



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

22nd Floor
20 Queen Street West
Toronto ON M5H 3S8

22e étage
20, rue queen ouest
Toronto ON M5H 3S8

**IN THE MATTER OF THE SECURITIES ACT
R.S.O. 1990, c. S.5, AS AMENDED**

- and -

**MANULIFE SECURITIES INCORPORATED and MANULIFE SECURITIES INVESTMENT
SERVICES INC.**

**SETTLEMENT AGREEMENT BETWEEN STAFF OF THE COMMISSION and MANULIFE
SECURITIES INCORPORATED and MANULIFE SECURITIES INVESTMENT
SERVICES INC.**

PART I – INTRODUCTION

1. The Ontario Securities Commission (the “Commission”) will issue a Notice of Hearing to announce that it will hold a hearing to consider whether, pursuant to subsections 127(1) and 127(2) of the *Securities Act*, R.S.O. 1990, c. S.5, as amended (the “Act”), it is in the public interest for the Commission to make certain orders in respect of Manulife Securities Incorporated (“MSI”) and Manulife Securities Investment Services Inc. (“MSISI”) (together, the “Manulife Dealers”).
2. MSI is a corporation incorporated pursuant to the laws of Ontario. MSI is a member of the Investment Industry Regulatory Organization of Canada (“IIROC”) and is registered with the Commission as an investment dealer.
3. MSISI is a corporation incorporated pursuant to the laws of Canada. MSISI is a member of the Mutual Fund Dealers Association of Canada (“MFDA”) and is registered with the Commission as a mutual fund dealer and an exempt market dealer. Each of the Manulife Dealers is a subsidiary of Manulife Financial Corporation.
4. Commencing in June 2015, the Manulife Dealers self-reported to Staff of the Commission (“Commission Staff”) the matters described in Part III below. During Commission Staff’s investigation of these matters, the Manulife Dealers provided prompt, detailed and candid co-operation to Commission Staff.

5. As summarized at paragraph 11 below and more fully described in Part III below, it is Commission Staff's position that there were inadequacies in the Manulife Dealers' systems of controls and supervision which formed part of their compliance systems (the "Control and Supervision Inadequacies") which resulted in certain clients paying, directly or indirectly, excess fees that were not detected or corrected by the Manulife Dealers in a timely manner.

PART II - JOINT SETTLEMENT RECOMMENDATION

6. Commission Staff and the Manulife Dealers have agreed to a settlement of the proceeding initiated in respect of the Manulife Dealers by Notice of Hearing dated July 10, 2017 (the "Proceeding") on the basis of the terms and conditions set out in this settlement agreement (the "Settlement Agreement"). Commission Staff have consulted with IROC Staff and MFDA Staff in relation to the underlying facts which are the subject matter of this Settlement Agreement.
7. Pursuant to this Settlement Agreement, Commission Staff agree to recommend to the Commission that the Proceeding be resolved and disposed of in accordance with the terms and conditions contained herein.
8. It is Commission Staff's position that:
 - a. the statement of facts set out by Commission Staff in Part III below, which is based on an investigation carried out by Commission Staff following the self-reporting by the Manulife Dealers, is supported by the evidence reviewed by Commission Staff and the conclusions contained in Part III are reasonable; and
 - b. it is in the public interest for the Commission to approve this Settlement Agreement, having regard to the following considerations:
 - (i) Commission Staff's allegations are that the Manulife Dealers failed to establish, maintain and apply procedures to establish controls and supervision:
 - A. sufficient to provide reasonable assurance that the Manulife Dealers, and each individual acting on behalf of the Manulife Dealers, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
 - B. that were reasonably likely to identify the non-compliance described in A. above at an early stage and that would have allowed the Manulife Dealers to correct the non-compliant conduct in a timely manner;
 - (ii) Commission Staff do not allege, and have found no evidence of dishonest conduct by the Manulife Dealers;
 - (iii) the Manulife Dealers discovered and promptly self-reported the Control and Supervision Inadequacies to Commission Staff;
 - (iv) during the investigation of the Control and Supervision Inadequacies following the self-reporting by the Manulife Dealers, the Manulife Dealers provided prompt, detailed and candid cooperation to Commission Staff;

- (v) the Manulife Dealers had formulated an intention to pay appropriate compensation to clients and former clients when they self-reported the Control and Supervision Inadequacies to Commission Staff and, thereafter, the Manulife Dealers co-operated with Commission Staff with a view to providing appropriate compensation to clients and former clients who were harmed by any of the matters in Part III below, including the Control and Supervision Inadequacies (the “Affected Clients”);
- (vi) as part of this Settlement Agreement, the Manulife Dealers have agreed to pay appropriate compensation to the Affected Clients, in accordance with a plan submitted by the Manulife Dealers to Commission Staff and presented to the Commission (the “Compensation Plan”). As at the date of this Settlement Agreement, the Manulife Dealers anticipate paying compensation to Affected Clients of approximately \$11,700,000 in the aggregate in respect of the Control and Supervision Inadequacies;
- (vii) the Compensation Plan prescribes, among other things:
 - A. the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including an amount representing the time value of money in respect of any monies owed by the Manulife Dealers to the Affected Clients;
 - B. the approach to be taken with regard to contacting and making payments to the Affected Clients;
 - C. the timing to complete the various steps included in the Compensation Plan;
 - D. a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this Settlement Agreement is approximately \$8,300 as compared to \$11,700,000 in compensation to be paid) which aggregate *de minimis* amount will be donated to United Way Financial Literacy Programs;
 - E. the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the Manulife Dealers are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each Manulife Dealer will use reasonable efforts to locate any Affected Clients who are entitled to payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the Manulife Dealer determines that a client is deceased but does not know the identity of the personal representative of the client’s estate, and the estate is entitled to more than \$400, the Manulife Dealer shall make reasonable efforts to identify the personal representative of the deceased client. Subject to any applicable unclaimed property legislation, any amounts remaining undistributed to non-located clients by June 30, 2019 will be donated to United Way Financial Literacy Programs;

- F. the resolution of client inquiries through an escalation process; and
 - G. regular reporting to a manager or deputy director in the Compliance and Registrant Regulation Branch of the Commission (“OSC Manager”) detailing the Manulife Dealers’ progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of client inquiries;
- (viii) at the request of Commission Staff, each of the Manulife Dealers conducted an extensive review of its other businesses operated in Canada to identify whether there were any other instances of inadequacies in their systems of controls and supervision leading to clients directly paying excess fees or indirectly paying excess fees on mutual funds managed by Manulife Asset Management Limited (“MAML”), an affiliate of the Manulife Dealers. Based on this review, the Manulife Dealers have advised Commission Staff that there are no other instances other than those instances of Control and Supervision Inadequacies described herein;
 - (ix) the Manulife Dealers have taken corrective action including implementing additional controls and supervision to address the Control and Supervision Inadequacies including establishing procedures and implementing controls, supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future (the “Enhanced Control and Supervision Procedures”) and, as part of this Settlement Agreement, the Manulife Dealers are required to report to the OSC Manager on the development and implementation of the Enhanced Control and Supervision Procedures;
 - (x) the Manulife Dealers have agreed to make a voluntary payment of \$495,000 to the Commission to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act;
 - (xi) the Manulife Dealers have agreed to make a further voluntary payment of \$25,000 to reimburse the Commission for costs incurred or to be incurred;
 - (xii) the total agreed voluntary payment of \$520,000 will be paid by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission; and
 - (xiii) the terms of this Settlement Agreement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above in addition to the amounts to be paid as compensation to Affected Clients by the Manulife Dealers will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:
 - A. provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the

requirement to deal fairly with clients including, without limitation, with regard to fees; and

B. are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.

9. The Manulife Dealers neither admit nor deny the accuracy of the facts or the conclusions of Commission Staff as set out in Part III of this Settlement Agreement.
10. The Manulife Dealers agree to this Settlement Agreement and to the making of an order in the form attached as Schedule "A".

PART III – COMMISSION STAFF’S STATEMENT OF FACTS AND CONCLUSIONS

A. Overview

11. Commencing in June 2015, the Manulife Dealers self-reported the Control and Supervision Inadequacies to Commission Staff. The Control and Supervision Inadequacies are summarized as follows:
 - a. Certain investment products with embedded advisor fees held in fee-based accounts with the Manulife Dealers were incorrectly included in account fee calculations, thereby resulting in some clients paying excess fees during the period June 30, 2005 to September 23, 2016; and
 - b. Beginning in 2007, some clients of the Manulife Dealers were not advised that they qualified for a lower Management Expense Ratio ("MER") series of a MAML managed mutual fund, the Elite Series, and indirectly paid excess fees when they invested in the higher MER series of the same mutual fund (the "MER Differential Issue").
12. In each instance, the Control and Supervision Inadequacies continued undetected for an extended period of time. The Manulife Dealers discovered the Control and Supervision Inadequacies following inquiries made and/or reviews conducted by the relevant Manulife Dealers.
13. As set out in greater detail below in the section entitled Mitigating Factors, the Manulife Dealers have taken several remedial steps in order to correct the Control and Supervision Inadequacies.
14. The Manulife Dealers engaged an independent third party to validate the identification of Trailer Paying Products (defined below) in connection with the Control and Supervision Inadequacy described in B(a) below, and with developing the compensation calculation methodology and performing the compensation calculations in connection with the Control and Supervision Inadequacy described in B(b) below.

B. The Control and Supervision Inadequacies

15. The Control and Supervision Inadequacies are described below.

(a) Excess Account Fees Paid on Certain Trailer Paying Products

16. Some clients of the Manulife Dealers have fee-based accounts and are charged a fee for investment management services received in respect of assets held in the account (the “Fee-Based Accounts”). The investment management fee is based on the market value of the client’s assets under management (the “Account Fee”).
17. For some clients of the Manulife Dealers with Fee-Based Accounts, assets held in a Fee-Based Accounts included certain investment products with embedded advisor fees, including certain non-exchange traded mutual funds, exchange traded funds, structured notes and closed end funds (“Trailer-Paying Products”). As part of its review relating to this matter, the Manulife Dealers identified that the market value of certain Trailer-Paying Products had been incorrectly included in the calculation of the Account Fee in some Fee-Based Accounts during the period June 30, 2005 to September 23, 2016, and, as a result, some clients of the Manulife Dealers were charged excess Account Fees. Specifically,
 - a. it was determined that the Manulife Dealers did not have adequate systems of internal controls and supervision in place to ensure that all Trailer-Paying Products were consistently excluded from the calculation of the Account Fee;
 - b. it was determined that the Manulife Dealers’ internal controls failed to detect this Control and Supervision Inadequacy in a timely manner; and
 - c. the Manulife Dealers took immediate steps to ensure that Trailer-Paying Products were consistently excluded from the calculation of the Account Fee on a going forward basis.
18. Upon identification of the issue described above, the Manulife Dealers took steps to determine the extent of the problem and how to compensate Affected Clients who paid excess Account Fees. The Manulife Dealers identified all Trailer Paying Products that had been incorrectly included in the calculation of Account Fees, and engaged an independent third party to validate the results. Thereafter, the Manulife Dealers calculated the amounts to be paid to Affected Clients as compensation for the excess Account Fees paid by the them. The Manulife Dealers self-reported this Control and Supervision Inadequacy to Commission Staff in June 2015.
19. The Manulife Dealers have determined that, as a result of this Control and Supervision Inadequacy, approximately 5,483 client accounts were charged excess Account Fees during the period June 2005 to September 2016.
20. The Manulife Dealers have agreed to compensate the Affected Clients who were subject to excess Account Fees as described above during the relevant period in accordance with the Compensation Plan, which requires that the Manulife Dealers pay to the Affected Clients:
 - a. the excess Account Fee;
 - b. an amount representing the applicable sales taxes charged on the excess Account Fee; and
 - c. an amount representing the time value of money in respect of the excess Account Fee from the time the excess Account Fee was charged to June 30, 2017, based on a simple interest rate

of 5% per annum calculated monthly (the “Account Fee Foregone Investment Opportunity Cost”).

21. As at the date of this Settlement Agreement, the Manulife Dealers have determined that the total amount to be paid as compensation to these Affected Clients pursuant to the Compensation Plan, inclusive of the Account Fee Foregone Investment Opportunity Cost, is approximately \$6,000,000.

b) Excess Indirect Fees paid by some clients of the Manulife Dealers who invested in the MER Differential Funds

22. MAML, an affiliate of the Manulife Dealers, manages a number of mutual funds that are available in different series. For certain of these mutual funds, there were two series (Advisor and Elite) of the same mutual fund which differed solely in that the MER of the Advisor series, which has a lower minimum investment threshold, contains a pre-determined service fee whereas the MER of the Elite Series, which has a higher minimum investment threshold, contains a lower service fee negotiated between the client and the Manulife advisor (the “MER Differential Funds”).
23. The threshold for the Elite Series was an investment of \$100,000 or greater. The Elite Series were launched between 2007 and 2015.
24. On October 1, 2016, MAML introduced tiered pricing for all of its funds to replace the single minimum investment threshold described above. Tiered pricing offers standardized MER reductions at the product level to securityholders who meet certain eligibility requirements, such as reaching certain asset levels in their combined household holdings.
25. The Manulife Dealers conducted a review of the MER Differential Funds to cover the period from July 2007 to October 1, 2016 and determined that certain client accounts invested in an MER Differential Fund that appeared to qualify for the Elite Series were not invested in that series, and therefore the holders of those client accounts did not benefit from the Elite Series’ lower MER. Specifically,
- a. the Manulife Dealers determined that they did not have adequate systems of internal controls and supervision in place to ensure that when a purchase or transfer-in of an investment in an MER Differential Fund, alone or combined with existing holdings of the same MER Differential Fund, exceeded the minimum investment threshold required to qualify for the Elite Series, the client was consistently advised that the Elite Series of the same MER Differential Fund was available; and
 - b. the Manulife Dealers determined that their internal controls failed to identify this Control and Supervision Inadequacy in a timely manner.
26. The Manulife Dealers engaged an independent third party to develop the compensation calculation methodology, and to perform the calculations of the appropriate compensation to be paid to clients.
27. The Manulife Dealers self-reported this Control and Supervision Inadequacy to Commission Staff in June 2015.

28. The Manulife Dealers have determined that there are approximately 3,937 client accounts that from July 2007 to October 2016 ought to have been invested in the Elite Series of an MER Differential Fund but were not.
29. In accordance with the Compensation Plan, in respect of those client accounts, the Manulife Dealers have agreed to pay to each Affected Client:
- a. an amount representing the difference in the return that the Affected Client would have received on any unit held by the client of an MER Differential Fund had the client been invested in the Elite Series of that mutual fund in a timely manner upon becoming eligible to invest in the Elite Series held in that mutual fund for the entire period in which the Affected Client qualified for the Elite Series units of that mutual fund (the “Difference in Return”). For the purpose of this calculation, a deemed service fee for each category of mutual fund (i.e. equity and balanced funds, fixed income/bond funds or money market/cash funds) of the Elite Series was calculated as follows:
 - (i) in the case of funds other than money market/cash funds, by taking the simple average negotiated service fee for the category of mutual fund as at May 31, 2015, which was determined to be a globally favourable methodology to Affected Clients; and
 - (ii) in the case of money market/cash funds (which were held in 72 accounts), no data on negotiated service fees were available so the deemed service fee employed was 25 basis points, representing one half of the difference in MAML’s fee as between the Advisor Series and the Elite Series; and
 - b. an amount representing the time value of money in respect of the Difference in Return from the date of sale, conversion, transfer or disposition of any Advisor Series units of an MER Differential Fund for any periods up to June 30, 2017, based on a simple interest rate of 5% per annum calculated monthly (the “MER Foregone Investment Opportunity Cost”).
30. On this basis, the Manulife Dealers have determined that the total compensation to be paid to Affected Clients as a result of this Control and Supervision Inadequacy is approximately \$5,700,000, inclusive of the MER Foregone Investment Opportunity Cost, where applicable.

C. Breaches of Ontario Securities Law

31. In both instances of Control and Supervision Inadequacies, the Manulife Dealers failed to establish, maintain and apply procedures to establish controls and supervision:
- a. sufficient to provide reasonable assurance that the Manulife Dealers, and each individual acting on behalf of the Manulife Dealers, complied with securities legislation, including the requirement to deal fairly with clients with regard to fees; and
 - b. that were reasonably likely to identify the non-compliance described in a. above at an early stage and that would have allowed the Manulife Dealers to correct the non-compliant conduct in a timely manner.
32. As a result, both of the Control and Supervision Inadequacies constituted a breach of section 11.1 of National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant*

Obligations (“NI 31-103”). In addition, the failures in the Manulife Dealers’ systems of controls and supervision associated with the Control and Supervision Inadequacies were contrary to the public interest.

D. Mitigating Factors

33. Commission Staff do not allege, and have found no evidence of dishonest conduct by the Manulife Dealers.
34. The Manulife Dealers discovered and promptly self-reported the Control and Supervision Inadequacies to Commission Staff.
35. During the investigation of the Control and Supervision Inadequacies following the self-reporting by the Manulife Dealers, the Manulife Dealers provided prompt, detailed and candid cooperation to Commission Staff.
36. The Manulife Dealers had formulated an intention to pay appropriate compensation to clients and former clients in connection with their self-reporting of the Control and Supervision Inadequacies to Commission Staff and, thereafter, the Manulife Dealers co-operated with Commission Staff with a view to providing appropriate compensation to the Affected Clients that were harmed by any of the Control and Supervision Inadequacies.
37. As part of this Settlement Agreement, the Manulife Dealers have agreed to pay appropriate compensation to the Affected Clients, in accordance with the Compensation Plan. As at the date of this Settlement Agreement, the Manulife Dealers anticipate paying compensation to Affected Clients of approximately \$11,700,000 in the aggregate in respect of the Control and Supervision Inadequacies.
38. The Compensation Plan prescribes, among other things:
 - a. the detailed methodology to be used for determining the compensation to be paid to the Affected Clients, including the time value of money owed by the Manulife Dealers to the Affected Clients;
 - b. the approach to be taken with regard to contacting and making payments to the Affected Clients;
 - c. the timing to complete the various steps included in the Compensation Plan and the person(s) responsible for implementation of these steps;
 - d. a \$25 *de minimis* exception (the aggregate of such *de minimis* amounts as at the date of this Settlement Agreement is approximately \$8,300 as compared to \$11,700,000 in compensation to be paid), which aggregate *de minimis* amount will be donated to United Way Financial Literacy Programs;
 - e. the approach to be taken to any remaining funds that are not paid out to Affected Clients after the steps included in the Compensation Plan have been fully implemented. In that regard, the Compensation Plan provides that if the Manulife Dealers are not able to contact any former Affected Clients, notwithstanding the steps described in the Compensation Plan, each

Manulife Dealer will use reasonable efforts to locate any Affected Clients who are entitled to payment of \$200 or more including directory searches, internet searches, and the employment of third parties to assist in the search. If the Manulife Dealer determines that a client is deceased but does not know the identity of the personal representative of the client's estate, and the estate is entitled to more than \$400, the Manulife Dealer shall make reasonable efforts to identify the personal representative of the deceased client. Subject to any applicable unclaimed property legislation, any amounts remaining undistributed to non-located clients on June 30, 2019 will be donated to United Way Financial Literacy Programs;

- f. the resolution of client inquiries through an escalation process; and
- g. regular reporting to the OSC Manager detailing the Manulife Dealers' progress with respect to the implementation of the Compensation Plan, including with regard to the resolution of client inquiries.

- 39. At the request of Commission Staff, the Manulife Dealers conducted an extensive review of their other businesses operating in Canada to identify whether there were any other instances of inadequacies in their systems of controls and supervision leading to clients directly paying excess fees or indirectly paying excess fees on mutual funds managed by MAML. Based on this review, the Manulife Dealers have advised Commission Staff that there are no other instances other than the two instances of Control and Supervision Inadequacies described herein.
- 40. The Manulife Dealers have taken corrective action including implementing the Enhanced Control and Supervision Procedures and, as part of this Settlement Agreement, the Manulife Dealers are required to report to the OSC Manager on the development and implementation of the Enhanced Control and Supervision Procedures.
- 41. The Manulife Dealers have agreed to make voluntary payments totalling \$520,000 as described in paragraphs 8(b)(x) and (xi) above.
- 42. The Manulife Dealers will pay the total agreed voluntary payment amount of \$520,000 by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement, which payment is conditional upon approval of this Settlement Agreement by the Commission.
- 43. The terms of settlement are appropriate in all the circumstances, including mitigating factors and the principles of general and specific deterrence. Commission Staff are of the view that the voluntary payments referred to above in addition to the amounts to be paid as compensation to Affected Clients by the Manulife Dealers will emphasize to the marketplace that Commission Staff expect registrants to have compliance systems with appropriate controls and supervision in place which:
 - a. provide reasonable assurance that registrants, and each individual acting on behalf of registrants, are complying with securities legislation, including the requirement to deal fairly with clients including, without limitation, with regard to fees; and
 - b. are reasonably likely to allow registrants to identify and correct non-compliance with securities legislation in a timely manner.

E. The Manulife Dealers' Undertaking

44. By signing this Settlement Agreement, the Manulife Dealers undertake to:
- a. pay compensation to the Affected Clients in accordance with the Compensation Plan and to report to the OSC Manager in accordance with the Compensation Plan; and
 - b. make the voluntary payments referred to in paragraphs 8(b)(x) and (xi) above
- (the "Undertaking").

PART IV – TERMS OF SETTLEMENT

45. The Manulife Dealers agree to the terms of settlement listed below and consent to the Order in substantially the form attached hereto, that provides that:
- a. pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;
 - b. pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following terms and conditions:
 - i. within 90 days of receiving comments from Commission Staff regarding the Enhanced Control and Supervision Procedures, the Manulife Dealers shall provide to the OSC Manager, revised written policies and procedures (the "Revised Policies and Procedures") that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Commission Staff with regard to the Manulife Dealers' policies and procedures to establish the Enhanced Control and Supervision Procedures (the "Remaining Issues");
 - ii. thereafter, the Manulife Dealers shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;
 - iii. within eight months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the remaining issues raised by Commission Staff (the "Confirmation Date"), the Manulife Dealers shall submit a letter (the "Attestation Letter"), signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the Manulife Dealers, to the OSC Manager, expressing their opinion on whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the Manulife Dealer for the six month period commencing from the Confirmation Date;
 - iv. the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;

- v. the Manulife Dealers shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;
 - vi. any of the Manulife Dealers or Commission Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above; and
 - vii. the Manulife Dealers shall comply with the Undertaking.
46. The Manulife Dealers agree to make the voluntary payments described in subparagraph 44(b) by wire transfer before the commencement of the hearing before the Commission to approve this Settlement Agreement.

PART V - COMMISSION STAFF COMMITMENT

47. If the Commission approves this Settlement Agreement, Commission Staff will not commence any proceeding under Ontario securities law in relation to the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement, subject to the provisions of paragraph 48 below and except with respect to paragraph 39 above, and nothing in this Settlement Agreement shall be interpreted as limiting Commission Staff's ability to commence proceedings against the Manulife Dealers in relation to any control and supervision inadequacies leading to clients paying excess fees other than the two Control and Supervision Inadequacies described herein.
48. If the Commission approves this Settlement Agreement and either of the Manulife Dealers fails to comply with any of the terms of this Settlement Agreement, Commission Staff may bring proceedings under Ontario securities law against the Manulife Dealers. These proceedings may be based on, but are not limited to, the Commission Staff's Statement of Facts and Conclusions set out in Part III of this Settlement Agreement as well as the breach of this Settlement Agreement.

PART VI - PROCEDURE FOR APPROVAL OF SETTLEMENT

49. The parties will seek approval of this Settlement Agreement at a public hearing before the Commission scheduled for July 13, 2017, or on another date agreed to by Commission Staff and the Manulife Dealers, according to the procedures set out in this Settlement Agreement and the Commission's Rules of Procedure.
50. Commission Staff and the Manulife Dealers agree that this Settlement Agreement will form all of the evidence that will be submitted at the settlement hearing on the Manulife Dealers' conduct, unless the parties agree that additional evidence should be submitted at the settlement hearing.
51. If the Commission approves this Settlement Agreement, the Manulife Dealers agree to waive all rights to a full hearing, judicial review or appeal of this matter under the Act.
52. If the Commission approves this Settlement Agreement, the Manulife Dealers will not make any public statement that is inconsistent with this Settlement Agreement or with any additional evidence submitted at the settlement hearing. In addition, the Manulife Dealers agree that they will not make any public statement that there is no factual basis for this Settlement Agreement. Nothing in this paragraph affects the Manulife Dealers' testimonial obligations or the right to take legal or factual positions in other

investigations or legal proceedings in which the Commission and/or Commission Staff is not a party or in which any provincial or territorial securities regulatory authority in Canada and/or its staff is not a party (“Other Proceedings”) or to make public statements in connection with Other Proceedings.

53. The Manulife Dealers will not use, in any proceeding, this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any attack on the Commission’s jurisdiction, alleged bias, alleged unfairness, or any other remedies or challenges that may otherwise be available.

PART VII - DISCLOSURE OF SETTLEMENT AGREEMENT

54. If the Commission does not approve this Settlement Agreement or does not make the order attached as Schedule “A” to this Settlement Agreement:

- a. this Settlement Agreement and all discussions and negotiations between Commission Staff and the Manulife Dealers before the settlement hearing takes place will be without prejudice to Commission Staff and the Manulife Dealers; and
- b. Commission Staff and the Manulife Dealers will each be entitled to all available proceedings, remedies and challenges, including proceeding to a hearing of the allegations contained in the Statement of Allegations. Any proceedings, remedies and challenges will not be affected by this Settlement Agreement, or by any discussions or negotiations relating to this Settlement Agreement.

55. The parties will keep the terms of this Settlement Agreement confidential until the commencement of the public hearing to obtain approval of this Settlement Agreement by the Commission. Any obligations of confidentiality shall terminate upon the commencement of the public settlement hearing. If, for whatever reason, the Commission does not approve this Settlement Agreement, the terms of this Settlement Agreement remain confidential indefinitely, unless Commission Staff and the Manulife Dealers otherwise agree or if otherwise required by law.

PART VIII - EXECUTION OF SETTLEMENT AGREEMENT

- 56. This agreement may be signed in one or more counterparts which, together, constitute a binding agreement.
- 57. A facsimile copy or other electronic copy of any signature will be as effective as an original signature.

Dated this 10th day of July, 2017

Manulife Securities Incorporated

"Rick Annaert"

Per: _____
Rick Annaert

Manulife Securities Investment Services Inc.

"Rick Annaert"

Per: _____
Rick Annaert

Commission Staff

"Jeff Kehoe"

Jeff Kehoe
Director, Enforcement Branch
Ontario Securities Commission

SCHEDULE "A"



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

22nd Floor
20 Queen Street West
Toronto ON M5H 3S8

22e étage
20, rue queen ouest
Toronto ON M5H 3S8

**IN THE MATTER OF THE *SECURITIES ACT*,
R.S.O. 1990, c. S.5, AS AMENDED**

- AND -

**MANULIFE SECURITIES INCORPORATED and MANULIFE SECURITIES INVESTMENT
SERVICES INC.**

**ORDER
(Subsections 127(1) and 127(2))**

THIS APPLICATION, made jointly by Staff of the Commission and Manulife Securities Incorporated and Manulife Securities Investment Services Inc. (the **Manulife Dealers**) for approval of a settlement agreement dated July 10, 2017 (the **Settlement Agreement**), was heard on July 13, 2017 at the offices of the Commission, located at 20 Queen Street West, 17th Floor, Toronto, Ontario;

ON READING the Statement of Allegations dated July 10, 2017, the Joint Application Record for a Settlement Hearing dated July 10, 2017, including the Settlement Agreement, and on hearing the submissions of counsel for the Manulife Dealers and Staff;

IT IS HEREBY ORDERED THAT:

- (a) pursuant to subsection 127(1) of the Act, the Settlement Agreement is approved;
- (b) pursuant to subsection 127(2) of the Act, the approval of the Settlement Agreement is subject to the following terms and conditions:
 - (i) in respect of inadequacies in the Manulife Dealers' systems of controls and supervision which formed part of their compliance systems (the **Control and Supervision Inadequacies**), within 90 days of receiving comments from Staff regarding the procedures, controls and supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future (the **Enhanced Control and Supervision Procedures**), the Manulife Dealers shall provide to a manager or deputy director in the Compliance and Registrant Regulation Branch (the **OSC Manager**), revised written policies and procedures (the **Revised Policies and Procedures**) that, to the satisfaction of the OSC Manager, are responsive to any remaining issues raised by Staff with regard to the Manulife Dealers' policies and procedures to establish the Enhanced Control and Supervision Procedures (the **Remaining Issues**);
 - (ii) thereafter, the Manulife Dealers shall make such further modifications to their Revised Policies and Procedures as are required to ensure that the Revised Policies

and Procedures address any Remaining Issues to the satisfaction of the OSC Manager;

- (iii) within eight months of receiving confirmation from the OSC Manager that the Revised Policies and Procedures satisfy the Remaining Issues raised by Staff (the **Confirmation Date**), the Manulife Dealers shall submit a letter (the **Attestation Letter**), signed by the Ultimate Designated Person and the Chief Compliance Officer for each of the Manulife Dealers, to the OSC Manager, expressing their opinion on whether the Enhanced Control and Supervision Procedures were adequately followed, administered and enforced by the Manulife Dealer for the six month period commencing from the Confirmation Date;
- (iv) the Attestation Letter shall be accompanied by a report which provides a description of the testing performed to support the conclusions contained in the Attestation Letter;
- (v) the Manulife Dealers shall submit such additional reports as may be requested by the OSC Manager for the purpose of satisfying the OSC Manager that the opinion expressed in the Attestation Letter described in subparagraph (b)(iii) above is valid;
- (vi) any of the Manulife Dealers or Staff may apply to the Commission for directions in respect of any issues that may arise with regard to the implementation of subparagraphs (b)(i) to (v) above;
- (vii) the Manulife Dealers shall comply with their undertaking in the Settlement Agreement to:
 - a. pay appropriate compensation to eligible clients and former clients who were harmed by the Control and Supervision Inadequacies in accordance with a plan submitted by the Manulife Dealers to Staff (the **Compensation Plan**) and to report to the OSC Manager in accordance with the Compensation Plan;
 - b. make voluntary payment of \$25,000 to reimburse the Commission for costs incurred or to be incurred by it, in accordance with subsection 3.4(2)(a) of the Act; and
 - c. make a further voluntary payment of \$495,000 to be designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act; and
- (viii) the voluntary payment referred to at paragraph (vii)(c) above is designated for allocation or use by the Commission in accordance with paragraphs (b)(i) or (ii) of subsection 3.4(2) of the Act.

DATED at Toronto, Ontario this day of July, 2017
