



DISCIPLINARY DECISION
Cboe BZX Exchange, Inc.
Star No. 20160509336/File No. USRI-7935
RBC Capital Markets, LLC

Pursuant to Exchange Rule 17.3, attached to and incorporated as part of this Decision is a Letter of Consent.

Applicable Rule(s)

- BZX Rules 3.1 – Business Conduct of Members, 3.2 – Violations Prohibited, 5.1 – Written Procedures, 18.1 – Adherence to Law, 18.2 – Conduct and Compliance with the Rules, 20.7 – Audit Trail and 24.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information
- Section 17(a) of the Securities Exchange Act of 1934, as amended and Rule 17a-3 – Records to be Made by Certain Exchange Members, Brokers and Dealers, thereunder

Sanction

A censure and a total monetary fine in the amount of \$100,000, of which \$28,271 is payable to BZX.¹

Acceptance Date

August 28, 2019

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

Effective Date

October 2, 2019

¹ The balance of the total monetary fine shall be paid to the other exchanges involved in this matter, reflected on pages 4-5 of the attached Letter of Consent.

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 20160509336
File No. USRI-7935

In the Matter of:

RBC Capital Markets, LLC
3 World Financial Center
200 Vesey Street
New York, New York 10281,

Respondent

Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3, RBC Capital Markets, LLC (“RBC” or the “firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

RBC neither admits nor denies the findings for matter 20160509336 and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. During all relevant periods herein, RBC was acting as a registered Broker-Dealer and was a member of BZX. The firm’s registration remains in effect.
2. This matter originated from a review on behalf of BZX and other self-regulatory organizations by the Options Regulation section of the Financial Industry Regulatory Authority’s (“FINRA”) Department of Market Regulation and an exam conducted by the Trading and Financial Compliance Examinations section.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following laws and rules were in full force and effect: Section 17 of the Securities Exchange Act of 1934 (the “Exchange Act”) – Accounts and Records, Examinations of Exchange, Members, and Others, and Exchange Act Rule 17a-3 – Records to be made by certain exchange members, brokers and dealers thereunder, and BZX Rules 3.1 – Business Conduct of Members, 3.2 – Violations Prohibited, 5.1 – Written Procedures, 18.1 – Adherence to Law, 18.2 – Conduct and Compliance with the Rules, 20.7 – Audit Trail, and

24.1 – Maintenance, Retention and Furnishing of Books, Records and Other Information.

4. During all relevant periods herein, Exchange Act Section 17(a)(1) provided that every member of a national securities exchange shall make and keep for prescribed periods such records, furnish such copies thereof, and make and disseminate such reports as the Securities and Exchange Commission, by rule, prescribes as necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of this title.
5. During all relevant periods herein, Exchange Act Rule 17a-3(a)(7) provided that each member shall make and keep current a memorandum of each purchase and sale for the account of the member, broker, or dealer showing the price and, to the extent feasible, the time of execution.
6. During all relevant periods herein, BZX Rule 3.1 required members, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade.
7. During all relevant periods herein, BZX Rule 3.2 provided that no member shall engage in conduct in violation of the Exchange Act, the rules or regulations thereunder, the By-Laws, BZX rules or any policy or written interpretation of the By-Laws or BZX Rules by the BZX Board or an appropriate BZX committee. It also provided that every member shall so supervise persons associated with the member as to assure compliance with those requirements.
8. During all relevant periods herein, BZX Rule 5.1 provided that each member shall establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons of the member and to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, where appropriate, and with BZX rules.
9. During all relevant periods herein, BZX Rule 18.1 provided that no options member shall engage in conduct in violation of the Exchange Act or rules thereunder, BZX rules or the rules of the Options Clearing Corporation (“OCC”) insofar as they relate to the reporting or clearance of any BZX transaction, or any written interpretation thereof, and that every options member shall supervise persons associated with the member to assure compliance therewith.
10. During all relevant periods herein, BZX Rule 18.2(a)(6) provided, among other things, that in accordance with the rules and in connection with business conducted on BZX Options, each options member shall ensure that accurate information is input into the automated trading system used by BZX Options for the trading of options contracts, including, but not limit to, the options member’s capacity.

11. During all relevant periods herein, BZX Rule 20.7(a) provided that when entering orders on BZX Options, each options member shall submit order information in such form as may be prescribed by the Exchange in order to allow BZX Options to properly prioritize and match orders and report resulting transactions to the OCC.
12. During all relevant periods herein, BZX Rule 24.1(a) provided that each options member shall make, keep current and preserve such books and records as the Exchange may prescribe pursuant to Exchange rules and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

Origin Code Violations

13. BZX rules require that when entering an order, a member must record the correct origin code to indicate the kind of account for which the order will be executed and cleared. Each options market has its own origin codes, but at a minimum, all have codes to indicate that an order is being executed for a customer, a firm, or a market maker. Origin codes are important because they are part of the audit trail data for every transaction. They also affect the accuracy of a firm's books and records and BZX's audit trail, which may impact BZX's surveillance for compliance with BZX rules and federal securities laws. Finally, they are important for clearing purposes when trades are reported to OCC.
14. From February 4 to April 18, 2016, on 34 separate days, RBC entered 670 principal orders with incorrect origin codes, indicating that the orders were for customers instead of the firm. RBC entered the orders in an order management system that it used for principal orders. The order management system was hard-coded to place the "firm" origin code on orders to indicate that the orders were principal orders. The firm also used a third-party system to route orders, but due to a mapping error, the third-party system incorrectly placed the "customer" origin code on the firm's principal orders, indicating that the orders were for customers instead of the firm. These orders were routed to and executed on fourteen exchanges, resulting in 7,032 executions with a volume of 118,871 contracts, of which 30,714 contracts, or 25.84 percent of the total, were traded on BZX.
15. Each instance in which the firm executed an order with an incorrect origin code potentially had adverse consequences, such as creating inaccurate records of purchases and sales, creating an inaccurate audit trail, reporting trades to OCC with inaccurate trade details, and impeding BZX's ability to surveil for and detect potential violations of its rules and federal securities laws.
16. Because the firm entered and executed these orders with the wrong origin code, the trades cleared incorrectly as "customer" trades at OCC instead of as "firm" trades.
17. The acts, practices, and conduct in paragraphs 14–16 constitute violations of Exchange Act Section 17(a)(1), Exchange Act Rule 17a-3(a)(7), and BZX Rules 20.7(a), 24.1(a), 3.1, 3.2, 18.1, and 18.2(a)(6).

Supervisory Violations

18. During the relevant period, the firm's operations department received and reviewed real-time and end-of-day reports that allowed it to detect and remedy discrepancies between trades and positions as they appeared on the firm's records versus OCC's records. When RBC detected instances of routing orders with an incorrect origin code, the firm focused solely on correcting the origin code for that particular trade. The increasing frequency of these instances constituted a red flag of the larger problem that a system issue was causing RBC to route "firm" orders as "customer" orders. Despite these reviews and despite resolving individual instances of using the wrong origin code in real time, RBC still failed to identify the pattern of origin code errors or the cause of such errors that occurred on 34 separate days from February 4 through April 18, 2016. In addition, RBC should have been alerted to the origin code problem by the fact that proprietary orders entered into a system that was hard-coded to apply the "firm" origin code to orders nevertheless cleared as "customer" with OCC. On April 18, 2016, the operations department discovered the mapping issue described in paragraph 14 and remedied the issue on April 19.
19. The acts, practices, and conduct in paragraph 18 constitute violations of BZX Rules 3.1, 3.2, 5.1, and 18.1.
20. In addition to the foregoing, RBC's written supervisory procedures provided for a monthly review of a sample of orders to verify that accurate origin codes were placed on orders. Throughout 2018 and into 2019, RBC conducted eleven of twelve monthly origin code reviews late. The firm conducted these reviews from five to 53 days after the due date for the reviews.
21. The acts, practices, and conduct in paragraph 20 constitute violations of BZX Rules 3.1 and 5.1. In January 2019, to remedy this issue, RBC moved responsibility for its origin code reviews to another group responsible for conducting reviews.

SANCTIONS

22. RBC does not have any prior relevant disciplinary history specifically related to BZX rules and Exchange Act rules regarding origin codes.
23. In light of the alleged rule violations described above, RBC consents to the imposition of the following sanctions:
 - a. A censure; and
 - a. A monetary fine in the amount of \$100,000, of which \$28,271 shall be payable to BZX and the balance of which shall be paid to Cboe Exchange, Inc., Cboe C2 Exchange, Inc., Nasdaq ISE LLC, Nasdaq Options Market

LLC, Nasdaq PHLX LLC, NYSE American LLC, and NYSE Arca, Inc.¹ Acceptance of this Letter of Consent is conditioned upon acceptance of similar settlement agreements in related matters between RBC and each of these self-regulatory organizations.

If this Letter of Consent is accepted, RBC acknowledges that it shall be bound by all terms, conditions, representations and acknowledgements of this Letter of Consent, and, in accordance with the provisions of BZX Rule 8.3, waives the right to review or to defend against any of these allegations in a disciplinary hearing before a Hearing Panel. The firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

RBC waives any right to claim bias or prejudice of the Chief Regulatory Officer (“CRO”) in connection with the CRO’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. RBC further waives any claim that a person violated the ex parte prohibitions of BZX Rule 8.16, in connection with such person’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

RBC agrees to pay the monetary sanctions upon notice that this Letter of Consent has been accepted and that such payments are due and payable. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

RBC understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to BZX Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

RBC understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by BZX or any other regulator against the firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with BZX Rule 8.18.

RBC understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

The undersigned, on behalf of RBC, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent’s

¹ Although, as set forth in paragraph 14, the violations occurred on fourteen exchanges, the fine is allocated among eight exchanges.

provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce RBC to submit it.

Date: 08/22/19

RBC Capital Markets, LLC

By: 

Name: Craig Wrenschel

Title: MANAGING DIRECTOR
& SENIOR COUNSEL