



**Mutual Fund Dealers Association of Canada**  
Association canadienne des courtiers de fonds mutuels

**MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

IN THE MATTER OF A DISCIPLINARY HEARING  
PURSUANT TO SECTIONS 20 and 24 OF BY-LAW NO. 1 OF  
THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA

**RE: RAVI PURI**

**DISCIPLINARY HEARING**

Heard: October 22, 2007  
Panel Decision: October 22, 2007  
Vancouver, British Columbia

**DECISION AND REASONS**

Hearing Panel of the Regional Council of the Pacific Region:

Stephen D. Gill	Chair
Darlene Thomas	Industry Representative
Larry Neilsen	Industry Representative

Appearances:

H.C. Clement Wai	)	For Mutual Fund Dealers Association
	)	of Canada
Ravi Puri	)	Not in attendance or represented by
	)	counsel

1. By Notice of Hearing dated June 28, 2007, a hearing panel (“Hearing Panel”) of the Regional Council of the Pacific Region of the Mutual Fund Dealers Association of Canada (the “MFDA” or “Association”) was convened on October 22, 2007 for the hearing concerning a disciplinary proceeding commenced by the MFDA against Ravi Puri (the “Respondent”).
2. The allegations set out in the Notice of Hearing are as follows:
  - Allegation #1: Commencing August 2006, the Respondent failed to attend for an interview as required by the MFDA in the course of an investigation, contrary to section 22.1 of MFDA By-Law No. 1.
  - Allegation #2: Between July 2002 and May 2005, the Respondent redeemed approximately \$146,400 from the mutual fund accounts of 5 clients, directed the redemption proceeds to a company under his ownership or control, and failed to invest, return or otherwise account for the redemption proceeds, thereby failing to deal with the clients fairly, honestly and in good faith, contrary to MFDA Rule 2.1.1.
  - Allegation #3: Between November 2003 and October 2004, the Respondent failed to invest, return or otherwise account for an additional \$118,600 solicited and received from clients GZ and TP for the purpose of making various investments on their behalf, thereby failing to deal with clients GZ and TP fairly, honestly and in good faith, contrary to MFDA Rule 2.1.1.
3. A first appearance took place before the Hearing Panel on August 23, 2007 at 10 a.m.; at that time counsel for the Association provided affidavit evidence establishing that the Respondent had been served with the Notice of Hearing in accordance with the Association’s Rules and By-Laws.
4. By-Law No. 1, Section 20.2 states that a person summoned before a hearing of a Hearing Panel pursuant to the Notice of Hearing, shall serve on the Association a Reply that either specifically denies any or all of the facts

alleged or the conclusions drawn in the Notice of Hearing, or admits the facts alleged and conclusions drawn in the Notice of Hearing, and pleads circumstances in mitigation of any penalty to be assessed. Mr. Puri did not file a Reply, nor did he appear personally or through counsel.

5. Rule 8.4(1)(b) of the MFDA Rules of Procedure provide that where a Respondent has failed to file a Reply to a Notice of Hearing, the Hearing Panel is permitted to accept the facts alleged and conclusions drawn by the MFDA in the Notice of Hearing as proven and impose any of the penalties and costs described in Sections 24.1 and 24.2 of MFDA By-Law No. 1.
6. In addition to the facts alleged and conclusions drawn by the MFDA in the Notice of Hearing, counsel filed the Affidavit of Indira Nadarajan (marked Exhibit 4) (the "Nadarajan Affidavit"), a senior investigator with the MFDA, who in November, 2005 was assigned to investigate the Respondent, a former approved person with Rice Financial Group Inc. ("Rice").

## **FACTS**

7. The following facts are drawn from the Notice of Hearing and the Nadarajan Affidavit. From August 6, 1987 to April 15, 2005, the Respondent was registered in British Columbia as a Mutual Fund salesperson for Ascot Financial Services Limited ("Ascot"). In April, 2005 Rice purchased the assets of Ascot. On April 27, 2005, the Respondent transferred his registration as a Mutual Fund salesperson to Rice. A copy of the National Registration database printout for the Respondent was Exhibit A to the Nadarajan Affidavit.

8. Beginning in July, 2004 the Respondent, as a condition of his registration, was placed under strict supervision by Ascot, as a result of an outstanding amount owed to Canada Customs and Revenue Agency. When the Respondent's registration was transferred to Rice, he continued to be under strict supervision by Rice as a condition of his registration.
9. Ascot was a member of the MFDA from July 15, 2002 to July 25, 2005; Rice has been a member of the MFDA since January 29, 2002.
10. On June 24, 2005, the Respondent was terminated by Rice as a result of the events described herein. The Respondent is not currently registered in the securities industry in any capacity.
11. As set forth in the Nadarajan Affidavit, in summary, Mr. Puri directed mutual fund redemptions from clients accounts to companies under his control without the knowledge or approval of the clients, or, in those instances where Mr. Puri did obtain instructions from the client to make the redemptions, he led the client to believe that he was re-investing the redemption proceeds into other investments on their behalf. Mr. Puri failed to disclose his involvement in these companies to these clients, and did not disclose his outside business activity to either Ascot or Rice. Mr. Puri also misappropriated client funds that were intended to be used to purchase investments on behalf of the clients. Mr. Puri has failed to account or repay to the clients any funds misappropriated. Mr. Puri has also failed to respond to letters from staff of the MFDA.
12. Although the Nadarajan Affidavit is limited to the time period wherein the MFDA has assumed jurisdiction over Mr. Puri, Ms. Nadarajan's investigation, and Rice's investigation of Mr. Puri's activities, revealed substantial funds had been diverted from client accounts pre-jurisdiction.

As set forth in the Nadarajan Affidavit, beginning in 1993, Mr. Puri had diverted funds from client accounts into Metro Pacific Brokerage Group Limited, Blue Rock Capital Corporation and Crown Alliance Insurance Consultants Limited (“Crown”). These companies are/were owned or under the control of Mr. Puri.

### **Allegation #1**

13. With reference to Allegation #1, as set forth in the Nadarajan Affidavit, on August 17, 2006 she sent by registered and regular mail a letter to Mr. Puri requesting his attendance at an interview for the purposes of providing a statement with respect to an investigation into his activities while registered with Ascot and Rice. The letter sent by regular mail was not returned to the Association Office. The letter (Exhibit C to Nadarajan Affidavit) made it clear that the Association was conducting an investigation into Mr. Puri’s activities, and that they requested his attendance at an interview “... for the purposes of providing a statement as to your knowledge of the matters under investigation. Please be advised that your statement will be recorded. If you wish, you may have legal counsel represent your interests. ...”
14. According to the Nadarajan Affidavit, Mr. Puri failed to contact the MFDA, and on September 6, 2006 a second letter was sent by facsimile and regular mail to David Hobbs, legal counsel to Mr. Puri. The letter requested Mr. Puri’s attendance at an interview for the purpose of providing a statement with respect to an investigation into Mr. Puri’s conduct. (Exhibit D to Nadarajan Affidavit).
15. On September 21, 2006 Ms. Nadarajan received a call from Mr. Hobbs’ office advising they were unsure about the status of their retainer. On November 15, 2006, Ms. Nadarajan sent another letter by regular and

registered mail to Mr. Puri requesting his attendance at an interview; Canada Post confirmed delivery of the letter. (Exhibit E to Affidavit Exhibit 4).

16. Despite the repeated requests, both of himself and of his legal counsel, Mr. Puri failed to attend the interviews requested by the MFDA in the course of its investigation.

### **Allegation #2**

17. Crown is a British Columbia company of which Mr. Puri is the President and Secretary according to the corporate search (Exhibit F to Nadarajan Affidavit). Between July, 2002 and May, 2005 the Respondent processed a series of redemptions in the total amount of approximately \$146,400 from the accounts of five mutual fund clients, causing the proceeds of the redemptions to be directed to Crown. The redemptions are set forth in a graph in paragraph 12 of the Nadarajan Affidavit and paragraph 7 of the Notice of Hearing.
18. The Respondent caused the proceeds of the redemptions to be directed to Crown by providing instructions on the redemption request form for the redemption proceeds to be paid by way of cheque made payable to Crown. At Exhibit G to the Nadarajan Affidavit are copies of the Ascot application for account changes and the cheques payable to Crown for the transactions.
19. For each transaction, Mr. Puri either made the redemptions without the knowledge or approval of the clients, or, in those instances where Mr. Puri did obtain instructions from the client to make the redemptions, he led the client to believe that he was reinvesting the redemption proceeds into other investments on their behalf.

20. Mr. Puri led the clients to believe that Crown was an intermediary or trustee and that the transfer of the proceeds to Crown was necessary to facilitate further investments on their behalf. Mr. Puri did not disclose his role in Crown to the clients.
21. In order to conceal his conduct, Mr. Puri changed some of the clients' addresses in the Members records to Mr. Puri's home or office addresses without the clients' knowledge or approval. (See for example Exhibit I to the Nadarajan Affidavit).
22. Mr. Puri failed to invest the proceeds of the redemption on the clients' behalf, or to return or otherwise account for the proceeds of the redemptions.

### **Allegation #3**

23. Between November 2003 and October 2004, Mr. Puri solicited and received additional funds in the amount of \$118,600 from clients GZ and TP for the purpose of making various investments on their behalf. These funds were received by Mr. Puri without the knowledge or approval, and outside the accounts and facilities of Ascot.
24. Clients GZ and TP gave Mr. Puri cheques payable to Mr. Puri personally, or to Crown. Mr. Puri led GZ and TP to believe that he would invest the funds on their behalf, but Mr. Puri has failed to invest, return, or otherwise account for these funds.

### **Summary**

25. In total, Mr. Puri failed to invest, return, or otherwise account for approximately \$265,000 from five clients, for monies redeemed from their

mutual fund accounts, or solicited and accepted from them for investment purposes. Mr. Puri has not provided any information as to what he did with these funds.

### **Members Response**

26. Beginning in June, 2005, as a result of a suspicious transfer from a client account, Rice began an internal investigation into Mr. Puri's misconduct. The investigation by Rice disclosed some transfers to Crown, and Mr. Puri's association with Crown. When Rice personnel asked Mr. Puri if he was affiliated with Crown and was getting paid on any of the transactions, he said "no".
27. Further, in response to a call from Rice, on June 24, 2005 David Hobbs, counsel for Mr. Puri forwarded to Rice a copy of a list of clients that invested in Crown and the amount of their "investment".
28. On July 26, 2005 Mr. Puri filed an assignment in bankruptcy.

### **Analysis**

29. With respect to Allegation #1, MFDA Hearing Panels have found that a failure by an approved person to cooperate with an MFDA investigation by failing to provide information, documents or a report when requested to do so, constitutes misconduct.

*In the Matter of Raymond Brown-John, [2005] Hearing Panel of the Pacific Regional Council, MFDA File No. 200502, Panel Decision dated June 27, 2005.*

30. MFDA Hearing Panels have cited with approval the decision in *Artinian v. College of Physicians and Surgeons of Ontario*, where the Ontario Divisional Court stated:

Fundamentally, every professional has an obligation to cooperate with his self-governing body.

*Artinian v. College of Physicians and Surgeons of Ontario*  
(1990), 73 O.R. (2d) 704 (Div. Ct.) p. 4

and

*In the Matter of Robert Roy Parkinson* [2005]  
Hearing Panel of the Ontario Regional Council,  
MFDA File No. 200501, Panel Decision dated April 29, 2005

31. The obligation on an approved person to cooperate with an MFDA investigation goes to the heart of the self-governing system. Any breach of this obligation is serious misconduct. In this case, we are satisfied that Mr. Puri received letters from the MFDA demanding that he appear at an interview for the purpose of providing a statement as to his knowledge of the matters under investigation. Further, he had legal counsel, Mr. David Hobbs, advising him on these matters. We are satisfied that despite repeated requests, the Respondent failed to attend the interviews requested by the MFDA in the course of its investigation, contrary to Section 22.1 of MFDA By-Law No. 1.
32. With reference to Allegations #2 and #3, MFDA Rule 2.2.1 articulates the standard of conduct imposed upon all members and approved persons. The Rule encompasses the most fundamental obligations of all registrants in the securities industry:

Each member and each approved person of a member shall:

- (a) deal fairly, honestly and in good faith with its client;

- (b) observe high standards of ethics and conduct in the transaction of business;
- (c) not engage in any business conduct or practice which is unbecoming or detrimental to the public interest; and
- (d) be of such character and business repute and have such experience and training as is consistent with the standards described in this Rule 2.1.1, or as may be prescribed by the corporation.

33. MFDA Hearing Panels have consistently held that where an approved person solicits and accepts money, and fails to pay back or otherwise account for it, the approved person engages in conduct which is inconsistent with the standard of conduct set out in MFDA Rule 2.1.1.

*Parkinson, supra*

*Brown-John, supra*

34. Significant conflicts of interest arise in cases where client funds are put into investments which are directly or indirectly managed by the approved person. Those conflicts must be prohibited as set forth in Rule 2.1.4 and Member Regulation Notice MR-0047 – Personal Financial Dealings With Clients. In this case, Mr. Puri failed to disclose his conflicts and his association with Crown and the other companies, and he also specifically directed client funds to companies under his control without the knowledge or approval of those clients.

35. Mr. Puri failed to disclose his involvement in these companies to the clients, and did not disclose the outside business activity to the member. On the evidence before us, this was a planned, deliberate scheme. There is no evidence that the Respondent ever invested the funds on behalf of the

clients, and the Respondent has failed to account for or repay the funds to the clients.

36. The evidence in the present case clearly establishes the violations of the By-Laws, Rules or Policies of the MFDA set forth in Allegation #1, Allegation #2, and Allegation #3. We unanimously find that all of the Allegations as set out in the Notice of Hearing have been proved.

### **Penalty**

37. MFDA By-Law No. 1 Section 24 sets out the power of Hearing Panels to discipline an approved person, and it is not necessary to repeat them here. The courts and other tribunals have set out a number of factors to be taken into account in determining penalties to be imposed. The Supreme Court of Canada, in *Pezim v. British Columbia (Superintendent of Brokers)* [1994], S.C.J. 58, stated that the primary goal of securities regulation is the protection of the investing public. The Court has also indicated that sanctions imposed in the securities regulatory context should be protective and preventative, and are intended to be exercised to prevent likely future harm to the capital markets (see *Committee for Equal Treatment of Asbestos Minority Shareholders v. Ontario (Securities Commission)* [2001], S.J. 38, where Iacobucci, J. at para. 42).
38. Put another way, the role of an MFDA Hearing Panel is similar to that of a provincial securities commission, insofar as it protects the public interest by removing from the capital markets those whose past conduct is so abusive as to warrant apprehension of future conduct detrimental to the integrity of the capital markets. In our view, this is such a case.

39. Sanctions imposed in the securities regulatory context should be protective and preventative, intended to be exercised to prevent likely future harm to the capital markets (*Committee for Equal Treatment of Asbestos Minority Shareholders* at para. 43).
40. General deterrence is an appropriate consideration in making orders that are both protective and preventative. Penalties must reaffirm public confidence in the regulatory system, and ensure that the misconduct is not repeated by others in the industry.

*In the Matter of Arnold Tonnies*, [2005] Hearing Panel of the  
Prairie Regional Council, MFDA File No. 200503 (“*Tonnies*”),  
citing *Re Cartaway Resources Corp.*, [2004]  
1 S.C.R. 672 at para. 61;

*Brown-John*, *supra* at p. 5

41. In exercising its discretion to impose a penalty, the Hearing Panel should take into account the following considerations:
  - (a) The protection of the investing public;
  - (b) The integrity of the capital markets;
  - (c) Specific and general deterrence;
  - (d) The protection of the MFDA’s membership; and
  - (e) The protection of the integrity of the MFDA’s enforcement processes.
42. We also accept that other factors that Hearing Panels frequently consider when determining an appropriate penalty, include the following:
  - (a) The seriousness of the allegations proved against the Respondent;
  - (b) The Respondent’s past conduct, including prior sanctions;
  - (c) The Respondent’s experience in the capital markets;

- (d) The level of the Respondent's activity in the capital markets;
  - (e) Whether the Respondent recognizes the seriousness of the improper activity;
  - (f) The harm suffered by investors as a result of the Respondent's activities;
  - (g) The benefits received by the Respondent as a result of the improper activity; and
  - (j) Previous decisions made in similar circumstances.
43. In the present case, we are satisfied that the Respondent engaged in a planned and deliberate deception, over a significant period of time, in order to deprive the clients of their funds. He did not deal fairly with his clients; he dealt with them unfairly, and he misled them. He did not deal with them honestly; in fact, he was dishonest. In bad faith, he misled them and breached their trust. His misconduct is further compounded by his complete failure to invest and account for monies provided him by the clients, or redeemed from their accounts.
44. Counsel for the MFDA in his submission set forth the following as aggravating factors, with which we agree:
- (a) The Respondent's misconduct was deceitful, planned and deliberate, the Respondent diverted client funds into companies under his control;
  - (b) Numerous clients have been affected, for an extensive period of time;
  - (c) There has been substantial client losses;
  - (d) The Respondent intentionally misled the Member in its investigation;
  - (e) The Respondent has not demonstrated any remorse or contrition; and
  - (f) The Respondent personally benefited from his misconduct in the amount of **at least** \$265,000.
45. Further, we agree with counsel's submission that the above aggravating factors must be weighed against the mitigating factor that the Respondent

had no disciplinary history. However, we give this little weight in view of the deceit that was perpetrated here over an extended period of time.

46. Counsel for the MFDA urged the Panel to impose a permanent prohibition; a fine in the amount of \$265,000 for failing to invest client funds; and a fine of \$50,000 for the Respondent's failure to cooperate; and an order for costs against the Respondent in the amount of \$10,000.
47. In our view, the Respondent's conduct herein, as proven by the MFDA, is extremely serious and egregious. The MFDA has a responsibility to enhance investor protection and strengthen public confidence in the mutual fund industry by ensuring high standards of conduct by its Members and Approved Persons. There is also the need to prevent future misconduct by the Respondent, and to deter others from engaging in similar misconduct. Further, mutual fund industry participants must be aware of their responsibility for overall compliance, and it is important that panels, in these decisions, foster public confidence in the securities industry.
48. In this case, the Respondent is guilty of reprehensible conduct. Further, he has not made any financial restitution; indeed, he has filed in bankruptcy.
49. After carefully considering all of the evidence, submissions of counsel for the MFDA, and the authorities cited, we hereby order that the following penalties shall be imposed upon the Respondent, Ravi Puri:
  - (a) A permanent prohibition from conducting securities related business in any capacity pursuant to section 24.1(e) of MFDA By-law No. 1;
  - (b) A fine in the amount of \$50,000 for failure to cooperate, contrary to Section 22.1 of MFDA By-law No. 1, pursuant to section 24.1(b) of MFDA By-law No. 1; and
  - (c) A fine in the amount of \$500,000 for failing to invest, return or otherwise account for redemption proceeds and client funds contrary to MFDA Rule 2.1.1, pursuant to section 24.1.1(b) of MFDA By-law No. 1; and

- (d) Costs attributable to conducting the investigation and hearing of this matter be paid by the Respondent in the amount of \$10,000 pursuant to section 24.2 of MFDA By-law No. 1.

50. These Reasons may be signed in counterpart.

Dated this 1st day of November, 2007.

“Stephen D. Gill”  
Stephen D. Gill

“Darlene Thomas”  
Darlene Thomas

“Larry Neilsen”  
Larry Neilsen

Doc #123489