

April 8, 2015

**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 Investors Group Securities Inc. (“IGSI”)**

and

**Investors Group Financial Services Inc. (“IGFS”)**

**(collectively, the “Filers” and each, a “Filer”)**

**DECISION**

**Background**

The securities regulatory authority in each of the Jurisdictions (“Decision Maker”) has received an application from the Filers for a decision under the securities legislation of the Jurisdictions (the “Legislation”) for relief from the restriction contained in paragraph 4.1(1)(b) of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (“NI 31-103”) to permit certain current and future IGFS registered dealing representatives to: (i) conduct activities limited to supervision and oversight for IGFS; and (ii) also be registered as dealing representatives of IGSI for purposes of providing IGSI services to clients (the “Requested Relief”).

Under the process for Exemptive Applications in Multiple Jurisdictions (for a Dual Application):

- (a) The Manitoba Securities Commission (the “MSC”) is the principal regulator for this application;
- (b) The Filers have provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (“MI 11-102”) is intended to be relied upon in:

British Columbia  
Alberta  
Saskatchewan  
Quebec  
Newfoundland and Labrador  
Nova Scotia Securities  
New Brunswick Securities  
Prince Edward Island  
Yukon Territory  
Northwest Territories  
Nunavut

- (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 Filers:

1. IGSI is a corporation constituted under the laws of Canada with its head office and principal place of business located in Winnipeg, Manitoba. IGSI is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and is registered as an investment dealer in all the provinces and territories of Canada.
2. IGFS is a corporation constituted under the laws of Canada with its head office and principal place of business located in Winnipeg, Manitoba. IGFS is a member of the Mutual Fund Dealers Association of Canada ("MFDA") and is registered as a mutual fund dealer in all provinces and territories of Canada.
3. IGSI and IGFS are affiliates in that they are both wholly owned by Investors Group Inc.
4. Neither IGSI nor IGFS is in default of any securities legislation in any province or territory of Canada.
5. The IGSI model, which has evolved over time, is presently comprised of three major elements:
  - a) a network of Securities Specialists based in IGFS offices (in either shared or stand alone premises) across Canada, who provide portfolio reviews and recommendations for clients but who do not directly execute trades except on an exception basis (virtually all trades are executed by licenced traders in two trade centres). Securities Specialists are registered as Registered Representatives and are paid on a salary and bonus (i.e., non commission) basis;
  - b) traders in two trade centres located in Winnipeg and Montreal, who execute trades called in by telephone by clients and who conduct suitability reviews on each trade. These individuals are registered as Investment Representatives and are paid on a salary basis; and
  - c) Consultants ("IGSI Consultants"), who are independent contractors, based in various IGSI offices across Canada, who provide a full range of services to clients structured around a financial planning model. Although these IGSI Consultants execute trades in stocks, bonds and all mutual funds, the vast majority of the trading they do is in mutual funds managed by I.G. Investment Management, Ltd., which is an affiliate of both IGSI and IGFS. IGSI Consultants have a principal/agent relationship with IGSI, are registered as Registered Representatives and are compensated primarily by way of commissions.
6. The IGFS model has over one hundred Region Offices across Canada out of which approximately 5,000 IGFS Consultants operate. The IGFS Consultants are supervised by Division Directors ("IGFS Division Directors") or Regional Directors who are registered as dealing representatives and designated as branch managers. In addition to their supervisory role, the IGFS Division Directors also provide service to clients. All of the IGFS Division

Directors in a Region Office are in turn supervised by Regional Directors who are also registered as dealing representatives and designated as branch managers.

7. Since the fall of 2007, IGSI has permitted individuals who were formerly senior IGFS Consultants to transfer to IGSI as Consultants and be registered as Registered Representatives. If these individuals acted as an IGFS Division Director, they gave up those supervisory responsibilities when they transitioned to IGSI.
8. The Requested Relief is intended to facilitate the transition of Division Directors from the IGFS to IGSI Consultant platforms to now allow IGFS Division Directors to become IGSI Consultants ("IGSI DD Consultants"), on the following basis:
  - a) IGSI DD Consultants will be registered with IIROC through IGSI as Registered Representatives, but will also retain their dealing representative registration with IGFS (and their designation with the MFDA as branch managers) for the sole purpose of supervising the IGFS Consultants in their Division;
  - b) all securities trading by these IGSI DD Consultants will take place through IGSI, with clients who have opened accounts with that dealer. These IGSI DD Consultants will not execute trades for any clients in respect of those clients' accounts with IGFS; and
  - c) these IGSI DD Consultants will provide Tier 1 supervision of IGFS Consultants in their Division which will include approving the opening of new IGFS accounts and reviewing trades on the trade blotter relating to the accounts serviced by those IGFS Consultants.
9. The proposed is consistent with Investors Group's existing business model, which is structured around a team approach, which sees a group of IGFS Consultants of varying tenure supervised and mentored by an IGFS Division Director. These IGFS Division Directors, in addition to their role in overseeing IGFS Consultants in their Division, also service IGFS clients assigned to them. The major change envisioned by the transition of these Division Directors to IGSI is that the clients they service would now only be ones that have IGSI accounts.
10. IGSI DD Consultants will have adequate time and resources to continue their supervision of the IGFS Consultants. The one significant change that will result is that instead of being supervised by an IGFS Regional Director for their securities trading activity for clients with IGSI accounts, they will be supervised as part of the IGSI compliance oversight model.
11. IGSI utilizes a head office supervision model and IGSI DD Consultants would be supervised in this manner for any IGSI business that they transact.
12. IGSI is proposing this initiative to expand the group of IGFS Consultants who are eligible to transition their registration to IGSI. IGFS Division Directors are among the most productive and successful of IGFS Consultants. However, these individuals also play an important role in mentoring newer IGFS Consultants and helping develop their practices, as well as providing supervision and guidance to all Consultants in their Division and ensuring that clients are well served. This initiative will allow IGFS Division Directors to transition to IGSI if an IIROC dealer platform is more suitable for their individual business, but allows IGFS to retain these individuals as a valuable supervisory resource.
13. Compensation will be paid to IGSI DD Consultants as follows:
  - a) they will receive standard Consultant compensation on IGSI accounts they service as Registered Representatives, including initial commissions on trades, asset retention bonuses, asset service fees and asset retention premiums;

- b) in addition, they will also receive overwrites for the supervisory activities they carry out for the IGFS Consultants in their Division.
14. The fact that IGSI DD Consultants have a relationship with two dealers, IGSI and IGFS, will not cause confusion on the part of clients. All clients serviced by IGSI DD Consultants will have to have accounts with IGSI. If clients also have accounts with IGFS, the IGSI DD Consultant will not be able to provide service on those accounts. IGSI DD Consultants will have supervisory duties regarding IGFS Consultants in their Division as they will continue to be an initial contact point for supervisory issues raised by clients of those IGFS Consultants. Clients will be provided with disclosure as to the role played by IGSI DD Consultants, but given the clear delineation of the two aspects of their role – all sales activity taking place on the IGSI side and all supervisory activity taking place on the IGFS side – clients will not be confused as to which firm is their dealer and what capacity the IGSI DD Consultant is acting in at any particular time.
15. Potential conflicts of interest have been addressed by establishing the clear dividing line that is proposed regarding the activities IGSI DD Consultants may perform on the two platforms. IGSI DD Consultants may only service clients who have an account with IGSI. Former clients whom the IGSI DD Consultant services on behalf of IGFS and who remain with IGFS cannot be serviced by the IGSI DD Consultant and they will be reassigned for servicing by another Consultant. As a result, the IGSI DD Consultant will not be put in a position of favoring one dealer over another in respect of the clients he or she services. Further, the dual role played by IGSI DD Consultants, as Registered Representatives with IGSI who provide IGSI services to clients and as dealing representatives with supervisory responsibility for IGFS Consultants in their Division, does not raise conflicts. These roles (as both providers of client services and as supervisors) are ones that IGFS Division Directors already play. The only difference is that the IGSI DD Consultants' individual business will be carried out in a separate, but affiliated, dealer.
16. In addition, although IGSI and IGFS are separate dealers, the core products and services they offer – financial planning accomplished largely through the use of Investors Group proprietary mutual funds – are the same and the two do not operate in competition with one another.
17. IGSI DD Consultants would be governed by the well established framework governing existing IGSI Consultants regarding the proficiency they must have, their locations, the trade execution process, the products they may sell, their relationship with Investors Group, the titles they may use and the rules governing advertising.
18. There would be a number of controls to ensure that the individual is only supervising at IGFS and is not acting in another registered capacity at IGFS including:
- a) Policies and procedures have clearly set out the limitations on the activities these individuals can carry-out;
  - b) Internal controls that ensure IGSI Consultants do not have the ability to trade on IGFS accounts;
  - c) Training that clearly communicates these restrictions to the individuals;
  - d) Annual certifications by these individuals that they have acted within the bounds of these limitations;
  - e) Periodic testing that the controls are working as part of the branch review programs conducted by the Compliance Department which oversees both IGFS and IGSI; and

- f) Periodic branch attendants programs which will include file reviews and interviews to ensure that controls are in effect.
19. IGFS Division Directors receive two types of income namely “new business income” (which is a rate on the new business credits received by Consultants in their Division) and “asset income” (which is a rate on the mutual fund and guaranteed investment fund assets serviced by Consultants in their Division). The rate depends upon the achievement level of the particular Consultant in their Division (which may be from Achievement level 1 to 4). Once a Consultant reaches Achievement Level 5 that Consultant leaves the Division Director’s Division but the Division Director will continue to receive up to 50% of the rates for the Consultant’s new Achievement Level on the new business credits and assets serviced by that Consultant for a period of 2 years.
20. IGSI DD Consultants may have direct client contact with IGFS clients only in relation to the Division Directors’ mentoring and supervisory roles regarding Consultants and their Division and would be comprised of acting at the point of contact for complaints (which are, in turn, referred to and handled by the Compliance Department), attending with Consultants in their Division on training calls and other contact that may be required from time-to-time as part of the supervisory role they play.
21. The number of hours dedicated to the supervisory function by IGSI DD Consultants will vary somewhat based on the number of Consultants in their Division Directors’ Division at IGFS (which on average is 14 and generally may be between 10 to 15 Consultants), but the Filers’ expectation is that it should generally be in the range of approximately 10 hours per week. Also in addition, the IGSI DD Consultant will not receive any compensation in respect of trading activity other than indirect supervisor compensation (so the individual is not incented to exceed the limits of their registration).

### **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 Requested Relief is granted.

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Chris Besko  
Director  
Manitoba Securities Commission