

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

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

TO THE RESPONDENT: RBC Capital Markets Corporation
c/o its attorney
Dorothy Heyl
Milbank Tweed Hadley McCloy LLP
Litigation
1 Chase Manhattan Plaza
New York, NY 10005

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] (“the Act”) and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State’s office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on July 31, 2012 or as soon thereafter as possible before George Berbas, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondents and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

1. The Illinois Securities Department has jurisdiction over this matter pursuant to the Act.

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

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investments, appropriate for managing short-term cash needs, holding long-term or perpetual securities that could not be sold at par value.

15 By virtue of the forgoing, RBC is subject to sanctions pursuant to Sections 8.E(1)(b) and 8.E(1)(e)(i) of the Act.

NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:
<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 12th day of June, 2012.



JESSE WHITE
Secretary of State
State of Illinois

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