



THE MANITOBA
SECURITIES
COMMISSION

THE SECURITIES ACT

)

Order No. 7432

Sections 8(1) and 148.1(1)

)

)

December 15, 2017

**INVESTORS GROUP FINANCIAL SERVICES INC.
and INVESTORS GROUP SECURITIES INC.**

WHEREAS:

(A) On December 13, 2017, The Manitoba Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice") giving notice of its intention to hold a hearing (the "Hearing") to consider whether or not it was in the public interest to grant an order pursuant to sections 8(1) and 148.1(1) of *The Securities Act*, R.S.M. 1988, c. S50 (the "Act") with respect to Investors Group Financial Services Inc. ("IGFS") and Investors Group Securities Inc. ("IGSI") (collectively referred to as "Investors Group" or the "Respondents");

(B) Staff of the Commission and the Respondents have entered into a Settlement Agreement (a copy of which is attached as Schedule "A") dated December 13, 2017 (the "Settlement Agreement"), which proposes settlement of the proceedings initiated by the Notice, subject to the approval of the Commission;

(C) the Respondents have consented to the issuance of this Order and have waived their rights to a full hearing;

(D) the Commission has reviewed the Settlement Agreement and is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED:

1. **THAT** the Settlement Agreement, Schedule "A", be and is hereby approved.
2. **THAT** the Respondents will make a voluntary one-time payment to the Treasury of the Province of Manitoba in the amount of \$750,000.
3. **THAT** the Respondents pay to the Commission costs in the amount of \$30,000.

BY ORDER OF THE COMMISSION

Director



THE MANITOBA
SECURITIES
COMMISSION

SCHEDULE "A"

Ex 2 Date Dec 15/17
Exam of INVESTORS
TM
Tom Bruce
Court Reporter

SETTLEMENT AGREEMENT

BETWEEN:

**INVESTORS GROUP FINANCIAL SERVICES INC.
and INVESTORS GROUP SECURITIES INC.**

and

STAFF OF THE MANITOBA SECURITIES COMMISSION

The Manitoba Securities Commission
500 – 400 St. Mary Avenue
Winnipeg, MB R3C 4K5

IN THE MATTER OF: THE SECURITIES ACT (R.S.M. 1988, c. S50)

-and-

IN THE MATTER OF: INVESTORS GROUP FINANCIAL SERVICES INC.
and INVESTORS GROUP SECURITIES INC.

SETTLEMENT AGREEMENT

A. INTRODUCTION

- A.1 The Manitoba Securities Commission (the "Commission") will issue a Notice of Hearing giving notice of its intention to hold a hearing to consider whether it is in the public interest to grant an order pursuant to sections 8(1) and 148.1(1) of *The Securities Act*, R.S.M. 1988, c. S50 (the "Act") in respect of Investors Group Financial Services Inc. ("IGFS") and Investors Group Securities Inc. ("IGSI") (collectively, "Investors Group" or the "Respondents").
- A.2 IGFS is and at all material times has been registered as a mutual fund dealer under the Act. IGSI is and at all material times has been registered as an investment dealer under the Act.
- A.3 In December 2014, Investors Group raised a matter relating to certain mutual fund series managed by an affiliate of Investors Group (the "Investors Group Funds") with staff of the Commission ("Staff") and to other regulators. Without any request by any regulator, Investors Group advised Staff that it intended to pay full compensation, subject to the *de minimis* exception set out in paragraph B.1.c.vi, below (hereinafter "Full Compensation") to eligible clients and former clients in relation to this matter. Investors Group has now paid Full Compensation and provided Staff with verification by an independent accounting firm of the compensation provided to eligible clients and former clients. During Staff's investigation of the matter, Investors Group answered all questions posed by Staff to Staff's satisfaction and otherwise provided prompt, detailed and candid co-operation to Staff.

A.4 Pursuant to the terms of this Settlement Agreement (the "Settlement Agreement"), Staff agrees to recommend to the Commission that the proceedings against Investors Group be resolved and disposed of in accordance with the terms and conditions of this Settlement Agreement (the "Settlement"). Investors Group consents to the Settlement and to the making of the consent order referred to in Part D below, on the terms and conditions set forth in this Settlement Agreement.

B. JOINT SETTLEMENT RECOMMENDATION

B.1 Staff and Investors Group agree that:

- a. the statement of facts in Part C, below, which is based on an investigation carried out by Staff following a report by Investors Group, is supported by the evidence reviewed by Staff and provided by Investors Group;
- b. Investors Group did not establish, maintain and apply policies and procedures to establish a system of controls and supervision that consistently ensured that holders of the Investors Group Funds who were eligible for a lower Management Expense Ratio ("MER") series of the same funds were so advised in a timely manner after they became eligible;
- c. it is in the public interest for the Commission to approve this Settlement, having regard to the following considerations:
 - (i) Investors Group reported to Staff in December 2014 that not all eligible holders of Investors Group Funds were advised in a timely manner that they qualified for lower MER series of Investors Group Funds after they became eligible (the "Series Notice Lag");
 - (ii) when it reported to Staff, and without any request by any regulator to do so, Investors Group advised Staff that it intended to pay Full Compensation to

affected eligible clients and former clients. Investors Group thereafter cooperated with Staff with a view to providing Full Compensation to eligible clients and former clients who were not moved to lower MER series of Investors Group Funds in a timely manner as a result of the Series Notice Lag (the "Affected Clients");

- (iii) during the review by Staff following the meeting with Investors Group, Investors Group answered all questions posed by Staff to Staff's satisfaction and otherwise provided prompt, detailed and candid co-operation to Staff;
- (iv) Investors Group submitted to Staff a plan to pay Full Compensation to the Affected Clients, which plan was presented to the Commission (the "Plan of Distribution"). Implementation of the Plan of Distribution is now complete. As at the date of this Settlement Agreement, Investors Group has paid compensation to Affected Clients of approximately \$79,000,000;
- (v) Staff has found no dishonest conduct by Investors Group;
- (vi) the Plan of Distribution prescribed, among other things:
 - A. the detailed methodology to be used for determining the compensation that was paid to the Affected Clients, including the time value of money in respect of any monies paid by Investors Group to the Affected Clients;
 - B. the approach to be taken with regard to contacting and making payments to the Affected Clients;
 - C. the timing to complete the various steps included in the Plan of Distribution;
 - D. a \$25 *de minimis* exception per Affected Client (the aggregate of which will be donated to the Canadian Foundation for Economic Education's "Money & Youth" program);

- E. the segregation and eventual charitable donation of any remaining funds that are not paid out to Affected Clients;
 - F. the resolution of Affected Client inquiries through an escalation process; and
 - G. regular reporting to Staff detailing Investors Group's progress with respect to the implementation of the Plan of Distribution, including the resolution of Affected Client inquiries;
- (vii) Investors Group has taken corrective action to address the Series Notice Lag and has developed and implemented procedures and controls, supervisory and monitoring systems designed to prevent the reoccurrence of the Series Notice Lag (the "Compliance Enhancements");
 - (viii) Investors Group has agreed to make a voluntary one-time payment of \$750,000 to the Treasury of the Province of Manitoba and to make a further voluntary payment to the Commission of \$30,000 to be allocated to costs;
 - (ix) the total agreed settlement amount of \$780,000 will be paid prior to the commencement of the hearing before the Commission to approve the Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission; and
 - (x) the terms of this Settlement Agreement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence.
- B.2 Investors Group agrees to this Settlement Agreement and to the making of an order in the form attached as Schedule "A".

C. AGREED STATEMENT OF FACTS

- C.1 The Investors Group Funds consist of approximately 148 mutual funds managed by I.G. Investment Management, Ltd. that are exclusively available through Investors Group.

- C.2 The Investors Group Funds are available in different series of securities. The MER differs for each series of securities of the same mutual fund, with MER being lower for series of securities with higher minimum investment thresholds (the “J Series” and the “U Series”) for certain Investors Group Funds.
- C.3 Beginning in July 2012, the J Series securities of the Investors Group Funds were generally available to Investors Group clients where the client alone, or together with certain eligible family members, had \$500,000 or more invested in certain accounts and products. The MERs for the J Series securities were an average of 23 basis points lower than other retail series of securities available for the same mutual fund. The MER differences varied by fund. Eligible clients would migrate to the lower fee series over time, as client instructions to do so were obtained.
- C.4 Beginning in July 2013, the U Series securities of the Investors Group Funds were generally available to Investors Group clients when the client alone, or together with certain eligible family members, had \$500,000 or more invested in certain accounts and products. The U Series securities were offered only on a no load and unbundled basis, with an advisory charge to the client separate from and outside the MER. The total cost to clients of investing in U Series securities is similar to the cost of investing in J Series securities. Eligible clients would migrate to the lower fee series over time, as client instructions to do so were obtained.
- C.5 In December 2014, subsequent to the release of a settlement reached between staff of the Ontario Securities Commission (the “OSC”) and TD Waterhouse Private Investment Counsel Inc., TD Waterhouse Canada Inc. and TD Investment Service Inc. (which settlement was approved by the OSC on November 13, 2014) Investors Group met with Staff to discuss the Series Notice Lag and to advise of its intention to pay Full Compensation to Affected Clients. At the time of this meeting, approximately 55% of eligible Investors Group Funds holders had already been migrated to the lower MER funds for which they were eligible.

- C.6 Subsequent to this meeting, Investors Group began to implement enhanced compliance systems to identify clients that met the minimum investment thresholds required to qualify for J Series and U Series securities and to ensure that these clients were advised of the lower MER funds in a timely manner.
- C.7 Section 11.1 of National Instrument 31-103 provides that a registered firm must establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to:
- a. provide reasonable assurance that the firm and each individual acting on its behalf complies with securities legislation; and
 - b. manage the risks associated with its business in accordance with prudent business practices.
- C.8 Without prompting from any regulator, Investors Group has implemented the Plan of Distribution, including payment to Affected Clients of:
- a. an amount representing the impact on Affected Client net asset values caused by the MER differential between non-J Series or U Series securities held by the client of an Investors Group Fund and the J Series or U Series securities of that mutual fund, for the entire period from July 2012 onward, commencing from when the Affected Client qualified for the J Series or U Series securities of that fund and concluding on the earliest of:
 - (i) the end of the month that the Affected Client transferred to the J Series or U Series securities;
 - (ii) the end of the month that the Affected Client closed his or her Investors Group account; or
 - (iii) April 30, 2015

(the "Impact of the MER Differential"); and

- b. an amount representing the time value of money in respect of the Impact of the MER Differential, calculated monthly from the month end when an Affected Client first became eligible for the J Series and U Series securities until the payment date, based on a simple interest rate of 5% per annum (the "Foregone Investment Opportunity Cost").
- C.9 Investors Group engaged an accounting firm to validate the process used by Investors Group to ensure an accurate and complete identification of Affected Clients and the calculation of amounts to be paid to Affected Clients as compensation.
- C.10 The total compensation paid to 93,941 Affected Clients as a result of the Series Notice Lag is approximately \$79,000,000, inclusive of the Foregone Investment Opportunity Cost, where applicable.

Mitigating Factors

- C.11 There was no dishonest conduct by Investors Group.
- C.12 Investors Group identified and raised the Series Notice Lag with Staff and to other securities regulators on a timely basis.
- C.13 Investors Group advised Staff of its intention to pay Full Compensation to Affected Clients at the time that Investors Group reported the Series Notice Lag and, thereafter, co-operated with Staff with a view to providing Full Compensation to the Affected Clients.
- C.14 During the review by Staff of the Series Notice Lag following the meeting with Investors Group, Investors Group answered all questions posed by Staff to Staff's satisfaction and otherwise provided prompt, detailed and candid co-operation to Staff.

- C.15 The Plan of Distribution was designed to pay Full Compensation to the Affected Clients, which plan was provided to Staff.
- C.16 Investors Group has now implemented the Plan of Distribution. As of the date of this Settlement Agreement, Investors Group has paid Full Compensation to Affected Clients of approximately \$79,000,000. Amounts remaining undistributed to clients not located by December 31, 2016 will be donated to the Canadian Foundation for Economic Education's "Money & Youth" program.
- C.17 Investors Group has taken corrective action, and has developed and implemented the Compliance Enhancements.
- C.18 Investors Group has agreed to make a voluntary one-time payment of \$750,000 to the Treasury of the Province of Manitoba and to make a further voluntary payment to the Commission of \$30,000 to be allocated to costs.
- C.19 Investors Group will pay the total agreed settlement amount of \$780,000 prior to the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission.
- C.20 The terms of settlement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence.

D. TERMS OF SETTLEMENT

- D.1 Investors Group agrees to the terms of settlement listed below and consents to the Order attached hereto, that:
- a. the Settlement Agreement is approved;
 - b. Investors Group shall:

- (i) make a voluntary payment of \$30,000, to reimburse the Commission for costs incurred or to be incurred by it in accordance with section 28 of the Act; and
- (ii) make a further voluntary one-time payment of \$750,000 to the Treasury of the Province of Manitoba.

- D.2 Investors Group agrees to make the payments described in subparagraphs D.1b(i) and (ii) above prior to the commencement of the hearing before the Commission to approve this Settlement Agreement.
- D.3 In the event the Settlement Agreement is approved, Staff will discontinue the proceedings as against Investors Group.

E. PROCEDURE FOR APPROVAL OF SETTLEMENT

- E.1 The approval of this Settlement Agreement and the making of the Order set out in this Settlement Agreement shall be sought at an *in camera* hearing pursuant to the Notice of Hearing.
- E.2 Staff and Investors Group agree that this Settlement Agreement will constitute the entirety of the evidence that will be submitted to the Commission at the settlement hearing, unless the parties agree that additional evidence should be submitted.
- E.3 If the Commission approves this Settlement Agreement, Investors Group agrees to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
- E.4 Notwithstanding any other provision of this Settlement Agreement, if, for any reason whatsoever, this Settlement Agreement is not approved by the Commission or the Order referred to in Section D above is not made by the Commission, Staff will be entitled to proceed with whatever steps it is entitled by law to take, including but not restricted to, the commencement of a hearing before the Commission, unaffected by this Settlement Agreement or the settlement discussions. In the event that such steps are taken,

Investors Group shall have all of the usual rights of a person subject to such proceedings.

- E.5 If the Settlement Agreement is not approved or the Order set out in Section D above is not made by the Commission, the terms of this Settlement Agreement shall remain confidential and shall not be raised in this or any other proceeding, and any admissions contained in this Settlement Agreement shall be considered as without prejudice communications and furtherance of settlement discussions which will not be binding upon the parties and which will be inadmissible in any proceeding whatsoever.
- E.6 If the Settlement Agreement is approved by the Commission and the Order made upon the terms set out in this Settlement Agreement, this Settlement Agreement will be a public document.
- E.7 If this Settlement Agreement is approved by the Commission and the Order is made upon the terms set out in this Settlement Agreement, Investors Group will not raise as a basis for attack on the Order this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement, alleged bias, alleged unfairness, or any such other challenges to the validity of the Order.
- E.8 Investors Group further agrees that if this Settlement Agreement is approved by the Commission and the Order is made upon the terms set out in this Settlement Agreement, they will not make any statements inconsistent with the terms of this Settlement Agreement.

DATED at Winnipeg, Manitoba, this 13th day of December, 2017.

Staff of The Manitoba Securities Commission

Per:



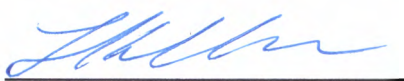
Chris Besko, Director

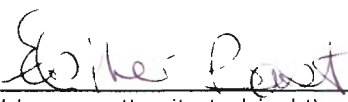
Investors Group Financial Services Inc.


Witness Dana Resler

Per: 
I have authority to bind the company
Mark Kinzel

Investors Group Securities Inc.


Witness Leslie Kellar

Per: 
I have authority to bind the company
Esther Bast

SCHEDULE "A"

THE SECURITIES ACT)	Order No. [●]
)	
Sections 8(1) and 148.1(1))	[●], 2017

**INVESTORS GROUP FINANCIAL SERVICES INC.
and INVESTORS GROUP SECURITIES INC.**

WHEREAS:

(A) On [●], 2017, The Manitoba Securities Commission (the "Commission") issued a Notice of Hearing (the "Notice") giving notice of its intention to hold a hearing (the "Hearing") to consider whether or not it was in the public interest to grant an order pursuant to sections 8(1) and 148.1(1) of *The Securities Act*, R.S.M. 1988, c. S50 (the "Act") with respect to Investors Group Financial Services Inc. ("IGFS") and Investors Group Securities Inc. ("IGSI") (collectively referred to as "Investors Group" or the "Respondents");

(B) Staff of the Commission and the Respondents have entered into a Settlement Agreement (a copy of which is attached as Schedule "A") dated [●], 2017 (the "Settlement Agreement"), which proposes settlement of the proceedings initiated by the Notice, subject to the approval of the Commission;

(C) the Respondents have consented to the issuance of this Order and have waived their rights to a full hearing;

(D) the Commission has reviewed the Settlement Agreement and is of the opinion that it is in the public interest to make this Order.

IT IS ORDERED:

1. **THAT** the Settlement Agreement, Schedule "A", be and is hereby approved.
2. **THAT** the Respondents will make a voluntary one-time payment to the Treasury of the Province of Manitoba in the amount of \$750,000.
3. **THAT** the Respondents pay to the Commission costs in the amount of \$30,000.

BY ORDER OF THE COMMISSION

Director