



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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**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.**

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff ("Commission Staff") of the Ontario Securities Commission (the "Commission") make the following allegations:

I. THE RESPONDENTS

1. RBC Dominion Securities Inc. ("DS") is a corporation incorporated pursuant to the federal laws of Canada. DS is a member of the Investment Industry Regulatory Organization of Canada and is registered with the Commission as an investment dealer.
2. Royal Mutual Funds Inc. ("RMFI") is a corporation incorporated pursuant to the federal laws of Canada. RMFI is a member of the Mutual Fund Dealers Association of Canada and is registered with the Commission as a mutual fund dealer.

3. RBC Phillips, Hager & North Investment Counsel Inc. (“PH&NIC”) is a corporation incorporated pursuant to the federal laws of Canada and is registered with the Commission as a portfolio manager. Each of DS, RMFI and PH&NIC (collectively, the “RBC Registrants”) is a wholly owned, indirect subsidiary of Royal Bank of Canada.

II. THE RBC REGISTRANTS’ CONDUCT

4. Commencing in February 2015, the RBC Registrants promptly self-reported to Commission Staff inadequacies in their 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.
5. Commission Staff do not allege, and have found no evidence of dishonest conduct by any of the RBC Registrants.
6. 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. The RBC Registrants are taking corrective action, including implementing enhanced procedures and controls, and supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future.
7. 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”).

8. RBC Global Asset Management (“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 Management Expense Ratio (“MER”) of one class, which has a higher minimum investment threshold, is lower than the MER of the other class.

9. 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.

III. BREACHES OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

10. 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.
11. 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.
12. Commission Staff reserve the right to make such other allegations as Commission Staff may advise and the Commission may permit.

DATED at Toronto, this 22nd day of June, 2017.