

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)	
)	
RBC Capital Markets Corporation.,)	
)	No. 08-00614
)	
Respondent.)	
)	

CONSENT ORDER

WHEREAS, RBC Capital Markets Corporation (“RBC”), a subsidiary of Royal Bank of Canada, and formerly known as RBC Dain Rauscher Inc., is doing business as RBC Wealth Management. RBC is a broker-dealer registered in the State of Illinois; and

WHEREAS, coordinated investigations into RBC’s activities in connection with RBC’s marketing and sales of auction rate securities (“ARS”) have been conducted by a multi-state task force; and

WHEREAS, RBC has provided documentary evidence and other materials, and provided regulators with access to information relevant to their investigations; and

WHEREAS, RBC has advised regulators of its agreement to resolve the investigations relating to its marketing and sales of ARS to certain investors; and

WHEREAS, RBC agrees, among other things, to reimburse certain purchasers of ARS; and

WHEREAS, RBC elects to waive permanently any right to a hearing and appeal under the Illinois Securities Act Law of 1953 (the “Act”), with respect to this Consent Order (the “Order”);

NOW THEREFORE, the Illinois Securities Department, as administrator of the Act, hereby enters this Order.

I.

FINDINGS OF FACT

1. RBC admits the jurisdiction of the Illinois Securities Department (the “Department”), neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the Department.

2. RBC and its subsidiaries and affiliates including Ferris, Baker Watts, LLC and J.B Hanauer & Co. have engaged in the sales of ARS in the State of Illinois.

Auction Rate Securities

3. Auction rate securities are long-term bonds issued by municipalities, corporations and student loan companies, or perpetual equity instruments issued by closed end mutual funds, with variable interest rates that reset through a bidding process known as a Dutch auction.

4. At a Dutch auction, bidders generally state the number of auction rate securities they wish to purchase and the minimum interest rates they are willing to accept. Bids are ranked, from lowest to highest, according to the minimum interest rate each bidder is willing to accept. The lowest interest rate required to sell all of the auction rates securities available at auction, known as the “clearing rate,” becomes the rate paid to all holders of that particular security until the next auction. The process is then repeated, typically every 7, 28, or 35 days.

5. When there are not enough orders to purchase all of the auction rate securities being sold, a “failed” auction occurs. In the event of a failed auction, investors cannot sell their auction rate securities.

6. As an underwriter of auction rate securities, RBC also acted as the managing broker-dealer for certain issues of auction rate securities. When acting as sole manager, RBC was the only firm that could submit bids into the auction on behalf of its clients and/or other broker-dealers who wanted to buy and/or sell any auction rate securities. When acting as lead manager, RBC was the primary firm that could submit bids into the auction, while other broker dealers were able to submit orders on behalf of their clients as well. RBC received revenue in connection with auction rate securities, including an underwriting fee representing a percentage of total issuance and a fee for managing the auction.

**RBC Made Misrepresentations to Certain Investors in Connection With the Sale of
Auction Rate Securities**

7. RBC represented to many of its customers that auction rate securities were highly liquid, safe, cash alternative investments.

8. These representations were misleading as to certain investors. Auction rate securities were in fact different from cash and money market funds. As discussed above, the liquidity of an auction rate security relied on the successful operation of the Dutch auction process. In the event of a failed auction, investors cannot sell their auction rate securities and are stuck holding long-term investments, not cash-equivalent securities. As discussed below, starting in the fall of 2007, the auction rate securities market faced dislocation and an increased risk of failure.

9. Since the inception of the auction market, RBC submitted support bids, purchase orders for the entirety of an auction rate security issue for which it acted as the sole or lead broker. Support bids were RBC proprietary orders that would be filled, in whole or in part, if there was otherwise insufficient demand in an auction. When RBC purchased auction rate

securities through support bids, those auction rate securities were then owned by RBC and the holdings were recorded on RBC's balance sheet. For risk management purposes, RBC imposed limits on the amounts of auction rate securities it could hold in inventory.

10. Because many investors could not ascertain how much of an auction was filled through RBC proprietary trades, investors could not determine if auctions were clearing because of normal marketplace demand, or because RBC was making up for lack of demand through support bids. Generally, investors were also not aware that the auction rate securities market was dependent upon RBC's use of support bids for its operation. While RBC could track its own inventory as a measure of the supply and demand for auction rate securities, ordinary investors had no comparable ability to assess the operation of the market. There was no way for investors to monitor supply and demand in the market or to assess when broker-dealers might decide to stop supporting the market, which could cause its collapse.

By the Fall of 2007, The Auction Rate Securities Market Faced Dislocation

11. In August of 2007, the credit crisis and other deteriorating market conditions strained the auction rate securities market. Some institutional investors withdrew from the market, decreasing demand for auction rate securities.

12. The resulting market dislocation should have been evident to RBC. RBC support bids filled the increasing gap in demand for auction rate securities, sustaining the impression that the market was functioning. As a result, RBC's auction rate securities inventory grew significantly, requiring RBC to raise its risk management limits on its auction rate securities inventory several times.

13. From the fall of 2007 through February of 2008, demand for auction rate securities continued to erode and RBC's auction rate securities inventory reached unprecedented

levels. RBC was aware of the increasing strains on the auction rate securities market, increasingly questioned the viability of the auction rate securities market and planned for potential widespread market failure. RBC did not disclose these increasing risks of owning or purchasing auction rate securities to all of its customers.

14. In February of 2008, RBC and other firms stopped supporting most auctions. Without the benefit of support bids, much of the auction rate securities market collapsed, leaving investors who had been led to believe that these securities were cash alternative and liquid investments, appropriate for managing short-term cash needs, holding long-term or perpetual securities that could not be sold at par value.

II.

CONCLUSIONS OF LAW

1. The Illinois Securities Department has jurisdiction over this matter pursuant to Illinois Securities Law of 1953 (the "Act").

2. The above conduct subjects RBC to sanctions pursuant to Sections 8.E(1)(b) and 8.E(1)(e)(i) of the Act.

3. The Illinois Securities Department finds the following relief appropriate and in the public interest.

III.

ORDER

On the basis of the Findings of Fact, Conclusion of Law, and RBC's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the Illinois Securities Department and any action that the Illinois Securities Department could commence under applicable Illinois Law on behalf of Illinois and as it relates to RBC's marketing and sale of ARS to RBC's "Eligible Investors," as defined below.

2. This Order is entered into solely for the purpose of resolving the above referenced multi-state investigation, and is not intended to be used for any other purpose.

3. RBC shall cease and desist from violating the Act and will comply with the Act.

4. Within ten days of the date of the entry of this Consent Order, RBC shall pay the sum of \$1,400,139.82 to the Illinois Secretary of State, Investor Education Fund. This amount constitutes the State of Illinois's proportionate share of the state settlement amount of nine million, eight hundred thousand dollars (\$9,800,000).

5. RBC shall have taken certain measures with respect to current and former customers that purchased "Eligible ARS" from RBC, as defined below.

6. Eligible ARS. For purposes of this Order, "Eligible ARS" shall mean auction rate securities purchased from or through RBC prior to February 11, 2008 into an account maintained in the custody of RBC at the time of the purchase.

7. Eligible Investors. "Eligible Investors" shall mean:

- i. Natural persons (including their IRA accounts, testamentary trust and estate accounts, custodian UGMA and UTMA accounts and guardianship accounts) who directly purchased Eligible ARS;
- ii. Government entities and non-profits including charities, endowments or foundations with Internal Revenue Code Section 501 (c)(3) status with

\$25 million or less in assets in their accounts with RBC, net of margin loans, as determined by the customer's aggregate household position(s) as of October 8, 2008, that directly purchased Eligible ARS;

- iii. Small Businesses that directly purchased Eligible ARS at RBC. For purposes of this provision, "Small Businesses" shall mean RBC customers not otherwise covered by paragraph 7 (i) and (ii) above that had \$10 million or less in assets in their accounts with RBC, net of margin loans, as determined by the customer's aggregate household position(s) as of October 8, 2008, or, if the customer was not a customer of RBC as of October 8, 2008, as of the date that the customer terminated its customer relationship with RBC. Notwithstanding any other provision, "Small Businesses" does not include broker-dealers, banks acting as conduits for their customers, investment managers or other financial intermediaries, or customers that had total assets of greater than \$50 million as of October 8, 2008.

In no event shall RBC be required by this Order to purchase more than \$10 million of auction rate securities from any Small Business.

8. RBC shall have offered to buy back from Eligible Investors, at par plus accrued interest or dividends, if any, Eligible ARS that have failed at auction at least once between October 3, 2008 and June 30, 2009 ("Buyback Offer"). The Buyback Offer shall have remained open until June 30, 2009 ("Offer Period"). RBC may extend the Offer Period beyond this date.

9. RBC shall have undertaken its best efforts to identify and provide notice to Eligible Investors who invested in Eligible ARS that have failed at auction at least once October

3, 2008 and June 30, 2009 of the relevant terms of this Order, together with an explanation of what Eligible Investors must do to accept, in whole or in part, the Buyback Offer, by December 5, 2008. RBC also shall have undertaken its best efforts to identify and provide notice of the relevant terms of this Order to such Eligible Investors not previously identified.

10. To the extent that any Eligible Investor who invested in Eligible ARS that have failed at auction at least once between October 3, 2008 and June 30, 2009 had not responded to the Buyback Offer, RBC shall have undertaken best efforts to provide any such Eligible Investor a second written notice on or before 45 days before the end of the Offer Period informing them of the relevant terms of this Order, notifying such Eligible Investor of the impending expiration of the Offer Period, describing the state of the auction rate securities market at that time, and explaining the consequences of failing to sell their auction rate securities to RBC prior to the expiration of the Offer Period.

11. Eligible Investors may accept the Buyback Offer by notifying RBC at any time before 5:00 p.m., Eastern Standard Time, June 30, 2009, or such later date and time as RBC may extend the Offer Period. For Eligible Investors who accept the Buyback Offer within the Offer Period, RBC shall purchase the Eligible ARS on or before the next scheduled auction date that occurs after three (3) business days following RBC's receipt of notification.

12. No later than two days after execution of this Order, RBC shall have established: (a) a dedicated toll-free telephone assistance line, with appropriate staffing, to provide information and to respond to questions concerning the terms of this Order; and (b) a public Internet page on its corporate Website(s), with a prominent link to that page appearing on RBC's relevant homepage(s), to provide information concerning the terms of this Order and, via the telephone assistance line, together with an e-mail address or other reasonable means of

communication, to respond to questions concerning the terms of this Order. RBC shall have maintained the telephone assistance line and Internet page through June 30, 2009.

Relief for Eligible Investors Who Sold Below Par

13. By May 31, 2009, RBC shall have undertaken its best efforts to identify any Eligible Investor who sold Eligible ARS below par between February 11, 2008 and October 8, 2008 and paid such Eligible Investors the difference between par and the price at which the Eligible Investor sold the Eligible ARS. RBC will undertake its best efforts to identify and pay, as soon as reasonably possible, any Eligible Investors identified thereafter who sold Eligible ARS below par between February 11, 2008 and October 8, 2008.

Reimbursement for Related Loan Expenses

14. RBC shall have undertaken its best efforts to identify Eligible Investors who took out loans from RBC, between February 11, 2008 and May 31, 2009, that were secured by Eligible ARS that were not successfully auctioning at the time the loan was taken out from RBC, and paid interest associated with the auction rate securities based portion of those loans in excess of the total interest and dividends received on the auction rate securities during the duration of the loan. RBC shall have reimbursed such customers for such excess expense, plus reasonable interest thereon. Such reimbursement shall have occurred no later than May 31, 2009.

Consequential Damages Arbitration Process

15. RBC shall consent to participate in a Special Arbitration ("Arbitration") for the exclusive purpose of arbitrating any Eligible Investor's consequential damages claim arising from their inability to sell Eligible ARS. RBC shall notify Eligible Investors of the terms of the Arbitration process through the notice described in paragraph III (12).

16. The Arbitration shall be conducted by a single public arbitrator (as defined by section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007), under the auspices of FINRA. RBC shall pay all applicable forum and filing fees.

17. Any Eligible Investors who choose to pursue such claims in the Arbitration shall bear the burden of proving that they suffered consequential damages and that such damages were caused by their inability to access funds invested in Eligible ARS. In the Arbitration, RBC shall be able to defend itself against such claims; provided, however, that RBC shall not contest liability for the illiquidity of the underlying auction rate securities position or use as part of its defense any decision by an Eligible Investor not to borrow money from RBC.

18. Eligible Investors who elect to use the Special Arbitration process provided for herein shall not be eligible for punitive damages, or for any other type of damages other than consequential damages.

19. All customers, including but not limited to Eligible Investors who avail themselves of the relief provided pursuant to this Order, may pursue any remedies against RBC available under the law. However, Eligible Investors that elect to utilize the Special Arbitration process set forth above are limited to the remedies available in that process and may not bring or pursue a claim relating to Eligible ARS in another forum.

Municipal Issuers

20. By May 31, 2009, or five business days from the date of this Order, whichever is later, RBC shall refund to municipalities (which, for avoidance of doubt, do not include student loan securitization vehicles or closed-end mutual funds) underwriting fees the issuers paid to RBC for the refinancing or conversion of their auction rate securities that occurred after February

11, 2008, where RBC acted as underwriter for the primary offering of the auction rate securities between August 1, 2007 and February 11, 2008.

Institutional Investors

21. RBC shall endeavor to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not covered by Section I.A. above that purchased auction rate securities from RBC (“Institutional Investors”).

IV.

ADDITIONAL CONSIDERATIONS

1. RBC agrees that it shall not, collectively or individually, seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to paragraph III (4) above.

2. If payment is not made by RBC, or if RBC defaults in any of its obligations set forth in this Order, the Illinois Securities Department may vacate this Order, at its sole discretion, upon 10 days notice to RBC and without opportunity for administrative hearing.

3. This Order is not intended to indicate that RBC or any of its affiliates or current or former employees shall be subject to any disqualifications contained in the federal securities laws, the rules and regulations thereunder, the rules and regulations of self-regulatory organizations or various states’ securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Order is not intended to form the basis for any such disqualifications.

4. For any person or entity not a party to this Order, this Order does not limit or create any private rights or remedies against RBC including, without limitation, the use of any e-mails or other documents of RBC or of others for the marketing and sale of ARS to investors, limit or create liability of RBC, or limit or create defenses of RBC to any claims.

5. Nothing herein shall preclude the State of Illinois, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Illinois Securities Department and only to the extent set forth in paragraph III(1) above, (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against RBC in connection with the marketing and sale of ARS by RBC.

6. This Order shall not disqualify RBC or any of its affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable state law and this Order is not intended to form the basis for any disqualification.

7. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of the State of Illinois without regard to any choice of law principles.

8. RBC, through its execution of the Stipulation to Enter Consent Order, voluntarily waives its right to a hearing on this matter and to judicial review of the Consent Order under the Act and the Administrative Procedure Act [5 ILCS 100/10-5 et seq.] regarding contested cases pursuant to Section 25 thereof.

9. RBC consents to the entry of this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the Illinois Securities

Department or any member, officer, employee, agent, or representative of the Illinois Securities Department to induce RBC to consent to the entry of this Consent Order.

10. This Order shall be binding upon RBC and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Entered: This 12th day of June, 2012.

A handwritten signature in black ink that reads "Jesse White" followed by a stylized monogram or initials.

JESSE WHITE
Secretary of State
State of Illinois

Attorney for the Secretary of State:
James Gleffe
Office of the Secretary of State
Illinois Securities Department
69 West Washington Street, Suite 1220
Chicago, Illinois 60602
Telephone: (312) 793-3593