

2006 BCSECCOM 431

June 29, 2006

Headnote

Mutual Reliance Review System for Exemptive Relief Application –
National Instrument 81-105 s. 9.1 - Mutual Fund Sales Practices - A mutual fund dealer wants relief from the prohibitions in section 4.2 in order to pay representatives additional compensation for selling funds of which it is a principal distributor - The mutual fund dealer does not advertise, promote or recommend third party funds; it processes third party funds only at a client's specific request; it will disclose the unequal compensation schemes between the principally distributed funds and third party funds.

Applicable British Columbia Provisions

National Instrument 81-105 *Mutual Fund Sales Practices*, s. 9.1

**In the Matter of
the Securities Legislation of
British Columbia, Alberta, Saskatchewan, Manitoba, Ontario,
New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and
Labrador, Yukon, Nunavut and the Northwest Territories
(the "Jurisdictions")**

and

**In the Matter of
the Mutual Reliance Review System for Exemptive Relief Applications**

and

**In the Matter of
Investors Group Financial Services Inc.
(the "Filer")**

MRRS Decision Document

BACKGROUND

The local securities regulatory authority or regulator (the "Decision Maker") in each of the Jurisdictions has received an application from Investors Group Financial Services Inc. ("IGFS") for a decision under the securities legislation of the Jurisdictions (the "Legislation") for an exemption under section 9.1 of National Instrument 81-105 Mutual Fund Sales Practices ("NI 81-105") from the requirements in section 4.2 of NI 81-105 such that IGFS may compensate

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Consultants (as defined below) in the manner described below (the “Requested Relief”).

Under the Mutual Reliance Review System for Exemptive Relief Application (“MRRS”),

- (a) the Manitoba Securities Commission is the principal regulator for the Application; and
- (b) this MRRS decision document evidences the decision of each Decision Maker.

INTERPRETATION

Defined terms contained in National Instrument 14-101 Definitions have the same meaning in this decision unless they are defined in this decision.

REPRESENTATIONS

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

1. IGFS is registered as a mutual fund dealer or equivalent in each of the Jurisdictions and is a member of the Mutual Fund Dealers Association of Canada.
2. Investors Group Securities Inc. (“IGSI”) is registered as an investment dealer or equivalent in each of the Jurisdictions and is a member of the Investment Dealers Association of Canada.
3. IGFS is the principal distributor of mutual funds (“Investors Group Funds”) which are managed in whole or in part by I.G. Investment Management, Ltd. or its affiliates (“IGIM”).
4. IGFS and IGSI (the “I.G. Dealers”) are the exclusive distributors of the Investors Group Funds and distribute them on a deferred sales charge and no-load basis.
5. Each of IGFS, IGSI and IGIM is a “member of the organization”, within the meaning of NI 81-105, of Investors Group Funds.
6. The primary business of IGFS is to provide financial planning services to clients and to implement those plans through the sale and distribution of Investors Group Funds.
7. IGFS also holds in certain client accounts mutual funds that are not Investors Group Funds (“Third Party Funds”), only at the request of an investor and on an “accommodation” basis only, for clients who hold Third Party Funds and

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wish them to be incorporated into their financial plan. For purposes of this decision, “accommodation” means that IGFS does not promote, or encourage representatives of IGFS (“Consultants”) to promote the purchase of Third Party Funds by clients. Further, IGFS does not advertise that Third Party Funds may be purchased through IGFS, nor does IGFS hold itself out as a distributor of Third Party Funds. However, as a service to clients who request to hold an existing Third Party Fund in their mutual fund account with IGFS or to purchase additional or new units of a Third Party Fund, IGFS will accommodate the request and facilitate the Third Party Fund transaction. Only certain Third Party Funds may be accommodated through IGFS, specifically only those that (i) may be settled through FundSERV¹ and (ii) are purchased on a “no load” basis or on a “front load” basis where the front load is reduced to nil.² IGSI will hold or sell Third Party Funds on the same accommodation basis as IGFS. Third Party Mutual Funds held on this accommodation basis represent a very minor portion of the total mutual funds held by clients in their mutual fund accounts with IGFS (i.e. approximately 1.7% as of December 31, 2005).

8. Clients may hold Investors Group Funds and Third Party Funds as well as stock, bonds and other securities in accounts at IGSI. Third Party Funds held at or purchased by clients through IGSI are done so on the same accommodation basis as set forth above in paragraph 7.
9. As a result of offering the accommodation service, the I.G. Dealers are considered “participating dealers” as defined in NI 81-102, in respect of Third Party Funds.
10. The I.G. Dealers distribute Investors Group Funds on a deferred sales charge basis and on a no-load basis.
11. IGFS compensates Consultants as follows in respect of the sale of Investors Group Funds:
 - (a) if the securities of the Investors Group Fund are sold under a deferred sales charge option, Consultants receive compensation in one or more of the following forms:
 - (i) a sales commission at the time of the initial sale of the securities;

¹ There may be exceptional circumstances where settlement through FundSERV is not required.

² There will be no exceptions to this requirement.

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- (ii) an annual trailing commission payable monthly based on the average monthly value of certain assets of clients they service that are invested in Investors Group Funds purchased under the deferred sales charge option;
- (iii) an additional annual trailing commission payable annually based on the value of certain assets of clients they service that are invested in Investors Group Funds purchased under the deferred sales charge option that are no longer subject to a deferred sales charge.

The amount of the sales commission, the trailing commission and the additional annual trailing commission vary among Consultants depending on various factors applicable to the Consultants such as tenure, assets serviced, sales volumes and professional qualifications.

- (b) if the securities of the Investors Group Fund are sold under a no-load option (i.e. no front-end sales charge and no deferred sales charge), Consultants receive compensation in one or more of the following forms:
 - (i) an annual trailing commission payable monthly based on the value of certain assets of clients they service that are invested in Investors Group Funds purchased under the no-load option;
 - (ii) an additional annual trailing commission (an “asset retention commission”) payable monthly based on the value of certain assets of clients they service that are invested in Investors Group Funds purchased under the no-load option.

The amount of the annual trailing commission varies among Consultants depending on various factors applicable to the Consultants such as assets serviced, sales volumes and professional qualifications. The additional annual trailing commission is the same rate for all Consultants.

12. In respect of the sale of Third Party Funds (which IGFS only permits to be sold under a no-load option³) on the accommodation basis set out above, IGFS compensates Consultants as follows:

³ It should be noted that if a Third Party Fund does not have a no-load series of securities, IGFS requires that the front-load series be sold with the front load reduced to nil.

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- (i) an annual trailing commission payable monthly based on the value of all assets of clients they service that are invested in Third Party Funds purchased under the no-load option.

The amount of annual trailing commissions that Consultants receive in respect of assets invested in Investors Group Funds and in Third Party Funds is the same.

Consultants do not receive an asset retention commission in respect of Third Party Funds as they do in respect of Investors Group Funds.

- 13. IGFS may reimburse Consultants for certain expenses incurred in respect of the distribution of Investors Group Funds and may pay for Consultants to attend conferences sponsored by IGFS. Further, IGFS may award prizes and bonuses to Consultants in respect of the distribution of Investors Group Funds. The foregoing amounts are paid in accordance with NI 81-105 and do not apply to Third Party Funds.
- 14. IGSI does not pay Consultants of IGFS for any transactions occurring in IGSI accounts and all of IGSI's registered individuals are currently compensated on a basis that is not tied to specific transactions, but IGSI may compensate its registered individuals on the basis set forth above in paragraphs 11 and 12 in the future.
- 15. The compensation paid to Consultants of IGFS and to registered individuals of IGSI in respect of Investors Group Funds is paid to IGFS by IGIM from management fees paid to IGIM by the Investors Group Funds.
- 16. To the knowledge of IGFS, the compensation paid to Consultants in respect of Third Party Funds is paid to IGFS by the manager of the Third Party Funds from management fees paid to the manager by the Third Party Funds.
- 17. The compensation paid to Consultants in respect of Investors Group Funds and in respect of Third Party Funds is not determined as a percentage of what IGFS receives from IGIM or the manager of the Third Party Funds, as the case may be.
- 18. Section 4.2 of NI 81-105 prohibits a principal distributor from providing an incentive for its sales representatives to recommend a fund of which it is a principal distributor over a fund of which it is a participating dealer.
- 19. Consultants will disclose the unequal compensation schemes between Investors Group Funds and Third Party Funds.

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DECISION

Each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the decision has been met.

The decision of the Decision Makers under the Legislation is that the Requested Relief is granted provided that the sale of Third Party Funds is on an “accommodation” basis, as described above, only.

Robert B. Bouchard
Director, Corporate Finance
The Manitoba Securities Commission