



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

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**IN THE MATTER OF  
ROYAL MUTUAL FUNDS INC.**

**STATEMENT OF ALLEGATIONS  
(Subsection 127(1) and Section 127.1 of the Securities Act, RSO 1990, c S.5)**

**A. ORDER SOUGHT:**

Staff of the Enforcement Branch (“**Enforcement Staff**”) of the Ontario Securities Commission (the “**Commission**”) requests that the Commission make an order pursuant to subsection 127(1) and section 127.1 of the *Securities Act*, RSO 1990, c S.5 (the “**Act**”) to approve the settlement agreement dated June 8, 2018 between Enforcement Staff and Royal Mutual Funds Inc. (“**RMFI**”).

**B. FACTS:**

Enforcement Staff makes the following allegations of fact:

**1. The Respondent**

1. RMFI is a member of the Mutual Fund Dealers Association of Canada (“**MFDA**”) and is registered with the Commission as a mutual fund dealer. RMFI is wholly owned by the Royal Bank of Canada (“**RBC**”).

2. RMFI is the principal distributor of RBC mutual funds, which include the RBC Portfolio Solutions suite of mutual funds (the “**RBC PS Funds**”). RMFI is also a participating dealer of non-proprietary mutual funds (the “**Third Party Funds**”).

3. RMFI distributes mutual funds through representatives, including “Investment & Retirement Planning” financial planners (“**IRPs**”).

## 2. Legislative Framework

4. Subsection 4.2(1) of National Instrument 81-105 *Mutual Fund Sales Practices* (“**NI 81-105**”) states that a principal distributor of a mutual fund that is also a participating dealer of another mutual fund shall not provide an incentive for any of its representatives to recommend a mutual fund of which it is a principal distributor over a mutual fund of which it is a participating dealer.

5. Pursuant to section 1.1 of NI 81-105 and section 1.1 of National Instrument 81-102 *Investment Funds*, for the purpose of subsection 4.2(1) of NI 81-105:

- (a) a “principal distributor” includes a company through whom securities of a mutual fund are distributed under an arrangement with the mutual fund or its manager that provides (a) an exclusive right to distribute the securities of the mutual fund in a particular area, or (b) a feature that gives or is intended to give the company a material competitive advantage over others in the distribution of the securities of the mutual fund; and
- (b) a “participating dealer” means a dealer other than the principal distributor that distributes securities of a mutual fund.

6. Although subsection 4.2(2) of NI 81-105 provides an exception to the prohibition contained in subsection 4.2(1), that exception does not apply to the facts of this matter.

### **3. RMFI's Conduct**

7. Between November 1, 2011 and October 27, 2016, RMFI contravened NI 81-105 by offering and paying to IRPs ten basis points more in commissions for the sale of units of its RBC PS Funds than for the sale of units of Third Party Funds.

8. In addition, during this same period, RMFI failed to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to provide reasonable assurance that it and each individual acting on its behalf complied with subsection 4.2(1) of NI 81-105.

### **C. BREACHES AND CONDUCT CONTRARY TO THE PUBLIC INTEREST:**

Enforcement Staff alleges the following breaches of Ontario securities law and/or conduct contrary to the public interest:

1. RMFI contravened subsection 4.2(1) of NI 81-105 by providing to certain of its representatives an incentive to recommend mutual funds of which it is a principal distributor over mutual funds of which it is a participating dealer, during the period November 1, 2011 and October 27, 2016;

2. RMFI contravened subsection 32(2) of the Act and section 11.1 of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* by failing to establish, maintain and apply policies and procedures that establish a system of controls and

supervision sufficient to provide reasonable assurance that it and each individual acting on its behalf complied with subsection 4.2(1) of NI 81-105 during the period November 1, 2011 and October 27, 2016; and

3. the conduct referred to above is also contrary to the public interest.

**DATED** this 8<sup>th</sup> day of June, 2018.

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