COMMONWEALTH OF KENTUCKY
PUBLIC PROTECTION CABINET
DEPARTMENT OF FINANCIAL INSTITUTIONS
AGENCY ACTION NO. 2009-AH-67

In the matter of	)	
	)	
RBC Capital Markets Corporation	)	
One Liberty Plaza	)	**ADMINISTRATIVE CONSENT ORDER**
165 Broadway	)	
New York, NY	)	
	)	
Respondent.	)	

WHEREAS, RBC Capital Markets Corporation ("RBC"), a subsidiary of Royal Bank of Canada, and formerly known as RBC Dain Rauscher Inc., is doing business as RBC Wealth Management. RBC is a broker-dealer registered in the state of Kentucky; and

WHEREAS, Coordinated investigations into RBC's activities in connection with RBC's marketing and sale of auction rate securities ("ARS") have been conducted by a multi-state task force; and

WHEREAS, RBC has provided documentary evidence and other materials, and provided regulators with access to information relevant to their investigations; and

WHEREAS, RBC has advised regulators of its agreement to resolve the investigations relating to its marketing and sale of ARS to certain investors; and

WHEREAS, RBC agrees, among other things, to reimburse certain purchasers of ARS; and

WHEREAS, RBC elects to waive permanently any right to a hearing and appeal under KRS 292.470 and 292.490, with respect to this Consent Order (the "Order");

NOW, THEREFORE, the Commissioner of the Department of Financial Institutions ("DFI") hereby enters this Order.

I. FINDINGS OF FACT

1. RBC admits the jurisdiction of the DFI, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and consents to the entry of this Order by the DFI.

2. RBC and its subsidiaries and affiliates including Ferris, Baker Watts, LLC and J.B. Hanauer & Co. have engaged in the sale of ARS in the Commonwealth of Kentucky.

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 rate 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 rate 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 auctions.

RBC Made Misrepresentations to Certain Investors in Connection With the Sale of Auction Rate Securities

7. RBC represented to certain 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 the 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 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 the 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 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

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

II. CONCLUSIONS OF LAW

1. The DFI has jurisdiction over this matter pursuant to KRS 292.500.

2. The above conduct is in violation of KRS 292.330(13)(a)7 for: (1) dishonest or unethical practices, and KRS 292.330(13)(a)9a for (2) failure to supervise.

3. The DFI finds the following relief appropriate and in the public interest.

III. ORDER

On the basis of the Findings of Fact, Conclusions of Law, and RBC's consent to the entry of this Order,

IT IS HEREBY ORDERED:

1. This Order concludes the investigation by the DFI and any other action that the DFI could commence under applicable Kentucky law on behalf of the Commonwealth of Kentucky as it relates to RBC's marketing and sale of ARS to RBC's "Eligible Investors," as defined below.

2. This Order is entered into solely for the purpose of resolving the above referenced multi-state investigation, and is not intended to be used for any other purpose.

3. RBC shall cease and desist from violating the Kentucky Securities Act (KRS Chapter 292)(the "Act") and will comply with the Act.

4. No later than ten business days after signing this Order, RBC shall pay a total civil penalty of NINE MILLION EIGHT HUNDRED THOUSAND dollars ($9,800,000) to the State of Colorado and to those states and territories that enter administrative or civil consent orders approving the terms of the NASAA settlement, of which $52,516.58 shall be paid to the State of Kentucky. The payment to the State of Kentucky shall be in the form of a certified or

bank check made out to "Kentucky State Treasurer" and mailed to the Kentucky Department of Financial Institutions, Attn: William Owsley, Office of General Counsel, Department of Financial Institutions, 1025 Capital Center Drive, Suite 200, Frankfort, Kentucky 40601.

5. RBC shall take or shall have already taken certain measures with respect to current and former customers that purchased "Eligible ARS" from RBC, as defined below.

6. Eligible ARS. For purposes of this Order, "Eligible ARS" shall mean auction rate securities purchased from or through RBC prior to February 11, 2008 into an account maintained in the custody of RBC at the time of purchase.

7. Eligible Investors. As used in this Consent, "Eligible Investors" shall mean:

(i) Natural persons (including their IRA accounts, testamentary trust and estate accounts, custodian UGMA and UTMA accounts, and guardianship accounts) who directly purchased Eligible Auction Rate Securities;

(ii) Government entities and non-profits including charities, endowments or foundations with Internal Revenue Code Section 501(c)(3) status with $25 million or less in assets in their accounts with RBC net of margin loans, as determined by the customer's aggregate household position(s) as of October 8, 2008, that directly purchased Eligible Auction Rate Securities;

(iii) Small Businesses that directly purchased Eligible Auction Rate Securities at RBC. For purposes of this provision, "Small Businesses" shall mean RBC customers not otherwise covered in paragraph 7(i) and (ii) above that had $10 million or less in assets in their accounts with RBC net of margin loans, as determined by the customer's aggregate household position(s) as

of October 8, 2008, or, if the customer was not a customer of RBC as of October 8, 2008, as of the date that the customer terminated its customer relationship with RBC. Notwithstanding any other provision, "Small Businesses" does not include broker-dealers, banks acting as conduits for their customers, investment managers or other financial intermediaries, or customers that had total assets of greater than $50 million as of October 8, 2008.

In no event shall RBC be required by this Order to purchase more than $10 million of auction rate securities from any Small Business.

8. RBC shall have offered to buy back from Eligible Investors, at par plus accrued interest or dividends, if any, Eligible Auction Rate Securities that have failed at auction at least once between October 3, 2008 and June 30, 2009 ("Buyback Offer"). The Buyback Offer shall have remained open until June 30, 2009 ("Offer Period"). RBC may extend the Offer Period beyond this date.

9. RBC shall have undertaken its best efforts to identify and provide notice to Eligible Investors who invested in Eligible Auction Rate Securities that have failed at auction at least once between October 3, 2008 and June 30, 2009 of the relevant terms of this Order, together with an explanation of what Eligible Investors must do to accept, in whole or in part, the Buyback Offer, by December 5, 2008. RBC shall have also undertaken its best efforts to identify and provide notice of the relevant terms of this Order to such Eligible Investors not previously identified.

10. To the extent that any Eligible Investor who invested in Eligible Auction Rate Securities that have failed at auction at least once between October 3, 2008 and June 20, 2009

had not responded to the Buyback Offer, RBC shall have undertaken best efforts to provide any such Eligible Investor a second written notice on or before 45 days before the end of the Offer Period informing them of the relevant terms of this Order, notifying such Eligible Investor of the impending expiration of the Offer Period, describing the state of the auction rate securities market at that time, and explaining the consequences of failing to sell their auction rate securities to RBC prior to the expiration of the Offer Period.

11. Eligible Investors shall have accepted the Buyback Offer by notifying RBC at any time before 5:00 p.m., Eastern Standard Time, June 30, 2009, or such later date and time as RBC may extend the Offer Period. For Eligible Investors who accept the Buyback Offer within the Offer Period, RBC shall purchase the Eligible Auction Rate Securities on or before the next scheduled auction date that occurs after three (3) business days following RBC's receipt of notification.

12. No later than two days after execution of this Order, RBC shall establish: (a) a dedicated toll-free telephone assistance line, with appropriate staffing, to provide information and to respond to questions concerning the terms of this Order; and (b) a public Internet page on its corporate Website(s), with a prominent link to that page appearing on RBC's relevant homepage(s), to provide information concerning the terms of this Order and, via the telephone assistance line, together with an e-mail address or other reasonable means of communication, to respond to questions concerning the terms of this Order. RBC shall have maintained the telephone assistance line and Internet page through June 30, 2009.

Relief for Eligible Investors Who Sold Below Par

13. By May 31, 2009, RBC shall have undertaken its best efforts to identify any Eligible Investor who sold Eligible Auction Rate Securities below par between February 11, 2008 and October 8, 2008 and paid such Eligible Investors the difference between par and the

price at which the Eligible Investor sold the Eligible Auction Rate Securities. RBC will undertake its best efforts to identify and pay, as soon as reasonably possible, any Eligible Investors identified thereafter who sold Eligible Auction Rate Securities below par between February 11, 2008 and October 8, 2008.

Reimbursement for Related Loan Expenses

14. RBC shall have undertaken its best efforts to identify Eligible Investors who took out loans from RBC, between February 11, 2008 and May 31, 2009, that were secured by Eligible Auction Rate Securities that were not successfully auctioning at the time the loan was taken out from RBC, and paid interest associated with the auction rate securities based portion of those loans in excess of the total interest and dividends received on the auction rate securities during the duration of the loan. RBC shall have reimbursed such customers for such excess expense, plus reasonable interest thereon. Such reimbursement shall have occurred no later than May 31, 2009.

Consequential Damages Arbitration Process

15. RBC shall consent to participate in a special arbitration ("Arbitration") for the exclusive purpose of arbitrating any Eligible Investor's consequential damages claim arising from their inability to sell Eligible Auction Rate Securities. RBC shall notify Eligible Investors of the terms of the Arbitration process through the notice described in paragraph III(12).

16. The Arbitration shall be conducted by a single public arbitrator (as defined by section 12100(u) of the NASD Code of Arbitration Procedures for Customer Disputes, eff. April 16, 2007), under the auspices of FINRA. RBC shall pay all applicable forum and filing fees.

17. Any Eligible Investors who choose to pursue such claims in the Arbitration shall bear the burden of proving that they suffered consequential damages and that such damages were

caused by their inability to access funds invested in Eligible Auction Rate Securities. In the Arbitration, RBC shall be able to defend itself against such claims; provided, however, that RBC shall not contest liability for the illiquidity of the underlying auction rate securities position or use as part of its defense any decision by an Eligible Investor not to borrow money from RBC.

18. Eligible Investors who elect to use the special arbitration process provided for herein shall not be eligible for punitive damages, or for any other type of damages other than consequential damages.

19. All customers, including but not limited to Eligible Investors who avail themselves of the relief provided pursuant to this Order, may pursue any remedies against RBC available under the law. However, Eligible Investors that elect to utilize the special arbitration process set forth above are limited to the remedies available in that process and may not bring or pursue a claim relating to Eligible Auction Rate Securities in another forum.

Municipal Issuers

20. By May 31, 2009, or five business days from the date of this Order, whichever is later, RBC shall have refunded to municipalities (which, for avoidance of doubt, do not include student loan securitization vehicles or closed-end mutual funds) underwriting fees the issuers paid to RBC for the refinancing or conversion of their auction rate securities that occurred after February 11, 2008, where RBC acted as underwriter for the primary offering of the auction rate securities between August 1, 2007 and February 11, 2008.

Institutional Investors

21. RBC shall endeavor to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for institutional investors not covered by Section I.A. above that purchased auction rate securities from RBC ("Institutional Investors").

Reports to NASAA

22. Within 45 days of the end of each month, beginning with a report covering the period beginning October 8, 2008 and ending April 30, 2009 (due on June 15, 2009) and continuing monthly through and including a report covering the month ended December 31, 2009 (due on February 16, 2010), RBC shall submit a monthly written report detailing the efforts in which RBC has engaged and the results of those efforts with respect to RBC's institutional investors' holdings in ARS. The report shall be submitted to a representative specified by the North American Securities Administrators Association ("NASAA"). Beginning in June 2009, upon the request of NASAA, RBC shall meet quarterly with a designated NASAA representative to discuss its progress with respect to its obligations pursuant to this Order. Such quarterly meetings shall continue until no later than December 2009. The reporting or meeting deadlines set forth above may be amended with written permission from a designated NASAA representative.

IV. ADDITIONAL CONSIDERATIONS

1. RBC agrees that it shall not, collectively or individually, seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, with regard to any or all of the amounts payable pursuant to paragraph 4 above.

2. In consideration of the settlement, the DFI, has refrained from taking legal action against RBC with respect to RBC's marketing and sale to its institutional investors. The DFI shall issue continuances as it deems appropriate.

3. If payment is not made by RBC, or if RBC defaults in any of its obligations set forth in this Order, the DFI may vacate this Order, at its sole discretion, upon 10 days notice to RBC and without opportunity for administrative hearing.

4. This Order is not intended to indicate that RBC or any of its affiliates or current or former employees shall be subject to any disqualifications contained in the federal securities laws, the rules and regulations thereunder, the rules and regulations of self- regulatory organizations or various states' securities laws including any disqualifications from relying upon the registration exemptions or safe harbor provisions. In addition, this Order is not intended to form the basis for any such disqualifications.

5. For any person or entity not a party to this Order, this Order does not limit or create any private rights or remedies against RBC including, without limitation, the use of any e-mails or other documents of RBC or of others for the marketing and sale of ARS to investors, limit or create liability of RBC, or limit or create defenses of RBC to any claims.

6. Nothing herein shall preclude the Commonwealth of Kentucky, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the DFI and only to the extent set forth in paragraph III(1) and IV(24) above, (collectively, "State Entities") and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against RBC in connection with the marketing and sale of ARS by RBC.

7. This Order shall not disqualify RBC or any of its affiliates or current or former employees from any business that they otherwise are qualified or licensed to perform under applicable state law and this Order is not intended to form the basis for any disqualification.

8. This Order and any dispute related thereto shall be construed and enforced in accordance with, and governed by, the laws of Kentucky without regard to any choice of law principles.

9. RBC, through its execution of this Consent Order, voluntarily waives its right to a hearing on this matter and to judicial review of this Consent Order under KRS 292.470 and KRS 292.490.

10. RBC enters into this Consent Order voluntarily and represents that no threats, offers, promises, or inducements of any kind have been made by the DFI or any member, officer, employee, agent, or representative of the DFI to induce RBC to enter into this Consent Order. RBC further agrees that in consideration of this Consent Order, RBC, its administrators, successors and assigns, hereby releases and forever discharges the Commonwealth of Kentucky, Department of Financial Institutions, Office of Legal Services, and each of their members, agents, and employees in their individual capacities, from any and all manner of actions, causes of action, suits, debts, judgments, executions, claims and demands whatsoever, known and unknown, in law or equity, that the Respondent ever had, now has, may have or claim to have against any or all of the persons or entities named in this paragraph arising out of or by reason on this investigation, this disciplinary action, this settlement or its administration.

11. This Order shall be binding upon RBC and its successors and assigns as well as to successors and assigns of relevant affiliates with respect to all conduct subject to the provisions above and all future obligations, responsibilities, undertakings, commitments, limitations, restrictions, events, and conditions.

Dated this 8th day of October, 2009.

BY ORDER OF THE COMMISSIONER

Charles Vice, Commissioner
Department of Financial Institutions

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY RBC

RBC hereby acknowledges that it has been served with a copy of this Administrative Consent Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

RBC admits the jurisdiction of the DFI, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the DFI as settlement of the issues contained in this Order.

RBC states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Dorothy Heyl represents that she is counsel to RBC and that, as such, has been authorized by RBC to enter into this Order for and on behalf of RBC.

RBC agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that RBC shall pay pursuant to this Order.

Dated this 6th day of October, 2009.

RBC Capital Markets Corporation

By: _____
Dorothy Heyl, Of Counsel
Milbank, Tweed, Hadley, & McCloy LLP
1 Chase Manhattan Plaza
New York, NY 10005-1413
Telephone: (212) 530-5088
Facsimile: (212) 822-5088

SUBSCRIBED AND SWORN TO before me this 6th day of October, 2009.

_____
Notary Public

ROGER FRANCIS
NOTARY PUBLIC, State of New York
No. 01FR6097024
Qualified in New York County
Certificate Filed in New York County
Commission Expires May 3, 2010