November 15, 2012

Mr. Robert Keller
Policy Counsel
Investment Industry Regulatory Organization of Canada
Suite 1600, 121 King Street West
Toronto, Ontario
M5H 3T9

Dear Mr. Keller:

RE: IIROC Notice 12-0253 – Request for Comments on Draft Guidance Regarding Compensation Structures for Retail Accounts

This letter responds to the Draft Guidance Regarding Compensation Structures for Retail Accounts (Guidance Note) published for comment by the Investment Industry Regulatory Organization of Canada (IIROC).

Investors Group Securities Inc. (IGSI) is an investment dealer and Member of IIROC that operates across Canada. IGSI is a subsidiary of IGM Financial Inc. (IGM). IGM is a diversified financial services company and, through its subsidiaries, is one of Canada's largest asset managers and distributors of mutual funds and other products, with over $119.7 billion in assets under management as at September 30, 2012.

Although IGSI does not currently offer fee based accounts, the Guidance Note is of significant interest to us since we may offer these at some point in the future and, importantly, we are concerned with some of the analysis and underlying assumptions supporting this initiative. We have three major issues with the Guidance Note:

1. **Cost versus Value**

   The assumption upon which the Guidance note is based appears to be that cost is the only consideration that should be taken into account in assessing whether a commission or fee based account is appropriate for a particular client. This is incorrect. Clients weigh a number of factors in determining which kind of account they are most comfortable with. Some examples:

   - a fee based account may be more attractive to a client because of the services that are attached to it, such as portfolio rebalancing or enhanced reporting, even if from a pure cost perspective a commission based account might be cheaper for them

- a client may prefer the cost certainty of a fee based account over a commission based one, even where the actual trading they do may not justify it

- although an investor with a "buy and hold" strategy may appear to be more suited to a commission based account, other considerations may lead to a different conclusion. The use of classes of funds designed for fee based accounts, with their lower MER and no trailer fees, may make it more appropriate than a commission based account

In short, clients are individuals, with different needs, expectations and comfort levels. The crucial consideration is that the various options be presented to them, in order for clients, with the guidance of their advisers, to make the choice that they are most comfortable with.

2. Predicting Future Behaviour

When advisers meet with a client for the first time, they are dealing with something of an unknown quantity. While the "know your client" information they collect is largely factual, expectations as to the volume and nature of trading is necessarily somewhat speculative. A client may expect to do a certain amount of trading, but their actual experience may be quite different. For example, clients who say they will do very little trading may do much more because of various factors. Basing a determination as to what kind of account is best suited for clients relying on what they expect to do is potentially a problem, because it essentially is a prediction as to future behavior, which is notoriously difficult to do. Given the potential consequences to the dealer and the adviser of making the wrong recommendation as to the kind of account a client should have – given that it is framed in the Guidance Note as a suitability obligation, failure to meet the expected standard can result in liability – imposing this obligation on registrants is not appropriate.

3. Lack of Regulatory Need

Dealers and their advisers are already subject to comprehensive rules regarding their obligation to know their clients and monitor their trading activity. In addition, the changes resulting from the implementation of the Client Relationship Model by IIROC make it clear that clients must be made aware (in the Relationship Disclosure Document) of the services and products offered. While In our view the suitability obligation on the part of registrants does not extend to choice of account type, members do have existing general obligations to supervise trading in clients' accounts, which would include identifying situations where the account type may not be consistent with the activity that is actually going on and which may prompt a discussion with clients in this regard. Imposing a distinct obligation relating to the type of account is unnecessary. Further, the Guidance Note adds additional requirements not supported by the existing rules, which means that this initiative is outside the proper scope of an interpretation instrument of this kind.

The Preferred Approach

In our view the appropriate way to address this issue is to reinforce and clarify existing obligations, as follows:

- ensure clients are provided with clear and comprehensive information on
    - the various accounts that are available
    - the services that are provided with each type
    - the fees and charges that are applicable to each kind of account; and
    - the basis upon which those fees are calculated (for example, percentage of account value, commissions by trade)
- clarify that dealers and advisers have the obligation to periodically review the kind of accounts that clients have to identify ones where their behavior may suggest that they are not the appropriate type for those clients and their trading activity, with a view to contacting the client to discuss whether another kind of account may be better suited for them where an inconsistency is identified

We appreciate having this opportunity to share our views regarding the Guidance Note and would be pleased to discuss any of these concerns with you at your convenience. Please do not hesitate to contact David Cheop at david.cheop@investorsgroup.com or by telephone at (204)956-8444 in this regard.

Yours truly,

INVESTORS GROUP SECURITIES INC.

Neil Taylor
Chairman, President and Ultimate Designated Person

cc: Murray J. Taylor, President and Chief Executive Officer, Investors Group Inc.