

IN THE MATTER OF THE SECURITIES ACT
R.S.N.S. 1989, CHAPTER 418, AS AMENDED ("Act")

-AND-

IN THE MATTER OF
INVESTORS GROUP FINANCIAL SERVICES INC. ("RESPONDENT")

SETTLEMENT AGREEMENT

PART I - INTRODUCTION

1. The parties to this Settlement Agreement ("Agreement") are the Respondent and Staff of the Nova Scotia Securities Commission.
2. The parties agree that the Nova Scotia Securities Commission ("Commission") has jurisdiction over this matter.
3. The parties agree to recommend to the Commission approval of this Agreement in accordance with the terms and process set out herein.

PART II - PROCEDURE FOR APPROVAL OF THE AGREEMENT

4. Staff of the Commission ("Staff") agrees to request that a Notice of Hearing be issued setting down a hearing ("Settlement Hearing") wherein the Commission will consider whether it is in the public interest to approve this Agreement and to issue an Order in the form attached as Schedule "A".
5. The parties agree that the Agreement constitutes the entirety of evidence to be submitted to the Commission at the Settlement Hearing.
6. Staff agrees to recommend that the allegations acknowledged and admitted by the Respondent be resolved and disposed of in accordance with this Agreement.
7. The Parties acknowledge that this Agreement will become a public document upon its approval by the Commission at the Settlement Hearing.

PART III - STATEMENT OF AGREED FACTS

8. Staff and Respondent agree with the facts and conclusions set out in this Part of the Agreement.
9. The Respondent is a registered dealer in the Province of Nova Scotia.
10. The Respondent is incorporated under the Canada Business Corporations Act and is extra-provincially registered to carry on business in Nova Scotia.

11. Michael Duhan ("Duhan") has been registered with the Commission as a salesperson with the Respondent since July 7, 1988.
12. In or around September 2001, a client of the Respondent serviced by Duhan ("Complainant") contacted Duhan voicing concerns about the suitability of investments in his account. Between 2001 and 2004, the Complainant asked Duhan at least three more times to review his account. Duhan's response to the Complainant was that the markets would rebound. In October of 2004, the Complainant transferred his account away from Duhan and the Respondent.
13. The Complainant complained to the Respondent in December of 2006.
14. On December 15, 2006 the Complainant wrote to the Mutual Fund Dealers Association ("MFDA") of Canada in regard to Duhan. The Complainant expressed concern about a RRIF meltdown strategy recommended by Duhan, inappropriate investments, and lack of service from Duhan between 1996 and 2001. During this timeframe the Respondent had internal guidelines on KYC information and leverage which were similar to those later published by the MFDA.
15. In 2007, a 25 Client File Review of Duhan's files was conducted by the Respondent. The review indicated that:
 - a. 32% had investments that were inconsistent with the risk tolerance indicated on their KYC;
 - b. 44% did not have up to date KYC information on file and some files were missing KYC forms;
 - c. 12 % held leverages where loan to net worth exceeded the Respondent's guideline of 50%; and
 - d. Duhan did not follow the Respondent's policy of annually updating KYC information.
16. In September of 2008 the Respondent's staff conducted an internal branch audit of the Scotia-Highlands (Dartmouth) Region Office ("Dartmouth Office"), which included among other tests, a review of 20 client files for compliance with corporate KYC and file documentation policies. The audit showed that:
 - a. all files contained contact logs, the majority of which included details of client discussions, and 65% failed to include time of day;
 - b. 40% required further investigation due to inconsistencies between the client KYC information and the current portfolio;
 - c. 5% were missing the client application; and

- d. 5% had no KYC information on file.
17. The client file reviews showed that the Respondent failed to appropriately and adequately supervise Duhan and the Dartmouth Office to ensure that they conformed with both the Respondent's policies and procedures and MFDA rules and guidelines regarding client files, suitability and leverage.

PART IV - STATEMENT OF ALLEGATIONS ACKNOWLEDGED AND ADMITTED BY THE RESPONDENT

18. The Respondent acknowledges and admits that it failed to take the necessary steps to properly supervise Duhan and the Dartmouth Office to ensure that they conformed with its policies and procedures and MFDA rules, thereby violating sections 31(1)(a) and 31(1)(b) of the Securities Regulations.
19. The Respondent acknowledges that by violating sections 31(1)(a) and 31(1)(b) of the Securities Regulations, it undermined investor confidence in the fairness and efficiency of capital markets in Nova Scotia and acted contrary to the public interest.
20. The Respondent admits the facts set forth in Part III herein and acknowledges that it violated the Act.

PART V - MITIGATING FACTORS

21. The Respondent acknowledges and accepts responsibility for its conduct which is the subject matter of this Agreement.
22. The Respondent cooperated with Staff's investigation of this matter.
23. The Respondent resolved the complaint, prior to involvement by Staff, reimbursing the Complainant \$68,000.00, which represented the Complainant's losses and costs on the investment strategy.
24. The Respondent used this process to identify deficiencies in its policies and procedures and has made significant improvements relating to KYC and leveraged investments including enhanced second-level review.
25. The Respondent has reviewed Duhan's current practices and has concluded that these meet the standards required.



PART VI - TERMS OF SETTLEMENT

26. The terms of settlement are set forth in the order contained in Schedule "A" to this Agreement which is expressly incorporated herein.
27. The Respondent consents to the order contained in Schedule "A".

PART VII - COMMITMENTS

28. If this Agreement is approved and the Order as set out in Schedule "A" is granted, the parties agree to waive any right to a full hearing and judicial review and appeal of this matter.
29. If this Agreement is approved by the Commission, the parties will not in any way make any statement, public or otherwise, that is inconsistent with the terms of this Agreement.
30. If this Agreement is approved by the Commission, the Respondent agrees to abide by all terms of this Agreement as set out in the Order attached as Schedule "A".
31. If, for any reason whatsoever, this Agreement is not approved, or the Order set forth in Schedule "A" is not granted by the Commission:
 - a. Staff and the Respondent will be entitled to proceed to a hearing of the allegations which are the subject matter of this Agreement unaffected by the Agreement or the settlement negotiations;
 - b. The terms of the Agreement will not be raised in any other proceeding or disclosed to any person except with the written consent of Staff and the Respondent or as may otherwise be required by law; and
 - c. The Respondent agrees that it will not raise in any proceeding the Agreement or the negotiations or process of approval thereof as a basis of any attack or challenge of the Commission's jurisdiction, alleged bias, appearance of bias, alleged unfairness or any other challenge that may otherwise be available.
32. If, in the view of Staff and prior to the approval of this Agreement by the Commission, there are new facts or issues of substantial concern regarding the facts set out in Part III of this Agreement, Staff will be at liberty to withdraw from this Agreement. Notice of such intention will be provided to Respondent in writing. In the event of such notice being given, the provisions of paragraph 31 in this Part will apply as if this Agreement had not been approved in accordance with the procedures set out herein.



VIII DISCLOSURE OF SETTLEMENT AGREEMENT

33. Staff or the Respondent may refer to any or all parts of this Agreement as required by the General Rules of Practice and Procedure and in the course of the Settlement Hearing. Otherwise, this Settlement Agreement and its terms will be treated as confidential by all parties to it until approved by the Commission, and forever if, for any reason whatsoever, this settlement is not approved by the Commission.

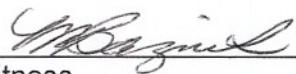
IX EXECUTION OF SETTLEMENT AGREEMENT

34. This Agreement may be signed in one or more counterparts that together shall constitute a binding agreement and a facsimile copy of any signature shall be as effective as an original signature.


Dated this ^{July} 8th day of ~~June~~ 2009.

SIGNED, SEALED AND DELIVERED
In the presence of:

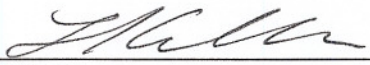
Investors Group Financial Services Inc.



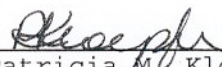
Witness

Per: 

Name: Kevin E. Regan
Position: Chairman of the Board & President



Witness

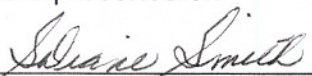
Per: 

Name: Patricia M. Kloepfer
Position: Vice-President, Compliance & MFDA Compliance Officer

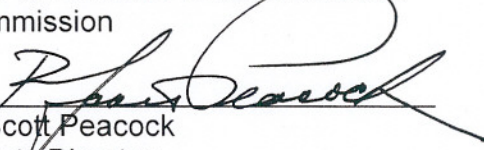
Dated this 15 day of ^{July} ~~June~~ 2009.

SIGNED, SEALED AND DELIVERED
In the presence of:

Staff of the Nova Scotia Securities Commission



Witness

Per: 

R. Scott Peacock
Deputy Director
Compliance and Enforcement
Nova Scotia Securities Commission

SCHEDULE "A"

IN THE MATTER OF THE SECURITIES ACT
RSNS. 1989, CHAPTER 418, AS AMENDED ("Act")

-AND-

IN THE MATTER OF
INVESTORS GROUP FINANCIAL SERVICES INC. ("Respondent")

ORDER
(Sections 135, 135A)

WHEREAS on ____ 2009, the Nova Scotia Securities Commission ("Commission") issued a Notice of Hearing to the Respondent pursuant to sections 135 and 135A of the Act;

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the Commission ("Staff") whereby it agreed to a proposed settlement of the proceeding, subject to the approval of the Commission;

AND WHEREAS Staff recommended approval of the settlement agreement;

AND WHEREAS the Commission is of the opinion that the Respondent has contravened the Act and it is in the public interest to make this Order;

AND UPON reviewing the settlement agreement and the Notice of Hearing, and upon hearing submissions of counsel for Staff and the Respondent;

IT IS HEREBY ORDERED, pursuant to sections 135 and 135A of the Act, that:

1. the settlement agreement dated ____ 2009, a copy of which is attached, is approved;
2. pursuant to section 135 of the Act, the Respondent shall pay an administrative penalty in the amount of forty thousand dollars (\$40,000.00) forthwith; and
3. pursuant to section 135A of the Act, the Respondent shall pay costs in connection with the investigation and conduct of the proceedings before the Commission in the amount of two thousand five hundred dollars (\$2,500.00) forthwith;

DATED at Halifax, Nova Scotia, this ____ day of _____ 2009.

NOVA SCOTIA SECURITIES COMMISSION

(Chairman)