STATEMENT OF DISCIPLINARY ACTION

The Disciplinary Action

1. The Securities and Futures Commission (**SFC**) has reprimanded and fined RBC Investment Services (Asia) Limited (**RBC**) HK$7,700,000 pursuant to section 194 of the Securities and Futures Ordinance.

2. The disciplinary action is taken because RBC failed to segregate client money and transferred client securities without standing authority from the clients, in breach of the Securities and Futures (Client Money) Rules (**Client Money Rules**) and the Securities and Futures (Client Securities) Rules (**Client Securities Rules**).

Summary of Facts

3. Between January 2019 and August 2020, RBC self-reported incidents of its failure to segregate client money and transfer of client securities without standing authority from clients, which might be in breach of the Client Money Rules and the Client Securities Rules. The SFC has conducted an investigation into those incidents.

A. Failure to segregate client money

4. The SFC's investigation found that between January 2018 and August 2020, RBC had failed to segregate client money as required under the Client Money Rules on 86 occasions, involving individual transaction amounts ranging from HK$146 to HK$52 million (see sections A1 to A5 below). The failures were caused by a multitude of reasons.

A1. Intra-day transfers of funds from client segregated account to house account – 68 incidents

5. Between 2 November 2018 and 17 May 2019, there were 68 occasions where RBC made intra-day transfers of monies (involving a total of HK$807 million) from its client segregated account to its house account for settling loan repayments, making intra-group payments and payroll funding.

6. RBC explained that these intra-day transfers (**Practice**) were done for the sake of convenience, and it conducted daily adjustments at around 4 p.m. on the same day to ensure that the appropriate amount of client monies were segregated.

7. The Practice was in breach of section 5(1) of the Client Money Rules.

8. According to RBC:

   (a) the Practice has been adopted by its staff since at least 2000; and

   (b) it had not duly considered whether the Practice was in compliance with section 5(1) of the Client Money Rules and only became aware that it was in breach of the requirement during the course of mapping out the process flow for a finance process improvement project it was conducting.

A2. Calculation errors due to a mistake in the relevant spreadsheet – 11 incidents

9. There were 11 incidents between 13 December 2018 and 8 January 2019 where client money was under-segregated (with a total sum of HK$8,135,769.76) due to calculation errors, in breach of section 4(4) of the Client Money Rules. The errors were caused

by an inadvertent deletion of a summation formula in the spreadsheet template which was used to calculate the daily client amount for segregation.

A3. Delayed dividend distribution – 5 incidents

10. On 5 occasions between 3 July and 11 August 2020, RBC failed to pay dividends received from RBC's house account to its client segregated account within 1 business day after receipt of the dividends, in breach of section 4(4) of the Client Money Rules. The delay ranged from 4 to 34 business days, involving 13 clients and approximately HK$390,000.

11. According to RBC, the 5 incidents were caused by system failure in extracting the dividend entries and flagging of exceptional items, human error and/or misunderstanding between the staff members' respective responsibilities on issuance of dividends.

A4. Deposit not entered in relevant spreadsheet – 1 incident

12. On 15 February 2019, a maker[1] noted that he had omitted to add a deposit of client money to the spreadsheets for calculating the amount of client money required to be segregated after he had passed them to the checker for review. The maker informed the checker of the error, and the latter only updated one relevant spreadsheet and omitted to update the other – the 2 spreadsheets together were used to calculate and derive the daily client fund segregation amount. This resulted in an under-segregation of HK$48,500,000 in the client segregated account, in breach of section 4(4) of the Client Money Rules.

13. As the checker entered the deposit instead of the maker, there was no second level check of the entry.

A5. Manual error – 1 incident

14. On 31 January 2018, an RBC staff made a manual error by using the CNY balance on a wrong date to determine the amount of client money required to be segregated. This resulted in an under-segregation of CNY 17,950.68, in breach of section 4(4) of the Client Money Rules.

15. The error was caused by an oversight of the maker, and it was not detected by the checker.

B. Depositing securities collateral to recognized clearing house without a valid standing authority

16. On 25 March 2020, RBC's Compliance team enquired with its Operations team on the procedures it followed in respect of the standing letter of authorization (**SLOA**) for all listed options trading clients. The SLOAs authorized RBC to deposit clients' securities in their margin accounts to SEHK Options Clearing House Limited (**SEOCH**) as collateral to cover the margin requirement for their open short options position.

17. On 26 March 2020, the Operations team advised the Compliance team that it had not annually renewed the SLOAs from non-professional investor clients (**non-PIs**) since around August 2011. RBC then became aware that its practice of not renewing its

[1] "Makers' and "checkers" are RBC staff in the Operation team responsible for compiling and checking the client funding spreadsheets for calculating the amount of client money required to be segregated.

non-PIs' SLOAs might not be in line with the requirements under the Client Securities Rules.

18. According to RBC:

(a) RBC reviewed 2,074 options contract transactions from 3 December 2012 to 26 March 2020 involving 124 accounts. It found that out of the 124 accounts, 65 accounts were accounts of non-PIs[2] (**Affected Clients**) whose securities were transferred to SEOCH as collateral in respect of the open positions arising from those clients' options contract transactions without valid SLOAs as RBC did not renew the SLOAs with the non-PIs; and

(b) all the Affected Clients provided authorization to deposit securities in their margin accounts as collateral to cover the margin requirements for their open short options positions at the time their accounts were opened. The decision not to renew the SLOAs from August 2011 was due to a misinterpretation of the Client Securities Rules by the then Head of Operations and the then Compliance Manager, who considered that transferring collateral to SEOCH was part of the normal margin requirement process for options trading and clients' consents were implicit.

19. The failure to renew SLOAs from non-PIs before depositing their securities in their margin accounts to SEOCH as collateral to cover the margin requirement for their open short options position was in breach of sections 4(3), 7 and 10 of the Client Securities Rules.

Conclusion

20. The conduct of RBC set out above constitutes a breach of:

(a) sections 4(4) and 5(1) of the Client Money Rules as it failed to segregate client money in 86 incidents between January 2018 and August 2020;

(b) sections 4(3), 7 and 10 of the Client Securities Rules as it transferred clients' securities to a clearing house as collateral without having obtained valid SLOAs from 65 clients between December 2012 and March 2020;

(c) General Principles 2 (Diligence), 8 (Client assets) and paragraph 11.1 (Handling of client assets) of the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (**Code of Conduct**) as it failed to act with due skill, care and diligence, in the best interest of its clients and to ensure that client assets are promptly and properly accounted for and adequately safeguarded;

(d) General Principle 3 (Capabilities) and paragraphs 4.1 (Fit and proper staff) of the Code of Conduct as it failed to employ fit and proper staff to handle its client assets given that the failures mentioned above were partly attributable to mistakes made by its staff members and/or their misunderstanding of the requirements under the Client Money Rules and Client Securities Rules; and

(e) General Principle 7 (Compliance) and paragraph 12.1 (Compliance: in general) of the Code of Conduct as it failed to comply with, and implement and maintain

[2] Out of the 65 non-PI s' accounts, 29 were identified as closed and 36 are active as of 2 April 2020. The 29 closed non-PIs' accounts and 36 active non-PIs' accounts were respectively involved in 261 and 522 of the 2,074 relevant historical transactions.

measures appropriate to ensuring compliance with the Client Money Rules, the Client Securities Rules and the Code of Conduct.

21. In deciding the disciplinary sanction set out in paragraph 1, the SFC has had regard to its Disciplinary Fining Guidelines and has taken into account all relevant considerations, including:

    (a) RBC's remedial actions and self-report to the SFC regarding its breaches of the Client Money Rules and Client Securities Rules;

    (b) RBC's co-operation in resolving the SFC's concerns and accepting the SFC's findings and disciplinary action; and

    (c) there is no evidence of client loss from RBC's non-compliance.