

FOR IMMEDIATE RELEASE
September 28, 2011

WISCONSIN SCHOOL DISTRICTS PRAISE FILING BY THE U.S. SECURITIES AND EXCHANGE COMMISSION OF CEASE AND DESIST ORDER AND IMPOSITION OF REMEDIAL SANCTIONS AGAINST ROYAL BANK OF CANADA (RBC CAPITAL MARKETS)

Milwaukee, WI. The five Wisconsin school districts — who are suing securities brokerage firm Stifel, Nicolaus & Company and the Royal Bank of Canada in Milwaukee County circuit court for fraud and other violations of state securities laws, arising out of the 2006 sale to them of \$200 million of synthetic CDOs that are now worthless — today praised the U.S. Securities and Exchange Commission for the filing of its Order Instituting Administrative and Cease and Desist Proceedings and Imposition of Remedial Sanctions against RBC Capital Markets, the U.S. subsidiary of Royal Bank of Canada.

The SEC Order requires immediate payment of \$30.4 million to the five school districts by RBC, which amount includes disgorgement of \$6.6 million in fees and profits RBC made on the deals; \$1.8 million in pre-judgment interest; and a civil monetary penalty of \$22 million. The SEC administrative settlement filed yesterday follows fraud charges the SEC brought in August of this year against brokerage firm Stifel Nicolaus and its then broker, David Noack, which charges are now pending in federal district court in Milwaukee, Wisconsin. The SEC fraud charges against Stifel are not yet resolved. The school districts expect that when those charges are resolved the SEC will order another significant amount of money to be repaid to them by Stifel.

The SEC Order finds that RBC failed to adequately assess the suitability of the CDO Investments for school districts; ignored its own internal cautionary advice that such investments were not suitable for the school districts; and instead found that “nearly all of the internal discussion at RBC regarding suitability considered how best to insulate the bank from any liability if the CDO Investments failed.” The SEC found that the CDO Investments were “incompatible with the school districts’ goals, lack of financial sophistication, and their sensitivity to losing principal.” Finally, the SEC found that RBC did not properly present the default risks. RBC has been censured for its misconduct in relation to these transactions.

The amount of disgorgement the SEC required, \$6.6 million, is approximately double the amount of fees and profits that RBC originally disclosed it was taking for these deals, meaning the school districts were misled on fees. The SEC noted in the Order that RBC specially selected credits for the CDOs that had higher “spreads” within the rating parameters, which means RBC intentionally placed credits with higher risks within the CDOs, thereby magnifying the potential

for the \$200 million loss that actually occurred.

In the SEC press release, Robert Khuzami, Director of the SEC's Division of Enforcement, stated "RBC failed Securities 101 when it sold complex derivatives that were unsuitable to five school districts without fully informing them of the risks." The school districts agree with Mr. Khuzami and are thankful for the diligent work of the SEC in obtaining this first settlement and payment from RBC.

The SEC Order specifically states that the \$30.4 million that will be paid to the school districts is not a credit to any damages that may be recovered against RBC, Stifel or any of the defendants in the school districts' pending action in Milwaukee County circuit court. The school districts expect there will be significant additional recovery of their money lost from this fraud, from all defendants. No releases have been given by the school districts. The \$30.4 million that will be received represents about two-thirds of the out of pocket amount originally invested in 2006 by the school districts in the three CDOs.

Stephen Kravit, one of the attorneys for the school districts, stated:

RBC failed to put the brakes on a CDO investment scheme that RBC and Stifel thought could to be sold to every municipality in the U.S. with a future employee benefits funding problem. With so much money to be made, RBC and Stifel ignored obvious warning signs and broke the law in pursuit of profit. The \$30.4 million from RBC is a significant first payment on what will be, when litigation is concluded, a complete return to the school districts of investment funds taken from them by fraud.

Kurt Wachholz, District Administrator of the West Allis/West Milwaukee School District, stated:

The good people in our school district, our board, administration, faculty, staff, students and taxpayers, did not deserve to be lied to and defrauded. We thank the SEC for recognizing this wrongdoing and for pursuing justice. We are especially grateful to the SEC for allowing all of the money ordered for disgorgement, interest and civil money penalty to be remitted directly to the districts.

Todd Gray, Superintendent of the School District of Waukesha, stated:

Our thanks go to the SEC for taking a stand against Wall Street firms who took advantage of our school district and our hard working board members, teachers and staff, all of whom were just trying to fund promised benefits in a responsible way.

Robert Mayfield, Superintendent of the Kimberly School District, stated:

Our position that RBC and Stifel lied to us has not changed. I'm reassured to see that the SEC agrees.

Mary Gavigan, District Administrator of Whitefish Bay Schools, stated:

I am grateful to the SEC for bringing these justified charges. This is the beginning of the end of what has been a distraction for our board and administrators. We look forward to recovery of the money taken from us by fraud.

Dr. Michele Hancock, Superintendent Kenosha Unified School District, stated:

We welcome the involvement of the SEC in settling with RBC and in charging Stifel with fraud. These are challenging times for Wisconsin school districts, and the return of the money taken from Kenosha taxpayers by fraud will be welcome.

###

FOR FURTHER INFORMATION:

Contact:

Stephen Kravit
Kravit, Hovel & Krawczyk s.c.
825 N. Jefferson
Milwaukee, WI 53202

414 271 7100
Cell: 414 491 0900

C.J. Krawczyk
Kravit, Hovel & Krawczyk s.c.

414 271 7100
Cell: 414 807 8971

Robert Kantas
Shepherd, Smith, Edwards & Kantas LLP
1010 Lamar, Suite 900
Houston, TX 77002

713 227 2292
Cell: 713 819 3544