



THE MANITOBA  
SECURITIES  
COMMISSION

**THE SECURITIES ACT**  
**Section 20(1)**

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**Order No. 7514**

**Date: April 17, 2020**

**Blanket Order 81-504**

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

**WHEREAS:**

- (A) The Manitoba Securities Commission (the "Commission") has received an application from the Director to make an order which would provide an exemption to mutual funds from the limit on borrowing as a temporary measure to accommodate redemption requests of mutual fund securities under securities legislation during the period from April 17, 2020 to July 31, 2020.
- (B) Terms defined in the Securities Act (Manitoba) ("Act"), 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 order.
- (C) In this order, "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.
- (D) On March 11, 2020, the World Health Organization declared the outbreak of coronavirus disease 2019 ("COVID-19") to be a pandemic. On March 20, 2020, the government of Manitoba declared a state of emergency under the powers set out in sections 10(1) and 10(2) of The Emergency Measures Act (Manitoba) to enable the province to respond to the pandemic. The Director is of the opinion that Affected Mutual Funds may benefit from additional flexibility in respect of certain obligations under securities legislation in order to address some of the challenges this pandemic may present.

- (E) Specifically, because of short-term dislocation in the fixed income securities market caused by the COVID-19 pandemic, providing the Affected Mutual Funds with increased capacity to borrow on a temporary basis in excess of the limit imposed by paragraph 2.6(1)(a)(i) of NI 81-102 (the "Borrowing Limit") may assist in portfolio management activities for the Affected Mutual Funds continuing to be conducted in the best interests of the Affected Mutual Funds while continuing to meet investor expectations for liquidity.
- (F) The Commission has determined that it is not prejudicial to the public interest to issue this order.

**IT IS ORDERED:**

1. **THAT**, under subsection 20(1) of the Act, an Affected Mutual Fund is exempt from the Borrowing Limit, provided that
  - a. 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; and
  - b. the Affected Mutual Fund complies with paragraph 2 of this order.
2. The exemption in paragraph 1 is only available to an Affected Mutual Fund on the following conditions being met:
  - a. Any Affected Mutual Fund relying on this order must use the 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 31, 2020.
  - b. 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.
  - c. 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 Deputy Director of Corporate Finance by email at [securities@gov.mb.ca](mailto:securities@gov.mb.ca).
  - d. 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.

- e. 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:
  - i. prior to 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;
  - ii. prior to 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;
  - iii. prior to 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;
  - iv. implement controls on decision-making on borrowing above the Borrowing Limit and monitoring of such decision-making;
  - v. monitor levels of redemptions and cash balances 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 if such levels are exceeded; and
  - vi. report to the independent review committee of the Affected Mutual Fund on the levels of borrowing above the Borrowing Limit and the rationale for such borrowings, on a frequency agreed to by the independent review committee.
- f. 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 paragraph 2.e. of this order.
- g. 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.

- h. Any Affected Mutual Fund relying on this order must disclose how the 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 exemption.
  - i. The investment fund manager of an Affected Mutual Fund relying on this order must keep a record of each instance where the 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 exemption. Upon request, the record must be provided to the Deputy Director of Corporate Finance by email at [securities@gov.mb.ca](mailto:securities@gov.mb.ca).
  - j. 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 Deputy Director of Corporate Finance by email at [securities@gov.mb.ca](mailto:securities@gov.mb.ca) stating that the Affected Mutual Fund intends to rely on this order.
  - k. 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.
  - l. Any Affected Mutual Fund relying on this order with an 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 Deputy Director of Corporate Finance by email at [securities@gov.mb.ca](mailto:securities@gov.mb.ca).
3. Reference made in a notice or a public website statement, pursuant to paragraph 2 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.
4. **THAT**, this Order comes into effect on April 17, 2020, and expires July 31, 2020.

**BY ORDER OF THE COMMISSION**



**Director**