



## **RBC Capital Markets Regulatory Disclosures: Equities and Listed Options**

### **Introduction**

RBC Capital Markets, LLC (“RBCCM” or “Firm”) is supplying you with the disclosures outlined below in order to provide important information about our services. Please read these disclosures carefully and retain them for future reference. If you have any questions regarding RBCCM’s Regulatory Disclosures, or wish to discuss them further, please contact your RBCCM sales coverage for additional information.

### **Compliance with Applicable Laws**

RBCCM is committed to conducting its business in compliance with all applicable governmental laws, rules and regulations. As a reminder, we expect that all orders received from each client comply with and fulfill all obligations under applicable laws, rules and regulations, and with the policies and practices of securities and futures exchanges and clearing houses, alternative trading facilities, and self-regulatory organizations.

### **Best Execution**

RBCCM takes a number of factors into consideration in determining how to route and execute customers’ orders, including but not limited to: the size and type of order (i.e., Market, Limit, etc.), the terms and conditions of the order, the trading characteristics of the security, the character of the market for the security, the accessibility of liquidity, transaction costs, the opportunity for price or size improvement, the speed of execution, and the level of service provided by the market venue. In addition, the pricing structure offered by certain exchanges may result in RBCCM receiving rebates or paying fees when posting orders which provide liquidity or executing against resting orders to remove liquidity. RBCCM does not handle orders with the goal of minimizing fees or collecting exchange rebates. We may, however, factor these fees or rebates into our order routing methodology only when all other best execution factors are comparable. In some instances, the amount of rebates may exceed the fees paid.

### **Order Handling**

Orders received marked as “held” will be handled on that basis. However, orders handled via electronic order execution services or smart order routing (“SOR”) technology will be executed on a “not held” basis.

For example, all orders routed to RBCCM's trading algorithms and SORs (collectively, "Algorithmic Trading Systems") will be handled on a "not held" basis, unless marked otherwise, granting RBCCM time and price discretion for your orders. Where a conflict arises between an order that is designated as "held," but also contains explicit order instructions to be "worked," or is designated to be executed via RBCCM's Algorithmic Trading Systems, RBCCM reserves the right to treat the order as "not held."

### **SEC Rules 605 & 606**

The following disclosure provides information about RBCCM's publication of Order Execution Information in compliance with SEC Rule 605 and Order Routing Information in compliance with SEC Rule 606. SEC Rule 605 requires firms to publish certain execution quality statistics on a monthly basis related to each firm's handling of "held" orders. Additionally, SEC Rule 606(a) requires firms to publish certain information on a quarterly basis related to each firm's routing behavior of "non-directed" customer order flow. In accordance with SEC requirements, RBCCM is publishing statistical information about its routing of certain customers' orders in NMS Securities and Listed Options. SEC rules require all registered broker-dealers that route orders in certain equity and option securities to make publicly available quarterly reports that present a general overview of a firm's in-scope order routing practices.

Additionally, SEC Rule 606(b)(1) and 606(b)(3) requires firms to produce, upon request, customer-specific reports containing order routing information for the six months prior to such request. SEC Rule 606(b)(1) applies only to options orders, and "held" and "not held" orders in NMS Securities not covered under 606(b)(3), with reports disclosing information including venues routed to, whether orders were directed or non-directed, and the times of any related trades. SEC Rule 606(b)(3) applies to "not held" orders in NMS Securities, with reports disclosing information including venues routed to, whether orders were directed or non-directed, as well as the number of shares sent to a given broker-dealer, shares executed as principal by the broker-dealer, and the number of orders exposed by the broker-dealer as actionable IOIs and the related venues.

For access to RBCCM's Order Execution Information published in accordance with SEC Rule 605, please visit [the webpage available here](#) for Reports through March 2018.<sup>1</sup> For Reports published after March 2018 please visit the webpage available [here](#).<sup>2</sup> For access to RBCCM's Order Routing Information published in accordance with SEC Rule 606, please visit the webpage available [here](#)<sup>3</sup> for Reports through [the fourth quarter of 2019](#).<sup>4</sup> For Reports for the first quarter of 2020 and onward, please visit [the webpage available here](#).<sup>5</sup>

### **SEC Rule 15c3-5 Market Access**

SEC Rule 15c3-5 requires broker-dealers that access or provide access to exchanges or alternative trading systems to establish, document and maintain a system of risk management controls that are reasonably designed to manage the financial, regulatory and other risks in connection with market access. RBCCM has developed controls that may pause or reject select orders that exceed certain pre-determined risk parameters. For certain paused orders, RBCCM will determine if it is appropriate to send the orders to the market based upon a variety of factors, including, but not limited to, order size, price and volume considerations.

### **FINRA Rule 5270**

FINRA Rule 5270 provides that no broker-dealer may cause an order for a security (including “related financial instruments,” such as options, derivatives, or securities-based swaps) to be executed when a firm has material, non-public market information concerning an imminent block transaction in that security (or a security underlying a related financial instrument) until such time the information concerning the block transaction has been made publically available, or has otherwise become stale or obsolete. In the normal course, RBCCM accepts and facilitates customer block orders, including block orders in single stocks, baskets of securities, and derivatives. RBCCM may trade principally at prices that would satisfy a customer block order, where such transactions are unrelated (e.g., as a result of information barriers) to the customer block order. Under certain circumstances, RBCCM may also use information concerning customer orders or proposed transactions to facilitate the execution of those orders or transactions and may, subject to applicable rules and regulations, take the information into account in limiting the risks to which RBCCM is subject in the course of its activities. As a result, RBCCM may seek to engage in bona fide hedging or positioning activity in individual or related securities or derivatives to reduce or eliminate the market risk associated with the facilitation of a customer block order. While such trading activity may impact the execution price of the customer block order, RBCCM will use reasonable efforts to avoid or minimize any such impact and to obtain the best possible execution for the customer block order.

### **FINRA Rule 5320**

FINRA Rule 5320 provides that a firm that receives a customer order and does not execute that order immediately may not trade that same symbol on the same side of the market from a principal account at a price that would satisfy the customer order, unless a firm immediately executes the customer order up

to the size of and at the same price or better than the principal execution. This Rule does not apply to “not held”, riskless principal, odd lot, bona-fide error, and intermarket sweep orders (“ISO”).

While FINRA Rule 5320 generally prohibits Firm principal orders from trading ahead of customer order flow, RBCCM may execute for a principal account, from time-to-time, at prices that would satisfy institutional customer order flow. Rule 5320 contains a “no knowledge” exemption, which permits a firm to trade for its own account in certain securities provided that the unit trading does not have knowledge of client orders that would trigger restrictions under the Rule. These principal account executions typically occur in the context of market-making activity, and may include trading activity in connection with capital commitment, bona-fide hedging activities, and error trades. Furthermore, principal orders entered into the RBCCM’s trading algorithms may receive executions in front of, or alongside of, customer order flow for reasons unrelated to order capacity, such as: time/price order priority, order aggressiveness, strategy selection, and other order restrictions.

Additionally, RBCCM utilizes a system of internal controls, including information barriers, to prevent the flow of information between separate and distinct trading units. RBCCM’s information barriers may allow its market-making desk to trade principally at prices that would otherwise satisfy an open, marketable customer order.

You may instruct RBCCM not to trade at prices that would otherwise satisfy an open, marketable customer order without order-by-order consent. In the event that you have questions or object to any of these order handling practices, please contact your RBCCM sales coverage.

### **Regulation NMS Order Protection Rule**

Rule 611 of Regulation NMS (the “Order Protection Rule”) establishes intermarket price protection against trade-throughs for all NMS stocks (broadly, exchange listed securities other than options) by restricting the execution of trades on automated trading centers at prices inferior to the protected quotes displayed by other automated trading centers. A “trade-through” occurs when a market participant executes an agency or principal order during regular market hours at a price that is worse than the protected quotes displayed by these trading centers. As such, when executing your order in an NMS stock, RBCCM is prohibited from effecting transactions at prices that are lower (higher) than the best bids (offers) in the market, without first satisfying the better-priced protected quotes.

The Order Protection Rule contains several exceptions that permit the execution of trades at prices that would otherwise constitute a trade-through. In the absence of another exception, RBCCM will

simultaneously route one or more intermarket-sweep limit orders (“ISOs”), as necessary, to execute against the full displayed size of any superior priced protected bid, in the case of an order to sell, or the full displayed size of any protected offer, in the case of an order to buy, for an NMS security.

In general, RBCCM will provide customers with the automatic ISO executions priced better than an agreed upon trade price. However, if you prefer to receive one execution at the agreed upon price rather than the fills generated through the ISO route, please notify your RBCCM sales coverage so that your consent may be documented on an order by order basis.

### **Indications of Interest**

RBCCM uses certain service providers to advertise indications of interest (“IOI”). When publishing IOIs, RBCCM will adhere to the guidance issued by regulators and service providers. This includes the manner in which RBCCM will designate an IOI as a “natural” IOI. For example, IOIs will generally be considered “natural” when:

- RBCCM has received a client order, and the order has been entered into an order management system;
- RBCCM receives client instructions that they have a bona fide interest to trade a specified quantity or “meaningful size” of a security; or
- RBCCM facilitates a client order as principal and is liquidating or covering the resultant risk position, or is otherwise engaged in transactions to hedge customer-facing activities.

### **Net Trades**

In order to facilitate orders on a “net” basis, RBCCM will, after receiving such order, accumulate a position in a principal account and execute the order at the average price of the accumulation plus or minus an agreed upon compensation. Accordingly, the “net” price you receive will include the compensation that you agreed to pay RBCCM. Since the “net” price is the price that is reported by RBCCM to the Consolidated Tape, it will appear as the price on your confirmation. Therefore, the client confirmation will not separately disclose the compensation that RBCCM earned on the trade. The actual prices used to facilitate the order(s) are available upon request. If you have no objection to RBCCM executing orders on a “net” basis, as described, you need not respond to this letter and no action is necessary.

### **Buy-In Disclosure**

Pursuant to Rule 204 of Regulation SHO, in connection with any customer sale transaction that results in a fail to deliver (“FTD”) of a U.S. equity security at a registered clearing agency, prior to the open of trading on T+4 (in the case of short sales) or T+6 (in the case of long sales, or short sales in connection with bona-fide market making activity), RBCCM will immediately seek to resolve the fail by borrowing securities to make delivery or by engaging in a “buy-in” transaction in which RBCCM purchases the securities in the market in satisfaction of its delivery obligation. RBCCM reserves the right to charge the seller for the cost of such close-out borrows or buy-in transactions. To the extent RBCCM is unable to timely resolve a FTD, our customers’ ability to effect short sales through RBCCM in the failing security will be constrained. Accordingly, customers are advised to make every effort to settle their transactions with RBCCM in a timely manner so as to avoid the possibility of a FTD.

### **Extended Trading Hours**

Under extended hours trading (“ETH”), RBCCM clients may have the ability to trade stocks either before or after regular market hours, which are 9:30 a.m. to 4:00 p.m. Eastern Time. This option provides our clients with greater opportunities to trade securities and manage their portfolios. However, participating in ETH entails several material risks, which may include the following:

#### **Risk of Lower Liquidity**

Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in ETH as compared to regular market hours. As a result, your order may only be partially executed, or not at all.

#### **Risk of Higher Volatility**

Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in ETH than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in ETH than you would during regular market hours.

#### **Risk of Changing Prices**

The prices of securities traded in ETH may not reflect the prices either at the end of regular market hours, or upon the opening the next morning. As a result, you may receive an inferior price in ETH than you would during regular market hours.

#### Risk of Unlinked Markets

Depending on the ETH system or the time of day, the prices displayed on a particular ETH system may not reflect the prices in other concurrently operating ETH systems dealing in the same securities. Accordingly, you may receive an inferior price in one ETH system than you would in another ETH.

#### Risk of News Announcements

Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In ETH, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.

#### Risk of Wider Spreads

The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in ETH may result in wider than normal spreads for a particular security.

#### Risk of Lack of Calculation or Dissemination of Underlying Index Value or Intraday Value

For certain products, an updated underlying index value or intraday indicative value may not be calculated or publicly disseminated in ETH. Since the underlying index value and intraday indicative value are not calculated or widely disseminated during ETH, an investor who is unable to calculate implied values for certain derivative securities in those trading sessions may be at a disadvantage to market professionals. Additionally, securities underlying the indexes or portfolios will not be regularly trading as they are during RTH, or may not be trading at all. This may cause prices during ETH to not reflect the prices of those securities when they open for trading.

#### Orders

Orders entered for execution outside of regular hours trading (“RTH”) must be specifically designated as such and will not carry over from regular trading sessions unless RBCCM and you specifically agree to the

contrary. Orders not executed by the close of the non-regular trading session, on the day that RBCCM receives them, will be cancelled, unless RBCCM and you specifically agree to the contrary.

#### Handling of Orders

RBCCM will attempt to have all orders received by it for execution outside of RTH executed in a timely manner. However, because the bid and offer prices of orders reflected in quotations outside of RTH are subject to change, there is no guarantee that your orders will be executed. In addition, delays or failures in communications or other computer system problems may cause delays in, or prevent, the execution of orders. As with orders entered during the regular trading sessions, you agree that RBCCM may deliver your order to an electronic communication network or other alternative trading system that, although operated independently of RBCCM, may have RBCCM or one of its affiliates as an equity investor. In addition, RBCCM and one or more of its affiliates may decide to display orders or to trade with limit orders displayed by RBCCM on your behalf. These affiliates may operate independently of RBCCM.

#### Cancellation or Change Requests

You may attempt to change or cancel orders placed outside of RTH at any time so long as they have not been executed. Due to the risk of communication delays, it is possible that all or a portion of such orders may be executed before the change or cancellation request is processed. Unless RBCCM and you specifically agree to the contrary, you cannot change an order entered outside of RTH to a regular trading session order, and all unexecuted orders placed outside of RTH will be cancelled at the close of the trading session, on the day that RBCCM receives them.

#### Trade Settlement

The trade date for orders entered outside of RTH will be the date of order execution. Such trades will normally settle in accordance with the customer settlement time applicable to the market in which orders were executed.

### **SEC Rule 105 of Regulation M — Important Information for Persons Seeking Allocations of Public Offering Securities**

SEC Rule 105 of Regulation M generally prohibits any person that sold short securities subject to a public securities offering within a specified period of time immediately preceding the pricing of the offering from, in turn, purchasing securities in that offering. For additional information on Rule 105, please see the SEC's



adopting release, available at: <http://www.sec.gov/rules/final/2007/34-56206.pdf>.

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## **RBC Capital Markets Regulatory Disclosures: Options**

### **Professional Customer Designation for Option Orders**

In order to properly represent orders entered on exchanges, RBCCM is required to indicate whether public customer orders are “Professional Orders.” As such, a customer must notify RBCCM if it believes that it meets the definition of a Professional Customer: (1) it is not a broker-dealer; and (2) it places more than 390 listed options orders per day for its own beneficial account, executed or not, on average during a calendar month. Similarly, broker-dealers that route listed option orders to RBCCM have an obligation to review such order flow and appropriately designate customer orders as Professional Orders. To the extent RBCCM identifies a customer who meets the definition of a Professional Customer during any month of a calendar quarter; RBCCM will represent that customer’s orders as Professional Orders within five (5) days of the next calendar quarter. If, during a quarter, an exchange identifies a customer for which orders are not being represented as Professional Orders but that has averaged more than 390 orders per day during a month, the exchange will notify RBCCM, and RBCCM will be required to change the manner in which it is representing the customer’s orders within five (5) days.

### **Order Origin Codes**

Customers must communicate to their RBCCM sales coverage which order origin code shall be used to execute their order(s), including whether a customer registered as an options market-maker is registered on a particular exchange. To the extent orders will be placed under a new order origin code and/or if a customer uses multiple origin codes when sending options orders to RBCCM, it is the customer’s responsibility to ensure that the appropriate codes are communicated to their RBCCM sales coverage.

### **Option Position Limits**

FINRA and options exchange rules place a position limit on the number of puts and calls on the same side of the market and in the same underlying security that an investor, or group of investors acting in concert or under common control can write or hold. Positions are calculated by aggregating positions that express similar market sentiment (e.g., long calls/short puts and short calls/long puts) and quantified as equivalent terms of stock. Limits, which are set by the options exchanges, are based on the number of shares

outstanding and trading volumes of the securities underlying the options. These limits apply to options written or purchased on different exchanges and using different accounts. Customers are required to comply with exchange and regulatory rules related to options position limits, including the availability of hedging exemptions, and should determine the current limits before engaging in any options transactions. In the event a customer's transaction exceeds the position limit for a security, RBCCM personnel reserve the right to inquire into the hedging exemption the customer relied upon.

### **The Characteristics and Risks of Standardized Options**

RBCCM's Options Disclosure Document ("ODD") details the characteristics and risks of listed options, and it may be obtained online at the [webpage available here](#)<sup>6</sup> or by contacting your RBCCM sales coverage. Please review the ODD prior to transacting in options.

### **"Tied-Hedge"**

When handling an option order of 500 contracts or more on your behalf, RBCCM may buy or sell a hedging stock, security futures or futures position following receipt of the option order but prior to announcing the option order to the trading crowd. The option order may thereafter be executed using the Chicago Board Options Exchange's tied hedge procedures. These procedures permit the option order and hedging position to be presented for execution as a net-priced package subject to certain requirements. For further details on the operation of the procedures, please refer to Chicago Board Options Exchange Rule 6.74.10, which is available at [www.cboe.org/Legal](http://www.cboe.org/Legal)

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## **RBC Capital Markets Regulatory Disclosures: General**

### **Large Trader**

Customers who have registered as large traders are required to notify RBCCM and provide their larger trader identification numbers ("LTID"). RBCCM has a responsibility to monitor its customers' accounts for compliance with SEC Rule 13h-1's large trader registration requirement. As a result, RBCCM monitors and keeps records of the activity of any customers RBCCM knows or has reason to know is a large trader based on that customer's transactions, and is obligated to report large trader transaction information to the SEC upon request. RBCCM will notify customers who exceed the large trader activity level of their obligations and the self-identification requirements under Rule 13h-1.

### **FINRA RULE 2266 SIPC Information**

RBCCM is a member of the Securities Investor Protection Corporation (“SIPC”). Clients may obtain information about SIPC, including the SIPC brochure, by [visiting the webpage available here](#)<sup>7</sup> or by calling (202) 371-8300.

### **FINRA RULE 2267 Investor Education and Protection**

BrokerCheck provides investors with the ability to research the professional backgrounds, business practices, and conduct of FINRA-registered brokerage firms and brokers. In connection with this program, investors may call the BrokerCheck Hotline at (800) 289-9999, and visit the FINRA [webpage available here](#).<sup>8</sup> An investor brochure that includes information describing the FINRA BrokerCheck program is available from either of these sources.

### **Privacy Policy**

RBCCM is dedicated to protecting clients’ privacy and safeguarding the personal, business, and financial information entrusted to us. RBCCM follows comprehensive privacy policies and security practices in compliance with applicable laws and regulatory requirements. RBCCM’s Privacy Policy describes how RBCCM collects and uses client information, how it may be shared and with whom, and your choices as a client. RBCCM’s privacy policy can be found at the [webpage available here](#).<sup>9</sup>

### **Telephone and Recording Devices**

As part of our compliance with applicable laws and regulations, certain telephone lines in our sales and trading departments may be recorded. Please note these recordings will be made with the use of a spoken warning, tone, or similar notification.

### **Notice to Canadian Customers**

Canadian securities orders from Canadian clients must be placed directly with RBC Dominion Securities (“RBC DS”). RBC DS is the IIROC Dealer Member.

In accordance with National Instrument 31-103 (Registration Requirements and Exemptions), RBCCM makes the following representations:

If RBCCM is trading with you in reliance upon the international dealer exemption from the dealer registration requirement under NI 31-103, RBCCM is subject to trading restrictions, including, among other things, that RBCCM is only permitted to trade “foreign securities” with “permitted clients” resident in Canada. A foreign security is a security issued by an issuer incorporated, formed or created under the laws of a foreign (i.e., non-Canadian) jurisdiction or a security issued by a government of a foreign

jurisdiction. Pursuant to NI 31-103, this definition does not include inter-listed securities of Canadian issuers. This serves to put you on notice that you should only place orders with RBCCM for foreign securities in accordance with NI 31-103.

### **Canada's Anti-Spam Legislation ("CASL")**

CASL sets forth the requirements for sending any commercial electronic message ("CEM") to the electronic address of a person within Canada. Pursuant to CASL, any CEMs sent to you by RBCCM are exempt from CASL under the exemption provided for inter-business CEMs.

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<sup>1</sup> <https://private.tagaudit.com/do/display?page=Public::R605N>

<sup>2</sup> RBCCM as April 2018 is using BestXStats to publish SEC Rule 605 Reports  
[http://private.bestxstats.com/605\\_public/?bxs\\_mpid=rbcm](http://private.bestxstats.com/605_public/?bxs_mpid=rbcm)

<sup>3</sup> <https://private.tagaudit.com/do/display?page=Rule606::Report::Public>

<sup>4</sup> Please note that based on the SEC's requirements, these statistics capture only a portion of RBCCM's order flow. These statistics are intended to provide only an overview of RBCCM's order routing practices. Accordingly, the statistics do not create a reliable basis on which to assess whether RBCCM or any other trading venue has satisfied its duty of best execution. RBCCM has made every attempt to provide these statistics in compliance with SEC Rules, however, errors may occur or certain system outages may cause the data to be incorrect.

<sup>5</sup>As of the Second Quarter 2018 RBCCM is using BestXstats to publish Rule 606 Reports  
[https://private.bestxstats.com/606\\_public/?company=rbcm](https://private.bestxstats.com/606_public/?company=rbcm)

<sup>6</sup> <http://www.optionsclearing.com/components/docs/riskstoc.pdf>

<sup>7</sup> <http://www.sipc.org>

<sup>8</sup> <http://www.finra.org/Investors/ToolsCalculators/Brokercheck/>

<sup>9</sup> <http://www.rbc.com/privacysecurity/int/our-privacy-principles.html>