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RBC Capital Settles with SEC for $800K Over Muni Bond Dealings.

RBC Capital Markets has agreed to pay more than $800,000 to settle charges that the firm engaged in unfair dealing in municipal bond offerings, according to the Securities and Exchange Commission.

The SEC alleges that between January 2014 and December 2017, RBC Capital Markets allocated bonds meant for institutional customers and dealers to unregistered brokers known as "flippers," according to an SEC order published on Friday last week. The flippers, in turn, sold the bonds to other broker-dealers at a profit, according to the SEC.

RBC Capital Markets agreed to the censure and to pay $863,326 without admitting or denying the SEC's findings. The amount included a $150,000 penalty, disgorgement of $552,440 and prejudgment interest of $160,886, according to the SEC.

In three specific instances, the SEC said RBC Capital Markets went as far as to violate instructions from an issuer that the firm prioritize retail customers first and that "RBC knew or should have known that flippers were not eligible for retail or institutional priority."

"RBC improperly acquired new issue municipal bonds for the firm's inventory by placing orders with the flippers to circumvent the lower priority that issuers typically assigned to non-syndicate dealer orders in offerings that it did not underwrite," according to the SEC order.

RBC Capital Markets is registered with the SEC as a broker-dealer, municipal securities dealer, investment advisor and municipal advisor.

The municipal bond offering violations are among the SEC's focus areas. The regulator says it has taken action against municipal bond offering flipping and other retail order period violations eight times since August 2018, including in July 2020 when it ordered UBS Financial Services to pay $10 million over similar allocation violations, which the firm agreed to do without admitting or denying the findings.

SEC Orders UBS to Pay $10M for Violating Municipal Bond Offering Rules
"We will continue to pursue those who undermine priority rules and crowd out legitimate retail or institutional customers from getting access to newly issued municipal bonds," LeeAnn Gaunt, chief of the SEC division of enforcement's public finance abuse unit, said in a statement.

Separately, the SEC issued orders against former RBC Capital Markets head of municipal sales, trading and syndication Kenneth Friedrich and the head of its municipal syndicate desk, Jaime Durando. The agency said that Friedrich and Durando "permitted the improper allocation and sale of new issue bonds to the flippers, and that Friedrich also permitted the improper purchase of new issue bonds for RBC's own inventory through the flippers."

Friedrich and Durando each agreed to a censure and to pay $30,000 and $25,000, respectively, according to the SEC. Friedrich also consented to a six-month limitation on supervisory activities and a six-month prohibition on trading negotiated new issue municipal securities.

Friedrich was registered at RBC Capital Markets from 1999 to 2017, while Durando has been at registered at the firm since 2006, according to their BrokerCheck records.

Financial Advisor IQ

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