

1 NOW, THEREFORE, the Securities Administrator, as administrator of the Securities Act of
2 Washington, RCW 21.20, hereby enters this Order.

3 **I.**

4 **FINDINGS OF FACT**

5 1. RBC admits the jurisdiction of the Securities Division of the State of Washington Department of
6 Financial Institutions, neither admits nor denies the Findings of Fact and Conclusions of Law contained
7 in this Order, and consents to the entry of this Order by the Securities Division of the State of
8 Washington Department of Financial Institutions.

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

11 **Auction Rate Securities**

12 3. Auction rate securities are long-term bonds issued by municipalities, corporations and student
13 loan companies, or perpetual equity instruments issued by closed end mutual funds, with variable interest
14 rates that reset through a bidding process known as a Dutch auction.

15 4. At a Dutch auction, bidders generally state the number of auction rate securities they wish to
16 purchase and the minimum interest rate they are willing to accept. Bids are ranked, from lowest to
17 highest, according to the minimum interest rate each bidder is willing to accept. The lowest interest rate
18 required to sell all of the auction rate securities available at auction, known as the “clearing rate,”
19 becomes the rate paid to all holders of that particular security until the next auction. The process is then
20 repeated, typically every 7, 28 or 35 days.

21 5. When there are not enough orders to purchase all of the auction rate securities being sold, a
22 “failed” auction occurs. In the event of a failed auction, investors cannot sell their auction rate securities.

1 6. As an underwriter of auction rate securities, RBC also acted as the managing broker-dealer for
2 certain issues of auction rate securities. When acting as sole manager, RBC was the only firm that could
3 submit bids into the auction on behalf of its clients and/or other broker-dealers who wanted to buy and/or
4 sell any auction rate securities. When acting as lead manager, RBC was the primary firm that could
5 submit bids into the auction, while other broker-dealers were able to submit orders on behalf of their
6 clients as well. RBC received revenue in connection with auction rate securities, including an
7 underwriting fee representing a percentage of total issuance and a fee for managing the auctions.

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

9 **Securities**

10 7. RBC represented to many of its customers that auction rate securities were highly liquid, safe,
11 cash alternative investments.

12 8. These representations were misleading as to certain investors. Auction rate securities were in fact
13 different from cash and money market funds. As discussed above, the liquidity of an auction rate
14 security relied on the successful operation of the Dutch auction process. In the event of a failed auction,
15 investors cannot sell their auction rate securities and are stuck holding long-term investments, not cash-
16 equivalent securities. As discussed below, starting in the Fall of 2007, the auction rate securities market
17 faced dislocation and an increased risk of failure.

18 9. Since the inception of the auction market, RBC submitted support bids, purchase orders for the
19 entirety of an auction rate security issue for which it acted as the sole or lead broker. Support bids were
20 RBC proprietary orders that would be filled, in whole or in part, if there was otherwise insufficient
21 demand in an auction. When RBC purchased auction rate securities through support bids, those auction
22 rate securities were then owned by RBC and the holdings were recorded on RBC's balance sheet. For

1 risk management purposes, RBC imposed limits on the amounts of auction rate securities it could hold in
2 inventory.

3 10. Because many investors could not ascertain how much of an auction was filled through RBC
4 proprietary trades, investors could not determine if auctions were clearing because of normal
5 marketplace demand, or because RBC was making up for the lack of demand through support bids.
6 Generally, investors were also not aware that the auction rate securities market was dependent upon
7 RBC's use of support bids for its operation. While RBC could track its own inventory as a measure of
8 the supply and demand for auction rate securities, ordinary investors had no comparable ability to assess
9 the operation of the market. There was no way for investors to monitor supply and demand in the market
10 or to assess when broker-dealers might decide to stop supporting the market, which could cause its
11 collapse.

12 **By the Fall of 2007, The Auction Rate Securities Market Faced Dislocation**

13 11. In August 2007, the credit crisis and other deteriorating market conditions strained the auction
14 rate securities market. Some institutional investors withdrew from the market, decreasing demand for
15 auction rate securities.

16 12. The resulting market dislocation should have been evident to RBC. RBC support bids filled the
17 increasing gap in the demand for auction rate securities, sustaining the impression that the market was
18 functioning. As a result, RBC's auction rate securities inventory grew significantly, requiring RBC to
19 raise its risk management limits on its auction rate securities inventory several times.

20 13. From the Fall of 2007 through February of 2008, demand for auction rate securities continued to
21 erode and RBC's auction rate securities inventory reached unprecedented levels. RBC was aware of the
22 increasing strains on the auction rate securities market, increasingly questioned the viability of the

1 auction rate securities market and planned for potential widespread market failure. RBC did not disclose
2 these increasing risks of owning or purchasing auction rate securities to all of its customers.

3 14. In February 2008, RBC and other firms stopped supporting most auctions. Without the benefit of
4 support bids, much of the auction rate securities market collapsed, leaving investors who had been led to
5 believe that these securities were cash alternative and liquid investments, appropriate for managing short-
6 term cash needs, holding long-term or perpetual securities that could not be sold at par value.

7 **II.**

8 **CONCLUSIONS OF LAW**

9 1. The Securities Division of the State of Washington Department of Financial Institutions has
10 jurisdiction over this matter pursuant to the Securities Act of Washington, RCW 21.20.

11 2. The above conduct is in violation of RCW 21.20.110(1)(g) for engaging in dishonest or unethical
12 practices in the sale of ARS. The above conduct is also in violation of RCW 21.20.110(1)(j) for failure
13 to supervise reasonably salespersons and employees in the marketing and sale of ARS.

14 3. The Securities Division of the State of Washington Department of Financial Institutions finds the
15 following relief appropriate and in the public interest.

16 **III.**

17 **CONSENT ORDER**

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

20 **IT IS HEREBY ORDERED:**

21 1. This Order concludes the investigation by the Securities Division of the State of Washington
22 Department of Financial Institutions and any other action that the Securities Division of the State of

23 CONSENT ORDER

1 Washington Department of Financial Institutions could commence under applicable State of Washington law
2 on behalf of the State of Washington as it relates to RBC's marketing and sale of ARS to RBC's "Eligible
3 Investors," as defined below.

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

6 3. RBC shall cease and desist from violating the Securities Act of Washington and will comply with the
7 Securities Act of Washington.

8 4. No later than ten business days after signing this Order, RBC shall pay a total civil penalty of
9 nine million eight hundred thousand dollars (\$9,800,000) to the State of Washington and to those states
10 and territories that enter administrative or civil consent orders approving the terms of the NASAA
11 settlement, of which \$41,042.35 shall be paid to the State of Washington. The payment to the State of
12 Washington shall be in the form of a certified or bank check made out to the Washington State Treasurer.

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

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

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

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

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

6 (iii) Small Businesses that directly purchased Eligible Auction Rate Securities at RBC.
7 For purposes of this provision, "Small Businesses" shall mean RBC customers not
8 otherwise covered in paragraph 7(i) and (ii) above that had \$10 million or less in
9 assets in their accounts with RBC net of margin loans, as determined by the
10 customer's aggregate household position(s) as of October 8, 2008, or, if the
11 customer was not a customer of RBC as of October 8, 2008, as of the date that the
12 customer terminated its customer relationship with RBC. Notwithstanding any
13 other provision, "Small Businesses" does not include broker-dealers, banks acting
14 as conduits for their customers, investment managers or other financial
15 intermediaries, or customers that had total assets of greater than \$50 million as of
16 October 8, 2008.

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

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

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

7 10. To the extent that any Eligible Investor who invested in Eligible Auction Rate Securities that
8 have failed at auction at least once between October 3, 2008 and June 30, 2009 had not responded to the
9 Buyback Offer, RBC shall have undertaken best efforts to provide any such Eligible Investor a second
10 written notice on or before 45 days before the end of the Offer Period informing them of the relevant
11 terms of this Order, notifying such Eligible Investor of the impending expiration of the Offer Period,
12 describing the state of the auction rate securities market at that time, and explaining the consequences of
13 failing to sell their auction rate securities to RBC prior to the expiration of the Offer Period.

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

19 12. No later than two days after execution of this Order, RBC shall have established establish: (a) a
20 dedicated toll-free telephone assistance line, with appropriate staffing, to provide information and to
21 respond to questions concerning the terms of this Order; and (b) a public Internet page on its corporate
22 Website(s), with a prominent link to that page appearing on RBC's relevant homepage(s), to provide

1 information concerning the terms of this Order and, via the telephone assistance line, together with an e-
2 mail address or other reasonable means of communication, to respond to questions concerning the terms
3 of this Order. RBC shall have maintained the telephone assistance line and Internet page through June
4 30, 2009.

5 **Relief for Eligible Investors Who Sold Below Par**

6 13. By May 31, 2009, RBC shall have undertaken its best efforts to identify any Eligible Investor
7 who sold Eligible Auction Rate Securities below par between February 11, 2008 and October 8, 2008
8 and paid such Eligible Investors the difference between par and the price at which the Eligible Investor
9 sold the Eligible Auction Rate Securities. RBC will undertake its best efforts to identify and pay, as soon
10 as reasonably possible, any Eligible Investors identified thereafter who sold Eligible Auction Rate
11 Securities below par between February 11, 2008 and October 8, 2008.

12 **Reimbursement for Related Loan Expenses**

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

20 **Consequential Damages Arbitration Process**

21 15. RBC shall consent to participate in a special arbitration (“Arbitration”) for the exclusive purpose
22 of arbitrating any Eligible Investor’s consequential damages claim arising from their inability to sell

1 Eligible Auction Rate Securities. RBC shall notify Eligible Investors of the terms of the Arbitration
2 process through the notice described in paragraph III(12).

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

6 17. Any Eligible Investors who choose to pursue such claims in the Arbitration shall bear the burden
7 of proving that they suffered consequential damages and that such damages were caused by their
8 inability to access funds invested in Eligible Auction Rate Securities. In the Arbitration, RBC shall be
9 able to defend itself against such claims; provided, however, that RBC shall not contest liability for the
10 illiquidity of the underlying auction rate securities position or use as part of its defense any decision by
11 an Eligible Investor not to borrow money from RBC.

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

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

20 **Municipal Issuers**

21 20. By May 31, 2009, or five business days from the date of this Order, whichever is later, RBC shall
22 refund to municipalities (which, for avoidance of doubt, do not include student loan securitization

1 vehicles or closed-end mutual funds) underwriting fees the issuers paid to RBC for the refinancing or
2 conversion of their auction rate securities that occurred after February 11, 2008, where RBC acted as
3 underwriter for the primary offering of the auction rate securities between August 1, 2007 and February
4 11, 2008.

5 **Institutional Investors**

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

9 **Reports to NASAA**

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

20 **IV.**

21 **Additional Considerations**

22 1. RBC agrees that it shall not, collectively or individually, seek or accept, directly or indirectly,

1 reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance
2 policy, with regard to any or all of the amounts payable pursuant to paragraph 4 above.

3 2. In consideration of the settlement, the Securities Division of the State of Washington Department
4 of Financial Institutions, has refrained from taking legal action against RBC with respect to RBC's
5 marketing and sale to its institutional investors. The Securities Division of the State of Washington
6 Department of Financial Institutions may issue continuances as it deems appropriate.

7 3. If payment is not made by RBC, or if RBC defaults in any of its obligations set forth in this
8 Order, the Securities Division of the State of Washington Department of Financial Institutions may
9 vacate this Order, at its sole discretion, upon 10 days notice to RBC and without opportunity for
10 administrative hearing.

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

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

20 6. Nothing herein shall preclude the State of Washington, its departments, agencies, boards,
21 commissions, authorities, political subdivisions and corporations, other than the Securities Division of the
22 State of Washington Department of Financial Institutions and only to the extent set forth in paragraph III(1)

1 and IV(2) above, (collectively, “State Entities”) and the officers, agents or employees of State Entities from
2 asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages,
3 administrative, civil, criminal, or injunctive relief against RBC in connection with the marketing and sale of
4 ARS by RBC.

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

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

10 9. RBC, through its execution of this Consent Order, voluntarily waives its right to a hearing on this
11 matter and to judicial review of this Consent Order under RCW 21.20.440 and RCW 34.05.

12 10. RBC enters into this Consent Order voluntarily and represents that no threats, offers, promises, or
13 inducements of any kind have been made by the Securities Division of the State of Washington
14 Department of Financial Institutions or any member, officer, employee, agent, or representative of the
15 Securities Division of the State of Washington Department of Financial Institutions to induce RBC to
16 enter into this Consent Order.

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

20 DATED and ENTERED this 31st day of August, 2009.

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Michael E. Stevenson

MICHAEL E. STEVENSON
Securities Administrator

Approved by:

Presented by:

Suzanne Sarason

Jack McClellan

Suzanne Sarason
Chief of Enforcement

Jack McClellan
Enforcement Attorney

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Bonnie Mattessich /s/ No. 01MA6101046

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Notary Public

My commission expires:

11/3/2011
