December 6, 2017

DECISION

In the Matter of

the Securities Legislation of
Manitoba and Ontario (the Jurisdictions)

And

In the Matter of
The Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
I.G. Investment Management, Ltd. (the Filer)

Background

The securities regulatory authority or regulator in each of the Jurisdictions (Decision Maker) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) under section 15 of National Instrument 31-103 *Registration Requirements and Exemptions and Ongoing Registrant Obligations* (NI 31-103) for an order (the Exemption Sought) exempting the Filer from the requirement of section 12 of NI 31-103 that requires The Filer to calculate its excess working capital in accordance with Form 31-103F1 *Calculation of Excess Working Capital* (Form 31-103F1) to enable it to treat its "mortgage warehouse" (Warehouse), as defined below, as a current asset should it choose to classify the Warehouse on an amortized cost basis in its financial statements upon the adoption of International Financial Reporting Standard 9 *Financial Instruments* (IFRS 9).

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a dual application)

(a) the Manitoba Securities Commission is the principal regulator for this application,

(b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in Quebec and Newfoundland and Labrador, and

(c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

Terms defined in National Instrument 14-101 *Definitions* and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

1.1 the Filer is a corporation continued under the *Ontario Business Corporations Act* (OBCA) and it acts as:

(i) investment fund manager for approximately 153 Investors Group Funds, securities of which are qualified for distribution to the public in all provinces and territories in Canada which, as such, are reporting issuers or equivalent in all of those jurisdictions;

(ii) adviser for a number of the Investors Group Mutual Funds;

(iii) trustee for the Investors Group Mutual Funds that are trusts; and

(iv) originator of mortgages on residential properties to clients of its affiliated mutual fund and investment dealers.

1.2 The Filer is not in default of securities legislation in any jurisdiction.

1.3 Under NI 31-103, the Filer is required to maintain minimum excess working capital of $100,000, calculated using the accounting principles used to prepare its financial statements as set out in National Instrument 52-107 *Acceptable Accounting Principles and Audit Standards* (NI 52-107), which, as of January 1, 2018, will include IFRS 9.

1.4 Historically, the FIler has always maintained a significant amount of excess working capital.

1.5 Under Form 31-103F1, mortgages are included as current assets in the working capital of the registered firm, subject to the application of a specified margin rate.

1.6 Currently, the residential mortgages originated by the Filer are temporarily funded through internal resources pending sale or securitization to a long term funding source. Until that sale or securitization is completed, the mortgages are held by the Filer in the Warehouse and are treated as being "held for trading" under International Accounting Standard 39 *Financial Instruments* (IAS 39) and, as such, are recorded as current assets in its financial statements. The "held for trading" and "current asset" classifications are consistent with the liquidity of these assets and their availability to meet near term obligations if required.

1.7 The balance of the Warehouse has tended to be within a range of $300 million to $600 million at quarter ends over the last five years. This has represented a significant component of the Filer's excess working capital over the last five years (after subjecting the Warehouse to applicable margining requirements). Traditionally significant capital has been retained at the Filer representing excess capital of the IGM Financial Inc. group of companies. This capital has been retained in the business to ensure financial flexibility in pursuit of opportunities for business growth. Recently, a number of opportunities have been undertaken requiring use of this capital.

1.8 Once the ultimate source of the funding for these mortgages is identified, an assessment is carried out under IAS 39 to determine whether they are eligible for derecognition from the statement of financial position based upon whether risks and rewards of ownership are substantively transferred. In the case of sales, the loans are derecognized, while in the case of securitizations, the loans fail to be derecognized. Upon a securitization transaction, under IAS

39, the loans are reclassified from "held to trading" to "held to collect", which is consistent with the long term nature of the liability.

1.9 IFRS 9 contemplates that the default categorization of financial assets is Fair Value Through Profit and Loss (FVTPL) but allows a firm to choose an alternative classification, namely amortized cost or Fair Value Through Other Comprehensive Income (FVTOCI). Although IFRS 9, unlike IAS 39, no longer uses the terms "held for trading" or "held to collect", these considerations are important in determining which classification choice a firm should make.

1.10 Under IFRS 9, the Filer will be required to choose a method of classification for loans in the Warehouse at time of origination, without the ability to reclassify this designation upon a securitization transaction, as has been the Filer's practice under IAS 39.

1.11 The International Accounting Standards Board requires classification of financial assets upon initial recognition in part because it aligns the measurement of these assets with the way the entity manages them. Reclassification thereafter is not permitted because (i) it would not make it easier for readers of the entity's financial statements to understand the information, (ii) allowing reclassifications would increase complexity since detailed guidance would be required to specify when they would be required and what the subsequent accounting should be, and (iii) since the classification at the outset is based on the entity's business model, reclassification should not be necessary since that model should not change.

1.12 This rationale does not directly address whether assets should be classified as current or non-current. Instead the assessment comes from guidance in International Accounting Standard 1 that indicates an asset should be classified as current if it meets any of four criteria:

(1) the asset is expected to be realized in its normal operating cycle,

(2) the asset is held for trading,

(3) the asset is expected to be realized within 12 months, or

(4) the asset is cash.

A classification of amortized cost implies that the asset is in a business model whose objective is to collect the contractual cash flows, therefore only a portion would be considered current (namely the cash flows to be collected within 12 months). A classification of FVTOCI again implies that the asset is in a business model whose objective is to collect the contractual cash flows, and also to sell, therefore only a portion would be considered current. A classification of FVTPL is the only designation whose business model implies that the objective is to sell the asset, which is consistent with the characteristics of the Warehouse.

1.13 When mortgages are funded, there is currently no ability to identify whether the mortgages will be ultimately sold or securitized. That assessment is made at a later date depending on the requirements of the third party structures. As a result, the existing approach is to classify all mortgages as "held for trading" initially, on the basis that these mortgages are liquid and will be ultimately be sold or securitized. Once the sell or securitize assessment is made to securitize the loans, the mortgages are reclassified at amortized cost as they will remain on the statement of

financial position until maturity. Under IFRS 9, there is no ability to reclassify (as the Filer's overall business model has not changed, only the use for a particular mortgage), so the initial classification will be used throughout the period that the mortgage is recorded on the firm's statement of financial position. Therefore, it is the initial classification decision which will drive current versus non-current assessment.

1.14 While a classification choice of FVTPL results in classification of the mortgage loans as current assets, this classification requires fair valuing of the mortgage loans on an ongoing basis with changes in fair value being reflected in the statement of profit or loss. In contrast, a classification choice of amortized cost results in classification of the mortgage loans as non-current assets (until the term to maturity is less than twelve months) with changes in fair value of the loans not being recorded within the statement of profit or loss. Due to the firm's inability to change the classification to "held to collect" upon securitization, under IFRS9, should the Filer continue with its current practice of classifying the Warehouse as "held for trading", this will result in significant earnings volatility once loans are securitized. The magnitude of these fair value adjustments recorded in net income relating to securitized loans would make it challenging for the securityholders, potential investors, analysts, rating agencies and other members of the public who review the financial statements of the Filer's parent company, IGM Financial Inc., which is a public issuer on the TSX, to understand the firm's results. As a result, the preferred approach of both the Filer and IGM Financial Inc. would be to classify the Warehouse on an amortized cost basis.

1.15 Although a classification choice of FVTOCI is also available to the company, a classification on this basis would result in the mortgages being classified as non-current assets, as they would not meet any of the four current asset criteria. This classification is similar to an amortized cost classification in that it is predicated on the assumption of the business model being to collect contractual cash flows (as well as to sell). This classification would have a similar earnings impact as the amortized cost classification, as interest income would be recognized in the same manner.

1.16 IFRS 9 requires an entity to classify financial assets based on the most appropriate business model and contractual cash flow assessment. An entity can choose amortized cost or FVTOCI. If neither of those classifications are used, then FVTPL is required. Regardless, an entity can choose to designate as FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

1.17 Irrespective of the method of classification chosen for the Warehouse under IFRS 9, there is no change in the character of the Warehouse, in the marketability of the loans in the Warehouse, nor in the Filer's ability to utilize this capital to meet current obligations or other near term capital requirements. Mortgages are held in the Warehouse for a relatively brief period of time, with an average holding period from between 39 to 45 days over the most recent periods. In addition, the mortgages originated by the Filer have significantly lower default rates than those experienced by other financial institutions in Canada, with impaired loans representing 0.03% as of December 31, 2016, 0.04% as of December 31, 2015 and 0.03% as of December 31, 2014 of the total outstanding as of those dates.

1.18 Should the Filer classify the Warehouse on an amortized cost basis, these loans would not be considered current assets on Form 31-103F1, and the firm's excess working capital would be expected to, on occasion, fall below the minimum excess working capital requirements of NI 31-103. Therefore, the Filer requires the Exemption Sought to ensure it continues to meet the minimum excess working capital requirements of NI 31-103 following adoption of IFRS 9.

1.19 the Filer proposes to address the interaction of the financial statement reporting requirements of IFRS 9 as incorporated into NI 52-107 and the excess working capital requirements of NI 31-103 by treating the Warehouse:

- on an amortized cost basis for the purpose of preparing its financial statements in accordance with NI 52-107, which is the most appropriate approach for the Filer and IGM Financial Inc. from an earnings recognition perspective over the life of the mortgage loan following securitization transactions given that reclassification of the loans held in the Warehouse upon securitization is not permitted under IFRS 9, and

- as a current asset for the purpose of calculating its excess working capital for the purpose of Form 31-103F1, recognizing that this is suitable given the liquidity of the loans held in the Warehouse and the ability of the Filer to designate this classification in accordance with NI 52-107.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Makers under the Legislation is that the Exemption Sought is granted.

C.P. Besko, Director
The Manitoba Securities Commission