq Options Market LLC, NYSE American LLC, and NYSE Arca, Inc.<sup>1</sup> Acceptance of this AWC is conditioned upon acceptance of similar settlement agreements in related matters between RBC and each of these self-regulatory organizations.

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 a Payment Information 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.

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<sup>1</sup> Although, as set forth in paragraph 4, the violations occurred on fourteen exchanges, the fine is allocated among eight exchanges.

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 PHLX's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against Respondent;
- 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 PHLX Review Council 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 prejudice of the Chief Regulatory Officer, the PHLX Review Council, or any member of the PHLX 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.

Respondent 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**

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 FINRA's Department of Enforcement and the PHLX Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to PHLX 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 Respondent; and

C. If accepted:

1. This AWC will become part of the Respondent's permanent disciplinary record and may be considered in any future actions brought by PHLX or any other regulator against the Respondent;
2. PHLX may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with PHLX Rule 8310 and IM-8310-3; and
3. 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 PHLX, or to which PHLX is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the Respondent's right to take legal or factual positions in litigation or other legal proceedings in which PHLX 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 PHLX, nor does it reflect the views of PHLX or its staff.

The undersigned, on behalf of RBC, 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 RBC 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.

RBC Capital Markets, LLC  
Respondent

08/22/19  
Date

By: 

Name: Chris Samsel

Title: Managing Director

& Senior Counsel



Reviewed by:

\_\_\_\_\_  
Attorney Name  
Counsel for Respondent  
Firm Name  
Address  
City/State/Zip

Accepted by PHLX:

Oct. 2, 2019  
Date

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

W. Kwame Anthony  
W. Kwame Anthony, Senior Counsel  
Department of Enforcement

Signed on behalf of PHLX, 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

08/22/19

Date

By: 

Name: Chris Whalley

Title: Managing Director  
& Senior Counsel