



INVESTMENT DEALERS
ASSOCIATION OF CANADA

bulletin



ASSOCIATION CANADIENNE DES
COURTIERS EN VALEURS MOBILIÈRES

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For distribution to relevant parties within your firm

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Discipline

Discipline Penalties Imposed on Robert Scott Ritchie; Violation of By-law 29.1.

Person Disciplined	A Hearing Panel of the Investment Dealers Association of Canada (Association) appointed pursuant to Association By-law 20 has imposed discipline penalties on Robert Scott Ritchie (Ritchie), at all material times a Registered Representative (RR) employed by the Kelowna, British Columbia branch office of RBC Dominion Securities Inc. (RBC DS), a Member of the Association.
By-laws, Regulations, Policies Violated	<p>On July 27, 2005, a Hearing Panel considered, reviewed, and accepted a Settlement Agreement negotiated between Staff of the Enforcement Division of the Association (Association Staff) and Ritchie.</p> <p>Pursuant to the Settlement Agreement, Ritchie admitted that between March 2004 and October 2004, he engaged in personal financial dealings with a client, without the knowledge, consent, or authorization of his Member employer, contrary to Association By-law 29.1.</p>
Penalty Assessed	<p>The following penalties were assessed against Ritchie:</p> <ul style="list-style-type: none">• payment of a \$10,000 fine;• close supervision for a period of 12 months;• a requirement that he re-write and pass the Conduct and Practices Handbook examination, within 6 months of the effective date of the Settlement Agreement; and• payment of \$1,000 towards the Association's investigation and prosecution costs in this matter.

Background

This matter relates to the period from March 2004 to October 2004.

Ritchie was the RR of record for the account of M, who was a 92 year old widower who lived by himself in a townhouse in Kelowna (the Townhouse). M had been a client of Ritchie for approximately 12 years, first at Investors Group Inc. and then at RBC DS.

Ritchie represented, and Staff accepted, that:

- Ritchie and M developed a friendship;
- M indicated to Ritchie that he wished to move into a seniors' residence;
- Ritchie suggested to M that he place the Townhouse for sale on the open market, but M did not wish to do so;
- Ritchie's son was in the process of moving back to Kelowna and required a place to live;
- in order to facilitate M's move into the seniors' residence and to provide a place for his son to live, Ritchie offered to purchase the Townhouse from M; and
- Ritchie did not believe that he could obtain a mortgage to finance the purchase of the Townhouse, because he already had an outstanding mortgage.

On March 5, 2004, M sold his Townhouse to Ritchie (the Transaction). The Contract of Purchase and Sale for the Transaction recorded that M agreed to sell the Townhouse to Ritchie and to take a mortgage back for the full purchase price of \$118,000 repayable in:

- monthly installments of \$1,500 per month, interest free, from April 1, 2004 to March 1, 2005; and
- the balance of \$100,000 to be payable on April 1, 2005

(collectively, the Terms of Purchase).

Ritchie did not obtain an independent real estate assessment to ascertain the purchase price of the Townhouse. Rather, he based the purchase price on the average value of the 2001, 2002, and 2003 city of Kelowna property assessments for the Townhouse and on the fact that one of M's neighbors had verbally informed Ritchie that they had sold their residence for \$180,000, after spending \$60,000 in repairs.

According to an independent appraisal that was obtained by Staff, based on the condition of the Townhouse on October 13, 2004, the market value of the Townhouse as of March 1, 2004 was \$148,000 (the Appraisal).

Ritchie purchased the Townhouse from M without the knowledge, consent or authorization of RBC DS.

On March 6, 2004, Ritchie took possession of the Townhouse.

Ritchie represented, and Staff accepted, that between the day he took possession of the Townhouse and the day the Appraisal was conducted, Ritchie made a number of improvements to the Townhouse.

The Terms of Purchase were also contained in a mortgage agreement that was executed by Ritchie on March 22, 2004 and then registered with the Land Title Office.

As required by the Contract of Purchase and Sale for the Transaction, from April 2004 to October 2004, Ritchie made the \$1,500 monthly payments to M.

On or about October 14, 2004, counsel for M sent Ritchie a letter in which he, among other things, demanded that Ritchie reverse the sale of the Townhouse.

On or about October 18, 2004, Ritchie agreed to transfer the property back to M.

On or about October 28, 2004, Ritchie transferred the Townhouse back to M for one dollar and Ritchie paid all of the related legal expenses.

M kept the \$10,500 in payments that he received from Ritchie between April 2004 and October 2004.

RBC DS first learned of the Transaction in October 2004 when it received a copy of the above-noted October 14, 2004 letter from counsel for M to Ritchie.

In November 2004, RBC DS terminated Ritchie's employment because of his personal financial dealings with M.

Standard C of the Canadian Securities Institute's *Conduct and Practices Handbook*, states that:

“Any personal financial or business dealings with any clients must be conducted in such a way as to avoid any real or apparent conflict of interest and be disclosed to the firm, in order that the firm may monitor the situation.”

Further, RBC DS's Code of Ethics and Standard of Conduct (the RBC DS Code) states:

"All Investment Advisors are obliged to know and follow the standards set out in the *Conduct and Practices Handbook*... and other RBC DS Manuals.”

The RBC DS Code also states:

“It is expected that all Investment Advisors of RBC DS will not at any time:

- Enter into personal financial dealings with clients including the lending of money or the borrowing of money.”

By purchasing the Townhouse and by not informing RBC DS of the purchase, Ritchie failed to comply with Standard C of the *Conduct and Practices Handbook* and the above-noted provisions of the RBC DS Code.

Ritchie has no prior disciplinary history and he fully cooperated with Association Staff in the investigation of this matter.

The Hearing Panel’s written reasons will be posted on the Association’s website when they become available.

Kenneth A. Nason
Association Secretary