

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

THE ROYAL BANK OF SCOTLAND PLC
Edinburgh, Scotland

and

RBS SECURITIES INC.
Stamford, Connecticut

Docket No. 15-007-B-FB
15-007-CMP-FB

Order to Cease and Desist and
Order of Assessment of a Civil
Money Penalty Issued Upon Consent
Pursuant to the Federal Deposit
Insurance Act, as Amended

WHEREAS, The Royal Bank of Scotland PLC (the “Bank”) is a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)) that controls a large complex financial organization that consists of a number of separate business lines and legal entities in many countries around the world (together with its branches and subsidiaries, “RBS”);

WHEREAS, RBS conducts operations in the United States through RBS Securities Inc. (“RBSSI”), a non-bank subsidiary in Stamford, Connecticut, a branch in Stamford, Connecticut, and other offices and subsidiaries;

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor in the United States of RBS;

WHEREAS, RBS oversees compliance, risk management and audit procedures for all of its subsidiaries and branches;

WHEREAS, RBS, including through RBSSI, serves as a foreign exchange (“FX”) dealer, both in the United States and in its offices abroad, by buying and selling U.S. dollars and foreign currency for its own account and by soliciting and receiving orders through communications

between customers and sales personnel that are executed by traders in the spot market (“Covered FX Activities”);

WHEREAS, the FX benchmarks published by the World Markets Company plc/Reuters (“WM/R”), the European Central Bank (“ECB”), and other reference rate providers affect the prices of certain currency transactions in the United States and international financial markets. These reference rates are set using different methodologies and, in the case of reference rates published by WM/R and ECB, can be affected by FX trading at or around the time the benchmark is calculated;

WHEREAS, in addition to Covered FX Activities, RBS, including RBSSI, engages in other trading activities and related sales activities involving FX, including FX trading where a customer directly inputs an order through an electronic platform (“Electronic Trading”), and in wholesale markets for commodities and interest rate products where RBS, including RBSSI, acts as principal, prices and rates are or can be influenced by industry benchmark prices or rates, and compliance and control risk factors and vulnerabilities are similar to Covered FX Activities (collectively with Covered FX Activities, “Designated Market Activities”);

WHEREAS, RBS has conducted a review of its Covered FX Activities occurring from 2008 through 2013 (the “Review Period”), has identified and reported relevant conduct to the Board of Governors and the Reserve Bank, has fully cooperated with the Board of Governors and the Reserve Bank, and has made and continues to make progress in implementing enhancements to its firm-wide compliance systems and controls that are designed to address deficiencies in its Covered FX Activities;

WHEREAS, the Board of Governors, the Department of Justice (“DOJ”), the Commodity Futures Trading Commission (“CFTC”), and the United Kingdom Financial Conduct Authority

(“FCA”) have conducted or have been conducting investigations into the practices of RBS and its direct and indirect subsidiaries relating to FX activities;

WHEREAS, on November 11, 2014, RBS reached a settlement with the FCA relating to a breach of principle 3 of the FCA’s Principles for Businesses, in connection with the FCA’s investigation into the wholesale foreign exchange trading market;

WHEREAS, on November 11, 2014, RBS consented to the issuance of an Order by the CFTC relating to FX activities;

WHEREAS, on May 20, 2015, RBS signed an agreement with the DOJ to plead guilty to a criminal violation of the U.S. antitrust laws based on a conspiracy to eliminate competition in the purchase and sale of the EUR/USD currency pair including, in certain instances, the coordination of trading around the WM/R and ECB benchmark fixes;

WHEREAS, during the Review Period:

A. RBS and RBSSI lacked adequate governance, risk management, compliance and audit policies and procedures to ensure that RBS’s Covered FX Activities complied with safe and sound banking practices, applicable U.S. laws and regulations, including policies and procedures to prevent potential violations of the U.S. commodities, antitrust and criminal fraud laws, and applicable internal policies.

B. FX traders in the spot market at RBS, including at RBSSI, routinely communicated with FX traders at other financial institutions through chatrooms on electronic messaging platforms accessible by traders at multiple institutions;

C. RBS’s deficient policies and procedures prevented RBS from detecting and addressing unsafe and unsound conduct by its FX traders, including in communications by traders in multibank chatrooms, consisting of:

(i.) disclosures to traders of other institutions of confidential customer information of RBS;

(ii.) agreements with traders of other institutions to coordinate FX trading in a manner designed to influence the WM/R and ECB FX benchmark fixes and market prices generally;

(iii.) trading strategies that raised potential conflicts of interest; and

(iv.) possible agreements with traders of other institutions regarding bid/offer spreads offered to FX customers;

D. As a result of deficient policies and procedures described above, RBS and RBSSI engaged in unsafe and unsound banking practices;

WHEREAS, the Federal Reserve Bank of Boston (the “Reserve Bank”) conducted a supervisory review of the compliance and control infrastructure governing RBS’s FX trading in the United States and identified certain areas for further improvement in RBS’s compliance and control infrastructure relating to its FX businesses;

WHEREAS, to address the deficiencies described above, RBS has made and must continue to implement additional improvements in its internal controls, compliance, risk management, and audit programs for Designated Market Activities in order to comply with RBS policies, safe and sound banking practices, and applicable U.S. laws and regulations;

WHEREAS, the Board of Governors, the Reserve Bank, and RBS have the common goal to ensure that RBS and its subsidiaries conduct their activities in a safe and sound manner and comply with U.S. laws, rules, and regulations that apply to the activities of the RBS organization, and that RBS fosters a strong commitment towards compliance;

WHEREAS, in February 2015, RBS publicly announced its intention to divest or exit its operations in many foreign countries and to significantly reduce its global trading operations so that, by the end of 2018, market-making activities are expected to take place solely in London, United Kingdom; Stamford, Connecticut; and Singapore;

WHEREAS, the Board of Governors is issuing this consent Order;

WHEREAS, the FCA, as the home country supervisor of RBS, has agreed to assist the Board of Governors in the supervision of this Order;

WHEREAS, pursuant to delegated authority, James Esposito, Co-General Counsel and Managing Director, is authorized to enter into this Order on behalf of RBS and RBSSI, and respectively consent to compliance with each and every provision of this Order by RBS and RBSSI, and to waive any and all rights that RBS and RBSSI may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (“FDI Act”) (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of the Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered by the Board of Governors that, before the filing of the notices, or taking of any testimony, or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (4) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(4)), RBS and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(4) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(4)), shall cease and desist and take affirmative action as follows:

Internal Controls and Compliance Program

1. Within 90 days of this Order, RBS and RBSSI shall submit an enhanced written internal controls and compliance program acceptable to the Reserve Bank to comply with applicable U.S. laws and regulations with respect to RBS's Designated Market Activities. The program shall, at a minimum, address, consider, and include:

(a) enhancement of comprehensive policies and procedures to ensure compliance with applicable U.S. laws and regulations by RBS business lines that engage in Designated Market Activities, including U.S. commodities, antitrust and criminal fraud laws, and a review of RBS's policies and procedures relating to RBS's Designated Market Activities, including conflict of interest policies, client confidentiality policies, and a code of conduct or other statement of conduct or policies;

(b) provisions that clearly identify the Designated Market Activities covered by the policies and procedures;

(c) measures to ensure compliance with policies and applicable U.S. laws and regulations applicable to Designated Market Activities by RBS's global business lines;

(d) the duties and responsibilities of personnel responsible for overseeing compliance with policies and procedures relating to RBS's Designated Market Activities, including the reporting lines within RBS;

(e) policies and procedures that define management responsibilities and establish accountability within all business lines that engage in Designated Market Activities;

(f) a comprehensive and effective system of internal controls to monitor and detect potential employee misconduct in connection with RBS's Designated Market Activities,

which shall include, but not be limited to, transaction monitoring and communication surveillance that is commensurate with the level and nature of the risks inherent in the market;

(g) establishment of comprehensive policies and procedures to ensure that sales personnel and traders do not communicate inaccurate or misleading information to customers regarding: (i) the amount of markup, commission, or other service charge applied to customer orders by RBS; and (ii) how orders are executed by RBS;

(h) a code of conduct or other statement of conduct or policies for employees engaged in Designated Market Activities that establishes rules and procedures governing, among other matters, (i) the types of communications media employees may use to communicate with employees at other institutions that trade in the same financial instruments or products and the circumstances when employees may use these communications media; (ii) the types of trading information of RBS that may be disclosed to employees of other institutions that trade in the same financial instruments or products; (iii) the types of information and circumstances under which confidential customer information may be shared outside of RBS; and (iv) appropriate conduct in responding to potential conflicts of interest with customers that place orders for execution by RBS, including procedures for the timing of the execution of customer orders;

(i) enhancement of the compliance reporting process for RBS's Designated Market Activities that is widely publicized within the global organization and integrated into RBS's other reporting systems, through which employees report known or suspected violations of RBS's policies and U.S. law and regulations, including U.S. commodities, antitrust and criminal fraud laws, and that includes a process designed to ensure that known or suspected violations are promptly escalated to appropriate personnel for appropriate resolution and reporting; and

(j) training for RBS employees engaged in Designated Market Activities in conduct-related issues appropriate to the employee's job responsibilities that is provided on an ongoing, periodic basis.

Compliance Risk Management Program

2. Within 90 days of this Order, RBS and RBSSI shall submit a written plan acceptable to the Reserve Bank to improve its compliance risk management program with regard to compliance by RBS with applicable U.S. laws and regulations with respect to Designated Market Activities. The plan shall, at a minimum, address, consider, and include:

(a) identification of all business lines that engage in Designated Market Activities and the attendant legal and compliance risks to ensure that such activities are appropriately risk-rated and included in the compliance risk assessment;

(b) completion, within 90 days of the Reserve Bank's approval of the plan, of a firm-wide risk assessment to evaluate current potential conduct risks associated with all areas relating to RBS's Designated Market Activities;

(c) prior to trading new financial products or instruments in connection with RBS's Designated Market Activities, a review of potential risks, including, but not limited to, reputational risk, fraud risk, and potential for misconduct associated with the proposed new activity;

(d) development of comprehensive risk assessment processes for RBS's Designated Market Activities, which shall identify: (i) the scope and frequency of such reviews, (ii) compliance risks, and (iii) all applicable risk factors and mitigating controls; and

(e) measures to ensure that material risk management issues related to potential employee misconduct in connection with RBS's Designated Market Activities are

escalated and addressed in a timely manner by senior management and the board of directors or a committee thereof, as appropriate.

Controls Review

3. (a) During the term of this Order, to ensure that the internal controls of RBS and RBSSI required under paragraph 1 of the Order are functioning effectively to detect, correct, and report misconduct with regard to Designated Market Activities that are required to comply with applicable U.S. laws and regulations, RBS management, utilizing personnel who are independent of the business line and acceptable to the Reserve Bank, shall conduct on an annual basis: (i) a review of compliance policies and procedures applicable to RBS's Designated Market Activities and their implementation, and (ii) an appropriate risk-focused sampling of other key controls for RBS's Designated Market Activities (the "Controls Review").

(b) The results of each Controls Review shall be submitted to the Reserve Bank within 90 days of the corresponding anniversary date of this Order. Upon request, RBS shall provide to the Reserve Bank the materials relied upon in conducting each Controls Review.

Internal Audit

4. Within 90 days of this Order, RBS and RBSSI shall submit an enhanced written internal audit program acceptable to the Reserve Bank with respect to RBS's compliance with U.S. laws and regulations in its Designated Market Activities. The program shall, at a minimum, address, consider, and include:

(a) periodic internal audit reviews of business line controls and compliance detection and monitoring processes, as applicable, designed to identify and prevent potential misconduct in connection with RBS's Designated Market Activities;

(b) enhanced escalation procedures for the timely resolution of material audit exceptions and recommendations in connection with RBS's Designated Market Activities; and

(c) the periodic review of risk assessments to ensure emerging risks associated with RBS's Designated Market Activities are appropriately identified and monitored.

Assessment of Civil Money Penalty

5. The Board of Governors hereby assesses RBS a civil money penalty in connection with Covered FX Activities in the amount of \$274,000,000, which shall be remitted at the time of the execution of this Order by Fedwire transfer of immediately available funds to the Federal Reserve Bank of Richmond, ABA No. 1000033, beneficiary, Board of Governors of the Federal Reserve System. The Federal Reserve Bank of Richmond, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of the Treasury, pursuant to section 8(i) of the FDI Act (12 U.S.C. § 1818(i)).

Approval, Implementation, and Progress Reports

6. (a) RBS and RBSSI shall submit the written plan and programs that are acceptable to the Reserve Bank as set forth in paragraphs 1, 2, and 4 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program. The timelines may take into consideration RBS's plans to reduce its global trading operations.

(b) Within 10 days of approval by the Reserve Bank, RBS and RBSSI shall adopt the approved plan and programs. Upon adoption, RBS and RBSSI shall promptly implement the approved plan and programs and thereafter fully comply with them.

(c) During the term of this Order, the approved plan and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

7. Within 30 days after the end of the first full calendar quarter following the date of this Order, and quarterly thereafter, RBS shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof.

Accountability for Employees Involved in Misconduct

8. RBS shall not in the future directly or indirectly retain any individual as an officer, employee, agent, consultant, or contractor of RBS or of any subsidiary of RBS who, based on the investigative record compiled by U.S. authorities, has done all of the following: (i) participated in the misconduct underlying this Order, (ii) been subject to formal disciplinary action as a result of RBS's internal disciplinary review or performance review in connection with the conduct described above, and (iii) either separated from RBS or any subsidiary thereof or had his or her employment terminated in connection with the conduct described above.

9. RBS shall continue to fully cooperate with and provide substantial assistance to the Board of Governors, including but not limited to, the provision of information, testimony, documents, records, and other tangible evidence and perform analyses as directed by the Board of Governors in connection with the investigations of whether separate enforcement actions should be taken against individuals who are or were institution-affiliated parties of RBS and who were involved in the misconduct underlying this Order. For purposes of clarity and not limitation, substantial assistance as used in this Order means RBS will use its best efforts, as determined by the Board, to make available for interviews or testimony, as requested by the Board of Governors, present or former officers, directors, employees, agents and consultants of RBS. This obligation includes, but is not limited to, sworn testimony pursuant to administrative subpoena as well as interviews with regulatory authorities. Cooperation under this paragraph shall also include identification of witnesses who, to the knowledge of RBS, may have material

information regarding the matters under investigation and the preparation and provision of trading analyses.

Notices

10. All communications regarding this Order shall be sent to:
 - (a) Richard M. Ashton
Deputy General Counsel
Board of Governors of the Federal Reserve System
Washington, D.C. 20551
 - (b) Ms. Theresa J. Barry
Vice President
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, Massachusetts 02210
 - (c) John Collins
General Counsel
RBS PLC
36 St. Andrew Square
Edinburgh Scotland EH2 2YB
United Kingdom
 - (d) James Esposito
Co-General Counsel and Managing Director
RBS Americas
600 Washington Blvd.
Stamford, CT 06901

Miscellaneous

11. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to RBS and RBSSI to comply with this Order.

12. The provisions of this Order shall be binding upon RBS, RBSSI and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

13. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

14. Except as otherwise provided in this paragraph 14, the Board of Governors hereby agrees not to initiate any further enforcement actions, including for civil money penalties, against RBS, and its affiliates, successors and assigns, with respect to the conduct involving Covered FX Activities described in the WHEREAS clauses of this Order to the extent known by the Board of Governors as of the effective date of this Order. For purposes of clarity and not limitation, this release does not include Electronic Trading. This release and discharge shall not preclude or affect (i) any right of the Board of Governors to determine and ensure compliance with this Order, (ii) any proceedings brought by the Board of Governors to enforce the terms of this Order, or (iii) any proceedings brought by the Board of Governors against individuals who are or were institution-affiliated parties of RBS.

15. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto and their successors hereunder, any legal or equitable right, remedy, or claim under this Order.

By Order of the Board of Governors of the Federal Reserve System effective this 20th day of May, 2015.

THE ROYAL BANK OF SCOTLAND PLC

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: _____ /s/
James Esposito
Authorized Signatory RBS, Plc

By: _____ /s/
Margaret McCloskey Shanks
Deputy Secretary of the Board

RBS SECURITIES INC.

By: _____ /s/
James Esposito
General Counsel, RBSSI