

Notice of General Order – Ontario Instrument 81-504 *Temporary Exemption from Borrowing Limits to Accommodate Redemption Requests of Mutual Funds*

As a result of the Coronavirus pandemic (“**COVID-19**”), the Ontario Securities Commission (the “**Commission**”) is providing to mutual funds temporary exemption from the borrowing limits set out in Ontario securities law, subject to terms and conditions, in order to accommodate requests for the redemption of mutual fund securities under securities legislation.

Description of Order

The order provides a temporary exemption to mutual funds that are subject to National Instrument 81-102 *Investment Funds* (“**NI 81-102**”), other than labour sponsored or venture capital funds, and which invest in fixed income securities from the borrowing limit imposed in subparagraph 2.6(1)(a)(i) of NI 81-102 for the period from April 17, 2020 to July 31, 2020 (the “**Effective Period**”), provided that the outstanding amount of all borrowings made by the mutual fund does not exceed 10 percent of its net asset value at the time of borrowing during the Effective Period.

The relief provided above is subject to the following terms and conditions:

- Any mutual fund relying on the order must use the temporary exemption from the borrowing limit only for the purpose of facilitating an orderly liquidation of fixed income securities to deal with the short-term dislocation in the fixed income securities market due to the COVID-19 pandemic, in order to accommodate requests for the redemption of securities of the mutual fund received during the period from April 17, 2020 to July 30, 2020.
- If the outstanding amount of all borrowings made by a mutual fund relying on the order exceeds 15 percent of its net asset value at any time after the time of borrowing, then the mutual fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the outstanding amount of all borrowings of the mutual fund to 10 percent or less of its net asset value.
- If the outstanding amount of all borrowings made by a mutual fund relying on the order exceeds 15 percent of its net asset value for any five consecutive business days after the date it first relies on this order, then the mutual fund must, as soon as reasonably practicable, notify the Director of the Investment Funds and Structured Products Branch by email at IFSPDirector@osc.gov.on.ca.
- The investment fund manager of a mutual fund relying on the order must have written liquidity risk management policies and procedures that address the mutual fund’s key liquidity risks, including a description of how the risks are identified, monitored and measured, and the techniques used to manage and mitigate the risks.
- The investment fund manager of a mutual fund relying on the order must have written policies and procedures for using the temporary exemption from the borrowing limit that require the mutual fund to do all of the following:
 - prior to each borrowing above the borrowing limit, consider the use of other measures instead of, or in addition to, reliance on the temporary exemption, including other liquidity risk management tools and/or the suspension or limitation of redemptions;

- prior to each borrowing above the borrowing limit, consider the investment objectives, investment strategies, asset mix and holdings of the mutual fund, including the amount of fixed income holdings;
 - prior to each borrowing above the borrowing limit, consider the costs and risks of borrowing to the mutual fund relative to the interests of the remaining securityholders and the redeeming securityholders of the mutual fund;
 - implement controls on decision-making on borrowing above the borrowing limit and monitoring of such decision-making;
 - monitor levels of redemptions and the cash balance of the mutual fund, in a manner that enables the mutual fund to determine whether it is appropriate to borrow above the borrowing limit;
 - report to the independent review committee of the mutual fund on the levels of borrowing above the borrowing limit, including the rationale for such borrowings, on a frequency agreed to by the independent review committee.
- Before each time a mutual fund relies on the order, its investment fund manager must determine that it would be in the best interests of the mutual fund to use the temporary exemption from the borrowing limit, considering the policies and procedures set out in this order.
 - Before a mutual fund first relies on the order, the investment fund manager of a mutual fund relying on the order must obtain the approval of the independent review committee of the mutual fund under subsection 5.2(2) of NI 81-107 for the use of the temporary exemption from the borrowing limit, as if subsection 5.2(2) of NI 81-107 applies.
 - Any mutual fund relying on the order must disclose how the temporary exemption was used, and the reason why it was necessary to use it, in each management report of fund performance required to be filed after the use of the temporary exemption.
 - The investment fund manager of a mutual fund relying on the order must keep a record of each instance where the temporary exemption was used, including the amount borrowed, the terms and conditions of the loan (including the lender, the interest rate and the term), the borrowing and repayment dates, and the reason why the investment fund manager determined it was necessary for the mutual fund to use the temporary exemption. Upon request, the record must be provided to the Director of the Investment Funds and Structured Products Branch by email at IFSPDirector@osc.gov.on.ca.
 - Any mutual fund relying on this order must, as soon as reasonably practicable and prior to relying on this order for the first time, notify the Director of the Investment Funds and Structured Products Branch by email at IFSPDirector@osc.gov.on.ca stating that the mutual fund intends to rely on this order.
 - Any mutual fund relying on the order must, as soon as reasonably practicable and prior to relying on this order for the first time, post a statement on its public website, or the public website of its investment fund manager, stating that the mutual fund intends to rely on the order.

- Any mutual fund relying on the order with a outstanding amount of all borrowings exceeding 5 percent of its net asset value as of August 14, 2020 must, as soon as reasonably practicable, notify the Director of the Investment Funds and Structured Products Branch by email at IFSPDirector@osc.gov.on.ca.
- Reference made in a notice pursuant to the order, or in a public website statement pursuant to the order, to an equivalent exemption granted by a securities regulatory authority or regulator in another jurisdiction of Canada that is the mutual fund's principal regulator, as defined in MI 11-102, will be deemed to constitute a reference to the relevant exemption in this order.

Reasons for the Order

Due to the short-term dislocation in the fixed income securities market caused by the COVID-19 pandemic, providing mutual funds that invest in fixed income securities with increased capacity to borrow on a temporary basis in excess of the borrowing limit imposed under securities legislation may assist investment fund management activities for such mutual funds. Under the circumstances, the Commission has determined that it would not be prejudicial to the public interest to grant this temporary relief to assist mutual funds in facilitating an orderly liquidation of fixed income securities in a manner that is in the best interests of the mutual funds while continuing to meet investor expectations for liquidity.

Day on which the Order Ceases to Have Effect

The order comes into effect on April 17, 2020 and expires on July 31, 2020.