

**IN THE MATTER OF THE *SECURITIES ACT*  
RSO 1990, c S 5, AS AMENDED**

**- and -**

**RBC DOMINION SECURITIES INC.,  
ROYAL MUTUAL FUNDS INC., AND  
RBC PHILLIPS, HAGER & NORTH INVESTMENT COUNSEL INC.**

**SETTLEMENT AGREEMENT  
BETWEEN STAFF OF THE COMMISSION AND  
RBC DOMINION SECURITIES INC., ROYAL MUTUAL FUNDS INC., AND  
RBC PHILLIPS, HAGER & NORTH INVESTMENT COUNSEL INC.**

**PART I - INTRODUCTION**

1. The Ontario Securities Commission (the “Commission”) will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to subsections 127(1) and (2) of the *Securities Act*, R.S.O. 1990, c. S-5, as amended (the “Act”), it is in the public interest for the Commission to make certain orders in respect of RBC Dominion Securities Inc. (“DS”), Royal Mutual Funds Inc. (“RMFI”), and RBC Phillips, Hager & North Investment Counsel Inc. (“PH&NIC”).
2. DS is a corporation incorporated pursuant to the federal laws of Canada. DS is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and is registered with the Commission as an investment dealer.
3. RMFI is a corporation incorporated pursuant to the federal laws of Canada. RMFI is a member of the Mutual Fund Dealers Association of Canada (“MFDA”) and is registered with the Commission as a mutual fund dealer.
4. PH&NIC is a corporation incorporated pursuant to the federal laws of Canada and is registered with the Commission as a portfolio manager.
5. DS, RMFI, and PH&NIC (each an “RBC Registrant” and collectively, the “RBC Registrants”) are wholly owned, indirect subsidiaries of Royal Bank of Canada (“RBC”).
6. Commencing in February 2015, the RBC Registrants promptly self-reported to Staff of the Commission (“Commission Staff”) the matters described in Part III below. During Commission Staff’s investigation of these matters, the RBC Registrants provided prompt, detailed and candid co-operation to Commission Staff.

7. As summarized at paragraph 14 below and more fully described in Part III below, it is Commission Staff's position that there were inadequacies in the RBC Registrants' systems of controls and supervision which formed part of their compliance systems (the "Control and Supervision Inadequacies") which resulted in certain clients paying, directly or indirectly, excess fees that were not detected or corrected by the RBC Registrants in a timely manner.

## **PART II - JOINT SETTLEMENT RECOMMENDATION**

8. Commission Staff and the RBC Registrants have agreed to a settlement of the proceeding initiated in respect of the RBC Registrants by Notice of Hearing dated June 22, 2017 (the "Proceeding") based on the terms and conditions set out in this settlement agreement (the "Settlement Agreement"). Commission Staff have consulted with IIROC Staff and MFDA Staff in relation to the underlying facts which are the subject matter of this Settlement Agreement.

9. Pursuant to this Settlement Agreement, Commission Staff agree to recommend to the Commission that the Proceeding be resolved and disposed of in accordance with the terms and conditions contained herein.

10. It is Commission Staff's position that:

- (a) the statement of facts set out by Commission Staff in Part III below, which is based on an investigation carried out by Commission Staff following the self-reporting by the RBC Registrants, is supported by the evidence reviewed by Commission Staff and the conclusions contained in Part III are reasonable; and
- (b) it is in the public interest for the Commission to approve this Settlement Agreement, having regard to the following considerations:
  - (i) Commission Staff's allegations are that each of the RBC Registrants failed to establish, maintain and apply procedures to establish controls and supervision:
    - A. sufficient to provide reasonable assurance that the RBC Registrants, and each individual acting on behalf of the RBC Registrants, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
    - B. that were reasonably likely to identify the non-compliance described in A. above at an early stage that would have allowed the RBC Registrants to correct the non-compliant conduct in a timely manner;
  - (ii) Commission Staff do not allege, and have found no evidence of dishonest conduct by any of the RBC Registrants;
  - (iii) the RBC Registrants discovered and promptly self-reported the Control and Supervision Inadequacies to Commission Staff;

- (iv) during the investigation of the Control and Supervision Inadequacies, following the self-reporting by the RBC Registrants, the RBC Registrants provided prompt, detailed and candid cooperation to Commission Staff;
- (v) the RBC Registrants formulated an intention to pay appropriate compensation to eligible clients and former clients when they self-reported the Control and Supervision Inadequacies to Commission Staff and, thereafter, the RBC Registrants co-operated with Commission Staff with a view to providing appropriate compensation to eligible clients and former clients who were harmed by any of the matters in Part III below, including the Control and Supervision Inadequacies (the “Affected Clients”);
- (vi) as part of this Settlement Agreement, the RBC Registrants have agreed to pay appropriate compensation to the Affected Clients, in accordance with a plan submitted by the RBC Registrants to Commission Staff and presented to the Commission (the “Compensation Plan”). As at the date of this Settlement Agreement, the RBC Registrants anticipate paying compensation to Affected Clients of approximately \$21,802,231 in the aggregate in respect of the Control and Supervision Inadequacies;
- (vii) the Compensation Plan prescribes, among other things:
  - A. the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including the time value of money in respect of any monies owed by the RBC Registrants to the Affected Clients;
  - B. the approach to be taken with regard to contacting and making payments to the Affected Clients;
  - C. the timing to complete the steps included in the Compensation Plan;
  - D. a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this Settlement Agreement is approximately \$122,176 as compared to \$21,802,231 in compensation to be paid), which aggregate *de minimis* amount will be donated to Junior Achievement – Financial Literacy Program; Free the Children – It all Adds Up (We Charity); Women’s Brain Health Initiative – Healthy, Wealthy & Wise financial literacy speaker series; and Treasure Academy;
  - E. the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the RBC

- Registrants are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each RBC Registrant will use reasonable efforts to locate any Affected Clients who are eligible to receive payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the RBC Registrant determines that an Affected Client is deceased but does not know the identity of the personal representative of that Affected Client's estate, and the estate is eligible to receive more than \$400, the RBC Registrant shall make reasonable efforts to identify the personal representative of the deceased Affected Client. Subject to any applicable unclaimed property legislation, any amounts remaining undistributed to non-located clients by June 30, 2019 will be donated to Junior Achievement – Financial Literacy Program; Free the Children – It all Adds Up (We Charity); Women's Brain Health Initiative – Healthy, Wealthy & Wise financial literacy speaker series; and Treasure Academy;
- F. the resolution of inquiries of Affected Clients through an escalation process; and
- G. regular reporting to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission ("OSC Manager") detailing the RBC Registrants' progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of Affected Client inquiries;
- (viii) at the request of Commission Staff, each of the RBC Registrants conducted an extensive review of its other business operating in Canada to identify whether there were any other instances of inadequacies in their systems of controls and supervision leading to clients directly paying excess fees, or indirectly paying excess fees on mutual funds managed by RBC Global Asset Management ("GAM"), a subsidiary of RBC. Based on this review, the RBC Registrants have advised Commission Staff that there are no instances other than those instances of Control and Supervision Inadequacies described herein;
- (ix) The RBC Registrants are taking corrective action including enhancing the existing controls and supervision to address the Control and Supervision Inadequacies, by establishing and implementing enhanced procedures and controls, supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future (the "Enhanced Control and Supervision Procedures") and, as part of this Settlement Agreement, the RBC Registrants are required to report to the OSC Manager on the

- development and implementation of the Enhanced Control and Supervision Procedures;
- (x) the RBC Registrants have agreed to make a voluntary payment of \$925,000 to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act;
  - (xi) the RBC Registrants have agreed to make a further voluntary payment of \$50,000 to reimburse the Commission for costs incurred or to be incurred;
  - (xii) the total agreed voluntary payment of \$975,000 will be paid by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission; and
  - (xiii) the terms of this Settlement Agreement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above in addition to the amounts to be paid as compensation to Affected Clients by the RBC Registrants will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:
    - A. provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
    - B. are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.

11. The RBC Registrants neither admit nor deny the accuracy of the facts or the conclusions of Commission Staff as set out in Part III of this Settlement Agreement.

12. The RBC Registrants agree to this Settlement Agreement and to the making of an order in the form attached as Schedule A.

### **PART III - COMMISSION STAFF'S STATEMENT OF FACTS AND CONCLUSIONS**

#### **A. Overview**

13. Commencing in February 2015, the RBC Registrants self-reported the Control and Supervision Inadequacies to Commission Staff. Some clients of the RBC Registrants have fee-based accounts and are charged a fee for investment management services in respect of assets held in the account (the "Fee-Based Accounts"). The investment

management fee is based on the client's assets under management (the "Account Fee"). Further, some of the RBC Registrants' clients may not always have been advised of the existence of, and their eligibility to invest in, or convert their higher Management Expense Ratio ("MER") series of an MER Differential Fund (as defined below) into the lower MER series of the same fund.

14. The Control and Supervision Inadequacies are summarized as follows:

- (a) for some DS and PH&NIC clients with Fee-Based Accounts, non-exchange-traded investment products with embedded trailer fees were incorrectly included in Account Fee calculations, resulting in some clients paying excess fees for the period (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients;
- (b) for some DS and PH&NIC clients with Fee-Based Accounts, assets held in their Fee-Based Accounts and assessed an Account Fee included certain mutual funds with negotiable service fees and exchange-traded investment products with embedded trailer fees, resulting in some clients paying excess fees because DS and PH&NIC received trailer fees for the period (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients;
- (c) beginning in July 9, 2012 for RMFI and January 1, 2008 for DS, until June 30, 2016, some clients who purchased, transferred in from another dealer, or already held units of a mutual fund maintained and managed by GAM were not advised that they qualified for a lower MER series of such mutual fund and indirectly paid excess fees when they invested in the higher MER series of the same mutual fund (the "MER Differential Funds").

15. These Control and Supervision Inadequacies continued undetected for an extended period of time. The RBC Registrants discovered the Control and Supervision Inadequacies following inquiries made and/or reviews conducted by the RBC Registrants.

16. As set out in greater detail below in the section entitled Mitigating Factors, the RBC Registrants have taken and are taking several remedial steps in order to correct the Control and Supervision Inadequacies.

17. The RBC Registrants have engaged an independent third party to assist them in identifying, calculating, and validating the amounts to be paid to Affected Clients.

## B. The Control and Supervision Inadequacies

### (a) Excess Account Fees paid by certain DS and PH&NIC clients on Non-Exchange-Traded Investment Products

18. For some DS and PH&NIC clients who have Fee-Based Accounts, assets held in a Fee-Based Account included certain non-exchange-traded investment products that had embedded trailer fees paid by the issuer of such products to DS and PH&NIC.

19. As part of their reviews, DS and PH&NIC discovered that a number of non-exchange-traded investment products with embedded trailer fees had been incorrectly classified for fee-billing purposes and incorrectly included in the Account Fee in some Fee-Based Accounts during the periods (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients, and, as a result, DS and PH&NIC clients were charged excess Account Fees. Specifically,

- (a) it was determined that DS and PH&NIC did not have adequate systems of internal controls and supervision in place to ensure that non-exchange-traded investment products with embedded trailer fees were classified correctly and excluded consistently from the calculation of the Account Fee;
- (b) it was determined that DS and PH&NIC's internal controls failed to detect this Control and Supervision Inadequacy in a timely manner; and
- (c) DS and PH&NIC took immediate steps to ensure the incorrectly classified non-exchange-traded investment products with embedded trailer fees were classified correctly and excluded consistently from the calculation of the Account Fee on a going forward basis.

20. Upon identification of the issue described above, DS and PH&NIC took steps to determine the extent of the problem and how to calculate and how to compensate Affected Clients who paid excess fees. DS and PH&NIC engaged an independent third party to identify, calculate and validate the amounts to be paid to Affected Clients as compensation for the excess Account Fees paid by them.

21. Having taken the steps described above, DS and PH&NIC self-reported this Control and Supervision Inadequacy to Commission Staff. By October 31, 2016, DS and PH&NIC had corrected the classification errors that had occurred in an effort to address the issue and prevent its reoccurrence.

22. DS and PH&NIC have determined that, as a result of this Control and Supervision Inadequacy, approximately 6,969 client accounts were charged excess Account Fees during the periods (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients.

23. DS and PH&NIC have agreed to compensate Affected Clients who held these securities in their Fee-Based Accounts during the relevant time period in accordance with

the Compensation Plan, which requires that DS and PH&NIC pay to the Affected Clients:

- (a) the excess Account Fees;
- (b) an amount representing the applicable sales tax charged on the excess Account Fees; and
- (c) an amount representing the time value of money in respect of the excess Account Fees from the time the excess Account Fees were charged to June 30, 2017, based on a simple interest rate of 5% per annum calculated monthly (the “Account Fees Foregone Investment Opportunity Cost”).

24. Where Account Fees were undercharged to the client, the benefit of those undercharges will not be set off against any compensation amounts paid to the client. The undercharges will also not otherwise be charged to Affected Clients or any other clients.

25. As at the date of this Settlement Agreement, DS and PH&NIC have determined that the total amount to be paid to these Affected Clients pursuant to the Compensation Plan, inclusive of the Account Fees Foregone Investment Opportunity Cost, is approximately \$4,666,067.

**(b) Excess Trailer Fees paid by certain DS and PH&NIC clients on Mutual Funds and Exchange-Traded Investment Products**

26. For some DS and PH&NIC clients who have Fee-Based Accounts, assets held in a Fee-Based Account included certain mutual funds with negotiable service fees and/or exchange-traded investment products with embedded trailer fees that were paid by the issuer of such products to DS and PH&NIC.

27. As part of their reviews, DS and PH&NIC identified instances in which clients had purchased or held mutual funds with a negotiable service fee or trailer-paying versions of Exchange-Traded Funds (“ETFs”) and Closed-Ended Funds (“CEFs”) in Fee-Based Accounts during the periods (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients. Specifically,

- (a) it was determined that DS and PH&NIC did not have adequate systems of internal controls and supervision in place to ensure that clients were not subject, directly or indirectly, to the negotiable service fees on mutual funds and trailer fees on exchange-traded investment products held in Fee-Based Accounts if those products were subject to an Account Fee;
- (b) it was determined that DS and PH&NIC’s internal controls failed to detect this Control and Supervision Inadequacy in a timely manner; and
- (c) DS and PH&NIC took immediate steps to ensure that when clients purchase mutual funds or exchange-traded investment products in a Fee-Based Account that are subject to an Account Fee, they are not subject, directly or indirectly, to negotiable service fees or trailer fees on those products.

28. Upon identification of the issue described above, DS and PH&NIC took steps to determine the extent of the problem and how to calculate and how to compensate Affected Clients who paid excess fees. DS and PH&NIC engaged an independent third party to identify, calculate and validate the amounts to be paid to Affected Clients as compensation for the excess Account Fees paid by them.

29. Having taken the steps described above, DS and PH&NIC self-reported this Control and Supervision Inadequacy to Commission Staff. By October 31, 2016, DS and PH&NIC had corrected the classification errors that had occurred in an effort to address the issue and prevent its reoccurrence.

30. DS and PH&NIC have determined that, as a result of this Control and Supervision Inadequacy, approximately 40,504 client accounts were charged excess trailers during the periods (i) January 1, 2008 to October 31, 2016 for DS clients and (ii) March 1, 2005 to October 31, 2016 for PH&NIC clients.

31. DS and PH&NIC have agreed to compensate Affected Clients who held these securities in their Fee-Based Accounts during the relevant time period in accordance with the Compensation Plan, which requires that DS and PH&NIC pay to the Affected Clients:

- (a) an amount equal to the negotiable service fee or trailer fee received; and
- (b) an amount representing the time value of money in respect of this negotiable service or trailer fee from the time it was charged to June 30, 2017, based on a simple interest rate of 5% per annum calculated monthly (the “Trailer Investment Opportunity Cost”).

32. Where Account Fees were undercharged to the client, the benefit of those undercharges will not be set off against any compensation amounts paid to the client. The undercharges will also not otherwise be charged to Affected Clients or any other clients.

33. As at the date of this Settlement Agreement, DS and PH&NIC have determined that the total amount to be paid to these Affected Clients pursuant to the Compensation Plan, inclusive of the Trailer Investment Opportunity Cost, is approximately \$14,787,055.

**(c) Excess Indirect Fees paid by some clients of DS and RMFI who invested in the MER Differential Funds**

34. GAM maintains and manages a number of mutual funds that are available in different classes. For certain of these mutual funds, there are two classes of the same mutual fund which differ solely in that the MER of one class, which has a higher minimum investment threshold, is lower (the “Premium Series”) than the MER of the other class (the “Non-Premium Series”).

35. The MER Differential Funds identified with instances of the Control and Supervision Inadequacies were:

- (a) RBC, PH&NIC and BlueBay funds with a Series A, Series C or Advisor and Premium Series H, where the MER differential varied from 2 to 136 basis points;
  - (b) RBC, PH&NIC and BlueBay funds with a Series F and Premium Series I, where the MER differential varied from 1 to 81 basis points;
36. On January 11, 2007, Series I was launched by GAM and most products were made available to DS clients with Fee-Based Accounts who invested \$500,000 or greater. On July 9, 2012, the minimum investment threshold on these products was reduced to \$200,000. Series I Money Market funds were available to DS clients with Fee-Based Accounts who invested \$5,000,000 or greater. The Non-Premium Series counterpart of Series I is Series F.
37. On July 9, 2012, Series H was launched for certain MER Differential Funds and made available to eligible DS and RMFI clients where the amount invested by a client in a MER Differential Fund with Series H was \$200,000 or greater. The Non-Premium Series counterparts of Series H are Series A, Series C and Advisor.
38. On February 29, 2016, GAM announced MER reductions on the Non-Premium Series versions of several of the MER Differential Funds, effective June 30, 2016, and also that the Premium Series of the MER Differential Funds would begin to be phased out. On June 30, 2016, certain Premium Series were closed and re-designated to the corresponding (often reduced-fee) Non-Premium Series and the remaining Premium Series were capped from new investment. Clients holding greater than the relevant threshold in a Non-Premium Series with corresponding capped Premium Series were advised and given the opportunity to convert their units to the Premium Series effective on or prior to June 30, 2016.
39. DS and RMFI conducted a review of the MER Differential Funds to cover the period from January 1, 2008 to June 30, 2016 and determined that certain client accounts invested in the Non-Premium Series that appeared to qualify for a Premium Series of that mutual fund were not invested in that series and therefore holders of those client accounts did not benefit from its lower MER. Specifically,
- (a) DS and RMFI determined that they did not have adequate systems of internal controls and supervision in place to ensure that when a purchase or transfer-in of an investment in a MER Differential Fund, alone or combined with existing MER Differential Fund holdings in the same account, exceeded the minimum investment threshold required to qualify for the Premium Series of the same mutual fund, the client was advised consistently that a lower MER Premium Series of the same MER Differential Fund was available to the client; and
  - (b) DS and RMFI determined that their internal controls failed to identify this Control and Supervision Inadequacy in a timely manner.
40. DS and RMFI have determined that there are approximately 2,974 Affected Clients that ought to have been invested in the Premium Series of the same MER

Differential Fund but were not from January 1, 2008 for DS and July 9, 2012 for RMFI until June 30, 2016.

41. In accordance with the Compensation Plan, in respect of those Affected Clients, DS and RMFI will pay:

- (a) an amount representing the difference in the return that the Affected Client would have received on any share or unit held by the client of an MER Differential Fund had the client been invested in the Premium Series units of that fund in a timely manner upon being eligible to invest in the Premium Series held in that mutual fund for the entire period in which the Affected Client qualified for the Premium Series (the “Difference in Return”); and
- (b) an amount representing the time value of money in respect of the Difference in Return, from the date the Affected Client became eligible for the Premium Series of the MER Differential Funds for any periods up to June 30, 2017 based on a simple interest rate of 5% per annum (the “MER Opportunity Cost”).

42. On this basis, DS and RMFI have determined that the total compensation to be paid to Affected Clients as a result of this Control and Supervision Inadequacy is approximately \$2,349,109, inclusive of the MER Opportunity Cost, where applicable.

### **C. Breaches of Ontario Securities Law**

43. In respect of the Control and Supervision Inadequacies, the RBC Registrants failed to establish, maintain and apply procedures to establish controls and supervision:

- (a) sufficient to provide reasonable assurance that the RBC Registrants, and each individual acting on behalf of the RBC Registrants, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
- (b) that were reasonably likely to identify the non-compliance described in (a) above at an early stage and that would have allowed the RBC Registrants to correct the non-compliant conduct in a timely manner.

44. As a result, these instances of Control and Supervision Inadequacies constituted a breach of section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. In addition, the failures in the RBC Registrants’ systems of controls and supervision associated with the Control and Supervision Inadequacies were contrary to the public interest.

### **D. Mitigating Factors**

45. Commission Staff do not allege, and have found no evidence of dishonest conduct by any of the RBC Registrants or their employees.

46. The RBC Registrants discovered and promptly self-reported the Control and Supervision Inadequacies to Commission Staff.

47. During the investigation of the Control and Supervision Inadequacies by Commission Staff following the self-reporting by the RBC Registrants, the RBC Registrants provided prompt, detailed and candid cooperation to Commission Staff.

48. The RBC Registrants had formulated an intention to pay appropriate compensation to Affected Clients in connection with their self-reporting of the Control and Supervision Inadequacies to Commission Staff and, thereafter, co-operated with Commission Staff with a view to providing appropriate compensation to the Affected Clients who were harmed by any of the Control and Supervision Inadequacies.

49. As part of this Settlement Agreement, the RBC Registrants have agreed to pay appropriate compensation to the Affected Clients, in accordance with the Compensation Plan. As at the date of this Settlement Agreement, the RBC Registrants anticipate paying compensation to Affected Clients of approximately \$21,802,231 in the aggregate in respect of the Control and Supervision Inadequacies.

50. The Compensation Plan prescribes, among other things:

- (a) the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including the time value of money owed by the RBC Registrants to the Affected Clients;
- (b) the approach to be taken with regard to contacting and making payments to the Affected Clients;
- (c) the timing to complete the various steps included in the Compensation Plan;
- (d) a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this settlement is approximately \$122,176 as compared to \$21,802,231 in compensation to be paid), which amount will be donated to Junior Achievement – Financial Literacy Program; Free the Children – It all Adds Up (We Charity); Women’s Brain Health Initiative – Healthy, Wealthy & Wise financial literacy speaker series; and Treasure Academy;
- (e) the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the RBC Registrants are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each RBC Registrant will use reasonable efforts to locate any Affected Clients who are entitled to payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the RBC Registrant determines that an Affected Client is deceased but do not know the identity of the personal representative of the client’s estate, and the estate is entitled to more than \$400, the RBC Registrant shall make reasonable efforts to identify the personal representative of the deceased Affected Client. Subject to any applicable unclaimed property legislation, any amounts

remaining undistributed to non-located clients by June 30, 2019 will be donated to Junior Achievement – Financial Literacy Program; Free the Children – It all Adds Up (We Charity); Women’s Brain Health Initiative – Healthy, Wealthy & Wise financial literacy speaker series; and Treasure Academy;

- (f) the resolution of client inquiries through an escalation process; and
- (g) regular reporting to the OSC Manager detailing the RBC Registrants’ progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of client inquiries.

51. At the request of Commission Staff, the RBC Registrants conducted an extensive review of each of their Canadian business lines to identify whether there were any other instances of inadequacies in their systems of controls and supervision leading to clients directly paying excess fees, or indirectly paying excess fees on MER Differential Funds. Based on this review, the RBC Registrants have advised Commission Staff that there are no instances of Control and Supervision Inadequacies other than those described herein.

52. The RBC Registrants are taking corrective action including implementing the Enhanced Control and Supervision Procedures and, as part of this Settlement Agreement, the RBC Registrants are required to report to the OSC Manager on the development and implementation of the Enhanced Control and Supervision Procedures.

53. The RBC Registrants have agreed to make a voluntary payments totalling \$975,000, as described in paragraphs 10(b)(x) and 10(b)(xi) above.

54. The RBC Registrants will pay the total agreed voluntary payment of \$975,000 by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission.

55. The terms of settlement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above, in addition to the amounts to be paid as compensation to Affected Clients by RBC Registrants, will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:

- (a) provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
- (b) are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.

#### **E. The RBC Registrants’ Undertaking**

56. By signing this Settlement Agreement, each RBC Registrant undertakes to:

- (a) pay compensation to the Affected Clients in accordance with the Compensation Plan and to report to the OSC Manager in accordance with the Compensation Plan; and
- (b) make the voluntary payments referred to in paragraphs 10(b)(x) and 10(b)(xi) above (the “Undertaking”).

#### **PART IV - TERMS OF SETTLEMENT**

57. The RBC Registrants agree to the terms of settlement listed below and consent to the Order in substantially the form attached hereto, that provides that:

- (a) pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;
- (b) pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following conditions:
  - (i) within 90 days of receiving comments from Commission Staff regarding the Enhanced Control and Supervision Procedures, the RBC Registrants shall provide to the OSC Manager revised written policies and procedures (the “Revised Policies and Procedures”) that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Commission Staff with regard to the RBC Registrants’ policies and procedures to establish the Enhanced Control and Supervision Procedures (the “Remaining Issues”);
  - (ii) thereafter, the RBC Registrants shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;
  - (iii) within 8 months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the Remaining Issues raised by Commission Staff (the "Confirmation Date"), the RBC Registrants shall submit a letter (the "Attestation Letter") signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the RBC Registrants to the OSC Manager, expressing their opinion on whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the applicable RBC Registrant for the 6 month period commencing from the Confirmation Date;
  - (iv) the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;
  - (v) the RBC Registrants shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;

- (vi) any of the RBC Registrants or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above; and
- (vii) the RBC Registrants shall comply with the Undertaking.

58. The RBC Registrants agree to make the voluntary payments described in subparagraph 10(b)(x) and 10(b)(xi) by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement.

## **PART V - COMMISSION STAFF COMMITMENT**

59. If the Commission approves this Settlement Agreement, Commission Staff will not commence any proceeding under Ontario securities law in relation to the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 60 below, and except with respect to paragraph 51 above, and nothing in this Settlement Agreement shall be interpreted as limiting Commission Staff's ability to commence proceedings against the RBC Registrants in relation to any control and supervision inadequacies leading to clients paying excess fees other than in respect of the matters described herein.

60. If the Commission approves this Settlement Agreement and any of the RBC Registrants fails to comply with any of the terms of this Settlement Agreement, Commission Staff may bring proceedings under Ontario securities law against the RBC Registrants. These proceedings may be based on, but are not limited to, the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement as well as the breach of this Settlement Agreement.

## **PART VI - PROCEDURE FOR APPROVAL OF SETTLEMENT**

61. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for June 27, 2017, or on another date agreed to by Commission Staff and the RBC Registrants (the "Settlement Hearing"), according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.

62. Commission Staff and the RBC Registrants agree that this Settlement Agreement will form all of the evidence that will be submitted at the settlement hearing on the RBC Registrants' conduct, unless the parties agree that additional evidence should be submitted at the settlement hearing.

63. If the Commission approves this Settlement Agreement, the RBC Registrants agree to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.

64. If the Commission approves this Settlement Agreement, the RBC Registrants will not make any public statement that is inconsistent with this Settlement Agreement or

with any additional evidence submitted at the settlement hearing. In addition, the RBC Registrants agree that they will not make any public statement that there is no factual basis for this Settlement Agreement. Nothing in this paragraph affects the RBC Registrants' testimonial obligations or the right to take legal or factual positions in other investigations or legal proceedings in which the Commission and/or Commission Staff is not a party or in which any provincial or territorial securities regulatory authority in Canada and/or its Commission Staff is not a party ("Other Proceedings") or to make public statements in connection with Other Proceedings.

65. The RBC Registrants will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission's jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

## **PART VII - DISCLOSURE OF SETTLEMENT AGREEMENT**

66. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule A to this Settlement Agreement:

- (a) this Settlement Agreement and all discussions and negotiations between Commission Staff and the RBC Registrants before the settlement hearing takes place will be without prejudice to Commission Staff and the RBC Registrants; and
- (b) Commission Staff and the RBC Registrants will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

67. The parties will keep the terms of this Settlement Agreement confidential until the Commission approves this Settlement Agreement, subject to the parties' need to make submissions at the public settlement hearing.

## **PART VIII - EXECUTION OF SETTLEMENT AGREEMENT**

68. This agreement may be signed in one or more counterparts which, together, constitute a binding agreement.

69. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Dated this 21<sup>st</sup> day of June, 2017

**RBC DOMINION SECURITIES INC.**

Per: "Wayne Bossert"

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Wayne Bossert

Director, RBC Dominion Securities Inc.

Per: "Nick Cardinale"

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Nick Cardinale

Chief Compliance Officer, RBC Dominion  
Securities Inc.

**ROYAL MUTUAL FUNDS INC.**

Per: "Ingrid Versnel"

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Ingrid Versnel

Head, Operations & Technology, RBC Wealth  
Management; Director, Royal Mutual Funds  
Inc.

Per: "Doug Coulter"

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Doug Coulter

President, RBC Global Asset Management;  
Director, Royal Mutual Funds. Inc.

**RBC PHILLIPS HAGER & NORTH  
INVESTMENT COUNSEL**

Per: "Annica Karlsson"

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Annica Karlsson

Director, RBC PH&N Investment Counsel  
Inc.

Per: "Rob McDonald"

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Rob McDonald

VP, Head of Investments, RBC PH&N  
Investment Counsel Inc.

Commission Staff:

Per: "Jeff Kehoe"

Jeff Kehoe

Director, Enforcement Branch

## SCHEDULE A



Ontario  
Securities  
Commission

Commission des  
valeurs mobilières  
de l'Ontario

22nd Floor  
20 Queen Street West  
Toronto ON M5H 3S8

22e étage  
20, rue queen uest  
Toronto ON M5H 3S8

### IN THE MATTER OF THE *SECURITIES ACT* RSO. 1990, c S 5, AS AMENDED

- AND -

### IN THE MATTER OF

**RBC DOMINION SECURITIES INC.,  
ROYAL MUTUAL FUNDS INC., AND  
RBC PHILLIPS, HAGER & NORTH INVESTMENT COUNSEL INC.**

### ORDER

(Subsections 127(1) and 127(2) of the *Securities Act*)

THIS APPLICATION, made jointly by Staff of the Commission and RBC Dominion Securities Inc., Royal Mutual Funds Inc., and RBC Phillips, Hager & North Investment Counsel Inc. (the **RBC Registrants**) for approval of a settlement agreement dated June 21, 2017 (the **Settlement Agreement**), was heard on June 27, 2017 at the offices of the Commission, located at 20 Queen Street West, 17<sup>th</sup> Floor, Toronto, Ontario;

ON READING the Statement of Allegations dated June 22, 2017, the Joint Application Record for a Settlement Hearing dated June 22, 2017, including the Settlement Agreement, and on hearing the submissions of the representatives for the RBC Registrants and Staff;

#### IT IS ORDERED THAT:

- (a) pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;
- (b) pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following terms and conditions:
  - (i) in respect of inadequacies in the RBC Registrants' systems of controls and supervision which formed part of their compliance systems (the **Control and Supervision Inadequacies**), within 90 days of receiving comments from Staff regarding the procedures, controls, and supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future (the **Enhanced Control and Supervision Procedures**), the RBC Registrants shall provide to a manager or deputy director in the

Compliance and Registrant Regulation Branch of the Commission (the **OSC Manager**), revised written policies and procedures (the **Revised Policies and Procedures**) that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Staff with regard to the RBC Registrants' policies and procedures to establish the Enhanced Control and Supervision Procedures (the **Remaining Issues**);

- (ii) thereafter, the RBC Registrants shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;
- (iii) within 8 months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the remaining issues raised by Staff (the **Confirmation Date**), the RBC Registrants shall submit a letter (the **Attestation Letter**), signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the RBC Registrants, to the OSC Manager, expressing their opinion as to whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the RBC Registrants for the 6 month period commencing from the Confirmation Date;
- (iv) the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;
- (v) the RBC Registrants shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;
- (vi) any of the RBC Registrants or Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above;
- (vii) the RBC Registrants shall comply with their undertaking in the Settlement Agreement to:
  - (a) pay appropriate compensation to eligible clients and former clients who were harmed by the Control and Supervision Inadequacies in accordance with a plan submitted by the RBC Registrants to Staff (the **Compensation Plan**) and to report to the OSC Manager in accordance with the Compensation Plan;
  - (b) make a voluntary payment of \$50,000 to reimburse the Commission for costs incurred or to be incurred by it, in accordance with subsection 3.4(2)(a) of the Act; and
  - (c) make a further voluntary payment of \$925,000 to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act; and

- (viii) the voluntary payment referred to in subparagraph (vii)(c) above is designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act.

DATED at Toronto, Ontario this 27th day of June, 2017

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