



Contact:

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K. Kelly Margaritis
Enforcement Counsel
(416) 943-6909
kmargaritis@ida.ca

BULLETIN #3590
December 7, 2006

Discipline

Discipline Penalties Imposed on RBC Dominion Securities Inc.; Violations of By-law 17.1

Person Disciplined A Hearing Panel appointed pursuant to IDA By-law 20 has considered, reviewed and accepted a Settlement Agreement negotiated between IDA Enforcement Staff and RBC Dominion Securities Inc. (RBCDS). RBCDS was at all material times a Member of the IDA.

By-laws, Regulations, Policies Violated Following a Settlement Approval Hearing held on November 27, 2006, in Toronto, Ontario, a Hearing Panel accepted the Settlement Agreement. RBCDS admitted that for the months of June, July, September and October 2005, it failed to maintain its risk adjusted capital at a level greater than zero contrary to IDA By-Law 17.1.

Penalty Assessed The discipline penalty assessed as against RBCDS is:

- RBCDS will pay a fine in the amount of \$80,000

RBCDS will also pay the IDA's investigation and prosecution costs in the amount of \$10,000.

Summary of Facts **IDA By-Law 17.1 Requirements**

IDA By-Law 17.1 requires that a Member shall have and maintain at all times a risk adjusted capital (RAC) greater than zero. RAC is calculated in accordance with the Joint Regulatory Financial Questionnaire and Report (JRFQR) and designated as Form 1.

RBCDS is required to file with the IDA, monthly unaudited financial

reports (MFR) and an annual audited report, the JRFQR. Schedule 14 is prepared and submitted with the MFRs and JRFQR and measures RBCDS's exposure to each of its providers of capital as defined in that schedule.

Initial RBCDS Capital Deficiency

In the course of preparing and reviewing the October 31, 2005 year-end JRFQR, RBCDS's external auditors discovered that RBCDS erred in the preparation of its Schedule 14 submitted with the October 2005 MFR.

Excess collateral lodged with RBCDS's affiliate, Royal Trust Corporation of Canada was erroneously omitted from the Schedule 14 of the October 2005 MFR. This omission resulted in an overstated RAC for that month. In actuality RBCDS was in a state of capital deficiency in the amount of \$309,102,000.

In early December 2005, RBCDS advised the IDA's Financial Compliance Department and corrected the capital deficiency by entering into a subordinated loan agreement with its parent, Royal Bank of Canada. RBCDS also took measures to retrieve the excess collateral placed with its affiliate.

Further Capital Deficiencies

At the request of the IDA and upon RBCDS's internal audit, it was discovered that in addition to October 2005, RBCDS had been capital deficient for the months of June, July and September 2005.

The cause of these capital deficiencies was due to the incorrect preparation of Schedule 14 filed with each month's MFR. The resulting capital deficiencies were in the amount of: \$419,836,000 for June 2005, \$240,637,000 for July 2005 and \$320,895,000 for September 2005.

Upon further audit, it was determined that the reasons for the capital deficiencies in the preparation of Schedule 14 and its supporting documents were: (a) internal control weaknesses in the preparation of Schedule 14; and (b) internal lack of awareness of the requirements to be met in preparing Schedule 14 with particular regard to the IDA Member Regulation Notice 00-24.

Subsequent to these findings, RBCDS has taken corrective measures to ensure that the Schedule 14 errors do not re-occur. These measures include the implementation of internal control policies and procedures and education on the proper preparation of the aforementioned financial reports.

* See the Settlement Agreement and Reasons for Decision for a complete summary of facts, contraventions, penalty and reasons for

decision.

Kenneth A. Nason
Association Secretary