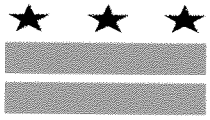
Government of the District of Columbia
Department of Insurance, Securities and Banking



William P. White
Acting Commissioner

In the matter of RBC Capital Markets Corporation One Liberty Plaza 165 Broadway New York, NY, 10006-1404 Respondent	))))))))	**ADMINISTRATIVE CONSENT ORDER** **ORDER NO. SB-CO-03-11**

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 District of Columbia; 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, comprised of state securities regulators ("regulators"), including the District of Columbia Department of Insurance, Securities and Banking ("Department"); 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 the District of Columbia Administrative Procedure Act, D.C. Official Code §§ 2-509(a) and 2-510(a) (2001); the Rules of Practice and Procedures for Hearings in the District of Columbia, 26 DCMR §§ B300 *et seq.*; and the Securities Act of 2000, D.C. Official Code §§ 31-5606.02(b) and 31-5608.03(a), with respect to this Administrative Consent Order ("Consent Order");

NOW, THEREFORE, the Acting Commissioner of the Department, as administrator of the Securities Act of 2000, effective September 29, 2000 (D.C. Law 13-203, D.C. Official Code § 31-5601.01 *et seq.* (2001)) ("Act"), hereby enters this Consent Order, pursuant to D.C. Official Code § 31-5607.01.

I. FINDINGS OF FACT

1. RBC admits the jurisdiction of the Department, 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 Department.

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 District of Columbia.

Auction Rate Securities

3. ARS 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 ARS 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 ARS 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 ARS being sold, a "failed" auction occurs. In the event of a failed auction, investors cannot sell their ARS.

6. As an underwriter of ARS, RBC also acted as the managing broker-dealer for certain issues of ARS. 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 ARS. 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 its sale of ARS, 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 ARS were highly liquid, safe, cash alternative investments.

8. These representations were misleading as to certain investors. ARS 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 ARS and are stuck holding long-term investments, not cash-equivalent securities. As discussed below, starting in the fall of 2007, the ARS market faced dislocation and an increased risk of failure.

9. Since the inception of the auction market, RBC submitted support bids and 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 ARS through support bids, those ARS 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 ARS 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 ARS 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 ARS, 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 ARS Market Faced Dislocation

11. In August 2007, the credit crisis and other deteriorating market conditions strained the ARS market. Some institutional investors withdrew from the market, decreasing demand for ARS.

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

13. From the fall of 2007 through February of 2008, demand for ARS continued to significantly decrease and RBC's ARS inventory reached unprecedented levels. RBC was aware

of the increasing strains on the ARS market, increasingly questioned the viability of the ARS market and planned for potential widespread market failure. RBC did not disclose these increasing risks of owning or purchasing ARS 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 ARS 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 Department has jurisdiction over this matter pursuant to D.C. Official Code § 31-5606.01(a)(1).

2. The Acting Commissioner finds that RBC has engaged in unethical and dishonest practices in the securities business, in violation of D.C. Official Code § 31-5602.07(a)(9); and failed to supervise its employees, in violation of D.C. Official Code § 31-5602.07(a)(12).

3. The Acting Commissioner 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 Department and any other action that the Department could commence under the Act on behalf of the District of Columbia 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 violating D.C. Official Code §§ 31-5602.07(a)(9) and 31-5602.07(a)(12) and will comply with all of the laws of the Act, and all of the laws of the District of Columbia.

4. RBC shall pay a total civil penalty of NINE MILLION EIGHT HUNDRED THOUSAND dollars ($9,800,000) to the District of Columbia and to those states and territories that enter administrative or civil consent orders approving the terms of the NASAA settlement.

5. No later than ten business days after signing this Order, RBC shall pay the sum of THIRTY EIGHT THOUSAND TWO HUNDRED THIRTY TWO DOLLARS AND TWO CENTS ($38, 232.02), to the Department as a civil monetary penalty, pursuant to D.C. Official Code § 31-5606.02(b)(4), to be deposited in the District of Columbia's GENERAL FUND, made payable to the D.C. Treasurer, pursuant to D.C. Official Code § 1-204.50.

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

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

8. 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 ARS;

(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 ARS;

(iii) Small Businesses that directly purchased Eligible ARS 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.

(iv) In no event shall RBC be required by this Order to purchase more than $10 million of ARS from any Small Business.

9. RBC shall have offered to buy back from Eligible Investors, at par plus accrued interest or dividends, if any, Eligible ARS 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.

10. RBC shall have undertaken its best efforts to identify and provide notice to Eligible Investors who invested in Eligible ARS that have failed at auction at least once between October 3, 2008 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 also shall have undertaken its best efforts to identify and provide notice of the relevant terms of this Order to such Eligible Investors not previously identified.

11. To the extent that any Eligible Investor who invested in Eligible ARS that have failed at auction at least once between October 3, 2008 and June 30, 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 ARS market at that time, and explaining the consequences of failing to sell their ARS to RBC prior to the expiration of the Offer Period.

12. Eligible Investors may accept 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 ARS on or before the next scheduled auction date that occurs after three (3) business days following RBC's receipt of notification.

13. No later than two days after execution of this Order, RBC shall have established: (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

14. By May 31, 2009, RBC shall have undertaken its best efforts to identify any Eligible Investor who sold Eligible ARS 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 ARS. RBC shall have undertaken its best efforts to identify and pay, as soon as reasonably possible, any Eligible Investors identified thereafter who sold Eligible ARS below par between February 11, 2008 and October 8, 2008.

Reimbursement for Related Loan Expenses

15. 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 ARS that were not successfully auctioning at the time the loan was taken out from RBC, and paid interest associated with the ARS based portion of those loans in excess of the total interest and dividends received on the ARS during the duration of the loan. RBC shall reimburse such customers for such excess expense, plus reasonable interest thereon. Such reimbursement shall have occured no later than May 31, 2009.

Consequential Damages Arbitration Process

16. 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 ARS. RBC shall have notified Eligible Investors of the terms of the Arbitration process through the notice described in paragraph III(10).

17. 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.

18. 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 ARS. 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 ARS position or use as part of its defense any decision by an Eligible Investor not to borrow money from RBC.

19. 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.

20. 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 ARS in another forum.

Municipal Issuers

21. By May 31, 2009, or five business days from the date of this Order, whichever is later, RBC shall refund 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 ARS that occurred after February 11, 2008, where RBC acted as underwriter for the primary offering of the ARS between August 1, 2007 and February 11, 2008.

Institutional Investors

22. RBC shall have endeavored to work with issuers and other interested parties, including regulatory and governmental entities, to expeditiously provide liquidity solutions for non-natural investors not covered by paragraph III (8)(ii) and (iii) above that purchased ARS from RBC ("Institutional Investors").

Reports to NASAA

23. 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 have submitted 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 have been submitted to a representative specified by the North American Securities Administrators Association ("NASAA"). Beginning in June 2009, upon the request of NASAA, RBC shall have met quarterly with a designated NASAA representative to discuss its progress with respect to its obligations pursuant to this Order. Such quarterly meetings shall have continued 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

24. 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 III(4) above.

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

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

27. 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.

28. 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.

29. Nothing herein shall preclude the District of Columbia, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations, other than the Department and only to the extent set forth in paragraphs III(1) and IV(25) 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.

30. 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.

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

32. 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 the District of Columbia Administrative Procedure Act, D.C. Official Code §§ 2-509(a) and 2-510(a) (2001); the Rules of Practice and Procedures for Hearings in the District of Columbia, 26 DCMR §§ B300 *et seq.*; and D.C. Official Code §§ 31-5606.02(b) and 31-5608.03(a) with respect to this Order of the Act; and

33. RBC enters into this Consent Order voluntarily and represents th*at no t*hreats, offers, promises, or inducements of any kind have been made by the Department or any member, officer, employee, agent, or representative of the Department to induce RBC to enter into this Consent Order.

34. 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.

35. Nothing in this Consent Order shall be considered an admission of fraud.

Dated this 23rd day of February, 2011.

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of this Department in the District of Columbia, this 23rd day of February, 2011.

William P. White, Acting Commissioner

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 Department, 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 Department 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 17 day of February, 2011.

RBC Capital Markets Corporation

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 17th day of February, 2011.

Notary Public

BONNIE M. MATTESSICH
NOTARY PUBLIC, State of New York
No. 01MA6101046
Qualified in New York County
Commission Expires Nov. 3, 2011

#4839-1372-3144