



Ontario
Securities
Commission

Commission des
valeurs mobilières
de l'Ontario

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

- and -

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

**STATEMENT OF ALLEGATIONS
OF STAFF OF THE ONTARIO SECURITIES COMMISSION**

Staff (“Commission Staff”) of the Ontario Securities Commission (the “Commission”) make the following allegations:

I. THE RESPONDENTS

1. Manulife Securities Incorporated (“MSI”) is a corporation incorporated pursuant to the laws of Ontario. MSI is a member of the Investment Industry Regulatory Organization of Canada and is registered with the Commission as an investment dealer.

2. Manulife Securities Investment Services Inc. (“MSISI”) is a corporation incorporated pursuant to the laws of Canada. MSISI is a member of the Mutual Fund Dealers Association of Canada and is registered with the Commission as a mutual fund dealer and an exempt market dealer.

3. Each of MSI and MSISI (together the “Manulife Dealers”) is a subsidiary of Manulife Financial Corporation.

II. THE MANULIFE DEALERS’ CONDUCT

4. Commencing in June 2015, the Manulife Dealers self-reported to Commission Staff inadequacies in their 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.

5. Commission Staff do not allege, and have found no evidence of dishonest conduct by the Manulife Dealers.

6. The Manulife Dealers formulated an intention to pay appropriate compensation to eligible clients and former clients when they self-reported the Control and Supervision Inadequacies to Commission Staff. The Manulife Dealers have taken corrective action, including implementing additional controls, supervisory and monitoring systems designed to prevent the re-occurrence of the Control and Supervision Inadequacies in the future.

7. 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”).

8. Manulife Asset Management Limited (“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 management expense ratio (“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.

9. 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 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.

III. BREACH OF ONTARIO SECURITIES LAW AND CONDUCT CONTRARY TO THE PUBLIC INTEREST

10. In respect of the 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.

11. As a result, these instances of Control and Supervision Inadequacies constituted a breach of section 11.1 of National Instrument 31-103–*Registration Requirements, Exemptions and Ongoing Registrant Obligations*. 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.

12. Commission Staff reserve the right to make such other allegations as Commission Staff may advise and the Commission may permit.

DATED at Toronto, this 10th day of July, 2017.