Ontario Securities Commission

Ontario Instrument 81-504

Temporary Exemption from Borrowing Limit to Accommodate Redemption Requests of Mutual Funds Investing in Fixed Income Securities

The Ontario Securities Commission, considering that to do so would not be prejudicial to the public interest, orders that effective on April 17, 2020, Ontario Instrument 81-504 entitled "Temporary Exemption from Borrowing Limit to Accommodate Redemption Requests of Mutual Funds Investing in Fixed Income Securities" is made, such that mutual funds are exempted from the limit on borrowing as a temporary measure to accommodate requests for the redemption of mutual fund securities under securities legislation during the period from April 17, 2020 to July 31, 2020.

April 16, 2020

"Grant Vingoe"

Chair (Acting)

"Tim Moseley"

Vice-Chair

Authority under which the order is made:

Act and section: Securities Act, subsection 143.11(2)

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Definitions

1. Terms defined in the *Securities Act* (Ontario) ("OSA"), Multilateral Instrument 11-102 *Passport System* ("MI 11-102"), National Instrument 14-101 *Definitions*, National Instrument 81-102 *Investment Funds* ("NI 81-102"), National Instrument 81-106 *Investment Fund Continuous Disclosure* ("NI 81-106") and National Instrument 81-107 *Independent Review Committee for Investment Funds* ("NI 81-107") have the same meaning in this Instrument.

2. In this Instrument, "Affected Mutual Fund" means a mutual fund that is subject to NI 81-102, other than a labour sponsored or venture capital fund, and that invests in fixed income securities.

Exemptive Relief

3. As a result of the coronavirus disease 2019 ("COVID-19") outbreak, which was declared a pandemic by the World Health Organization on March 11, 2020 and has led to a "Declaration of Emergency" under the *Emergency Management and Civil Protection Act* by the Lieutenant Governor of Ontario on March 17, 2020, the Ontario Securities Commission (the "Commission" or "OSC") acknowledges that the Affected Mutual Funds may benefit from additional flexibility in respect of certain obligations under Ontario securities law in order to address some of the challenges this pandemic may present.

4. Specifically, because of short-term dislocation in the fixed income securities market caused by the COVID-19 pandemic, providing Affected Mutual Funds with increased capacity to borrow on a temporary basis in excess of the five percent limit on borrowing imposed by subparagraph 2.6(1)(a)(i) of NI 81-102 (the "Borrowing Limit") may assist in investment fund management activities for Affected Mutual Funds continuing to be conducted in the best interests of Affected Mutual Funds while continuing to meet investor expectations for liquidity.

5. Under subsection 143.11(2) of the OSA, if the Commission considers that it would not be prejudicial to the public interest to do so, the Commission may, on application by an interested person or company or on its own initiative, make an order exempting a class of persons or companies, trades, intended trades, securities or derivatives from any requirement of Ontario securities law on such terms or conditions as may be set out in the order, effective for a period of no longer than 18 months after the day on which it comes into force unless extended pursuant to clause (b) of subsection 143.11(3) of the OSA.

Order

6. Consequently, this order provides any Affected Mutual Fund with a temporary exemption from the Borrowing Limit for the period from April 17, 2020 to July 31, 2020, provided that the outstanding amount of all borrowings made by the Affected Mutual Fund does not exceed 10 percent of its net asset value at the time of a borrowing during the period from April 17, 2020 to July 31, 2020. The temporary exemption provided in this order is subject to the terms and conditions listed below.

Terms and conditions

7. Any Affected Mutual Fund relying on this 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 Affected Mutual Fund received during the period from April 17, 2020 to July 30, 2020.

8. If the outstanding amount of all borrowings made by an Affected Mutual Fund relying on this order exceeds 15 percent of its net asset value at any time after the time of borrowing, then the Affected Mutual Fund must, as quickly as is commercially reasonable, take all necessary steps to reduce the outstanding amount of all borrowings of the Affected Mutual Fund to 10 percent or less of its net asset value.

9. If the outstanding amount of all borrowings made by an Affected Mutual Fund relying on this 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 Affected 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.

10. The investment fund manager of an Affected Mutual Fund relying on this order must have written liquidity risk management policies and procedures that address the Affected 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.

11. The investment fund manager of an Affected Mutual Fund relying on this order must have written policies and procedures for using the temporary exemption from the Borrowing Limit that require the Affected Mutual Fund to do all of the following:

    (a) 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;

    (b) prior to each borrowing above the Borrowing Limit, consider the investment objectives, investment strategies, asset mix and holdings of the Affected Mutual

Fund, including the amount of fixed income holdings;

(c) prior to each borrowing above the Borrowing Limit, consider the costs and risks of borrowing to the Affected Mutual Fund relative to the interests of the remaining securityholders and the redeeming securityholders of the Affected Mutual Fund;

(d) implement controls on decision-making on borrowing above the Borrowing Limit and monitoring of such decision-making;

(e) monitor levels of redemptions and the cash balance of the Affected Mutual Fund, in a manner that enables the Affected Mutual Fund to determine whether it is appropriate to borrow above the Borrowing Limit;

(f) report to the independent review committee of the Affected 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.

12. Before each time an Affected Mutual Fund relies on this order, its investment fund manager must determine that it would be in the best interests of the Affected Mutual Fund to use the temporary exemption from the Borrowing Limit, considering the policies and procedures set out in section 11 of this order.

13. Before an Affected Mutual Fund first relies on this order, the investment fund manager of an Affected Mutual Fund relying on this order must obtain the approval of the independent review committee of the Affected 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.

14. Any Affected Mutual Fund relying on this 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.

15. The investment fund manager of an Affected Mutual Fund relying on this 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 Affected 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.

16. Any Affected 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 Affected Mutual Fund intends to rely on this order.

17. Any Affected Mutual Fund relying on this 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 Affected Mutual Fund intends to rely on this order.

18. Any Affected Mutual Fund relying on this 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.

19. Reference made in a notice pursuant to section 9, 16 or 18 of this order, or in a public website statement pursuant to section 17 of this order, to an equivalent exemption granted by a securities regulatory authority or regulator in another jurisdiction of Canada that is the Affected 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.

20. This order will come into effect on April 17, 2020 and expires on July 31, 2020.