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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on RBC Dominion Securities Inc.; Violations of Regulation 1300.2, 1300.1(o) and Policy 2

Person Disciplined A Hearing Panel appointed pursuant to the Investment Dealers Association of Canada (“IDA”) By-law 20 has imposed discipline penalties on RBC Dominion Securities Inc. (RBC), at all material times a Member firm of the IDA.

By-laws, Regulations, Policies Violated On December 16, 2004, in Toronto, Ontario, a Hearing Panel considered and accepted a Settlement Agreement negotiated between RBC and the IDA.

Pursuant to the Settlement Agreement, RBC admitted that:

During the period from January 1, 2002 to December 31, 2003, RBC failed to implement supervisory systems to address red flags and thereby to detect and prevent potentially harmful market timing practices. Specifically, RBC failed to implement supervisory systems to:

- a) adequately supervise the activities of its employees;
- b) conduct adequate due diligence into the activities of its employees and clients in these circumstances; and
- c) enforce, track and distribute written warnings from mutual fund companies; and RBC failed to enforce its internal policy related to cut-off times for the acceptance and entering of mutual fund orders and thereby was in violation of Association Regulations 1300.2 and 1300.1(o) and Policy 2.

Penalty Assessed The total monetary penalty assessed against RBC is as follows:

- i) a fine in the amount of \$8,462,651.04;
- ii) disgorgement in the amount of \$8,462,651.04; and

iii) costs in the amount of \$50,000.00.

In addition to the monetary penalty assessed, RBC is required to set up an internal committee to consider how to identify and address emerging issues in the securities industry. RBC will consult with the IDA in setting up the mandate of the committee.

Mitigating factors in assessing the penalty included the fact that: the majority of IDA Member Firms did not have policies or procedures in place to detect or prevent market timing; RBC directed that frequent trading in mutual funds by one of the market timing clients cease after the announcement of investigations in the United States and prior to any investigation into or inquiries of investment dealers in Canada with respect to market timing; RBC voluntarily disclosed to the IDA and to the OSC the existence of frequent trading by its clients; and RBC co-operated with the IDA during the course of the investigation.

Summary
of Facts

RBC acknowledged that from January 1, 2002 to December 31, 2003, it engaged in potentially harmful practices by executing market timing trades for two select retail clients. The majority of the market timing activities of one of the clients was conducted by means of written special arrangements to conduct market timing activities with 7 mutual fund companies, while the market timing activities of the other client were conducted in the absence of a special arrangement.

During this time period, RBC executed in excess of 4,160 trades, involving in excess of 56 funds within 11 fund companies; one of the funds was Royal Mutual Funds. At a later date, Royal Mutual Funds rejected a subsequent proposal by RBC for a special arrangement to conduct market timing activities.

RBC should have been aware that this practice was potentially harmful to long-term unitholders. RBC received at least 7 written warnings from 6 mutual fund companies regarding the frequent trading by the two retail clients. The written warnings put RBC on notice that market timing was potentially harmful to long-term unitholders and was not welcome or permitted by the funds. The written warnings went unheeded or ignored by RBC as it continued to execute the market timing activities of the clients.

For further details, please refer to the Settlement Agreement also posted on the IDA website.

Kenneth A. Nason
Association Secretary