

September 22, 2020

Order No. 7531

**IN THE MATTER OF
THE SECURITIES LEGISLATION OF ONTARIO
(the Jurisdiction)**

and

**IN THE MATTER OF
THE PROCESS FOR EXEMPTIVE RELIEF APPLICATIONS IN
MULTIPLE JURISDICTIONS**

and

**IN THE MATTER OF
I.G. INVESTMENT MANAGEMENT, LTD.
(the Filer)**

DECISION

Background

The securities regulator authority in each of the Jurisdictions (“Decision Makers”) has received an application from the Filer on behalf of all existing and future mutual funds managed by the Filer that are subject to National Instrument 81-102 *Mutual Funds* (NI 81-102), other than money market funds as defined in NI 81-102 (the **Fund(s)**), for a decision under the securities legislation of the Jurisdictions (the **Legislation**) for an exemption, pursuant to section 19.1 of NI 81-102, from sections 2.8(1)(d) and 2.8(1)(f)(i) of NI 81-102 (the **Exemption Sought**), when:

- (i) a Fund opens or maintains a long position in a debt-like security that has a component that is a long position in a forward contract or in a standardized future or forward contract; or
- (ii) a Fund enters into or maintains a swap position and during the periods when the Fund is entitled to receive payments under the swap,

to permit each of the Funds to use as cover a right or obligation to sell an equivalent quantity of the underlying interest of the standardized future, forward or swap.

Under the Process for Exemptive Relief Applications in Multiple Jurisdictions (for a passport application):

- (a) the Manitoba Securities Commission is the principal regulator for this application;

- (b) the Filer has provided notice that subsection 4.7(1) of Multilateral Instrument 11-102 *Passport System* (**MI 11-102**) is intended to be relied upon in British Columbia, Alberta, Saskatchewan, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, the Northwest Territories, Nunavut and Yukon (the **Other Jurisdictions**); and
- (c) the decision is the decision of the principal regulator and evidences the decision of the securities regulatory authority or regulator in Ontario.

Interpretation

Terms defined in NI 81-102, National Instrument 14-101 *Definitions*, and MI 11-102 have the same meaning if used in this decision, unless otherwise defined.

Representations

This decision is based on the following facts represented by the Filer:

The Filer

1. The Filer is a corporation continued under the laws of Ontario. It is or will be the trustee, the portfolio advisor and the manager of the Funds. The head office of the Manager is in Winnipeg, Manitoba.
2. IGIM is registered as a Portfolio Manager and an Investment Fund Manager in Manitoba, Ontario, and Quebec and as an Investment Fund Manager in Newfoundland and Labrador.

The Funds

1. The Funds are mutual fund subject to NI 81-102, subject to any exemptions therefrom that have been, or may be, granted by the applicable securities' regulatory authorities, that has filed a simplified prospectus and annual information form prepared in accordance with National Instrument 81-101 - *Mutual Fund Prospectus Disclosure*. The Funds are registered as a reporting issuer in each of the provinces and territories of Canada.
2. The Filer and the existing Funds are not in default of securities legislation in any of the provinces and territories of Canada.

Exemption Sought

1. Sections 2.8(1)(d) and 2.8(1)(f)(i) of NI 81-102 do not permit covering the position in long positions in standardized future and forward contracts or a position in a swap for a period when a Fund is entitled to receive

payments under the swap, in whole or in part, with a right or obligation to sell an equivalent quantity of the underlying interest of the future, forward or swap. Accordingly, these sections of NI 81-102 do not permit the use of put options or short future, forward or swap positions to cover long future, forward or swap positions.

2. By not recognizing the hedging properties of options for long positions evidenced by standardized futures or forwards or in respect of swaps where a fund is entitled to receive payments from the counterparty, Regulation 81-102 effectively imposes the requirement to overcollateralize, since the maximum liability to the fund under the scenario described is equal to the difference between the market value of the long position and the exercise price of the option. Overcollateralization imposes a cost on a mutual fund.
3. Section 2.8(1)(c) of Regulation NI 81-102 permits a mutual fund to write a put option and to cover it by buying a right or obligation to sell an equivalent quantity of the underlying interest of the written put option. This position has similar risks as a debt-like security that has a component that has long position in a forward or a standardized future or forward contract as contemplated by paragraph 2.8(1)(d) or a swap as contemplated by subparagraph 2.8(1)(f)(i) and therefore, the Filer submits that the Funds should be permitted to cover a long position in a future, forward or swap with a put option or an offsetting short position.
4. The simplified prospectus and annual information form, upon renewal, will include disclosure of the nature of the Exemption Sought.
5. Without the Exemption Sought, the Funds will not have the flexibility to enhance yield and to manage more effectively any exposure they may have under specified derivatives.

Decision

Each of the Decision Makers is satisfied that the decision meets the test set out in the Legislation for the Decision Maker to make the decision.

The decision of the Decision Maker under the Legislation is that the Exemption Sought is granted provided that:

- (a) when a Fund enters into or maintains a swap position for periods when the Fund would be entitled to receive fixed payments under the swap, the Fund holds:
 - (i) cash cover in an amount that, together with margin on account for the swap and the market value of the swap, is not less than, on a daily mark-to-market basis, the underlying market exposure of the swap;

- (ii) a right or obligation to enter into an offsetting swap on an equivalent quantity and with an equivalent term and cash cover that, together with margin on account for the position, is not less than the aggregate amount, if any, of the obligations of the Fund under the swap less the obligations of the Fund under such offsetting swap; or
 - (iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to other assets of the Fund, to enable the Fund to satisfy its obligations under the swap;
- (b) when a Fund opens or maintains a long position in a debt-like security that has a component that is a long position in a forward contract, or in a standardized future or forward contract, the Fund holds:
 - (i) cash cover in an amount that, together with margin on account for the specified derivative and the market value of the specified derivative, is not less than, on a daily mark-to-market basis, the underlying market exposure of the specified derivative;
 - (ii) a right or obligation to sell an equivalent quantity of the underlying interest of the future or forward contract, and cash cover that, together with margin on account for the position, is not less than the amount, if any, by which the market price of the future or forward contract exceeds the strike price of the right or obligation to sell the underlying interest; or
 - (iii) a combination of the positions referred to in subparagraphs (i) and (ii) that is sufficient, without recourse to other assets of the Fund, to enable the Fund to satisfy its obligations under the future or forward contract;
- (c) a Fund will not (i) purchase a debt-like security that has an option component or an option; or (ii) purchase or write an option to cover any positions under section 2.8(1)(b), (c), (d), (e) or (f) of NI 81-102 if, immediately after the purchase or writing of such option, more than 10% of the net asset value of the Fund, taken at market value at the time of the transaction, would be in the form of (A) purchased debt-like securities that have an option component or purchased options, in each case, held by the Fund for purposes other than hedging, or (B) options used to cover any position under section 2.8(1)(b), (c), (d), (e) or (f) of NI 81-102;

- (d) this decision will terminate on the coming into force of any securities legislation relating to the use as cover of a right or obligation to sell an equivalent quantity of the underlying interest of the standardized future, forward or swap in compliance with section 2.8 of NI 81-102.

“Chris Besko”

Christopher Besko
Director, General Counsel
The Manitoba Securities Commission