**IN THE MATTER OF A SETTLEMENT HEARING
PURSUANT TO SECTION 24.4 OF BY-LAW NO. 1
OF THE MUTUAL FUND DEALERS ASSOCIATION OF CANADA**

Re: Investors Group Financial Services Inc.

SETTLEMENT AGREEMENT

I. INTRODUCTION

1. By Notice of Settlement Hearing dated December 6, 2004, the Mutual Fund Dealers Association of Canada (the "MFDA") announced that it proposed to hold a hearing to consider whether, pursuant to section 24.4 of By-law No. 1, the MFDA should accept the settlement agreement (the "Settlement Agreement") entered into between Staff of the MFDA and the Respondent, Investors Group Financial Services Inc.

II. JOINT SETTLEMENT RECOMMENDATION

2. Staff of the MFDA ("Staff") conducted a review of the Respondent's activities in the course of its inquiry into the mutual fund industry described in paragraph 11 below. The review disclosed that the Respondent had engaged in activity for which the Respondent could be penalized on the exercise of the discretion of a Hearing Panel pursuant to s. 24.1 of By-law No.1.

3. Staff and the Respondent recommend settlement of the matters disclosed by the review in accordance with the terms and conditions set out below. The Respondent agrees to the settlement on the basis of the facts set out in Part IV herein and consents to the making of an Order in the form attached as Schedule "B" on the basis of the facts set out in Part IV herein.

4. Staff and the Respondent agree that the terms of this settlement agreement, including the attached Schedule "A" and Schedule "B" (collectively, the "Settlement Agreement") will be released to the public only if and when the Settlement Agreement is accepted by the MFDA.

III. ACKNOWLEDGEMENT

5. Staff and the Respondent agree with the facts set out in Part IV herein for the purposes of this Settlement Agreement only and further agree that this agreement of facts is without prejudice to the Respondent or Staff in any other proceeding of any kind including, but without limiting the generality of the foregoing, any proceedings brought by the MFDA (subject to paragraph 34) or any civil or other proceedings which may be brought by any other person or agency. No other person or agency may raise or rely upon the terms of this Settlement Agreement or any agreement to the facts stated herein whether or not this Settlement Agreement is approved by the MFDA.

IV. AGREED FACTS

a) The Respondent and its relationship to Investors Group

6. The Respondent is a mutual fund dealer and member of the MFDA. The Respondent sells the Investors Group family of proprietary mutual funds (the "I.G. Funds") in all provinces except Quebec, where the distributor is Les Services Investors Limitée ("LSIL"), and provides related financial services to investors in Canada.

7. I.G. Investment Management, Ltd. ("IGIM") is registered in Ontario as an investment counsel and portfolio manager and is responsible for the management of the I.G. Funds. There are in excess of 140 I.G. Funds with assets under management of approximately $42.5 billion (as of June 30, 2004). The Ontario Securities Commission has brought parallel proceedings against IGIM in relation to its role in the market timing activity described herein (the "OSC proceedings").

8. The Respondent is affiliated with IGIM through their common ownership by Investors Group Inc., a wholly-owned subsidiary of IGM Financial Inc ("IGMFI"). The shares of IGMFI are listed on the Toronto Stock Exchange under the symbol "IGI".

9. In this Settlement Agreement, the term "Investors Group" will be used to refer to the group of affiliated companies, which includes the Respondent and IGIM, which carry on business in Canada under the "Investors Group" name. The companies comprising Investors Group have an integrated management structure and many of the sales, compliance, and operational staff provide services to both the Respondent and IGIM.

b) <u>The Duty of a Mutual Fund Dealer</u>

10. In accordance with By-law No. 1 and the Rules of the MFDA, a mutual fund dealer is required to act fairly, honestly and in good faith with its clients and to establish, implement and maintain written policies and procedures to ensure that the handling of its business is in accordance with the By-laws, Rules and Policies of the MFDA and with applicable securities legislation. A mutual fund dealer must have regard to the potential for harm to a mutual fund in at least those circumstances where a mutual fund dealer is aware that a client seeks to employ a frequent trading market timing strategy or where there are sufficient red flags present to warrant further inquiries. In these circumstances, a mutual fund dealer is required to take reasonable steps to prevent this type of harm. These duties are in addition to those of a mutual fund manager with regard to frequent trading market timing activity.

c) Background

11. In the fall of 2003, the MFDA, in cooperation with the Ontario Securities Commission and the Investment Dealers Association of Canada, began an inquiry into potential late trading and market timing in the Canadian mutual fund industry. The inquiry involved 105 Canadian mutual fund companies and related dealers and has been carried out in three phases. The inquiry is in its third and final phase and is expected to continue over the next several weeks. Investors Group has cooperated fully in the MFDA's inquiry.

12. In its review of the Respondent, the MFDA found no evidence of late trading occurring in the I.G. Funds. Staff has not found any evidence of market timing by any insiders of the Respondent or any evidence of ongoing market timing activity in the I.G. Funds. The following facts relate exclusively to market timing by one client of the Respondent in the I.G. Funds.

d) Market Timing: Cause and Effect

13. For the purposes of this proceeding, market timing is defined as short-term trading of mutual fund securities to take advantage of short term discrepancies between the "stale" values of securities within a mutual fund's portfolio and the current market value of those securities. Stale values can occur in mutual fund portfolios comprised, in whole or in part, of non-North American foreign equities (e.g. European, Asian and International and Global funds, also referred to herein as "foreign funds"). Stale values of those securities may result in stale values of the units of a mutual fund as a result of the way in which the net asset value ("NAV") of most mutual funds is calculated for the purpose of determining the price at which an investor may purchase or redeem (buy or sell) a unit of the fund.

14. The price of a mutual fund, in accordance with industry practice and as prescribed in the mutual fund's Annual Information Form, is calculated at the close of each trading day (4:00 p.m. ET) by adding together the value of the assets of the fund (based on the most recent closing market price of securities in the fund's portfolio), less any liabilities, and dividing that amount (the "NAV") by the number of units held by investors in the fund on that day. Any order to purchase or sell a unit of the fund received by the order receipt office of the fund in good order prior to 4:00 p.m. ET will be executed at the NAV per unit calculated as of 4:00 p.m. that day. Any order to purchase or sell a unit of the fund received by the order receipt office of the fund in good order after 4:00 p.m. ET will be executed at the NAV per unit determined at 4:00 p.m. ET the following day.

15. The securities in a fund's portfolio are each valued on the basis of their most recent closing market price as of 4:00 p.m. ET (the time at which North American markets close) on the day for which the NAV is being calculated. The closing market price of a foreign equity trading on an Asian market (which closed at 1:30 a.m. ET, for example) will have been determined 14.5 hours prior to the calculation of the foreign fund's NAV. Similarly, the closing market price of a foreign equity trading on a European market (which closed at 12 noon ET, for example) will have been determined 4 hours prior to the calculation of the foreign fund's NAV. Due to this lapse of time, the closing market price of the foreign equity used for the purpose of calculating the NAV of the fund may be "stale" and therefore the NAV of the foreign fund (and the unit price of the fund) calculated on the basis of that closing market price may also be "stale."

16. There is a strong correlation between price movements of equities on North American markets (as reflected in movements in the S&P 500 index, for example) on one day and price movements of equities on foreign markets on the following trading day. Due to the time at which the foreign markets close, the price of foreign equities held in the portfolio of a foreign fund, and therefore the price of the foreign fund, will not reflect this pricing correlation until the following trading day.

17. A market timer will attempt to take advantage of the difference between the "stale" value and an expected price movement of the foreign fund the following day by trading in anticipation of those price movements. Portfolios that are known to have a material component of foreign equities that are traded outside of North American time zones and that trade with a strong correlation with broad trends in price movements of equities on North American markets on the preceding day, afford the greatest "leverage" to investors using a market timing strategy.

e) The Harm Caused by Market Timing of Mutual Funds

18. When certain clients engage in frequent trading market timing in foreign funds, and when those clients are not required to pay a proportionate fee to the fund, the economic interest of long-term unit holders of these foreign funds is adversely affected. Significant harm may be incurred by a fund in which frequent trading market timing occurs. Any such harm would be borne by all investors in the fund. In addition to dilution[1], market timing in a fund also may result in certain inefficiencies in that fund. Those inefficiencies, which will vary depending upon the particular fund, may involve increased transaction costs and disruption of a fund's portfolio management strategy (including the maintenance of cash or cash equivalents and/or monetization of investments to meet redemption requirements) and may impair a fund's long-term performance.

f) The Disclosure in the I.G. Funds' Simplified Prospectus and AIF

19. Specific statements contained in the Prospectuses and AIFs filed by Investors Group for the years 2000 to 2002 (although not identical from year to year) disclosed that IGIM (directly and through the Respondent and LSIL, in their capacity as distributors of the I.G. Funds), could take certain steps, including imposing a fee of up to 3%, or prohibiting the purchase of further I.G. Funds, in circumstances where it was determined

[1] Dilution of a fund's value caused by market timing may be calculated by taking the percentage difference between the fund's stale price and current market value multiplied by the amount invested.

by the distributors that "excessive" switching by an investor between I.G. Funds would have a detrimental effect on the I.G. Funds.

g) Market Timing in the I.G. Funds

20. One institutional client holding accounts in I.G. Funds has been identified as having profited as a result of frequent trading market timing strategies that were pursued in certain of the I.G. Funds (the "Relevant Funds") in the period from October 2000 to November 2002 (the "Market Timing Client"). The Market Timing Client traded in the I.G. Funds through the Respondent.

21. Investors Group entered into an agreement with the Market Timing Client that contained the following basic terms:

- 12 specific funds in which the Market Timing Client could invest were identified (defined above as the Relevant Funds);
- a limit on the size of the investment that could be made by the Market Timing Client, in the form of a minimum and maximum range for each specified Relevant Fund (aggregating a total value of between $15 and $70 million for all specified Relevant Funds) with Investors Group maintaining full discretion to change these ranges or limit the size invested (as was the case, for example, with two Asian Funds in which the maximum investment was reduced and the excess funds were permitted to be moved into an Investors Group Global and European fund);
- between 3 and 4 "round turns" (a round turn being a switch of an investment from one I.G. Fund to another I.G. Fund and then back again to the first I.G. Fund) per specified Relevant Fund per month were permitted;
- no fees were payable for switches;
- redemption fees ranged from 3% of the NAV if redemptions were made within one year from the date of purchase, to no fees payable for redemptions made four years after purchase. The fee schedule generally applicable to all I.G. Funds was

such that redemptions were subject to a sliding fee scale ranging from 3% of the NAV if redeemed within two years after purchase, to 1% of the NAV if redeemed during the sixth year of purchase, with no fee payable for redemptions made six years after the date of purchase;

- management fees were charged as if the Market Timing Client's funds were invested 100% of the time in equity funds; and
- a termination clause permitting either party to terminate the agreement on 10 days' notice, which if exercised by Investors Group would be effected without redemption fees.

There was no public disclosure of this agreement.

22. Investors Group terminated the agreement with the Market Timing Client in November 2002.

23. In the period October 2000 to November 2002:

- the total profit realized in I.G. Funds by the Market Timing Client was approximately $36 million (not all of the profit realized by the Market Timing Client was from frequent trading market timing transactions, and the profit realized by the Market Timing Client does not equate to harm to other investors in the I.G. Funds);
- the Market Timing Client achieved a return on its overall investment in the Relevant Funds that was significantly higher than the return that long-term investors would have achieved on their investments in the Relevant Funds in the same period;
- no switch fees were charged by the Respondent to the Market Timing Client;
- the Respondent received approximately $2.65 million in gross revenue attributable to the Market Timing Client's trading in the Relevant Funds.

24. In entering into the agreement referred to in paragraph 21 that permitted the Market Timing Client to engage in frequent trading market timing, Investors Group recognized some of the costs that could be incurred by the Relevant Funds as a result of the trading by the Market Timing Client and implemented measures to protect the Relevant Funds against those costs. However, those measures adopted by Investors Group reduced, but did not negate, the harm resulting from the market timing activities. At the same time, Investors Group failed to recognize all of the costs (and, in particular, dilution) resulting from the frequent trading market timing activities of the Market Timing Client and did not implement appropriate measures to protect the Relevant Funds against the associated harm. The Respondent was involved in the negotiation and management of the agreement with the Market Timing Client.

V. THE RESPONDENT'S POSITION

25. During the period between May 2003 and July 2004, Investors Group adopted additional practices and procedures to prevent and detect market timing that could reasonably be expected to be harmful to the I.G. Funds and unitholders of the I.G. Funds.

26. Investors Group's current monitoring of trades in the I.G. Funds indicates that the policies and procedures that have been implemented have served to eliminate any potential adverse impact of frequent trading market timing.

VI. CONDUCT CONTRARY TO THE PUBLIC INTEREST

27. The agreement described in paragraph 21 protected the Relevant Funds from some, but not all, of the costs to those funds of the trading by the Market Timing Client. The Respondent, in permitting the trading described in paragraph 21 and failing to implement appropriate measures to protect the Relevant Funds from the associated harm, acted contrary to the public interest.

VII. TERMS OF SETTLEMENT

28. The Respondent agrees to the following terms of settlement:

(a) the Respondent will compensate the investors affected by the Respondent's conduct by making a payment in the amount of $2.65 million through the distribution mechanism referred to in Schedule "A" to this Settlement Agreement;

(b) the Respondent shall pay a fine to the MFDA in the amount of $2.65 million upon the acceptance of this Settlement Agreement;

(c) the Respondent shall, within six months of the date of the approval of this Settlement Agreement, implement additional procedures satisfactory to the MFDA for reporting to the Board of the Respondent on the status of compliance with MFDA By-laws, Rules and Policies and applicable securities legislation; and

(d) the Respondent shall pay the costs of the MFDA's investigation and of this proceeding in the amount of $50,000 upon the acceptance of this Settlement Agreement.

VIII. STAFF COMMITMENT

29. If this Settlement Agreement is accepted by the MFDA, Staff will not initiate any proceeding under the By-laws of the MFDA against the Respondent or any its officers and directors in respect of any conduct or alleged conduct of the Respondent or any of its affiliates in relation to the facts set out in Part IV of this Settlement Agreement, subject to the provisions of paragraph 34 below.

IX. PROCEDURE FOR APPROVAL OF SETTLEMENT

30. Acceptance of this Settlement Agreement shall be sought at a hearing of the MFDA on a date agreed to by counsel for Staff and the Respondent. Staff and the Respondent agree that in the event the settlement agreement to be submitted in the OSC proceedings is not approved, Staff and the Respondent shall not seek acceptance of this Settlement Agreement and it shall be deemed to have been rejected by the MFDA for the purposes of paragraphs 4, 5, 35, 36, and 37 herein.

31. Staff and the Respondent may refer to any part, or all, of the Settlement Agreement at the settlement hearing. Staff and the Respondent also agree that if this Settlement Agreement is accepted by the MFDA, it will constitute the entirety of the evidence to be submitted respecting the Respondent in this matter, and the Respondent agrees to waive its rights to a full hearing, review hearing before the Board of Directors of the MFDA or any securities commission with jurisdiction in the matter under its enabling legislation, judicial review or appeal of the matter before any court of competent jurisdiction.

32. Staff and the Respondent agree that if this Settlement Agreement is accepted by the MFDA, then the Respondent shall be deemed to have been penalized by the Regional Council pursuant to s. 24.1.2 of By-law No. 1 for the purpose of giving notice to the public thereof in accordance with s. 24.5 of By-law No. 1.

33. Staff and the Respondent agree that if this Settlement Agreement is accepted by the MFDA, neither Staff nor the Respondent will make any public statement inconsistent with this Settlement Agreement. Nothing in this section is intended to restrict the Respondent from making full answer and defence to any civil proceedings against it.

34. If this Settlement Agreement is accepted by the MFDA and, at any subsequent time, the Respondent fails to honour any of the Terms of Settlement set out in Part VII herein, Staff reserves the right to bring proceedings under the By-laws of the MFDA

against the Respondent and any of its officers and directors based on, but not limited to, the facts set out in Part IV of the Settlement Agreement, as well as the breach of the Settlement Agreement.

35. If, for any reason whatsoever, this Settlement Agreement is not accepted by the MFDA or an Order in the form attached as Schedule "B" is not made by the MFDA, each of Staff and the Respondent will be entitled to any available proceedings, remedies and challenges, including proceeding to a disciplinary hearing pursuant to sections 20 and 24 of By-law No. 1, unaffected by this Settlement Agreement or the settlement negotiations.

36. Whether or not this Settlement Agreement is accepted by the MFDA, the Respondent agrees that it will not, in any proceeding, refer to or rely upon this Settlement Agreement or the negotiation or process of approval of this Settlement Agreement as the basis for any allegation against the MFDA of lack of jurisdiction, bias, appearance of bias, unfairness, or any other remedy or challenge that may otherwise be available.

X. DISCLOSURE OF AGREEMENT

37. The terms of this Settlement Agreement will be treated as confidential by the parties hereto until accepted by the MFDA, and forever if, for any reason whatsoever, this Settlement Agreement is not accepted by the MFDA, except with the written consent of both the Respondent and Staff or as may be required by law.

38. Any obligations of confidentiality shall terminate upon acceptance of this Settlement Agreement by the MFDA.

XI. EXECUTION OF SETTLEMENT AGREEMENT

39. This Settlement Agreement may be signed in one or more counterparts which together shall constitute a binding agreement.

40. A facsimile copy of any signature shall be effective as an original signature.

Dated: December 15, 2004.

" David Valentine"

Witness- Signature

Witness- Print name

" Kevin Regan"

RESPONDENT
Investors Group Financial Services Inc.
Per: Kevin Regan
President

" Mark Gordon"

Staff of the MFDA
Per: Mark T. Gordon
Executive Vice-President

Schedule "A"

File no: 200401

SCHEDULE A

PLAN OF DISTRIBUTION

The following terms pertain to the compensation payment made pursuant to paragraph 28(a) of the Settlement Agreement between Investors Group Financial Services Inc. and Staff of the Mutual Fund Dealers Association of Canada dated December 15, 2004 (the "Settlement Agreement"). Terms defined in the Settlement Agreement and used in this Schedule have the meanings ascribed thereto in the Settlement Agreement.

1. Respondent shall make a payment in the amount of $2,650,000 (the "Funds"), plus interest accruing from the date of approval of the Settlement Agreement to the date of the approval of the OSC Plan of Distribution, as defined below, referred to in subparagraph (x) at the rate of 5% per annum to the unitholders (including former unitholders) of the Respondent Funds that suffered harm from the market timing activities described in the Settlement Agreement (the "Affected Investors"), on the following terms:

(i) Respondent shall, prior to the commencement of the hearing contemplated in paragraph 1 of the Settlement Agreement, pay, or arrange to have paid, the Funds to the MFDA, to be held by the MFDA pending approval and implementation of the distribution to Affected Investors in accordance with subparagraphs (x) and (xi);

(ii) To the extent possible, the development and implementation of the plan of distribution of the Funds under the Settlement Agreement (the "MFDA Plan of Distribution") shall be effected concurrently and on a basis consistent with the development and implementation of the plan of distribution of the funds (the "OSC Plan of Distribution") pursuant to Schedule A to the settlement agreement between I.G. Investment Management, Ltd. ("IGIM") and Staff of the Ontario Securities Commission ("OSC") dated December 10, 2004 (the "OSC Settlement Agreement");

(iii) The MFDA Plan of Distribution shall be identical to the OSC Plan of Distribution, and shall provide for distribution of the Funds to the same unitholders as receive compensation under the OSC Settlement Agreement, in the same form of consideration and pro rata in proportion to their entitlements under the OSC Plan of Distribution;

(iv) The terms of engagement of the Consultant being retained by IGIM under subparagraph (iii) of Schedule A to the OSC Settlement Agreement shall provide

that such Consultant shall act in a similar capacity, to the extent necessary, on behalf of Respondent under this Schedule A;

(v) Respondent shall be responsible for all costs of preparing and implementing the MFDA Plan of Distribution and distributing the Funds. The Funds shall not be applied toward any expenses of Respondent in connection with this settlement or its implementation;

(vi) Respondent shall cooperate fully with the Consultant and shall provide the Consultant with access to its files, books and personnel as requested for purposes of the MFDA Plan of Distribution;

(vii) The MFDA Plan of Distribution shall include provisions which deal reasonably with circumstances in which the registered unitholders are not the beneficial owners of the units in question, on a basis consistent with the OSC Plan of Distribution;

(viii) The MFDA Plan of Distribution shall not result in any payment to the unitholder described in paragraph 20 of the Settlement Agreement;

(ix) Respondent shall deliver the MFDA Plan of Distribution to Staff at the same time (but in any event no later than September 30, 2005) as it delivers the OSC Plan of Distribution to Staff of the OSC and the Manitoba Securities Commission ("MSC"), together with a report of the Consultant that confirms that the MFDA Plan of Distribution was prepared in accordance with the principles contained in subparagraph (iii);

(x) The MFDA Plan of Distribution shall be implemented in accordance with subparagraph (xi) upon the receipt by IGIM of approval of the OSC Plan of Distribution as contemplated by subparagraph 1(ix) of Schedule A to the OSC Settlement Agreement;

(xi) Respondent shall implement the MFDA Plan of Distribution concurrently with the implementation of the OSC Plan of Distribution (and in any event within 3 months after the receipt of the approval of the OSC Plan of Distribution contemplated in subparagraph (x));

(xii) The terms of engagement of the independent consultant being retained by IGIM under subparagraph 1(iii) of Schedule A to the OSC Settlement Agreement shall provide that the consultant shall act in a similar capacity, to the extent necessary, on behalf of Respondent under this Schedule A; and

(xiii) Concurrently with the delivery of similar documents under Schedule A to the OSC Settlement Agreement, and in any event no later than 2 months after the implementation of the MFDA Plan of Distribution, Respondent shall deliver to Staff:

(A) a report of the independent consultant retained under subparagraph (xii) in a form acceptable to Staff confirming that the distribution has been completed in accordance with the MFDA Plan of Distribution; and

(B) a certificate of the Chief Executive Officer of the Respondent confirming that the distribution has been completed in accordance with the Plan of Distribution.

2. If either of the conditions set out in subparagraph 1(ix) or 1(xi) is not satisfied by the applicable date, the matter may be brought back before the Hearing Panel, for an order revoking or varying its decision.

End.

Schedule "B"

File no: 200401

ORDER

(Section 24.1.2 of By-law No. 1)

WHEREAS on December 6, 2004, the Mutual Fund Dealers Association of Canada (the "MFDA") issued a Notice of Settlement Hearing pursuant to section 24.4 of By-law No. 1 in respect of Investors Group Financial Services Inc. (the "Respondent");

AND WHEREAS the Respondent entered into a settlement agreement with Staff of the MFDA, dated December 15, 2004 (the "Settlement Agreement"), in which the Respondent agreed to a proposed settlement of matters for which the Respondent could be disciplined as a member of the MFDA, pursuant to ss. 20 and 24.1.2 of By-law No. 1;

AND UPON reviewing the Settlement Agreement and the Notice of Settlement Hearing, and upon hearing submissions from counsel for the Respondent and for Staff of the MFDA;

AND WHEREAS the Hearing Panel is of the opinion that the Respondent's conduct was contrary to the public interest;

IT IS HEREBY ORDERED THAT the Settlement Agreement is accepted, as a consequence of which:

1. The Respondent will compensate the investors affected by the Respondent's conduct by making a payment in the amount of $2.65 million through the distribution mechanism referred to in Schedule "A" to the Settlement Agreement;

2. The Respondent shall pay a fine to the MFDA in the amount of $2.65 million upon the acceptance of this Settlement Agreement;

3. The Respondent will, within six months of the date of the approval of this Settlement Agreement, implement additional procedures satisfactory to the MFDA for reporting to the Board of the Respondent on the status of compliance with MFDA By-laws, Rules and Policies and applicable securities legislation; and

4. The Respondent shall pay the costs of the MFDA's investigation and of this proceeding in the amount of $50,000 upon the acceptance of this Settlement Agreement.

DATED at Toronto this 16th day of December, 2004

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