Ontario Securities Commission
Commission des valeurs mobilières de l'Ontario
22nd Floor, 20 Queen Street West, Toronto ON M5H 3S8
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IN THE MATTER OF ROYAL BANK OF CANADA

SETTLEMENT AGREEMENT

PART I - INTRODUCTION

1. The foreign exchange ("FX") markets are among the largest and most liquid markets in the world.[1] Their integrity is of central importance to the broader capital markets, including the Ontario capital markets. Over a period of at least three years, from 2011 to 2013 (the "Material Time"), Royal Bank of Canada ("RBC") failed to have sufficient supervision and controls in its FX trading business. Additionally, despite actions taken by RBC in November 2013 to impose a ban on multi-dealer chatrooms, as described below certain compliance monitoring issues continued into 2015. RBC did not sufficiently promote a culture of compliance in the FX trading business, which allowed FX traders to behave in a manner which put RBC's economic interests ahead of the interests of its customers, other market participants and the integrity of the capital markets. Failures of this nature put customers at risk of harm and undermine market integrity. RBC's failures in this regard were contrary to the public interest.

2. RBC's failure to have sufficient supervision and controls in its FX trading business allowed the inappropriate sharing of confidential customer information by RBC FX traders with FX traders at other competitor firms on a regular basis. Staff ("Staff") of the Ontario Securities Commission (the "Commission") have identified many hundreds of prohibited disclosures throughout 2011-2013.[2] The disclosures included detailed information about the customer

[1] The daily average volume turnover of the global FX market was over USD 5 trillion in April 2013 according to the Bank for International Settlements (BIS) Triennial Central Bank Survey 2013.

[2] Staff is not suggesting that in every prohibited disclosure, confidential customer information was disclosed. For example, the prohibited disclosure could have come from other institutions. However, in many other instances

orders such as trade sizes, timing, price, or stop-loss levels. In addition, RBC FX traders received confidential customer information of competitor firms on a regular basis which allowed them to gain a potential advantage in the market and over traders at other firms who did not have access to this information.[3]

3. RBC appeared to rely primarily on its front office[4] FX trading supervisors and their delegates, who were responsible for the first line of defence, to identify, assess and manage risks concerning the disclosure of confidential customer information. The front office failed to adequately discharge these responsibilities with regard to obvious risks associated with confidentiality and conflicts of interest. These failings occurred in circumstances where some of those responsible for managing front office matters were aware of and/or at times involved in the inappropriate disclosures described herein. They also occurred even though a Managing Director in RBC's FX trading business, RBC Managing Director A, was aware of confidentiality risks arising from the use of electronic chatrooms as early as April 2012.

4. Staff expect firms trading in FX to identify, assess and manage appropriately the risks of non-compliance with the *Securities Act*[5] (the "Act") and risks to the integrity of capital markets. Staff also expect firms to promote a culture of compliance where their personnel adhere to high ethical standards and ensure their behaviour does not put customers and the integrity of the capital markets at risk. Firms must be vigilant about detecting, thwarting and addressing

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confidential customer information was shared with other participants in the chatroom.

[3] Although Staff is not alleging specific violations as described below, or suggesting that there is evidence of such misconduct, it is helpful to describe generally the types of misconduct that gives rise to market integrity issues. For the purpose of providing guidance to market participants, types of misconduct could include:

Front Running – a prohibited practice where a broker enters into an equity trade with foreknowledge of a block transaction which will influence the price of the equity, resulting in an economic gain for the broker.

Trading Ahead – a market maker trading securities from his firm's own account instead of matching available bid and ask orders from market investors.

Proprietary Position – when a firm or bank invests for its own direct gain instead of trading on behalf of its clients.

Triggering Stops – attempts to trigger client stop loss orders involving inappropriate disclosure to traders at other firms concerning details of the size, direction and level of client stop loss orders. Traders would potentially profit from this activity because if successful, they would have sold the particular currency to its client pursuant to the stop loss order at a higher rate than it had bought that currency in the market.

[4] Front Office means RBC's FX Trading Desk.

[5] RSO 1990, c S.5, as amended.

potential market abuse activities, including behaviours where market participants use their position to gain an inappropriate advantage over other market participants.

(1) The Scope of FX Markets

5. The FX markets, in which participants can buy, sell, exchange and speculate on currencies, are among the largest financial markets in the world. Participants in the FX markets include banks, commercial companies, central banks, investment management firms and investment funds.

6. The institutional FX markets encompass a wide variety of transactions including transactions involving:

   a) the exchange of currencies between two parties at an agreed rate for settlement within two business days from the trade date;

   b) the exchange of currencies between two parties at an agreed rate for settlement on a future date (usually more than two business days from the trade date); and

   c) the option for one party to exchange currencies with another party at a fixed rate by or on a certain future date.

(2) Commission Jurisdiction in the FX Markets and Importance of Ethical Conduct

7. The Commission has jurisdiction over conduct in the FX markets for the purposes of s.127 of the Act. The markets for these transactions are interconnected as spot transactions are part of the basis upon which the value of FX forwards, swaps and options are determined. Benchmarks set in the spot FX market are used throughout the world to establish the relative values of different currencies and are of crucial importance in worldwide capital markets including over-the-counter derivative and commodity futures markets and establishing benchmarks for valuing assets and liabilities, such as those of investment funds.

8. Given the importance of the FX markets and their impact on the broader capital markets, it is vital to fostering confidence in the capital markets that market participants like RBC ensure honest and responsible conduct by its employees in the FX trading business. Implementing sufficient systems of control and supervision in the FX trading business are critical to monitoring trader conduct.

9. The Commission expects market participants to identify, assess and manage appropriately the risks that their lines of business pose, to ensure investor protection and market integrity. RBC understands that it is required to comply with this expectation in relation to the conduct of its employees in its FX Trading business.

10. The parties will jointly file a request that the Commission issue a Notice of Hearing (the "Notice of Hearing") to announce that it will hold a hearing (the "Settlement Hearing") to consider whether, pursuant to sections 127 and 127.1 of the Act, it is in the public interest for the Commission to make certain orders against RBC (the "Respondent").

PART II - JOINT SETTLEMENT RECOMMENDATION

11. Staff recommend settlement of the proceeding (the "Proceeding") against the Respondent commenced by the Notice of Hearing, in accordance with the terms and conditions set out in Part V of this settlement agreement (the "Settlement Agreement"). The Respondent consents to the making of an order (the "Order") substantially in the form attached as Schedule "A" to the Settlement Agreement based on the facts set out herein.

12. For the purposes of the Proceeding, and any other regulatory proceeding commenced by a Canadian securities regulatory authority, the Respondent agrees with the facts set out in Part III of the Settlement Agreement and the conclusion in paragraphs 64-65 of the Settlement Agreement.

PART III -AGREED FACTS

A. Background

(1) The Respondent

13. RBC is a Schedule 1 Bank under the *Bank Act* (Canada).[6] During the Material Time, and at present, RBC Capital Markets, a division of RBC, engaged in the purchase and sale of foreign currencies with customers and for itself ("FX Trading"), as defined below. RBC Capital Markets did not engage in trading on behalf of or with retail customers.

[6] SC 1991, c. 46.

14. In the Material Time, RBC's foreign exchange business was based primarily in Toronto and London (U.K.). For some of the Material Time, RBC also had trading or sales desks in New York, Hong Kong and Sydney. In the Material Time, RBC took positions in spot transactions, forwards, swaps and over-the-counter-options.

(2) "Market colour" information

15. During the Material Time, RBC primarily participated in the above FX transactions with customers and for RBC's own account ("proprietary trading"). Making profitable trades could be dependent on correctly assessing the direction of the market for various currency pairs.

16. The FX markets are primarily over-the-counter markets. Accordingly, a bank's profitability and ability to manage business risk in its FX Trading business was dependent on the quality of information its traders possessed. Individual traders sought to understand macroeconomic factors affecting currency rates. There was also an advantage to knowing "market flow" including which institutions were buying or selling which currencies in significant amounts and details of those trades.

17. Exchanging "market colour" including economic analysis relating to the movement of currencies was acceptable. However, during the Material Time, traders inappropriately sought and disclosed specific transaction details, to gain an advantage in the market, which led to the chatroom misconduct described below.

18. The frequent flow of information between traders of different firms using various communication platforms increases the risk of traders sharing confidential information. It is therefore particularly important that financial institutions exercise sufficient control and monitoring of such communications.

B. Chatroom Misconduct

(1) RBC FX traders participated in electronic chatrooms with traders from other firms

19. It was common practice during most of the Material Time for FX traders at firms to use electronic messaging services, such as chatrooms on Bloomberg, to communicate with FX traders at other firms. While the use of such communication tools is not in itself inappropriate,

the frequent and significant flow of information between traders at different firms increased the potential risk of traders engaging in improper activity, including, amongst other things, the sharing of confidential customer information.

20. RBC FX traders were involved in several large chatrooms involving FX traders from other international banks ("Multi-Dealer Chatrooms") in addition to bi-lateral chats. Staff have identified many hundreds of prohibited disclosures throughout 2011-2013.

21. These Multi-Dealer Chatrooms had suggestive names, including "Rule 76" or "Rule #76", which was a reference to "No excuses; Play like a champion" from the movie Wedding Crashers, the "Anthill Mob" and the "Cognoscenti".

22. Membership in some of these chatrooms was on an invite only basis and based on members willingness to contribute to the chat. For example, one RBC FX trader based in Toronto, RBC Trader A, was a participant in a chatroom called the "Rule 76" chatroom. Some of the FX traders from the Rule 76 Chatroom created a smaller chatroom and excluded other members from the Rule 76 Chatroom that were not contributing or were being "idle."

23. Participation in chatrooms with traders from other firms had a profit motive. Traders sought an advantage to make more profitable trades on behalf of their bank, which in turn would benefit the trader through performance incentives. For example, in response to another trader's comment "*mate the only reason you're up this year is cause of my info*", an RBC trader, RBC Trader B, stated: *"i agree ur tips hav been hot this year*."

(2) RBC's policies prohibited the disclosure of confidential information

24. The disclosure of confidential customer information to other traders and third parties was contrary to RBC's policies and accepted industry standards.

25. The RBC policies which applied to FX traders during the Material Time emphasized high standards of ethics and integrity. RBC's Code of Conduct (dated December 9, 2011) stated:

> HRE 3 – Our Code of Conduct (Publication Date: December 9, 2011):
>
> "The very essence of the financial services industry demands that we consistently maintain the highest possible standards of honest and ethical behaviour. In keeping with this

objective, RBC has eight Guiding Principles that express these high standards and they form the foundation for Our Code of Conduct".

26. Guiding Principle Two of the Code of Conduct dealt with confidentiality and stated that client privacy was a fundamental principle in the financial services industry.

27. During the Material Time, customer transaction details were defined as confidential information. RBC's Capital Markets Chinese Wall, Confidential and Proprietary Information Policy (Revised August 2012) provided as follows:

> "**Confidential Information**" means **non-public information** . . . provided by internal or external sources (such as a client, prospective client or other third party) with the expectation that the information will be kept confidential and will be used solely for the business purposes for which it was provided . . . .While there are exceptions, information obtained in the course of a client assignment, including, but not limited to, **information regarding client and counterparty, transaction details and account numbers should generally be considered confidential. . . .** [Emphasis added]

(3) Chatroom misconduct in violation of RBC's policies

28. During the Material Time, certain RBC FX traders regularly provided confidential information to, and received confidential information from, the traders of other financial institutions, including in respect of the existence of customer stop loss orders. This sharing of confidential information occurred in Multi-Dealer Chatrooms and in bi-lateral chats.

29. All RBC traders understood that the sharing of specific customer names was unequivocally prohibited. While traders were encouraged to seek and use "market flow" and "market colour" in the course of their trading, there was no clear indication as to what, aside from customer names, was impermissible and what was permitted. Consequently, confidential information including specific transaction details was disclosed by RBC traders to individuals at other institutions. The disclosure of such information in some instances was a breach of confidentiality and created the potential risk that this information could be used for the trader's benefit and to the customer's detriment.

30. The following is an RBC trader receiving information about a customer stop loss order from a trader at another firm in a Multi-Dealer Chatroom:

> Bank A Trader: I have decent stop below 20 eur fyi

Bank B Trader: ta
RBC Trader B: a weak one or one that been there a while
Bank A Trader: very fresh
RBC Trader B: just sitting there ready to be popped
…
RBC Trader B: ill let my 24 bid ride a few pips then[7]

31. The sharing of confidential information was a two-way street. For example, on January 10, 2013, RBC Trader B inappropriately disclosed information about a "huge" option that was expiring the next day:

RBC Trader B: between u s
RBC Trader B: there is huge 13240 tom exp
Bank A Salesperson: ok
Bank A Trader: ta

32. RBC Trader B explained that he said "between us" because he didn't want the information to be "betrayed" into other chatrooms.

33. Despite the request from RBC Trader B to keep the information "between us", the Bank A Salesperson shared the information he received about the "huge" option expiring with customers the following morning.

34. This illustrates that once information is shared, the risk created is impossible to control as it can be further disclosed to a potentially unlimited chain of recipients.

(4) Sharing of information with other banks was permitted by RBC FX Supervisors

35. The exchange of information by FX traders was permitted by RBC supervisors and understood by FX traders to be part of their job. However, RBC failed to sufficiently control what information traders were exchanging.

[7] In the chat directly above, RBC Trader B has received confidential information about Bank A Trader's stop and RBC Trader B appears to be using this information to inform his market strategy to make a profit. This behaviour could undermine market integrity because RBC Trader B appears to be using confidential information to gain an advantage over the rest of the market.

36. RBC Trader B stated that, around the time Multi-Dealer Chatrooms were being shutdown at RBC, he was encouraged to instead communicate on other platforms. While other platforms were not specifically mentioned, RBC Trader B said a supervisor told him "*something along the lines of, I don't care…where you chat, you're just not going to have those chats on Bloomberg.*" This evidence indicates that RBC Trader B was encouraged to continue this chatroom behaviour, despite the fact that chatrooms were being shutdown.

(5) Disclosures of Confidential Customer Information Posed Risks

37. RBC's disclosures of confidential customer information put the customers at risk of economic loss. The behaviour also undermined market integrity.

C. RBC did not have a sufficient system of controls and supervision in place in relation to its FX Trading business during the Material Time

38. During the Material Time, RBC did not have a sufficient system of controls and supervision over its global FX Trading business concerning the disclosure of confidential customer information.

39. RBC operated a "three lines of defence" model to manage risk of FX Trading during the Material Time. RBC's front office (the first line of defence) had primary responsibility for identification of conduct risks and they were expected to escalate concerns to Compliance or a supervisor. In addition, the front office and Compliance functions participated in risk assessments, which could also result in escalation of issues for further review by Compliance or Risk (the second line of defence) or Internal Audit (the third line of defence).

40. During the Material Time, there were deficiencies in the first and second lines of defence as outlined below.

(1) Compliance bulletin prepared by Capital Markets Canada was not properly distributed

41. In 2011, Capital Markets Compliance Canada appeared to recognize the risk that the FX Trading business posed to customers and RBC from a regulatory perspective (insider dealing/market abuse) and market integrity. On October 18, 2011, a "Compliance Bulletin - Foreign Exchange Markets" was prepared by RBC's Capital Markets Compliance Canada that

alerted employees to these risks and required, among other things, compliance with the ACI Model Code. The ACI Model Code provided specific guidance on the prohibited nature of disclosing confidential information.

42. However, this appears to have been a Canada-only initiative and it does not appear that the message was effectively implemented. Consequently, the global head of the business was not advised of the bulletin or provided with a copy and the ACI Model Code was not reflected in policies and procedures. While it was distributed to at least one trader, he explained that it was not discussed, and behaviour did not change in a perceptible way. He did not read the ACI Model Code and could not recall any specific training on it. He agreed that he was listed as an attendee at a December 4, 2013 training session which discussed the ACI Model Code but found it "kind of interesting that this training [was] happening two years after we were initially passed the ACI model code."

(2) RBC did not provide sufficient guidance to its FX traders about the prohibition on sharing of confidential information

43. RBC's policies and procedures during the Material Time did not provide sufficient guidance to FX traders. While, as noted above, the policies prohibited disclosing confidential customer information, they were high-level in nature and applied to RBC or RBC Capital Markets as a whole. The policies did not specifically address the use of chatrooms or the practical issues FX traders faced daily. For instance, the policies did not provide sufficient guidance on the differences between sharing confidential information, which was prohibited, and sharing acceptable "market colour".

(3) RBC's FX front office did not sufficiently identify, assess and manage risks concerning the disclosure of confidential customer information

44. During the Material Time, RBC appeared to rely primarily on its front office FX Trading supervisors and their delegates, who were responsible for the first line of defence, to identify, assess and manage risks concerning the disclosure of confidential customer information.

45. The front office did not effectively do so. FX traders were not provided with sufficient guidance on what was or was not acceptable in chatrooms. The front office did not effectively supervise chatroom discussions. Even heads of regional desks, who were supposed to be

supervising conduct, participated in the disclosure of confidential customer information in chatrooms.

(4) RBC's Second Line of Defence Failed to Sufficiently Address the Risk posed by the Chatrooms

46. Compliance, the second line of defence, failed to sufficiently address the risk posed by the chatrooms. For example, while correctly identifying the risk in October 2011, it failed to ensure the guidance was distributed and to coordinate training in conjunction with other departments.

47. For much of the Material Time, Compliance's role in monitoring the FX Trading business was primarily focused on developing FX trade surveillance and performing electronic communications surveillance—the limitations of which are discussed below.

(5) RBC did not formally prohibit Multi-Dealer Chatrooms until March 2014 (with an FX-specific chat ban being implemented in October 2013) despite being aware of issues in Chatrooms as early as April 2012

48. Although there was widespread media and regulatory attention since the middle of 2012 concerning the risks associated with the use of chatrooms, RBC did not formally prohibit multi-dealer chats until March 2014 (with a FX-specific chat ban being implemented in October/November 2013) despite:

a) RBC Managing Director A being aware of Bloomberg-related FX issues as early as April 2012; and

b) FX traders and heads of desk discussing potential chatroom shutdowns as early as August 2012.

49. In a chat dated April 24, 2012, RBC Managing Director A advised a head of desk, RBC Trader C:

> RBC Managing Director A: hihi
>
> RBC Trader C: Hi mate
>
> RBC Managing Director A: Lets be careful about chats discussing fixing orders that we have with other banks BOE made special mention of these at our meeting yesterday

RBC Trader C: understood

RBC Trader C: To be honest we see so few I think we should be out of the focus by will make good note

RBC Managing Director A: well less and less clients wanting to execute for that time as they feel its manipulated

RBC Managing Director A: where's there's smoke there['s] fire

50. While the subject of chatrooms was specifically discussed at an FX operating committee meeting in September 2012, RBC's FX front office decided against banning or restricting chatrooms. Some banks, however, did prohibit Multi-Dealer Chatrooms. These prohibitions were discussed in chatrooms involving RBC FX employees in August 2012 and April 2013.

51. RBC Managing Director A eventually banned chatrooms in the FX business globally, but this was only in October/November 2013—more than a year after specifically contemplating and rejecting any action on chatrooms.

(6) RBC Compliance's "electronic communications" review was insufficient to identify disclosure of confidential customer information

52. As a regular monitoring, supervision or control practice, Compliance relied in part on an electronic communications "e-comms" (including email and other messaging platforms) review based on lexicon "hotword" lists and random sampling. Issues with the review included the following:

a) It was only in December 2013 that Compliance began including FX traders' communications in the e-comms review. Before then, there were no compliance systems in place to identify or prevent inappropriate inter-bank or internal communications by the spot FX desk.

b) The RBC Capital Markets (Canada) Guide to Electronic Communication Review dated May 2013, does not identify FX traders as being subject to e-comms review.

c) In Canada, after November 2013, the lexicon expanded but the sample size for electronic testing did not. Moreover, there was no requirement that the sample size include a specific proportion of external, as opposed to internal, emails.

d) The Canadian lexicon was limited to English and French. As a result, the lexicon was not designed to catch misconduct in, for example, Spanish language chatrooms. A number of RBC employees participated in a chatroom called "Latam mafia" that exchanged information in Spanish. It also meant that Compliance did not have adequate information about the types of chatrooms that FX traders were participating in unless they were captured by the enterprise sampling component of the e-comms review.

e) Differing lexicons globally may have resulted in supervision failures. For example, a March 2014 chat was flagged by Compliance in one jurisdiction, but not Canada Compliance, potentially because of the differing lexicon.

f) Problematic chats identified by Staff do not appear to have been caught by either the lexicon or random sampling.

g) At least one of the e-comms reviewers had no FX experience when he started working with the FX business. His reviews were initially based on his knowledge of fixed income trading.

h) A February 2015 Review noted that certain messaging applications used during the Material Time by FX sales and trading staff (e.g. Reuters Dealing) were not being captured and thus not subject to Compliance review. The report suggested that it would take up to eight months to resolve the situation.

53. A market participant that identifies a problem in respect of its systems of internal control or any other inappropriate activity that has affected (or may affect) investors or compromises the integrity of Ontario's capital markets, should promptly and fully self-report. RBC failed to establish a sufficient compliance system to monitor its FX Trading business. As such, the lack of sufficient controls meant that misconduct went undetected, and RBC was unable to remediate, self-report and escalate concerns.

(7) RBC Managing Director A banned multi-dealer chats in FX business more than a year after first considering bans

54. In October/November 2013, RBC Managing Director A banned multi-dealer chats in the FX business. This chat ban went undocumented, and RBC traders understood the ban to apply to

only permanent, not instant chats. In March 2014, an RBC Capital Markets-wide chat ban was instituted. According to a Frequently Asked Questions list that was prepared by Compliance, "the policy does not distinguish between permanent and ad-hoc chatrooms or conversations".

55. From an operational perspective, the March 2014 ban was insufficient. In chats, various traders discussed alternative means of communication, such as other chatrooms, WhatsApp and the telephone, although Staff have no evidence of traders participating in similar misconduct in a different forum following the chat ban. RBC Canada did not appropriately address this risk. Instead, it reduced the number of e-comms reviewed from 100 to 80 between August 2014 and January 2015.

(8) RBC provided insufficient training and guidance on how RBC's general policies on confidentiality should be applied to the FX Trading business

56. There was insufficient training and guidance during the Material Time on how RBC's general policies on confidentiality should be applied specifically to the FX Trading business. For instance, the Compliance refresher training for FX traders in 2011 and 2013 simply stated: "Don't inappropriately distribute any confidential or proprietary information". It did not refer to chatrooms or what could or could not be discussed in them. RBC Trader A and RBC Trader B told Staff that they could not recollect receiving training on the treatment of confidential information.

57. The general, high-level training that was provided did not provide sufficient guidance to FX traders about FX compliance issues, including how the Code of Conduct applies to their trading behaviour.

58. In chats, FX traders expressed concerns about the sufficiency of guidance from Compliance. Perhaps because of the lack of guidance from both the front office and Compliance, it appears that traders relied on those around them. However, some of those individuals were engaged in problematic conduct themselves.

59. The insufficient training and guidance about the application of general policies to the FX Trading business increased the risk that confidential customer information could be disclosed.

D. OTHER FACTORS

60. Staff have considered the above and certain other factors in arriving at the voluntary payment amount. The methodology is set out in Schedule "C" to the Settlement Agreement entitled Calculation of Voluntary Payment. It includes the nature and seriousness of the conduct.

61. There is no evidence or indication that RBC was involved in any plan or collusion to attempt to manipulate the WM/Reuters benchmark or any other benchmark rate.

62. Staff would like to acknowledge RBC's cooperation in resolving this matter.

(1) Continuing Compliance Remediation

63. Since 2013, RBC has enhanced its system of supervision and controls over its FX Trading business, including by:

a) Prohibiting the use of Multi-Dealer Chatrooms by 2014, shutting down all active multi-dealer chatrooms shortly thereafter, and instituting a technical fix to disable traders' access to multi-dealer Bloomberg chatrooms by early 2016;

b) Continuously enhancing its electronic communication surveillance, including by expanding the lexicon lists and implementing a harmonized global lexicon list;

c) Enhancing first line of defence supervision and controls, including by introducing trade desk supervision on all cancelled, amended, held and late trades, review of fair pricing, and review of P&L by trader by early 2016;

d) Developing and implementing an FX Global Policy in 2015 which, among other things, provides guidance on the differences between sharing acceptable "market colour" and sharing confidential information;

e) Conducting FX-specific market conduct training, including global training in 2013, and global training on the FX Global Policy beginning in 2015;

f) Assisting in the development of the FX Global Code[8] and adopting the Code; and

g) Introducing enhanced controls and monitoring over the use of mobile devices.

PART IV - CONDUCT CONTRARY TO THE PUBLIC INTEREST

64. RBC acknowledges and admits that, during the Material Time, it engaged in conduct contrary to the public interest by:

(a) sharing confidential customer information with FX traders at other firms in electronic chatrooms; and

(b) failing to establish and maintain an adequate compliance system that addressed inappropriate information sharing and thus provided reasonable assurance that RBC:

(i) complied with securities legislation, and in particular the market manipulation and fraud prohibitions in the Act; and

(ii) did not undermine confidence in the integrity of the FX markets.

65. As a result, RBC failed to meet the high standards of conduct expected of a market participant, which potentially put its customers at risk.

PART V - TERMS OF SETTLEMENT

66. The Respondent agrees to the terms of settlement set forth below.

67. The Respondent consents to the Order substantially in the form attached as Schedule "A", pursuant to which it is ordered that:

a) the Settlement Agreement be approved;

b) RBC's Internal Audit Group will conduct an internal audit of RBC's compliance with the FX Global Code, and the practices and procedures relating thereto, including in relation to

[8] The FX Global Code is a set of global principles of good practice in the FX markets that has been developed to provide a common set of guidelines to promote the integrity and effective functioning of the FX markets.

the disclosure of confidential customer information in its global FX business, and institute any necessary changes in accordance with the process set forth in Schedule "B" to the Order, pursuant to paragraph 4 of subsection 127(1) of the Act;

c) the voluntary payment of $13,552,000 by the Respondent is designated for allocation or use by the Commission in accordance with paragraph 3.4(2)(b)(i) or (ii) of the Act; and

d) the Respondent pay costs in the amount of $800,000, by wire transfer to the Commission before the commencement of the Settlement hearing pursuant to section 127.1 of the Act.

68. The Respondent has given an undertaking (the "Undertaking") to the Commission in the form attached as Schedule "A" to the Order to:

make a voluntary payment to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act, in the amount of $13,552,000, by wire transfer to the Commission before the order approving the Settlement Agreement is made, which payment is conditional upon approval of the Settlement Agreement by the Commission;

69. The Respondent acknowledges that the Settlement Agreement and the Order (except for the payment described in paragraph 67.c)) may form the basis for orders of parallel effect in other jurisdictions in Canada. The securities laws of some other Canadian jurisdictions allow orders made in this matter to take effect in those other jurisdictions automatically, without further notice to the Respondent.

PART VI - FURTHER PROCEEDINGS

70. If the Commission approves the Settlement Agreement, Staff will not commence or continue any proceeding against the Respondent under Ontario securities law based on the misconduct described in Part III of the Settlement Agreement, unless the Respondent fails to comply with any term in the Settlement Agreement or the Undertaking, in which case Staff may bring proceedings under Ontario securities law against the Respondent that may be based on, among other things, the facts set out in Part III of the Settlement Agreement as well as the breach of the Settlement Agreement or the Undertaking.

71. The Respondent acknowledges that, if the Commission approves the Settlement Agreement and the Respondent fails to comply with any term in it or the Undertaking, Staff or the Commission are entitled to bring any proceedings necessary to, among other things, recover the amounts set out in sub-paragraphs 67(c) and 67(d), above.

72. The Respondent waives any defences to a proceeding referenced in paragraphs 70-71 that are based on the limitation period in the Act, provided that no such proceeding shall be commenced later than six years from the date of the occurrence of the last failure to comply with the Settlement Agreement or the Undertaking.

PART VII -PROCEDURE FOR APPROVAL OF SETTLEMENT

73. The parties will seek approval of the Settlement Agreement at the Settlement Hearing before the Commission, which shall be held on a date determined by the Secretary to the Commission in accordance with the Settlement Agreement and the Commission's *Rules of Procedure*, dated July 23, 2019.

74. The Respondent may have a representative attend the Settlement Hearing in person or have counsel attend the Settlement Hearing on its behalf.

75. The parties confirm that the Settlement Agreement sets forth all of the agreed facts that will be submitted at the Settlement Hearing, unless the parties agree that additional facts should be submitted at the Settlement Hearing.

76. If the Commission approves the Settlement Agreement:

    a) the Respondent irrevocably waives all rights to a full hearing, judicial review or appeal of this matter under the Act; and

    b) neither party will make any public statement that is inconsistent with the Settlement Agreement or with any additional agreed facts submitted at the Settlement Hearing.

77. Whether or not the Commission approves the Settlement Agreement, the Respondent will not use, in any proceeding, the Settlement Agreement or the negotiation or process of approval of

the Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness or any other remedies or challenges that may be available.

PART VIII - DISCLOSURE OF SETTLEMENT AGREEMENT

78. If the Commission does not make the Order:

a) the Settlement Agreement and all discussions and negotiations between Staff and the Respondent before the Settlement Hearing will be without prejudice to Staff and the Respondent; and

b) Staff and the Respondent will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing on the merits of the allegations contained in the Statement of Allegations in respect of the Proceeding. Any such proceedings, remedies and challenges will not be affected by the Settlement Agreement, or by any discussions or negotiations relating to the Settlement Agreement.

79. The parties will keep the terms of the Settlement Agreement confidential until the Settlement Hearing, unless they agree in writing not to do so or unless otherwise required by law.

PART IX - EXECUTION OF SETTLEMENT AGREEMENT

80. The Settlement Agreement may be signed in one or more counterparts which together constitute a binding agreement.

81. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

DATED at Toronto, Ontario this 23rd day of August, 2019.

"*Sandra Dye*"

Witness: Sandra Dye

ROYAL BANK OF CANADA

"*Jonathan Hunter"*

By: _____

Name: **Jonathan Hunter**
Title: Global Head, Fixed Income & Currencies

DATED at Toronto, Ontario, this 23rd day of August, 2019.

ONTARIO SECURITIES COMMISSION

By: "*Jeff Kehoe*"

Name: Jeff Kehoe
Title: Director, Enforcement Branch

SCHEDULE "A"

FORM OF ORDER

Ontario Securities Commission | Commission des valeurs mobilières de l'Ontario | 22nd Floor, 20 Queen Street West, Toronto ON M5H 3S8 | 22e étage, 20, rue queen ouest, Toronto ON M5H 3S8

IN THE MATTER OF
[Company and/or Individual Name(s)]
File No. [#]
(Names of panelists comprising the panel)

(Day and date order made)

ORDER
(Sections 127 and 127.1)

WHEREAS:

1. on **[date]**, the Ontario Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice of Hearing") in relation to the Statement of Allegations filed by Staff of the Commission ("Staff") on **[date]** with respect to Royal Bank of Canada ("RBC" or the "Respondent");

2. the Notice of Hearing gave notice that on **[date]**, the Commission would hold a hearing to consider whether it is in the public interest to approve a settlement agreement between the Respondent and Staff dated **[date]** (the "Settlement Agreement");

3. pursuant to the Settlement Agreement, the Respondent has given an undertaking (the "Undertaking") to the Commission, in the form attached as Schedule "A" to this Order, which includes an undertaking to make a voluntary payment to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act, in the amount of $13,552,000, by wire transfer to the Commission before the order approving the Settlement Agreement is made, which payment is conditional upon approval of the Settlement Agreement by the Commission.

4. the Respondent acknowledges that the Settlement Agreement and this Order may form the basis for orders of parallel effect in other jurisdictions in Canada;

5. the Commission has reviewed the Settlement Agreement, the Undertaking, the Notice of Hearing and the Statement of Allegations and heard submissions from counsel for the Respondent and Staff; and

6. the Commission is of the opinion that it is in the public interest to make this Order.

ON READING [give particulars of the material filed] and on hearing the submissions of the representative(s) for [name parties], [add as applicable: (name parties) appearing in person; no one appearing for (name parties), although properly served as appears from (indicate proof of service)], [and considering (indicate any consents or undertakings if provided)];

IT IS ORDERED THAT:

(a) the Settlement Agreement be approved;

(b) RBC's Internal Audit Group will conduct an internal audit of RBC's compliance with the FX Global Code, and the practices and procedures relating thereto, including in relation to the disclosure of confidential customer information in its global FX business, and institute any necessary changes in accordance with the process set forth in Schedule "B" to the Order, pursuant to paragraph 4 of subsection 127(1) of the Act;

(c) the Respondent pay costs in the amount of $800,000, pursuant to section 127.1 of the Act;

_____

[Commissioner]

_____ _____

[Commissioner] [Commissioner]

SCHEDULE "A" TO THE ORDER

Ontario Securities Commission
Commission des valeurs mobilières de l'Ontario
22nd Floor, 20 Queen Street West, Toronto ON M5H 3S8
22e étage, 20, rue queen ouest, Toronto ON M5H 3S8

IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED

- and -

IN THE MATTER OF ROYAL BANK OF CANADA

UNDERTAKING TO THE ONTARIO SECURITIES COMMISSION

1. This Undertaking is given in connection with the settlement agreement dated **[date]** (the "Settlement Agreement") between Royal Bank of Canada (the "Respondent") and Staff ("Staff") of the Commission. All terms shall have the same meanings in this Undertaking as in the Settlement Agreement.

2. The Respondent undertakes to the Commission to:

> make a voluntary payment to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act, in the amount of $13,552,000, by wire transfer to the Commission before the order approving the Settlement Agreement is made, which payment is conditional upon approval of the Settlement Agreement by the Commission.

DATED at Toronto, Ontario this 23rd day of August, 2019.

"*Sandra Dye*"

Witness: Sandra Dye

ROYAL BANK OF CANADA

"*Jonathan Hunter*"

By: _____

Name: **Jonathan Hunter**
Title: Global Head, Fixed Income & Currencies

Schedule "B" – REVIEW OF PRACTICES AND PROCEDURES

1. Royal Bank of Canada ("RBC") will conduct an internal audit of its compliance framework with the FX Global Code, and the practices and procedures relating thereto, including in relation to the disclosure of confidential customer information in its global FX business (the "FX Business Compliance System") covering the period from February 1, 2020 to July 31, 2020 to ensure that:

(a) the FX Business Compliance System fully complies with the FX Global Code;

(b) In relation to its FX business, RBC's culture, governance arrangements, policies, procedures, systems and controls are of a sufficiently high standard to effectively manage the following risks ('the Specified Risks'):

1. Attempts to manipulate (or control) fixes (including 'building');
2. Application of 'hard mark-ups' to clients;
3. Coordinated trading (e.g. instructions when to/not to trade);
4. Performing 'partial fills' of client orders;
5. Use of layering and/or wash trades;
6. Triggering of client stop loss orders;
7. Inappropriately trading ahead of client orders (e.g. front running);
8. Inappropriately sharing or receiving confidential information with traders at other firms (including (i) the use of codes to identify clients, and (ii) the sharing of spreads);
9. Inappropriately assigning 'transaction window' rates to client orders (e.g. assigning the client the worst rate available);
10. Inappropriate use of personal trading accounts (including spread betting); and

11. Other types of unacceptable behaviour, trader misconduct, breaches of client confidentiality and failure to manage conflicts of interest.

(i) The internal audit will include, but not be limited to:

1. front office culture;

2. the adequacy of the first line of defence (i.e. the risk and control environment relating to day to day operations, including monitoring of traders' activity and conduct);

3. the adequacy of compliance and risk in the first and second lines of defence;

4. the adequacy of the challenge of risk management by the second line of defence;

5. the role and appropriateness of financial incentives and performance management;

6. the adequacy of training for the specific relevant business area;

7. the adequacy of communications monitoring and surveillance;

8. the adequacy of the management of conflicts of interest; and

9. benchmarks, whether trading, judgement or submissions based, which fall within any of these business areas.

(c) the FX Business Compliance System is designed to prevent and identify non-compliance at an early stage, to allow for correction of the conduct in a timely manner, and to escalate breaches for appropriate action; and

(d) all applicable RBC staff are trained on RBC's policies regarding the disclosure of confidential information including the specifics of permitted and non-permitted communications with third parties.

2. RBC shall deliver the internal audit report (the "Report") to a Manager in the Derivatives branch of the Commission (the "OSC Manager") by December 1, 2020;

3. Within 6 months of the delivery of the Report to the OSC Manager, RBC shall have fully implemented any recommendations in the Report, and the Chief Compliance Officer of RBC (the "CCO") shall provide written confirmation to the OSC Manager that there has been full implementation of the recommendations in the Report (the "Confirmation Letter");

4. Within 12 months of the provision of the Confirmation Letter to the OSC Manager, the CCO shall provide a letter (the "Attestation Letter") to the OSC Manager, stating that the recommendations of internal audit in the Report are being appropriately followed, administered and enforced by RBC.

5. RBC shall immediately submit to Staff a direction giving consent for unrestricted access and permission for Staff and the RBC internal audit team to communicate with one another regarding the internal audit and RBC's progress with respect to the implementation of the recommendations in the Report.

Schedule "C"

CALCULATION OF VOLUNTARY PAYMENT

1. In cases where there is no alleged violation of Ontario securities law but there is still significant conduct contrary to the public interest, Staff and respondents typically agree to a voluntary payment in order to reflect adequate specific and general deterrence.

2. Specific and general deterrence are aimed at promoting high standards of regulatory conduct by deterring participants in the markets from committing further contraventions of securities law or the public interest, helping to deter other participants in the markets from committing such contraventions and demonstrating generally the benefits of compliant behaviour.

3. Such a payment is consistent with the prospective and preventative focus of the Commission's public interest powers.

4. In this case, deterrence means that a significant financial penalty against RBC is appropriate.

5. Staff have approached the calculation of the voluntary payment to account for certain principles, which are described below together with Staff's analysis.

Four-Step Methodology

6. Staff have considered a four-step methodology to the calculation, which takes into account relevant principles.

Step 1: Disgorgement

7. Given there is no allegation of a breach of Ontario securities law, Staff have not considered disgorgement. In addition, it is not practicable to quantify any financial benefit that RBC may have derived directly from its failings.

Step 2: The seriousness of the conduct

8. RBC's conduct was serious. The failings in RBC's procedures, systems and controls in its FX Trading business occurred over a period of more than three years prior to October 2013. This gave rise to a risk that RBC's traders would engage in the behaviours described in the Settlement Agreement, including inappropriate disclosures of confidential information. RBC's conduct undermines confidence in Ontario's capital markets.

9. RBC is one of the biggest, most sophisticated and well-resourced financial services institutions in Canada. Serious failings committed by such a firm warrant a significant voluntary payment.

10. At Step 2 Staff have considered a figure that reflects the seriousness of the conduct. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its conduct may have caused, that figure will be based on a percentage of the firm's revenue from the relevant products or business area. Staff have therefore determined a figure based on a percentage of RBC's relevant revenue. Staff consider that the relevant revenue for the period from 2011 to 2013 is $124,000,000.

11. In deciding on the percentage of the relevant revenue that forms the basis of the Step 2 figure, Staff have considered the seriousness of the conduct based on a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach; the more serious the breach, the higher the percentage. Staff consider 10% to be an appropriate level to reflect the seriousness of RBC's conduct based on the following factors:

    Impact of the conduct

    (1) The conduct potentially had an adverse effect on the confidence in integrity of the FX and broader capital markets due to the importance of the FX markets.

Nature of the failure

(2) There were serious and systemic weaknesses in RBC's procedures, systems and controls in its FX Trading business over a number of years;

(3) RBC failed to adequately address obvious risks in that business in relation to conflicts of interest and confidentiality. These risks were clearly identified in industry codes published before and during the Material Time and as internally recognized at RBC as early as October 2011.

(4) RBC's failings allowed improper trader behaviours to occur in its FX Trading business as described in the Settlement Agreement.

(5) There was a potential detriment to customers and to other market participants arising from misconduct in the FX market;

(6) Certain of those responsible for managing front office matters at RBC were aware of and/or at times involved in behaviours described in the Settlement Agreement;

12. Taking all of these factors into account, Staff have calculated Step 2 at $12,400,000.

Step 3: Adjustment for deterrence

13. In Step 3, Staff have considered whether the figure arrived at after Step 2 is insufficient to deter RBC or other market participants. Staff consider that adding the amount of $1,000,000 per year of failures ($3,000,000) to be appropriate.

14. The failings described in the Settlement Agreement allow an FX Trading business to act in its own interests without proper regard for the interests of its customers, other market participants or the financial markets as a whole. A failure to control properly the activities of that business in a systemically important market undermines confidence in the Ontario capital markets and puts its integrity at risk. Staff views these as matters of the utmost importance when considering the need for credible deterrence.

15. Step 3 is therefore $15,400,000.

Step 4: Settlement discount

16. Staff consider that the early settlement during this investigation by the Respondent merits a 12% discount to the amount referred to in Step 3.

17. The application of Step 4 results in a voluntary payment amount of $13,552,000.