2011 BCSECCOM 561

December 12, 2011

Headnote
Multilateral Instrument 11-102 *Passport System* and National Policy 11-203 *Process for Exemptive Relief Applications in Multiple Jurisdictions* – National Instrument 81-102 *Mutual Funds*

Swap and Currency Derivatives Relief
A group of mutual funds seeks relief from the restrictions in section 2.7(1)(a) of NI 81-102 to permit the Funds to enter into interest rate swaps or credit default swaps and, if the transaction is for hedging purposes, currency swaps and forwards, in all cases with a remaining term to maturity of greater than three years - The choice of counterparty and exposure to that counterparty for the derivatives transaction is subject to NI 81-102, including that it has and maintains an approved credit rating and the mark-to-market exposure to one counterparty remains limited to 10% of the fund's net assets; the liquidity and depth in the swap and currency forward market is substantial; the prospect for enhanced returns for investors is improved; the fund discloses the nature of the relief in the annual information form and includes the nature and terms of the relief in the simplified prospectus.

Fixed Income, Floating Rate Note (FRN) and Money Market Fund Cover Relief
A group of mutual funds seeks relief from the restrictions in section 2.8(1) of NI 81-102 to permit each of the Funds to cover specified derivative positions with (i) liquid fixed income securities with a term to maturity of 365 days or less and an approved credit rating; (ii) floating rates evidences of indebtedness, or; (iii) related money market funds - For using fixed income securities as cash cover, the debt must have an approved credit rating and a remaining term of 365 days or less; for using floating rate notes as cash cover, the debt is a conventional floating rate debt instrument under NI 81-102, the debt must have an approved credit rating or be guaranteed by the government of Canada or another government with an approved credit rating, the interest rate must be reset no later than every 185 days, and the principal has a market value of approximately par at the time of each reset; for using money market funds as cash cover, the money market fund must meet the definition of money market fund in NI 81-102; the fund discloses the nature of the relief in the annual information form and includes the nature and terms of the relief in the simplified prospectus.

Put Option Cover Relief
A group of mutual funds seeks relief from the restrictions in sections 2.8(1)(d) and 2.8(1)(f) of NI 81-102 to permit each of the funds when it (i) 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) enters into or maintains a swap position and during the periods when the Fund is entitled to receive payments under the swap, to use as cover, a right or obligation to sell an equivalent quantity of the underlying interest of the standardized future, forward or swap - When the fund enters into or maintains a swap position for periods when the fund would be entitled to receive fixed payments under the swap or when the fund has 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 cover or options on offsetting instruments in a manner similar to 8.1(c) of NI 81-102; the fund is limited to less than 10% of the net assets of the Fund being in the form of (1) purchased debt-like securities that have an option component or purchased options held by the fund for purposes other than hedging, or (2) options used to cover any positions under section 2.8(1)(b), (c), (d), (e) and (f) of NI 81-102; the fund discloses the nature of the relief in the annual information form and includes the nature and terms of the relief in the simplified prospectus.

Short Selling Relief
A group of mutual funds seeks relief from the restrictions in sections 2.6(a) and 2.6(c) and the requirement in 6.1(1) of NI 81-102 to permit each of the funds to sell securities short, provide a security interest over a fund's assets, and deposit any part of a fund's assets with an entity other than the fund's custodian - Short sales are in compliance with the investment objectives of the fund and are effected through normal market facilities; the security sold short is sold for cash; no proceeds will go to purchase long positions other than in cash cover; the fund is not a money market fund; the aggregate market value of all securities sold short is limited to 20% of the net assets; the aggregate market value of all securities of an issuer sold short will not exceed 5% of the net assets; the fund must hold cash cover in an amount that is at least 150% of the aggregate market value of all securities sold short; fund assets deposited with a borrowing agent as security will not exceed 10% of net assets; every dealer holding fund assets as security must be (a) for short sales in Canada, a registered dealer in Canada and a member of an SRO that is a member of CIPF and (b) for short sales outside Canada, a dealer that has a net worth of at least CDN $50 million and is a member of a stock exchange; the security interest is made in accordance with industry practice; the fund maintains appropriate internal controls regarding its short sales; prior to conducting short sales, the fund's simplified prospectus and annual information form contain disclosure regarding the Funds' use of short selling.

Sovereign Government and Supranational Entity Concentration Relief
Certain emerging markets mutual funds seek relief from the restriction in section 2.1(1) of NI 81-102 to permit each of the funds to invest, for any one issuer, either (i) up to 20% of its net assets in securities issued or guaranteed as to principal and

interest by any government or agency or any permitted supranational agency, provided that the securities have a minimum AA rating by a rating agency listed in NI 81-102, or; (ii) up to 35% of its net assets in securities issued or guaranteed as to principal and interest by any government or agency or by any permitted supranational agency, provided that the securities have a minimum AAA rating by a rating agency listed in NI 81-102 - The fund invests either up to 20% of its net assets in securities with a minimum AA rating issued or guaranteed as to principal and interest by any foreign government or agency or any permitted supranational agency, or up to 35% of its net assets in securities with a minimum AAA rating issued or guaranteed as to principal and interest by any foreign government or agency or by any permitted supranational agency; the securities are traded on a mature and liquid market; the purchase of securities is consistent with the fundamental investment objectives; the simplified prospectus discloses concentration and country risks; the fund's simplified prospectus contains disclosure regarding the relief.

Applicable Legislative Provisions
National Instrument 81-102 *Mutual Funds* – s.19.1

In the Matter of
the Securities Legislation of
British Columbia and Ontario
(the Jurisdictions)

and

In the Matter of
the Process for Exemptive Relief Applications in Multiple Jurisdictions

and

In the Matter of
HSBC Global Asset Management (Canada) Limited
(AMCA)

and

Funds that are subject to NI 81-102 *Mutual Funds* for which AMCA or an affiliate of AMCA acts as manager and/or principal portfolio adviser
(the Existing Funds and, together with AMCA, the Filers)

Decision

Background

¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (the Decision Maker) has received an application from the Filers for a decision under the securities legislation of the Jurisdictions (the Legislation) for an exemption relieving:

1. the Existing Funds listed in Schedule "A" and any future mutual funds that are subject to National Instrument 81-102 *Mutual Funds* (NI 81-102) for which AMCA or an affiliate of AMCA acts as manager and/or principal portfolio adviser (the Future Funds, and collectively with the Existing Funds, the Funds and individually, a Fund) from the following sections of NI 81-102:

(a) the requirement in section 2.7(1)(a) of NI 81-102, in order to permit the Funds to enter into interest rate swaps or credit default swaps and, if the transaction is for hedging purposes, currency swaps and forwards, in all cases with a remaining term to maturity of greater than three years;

(b) the requirement in section 2.8(1) of NI 81-102 in order to permit each of the Funds to cover specified derivative positions with:

(i) any bonds, debentures, notes or other evidence of indebtedness that are liquid (collectively, Fixed Income Securities) provided they have a remaining term to maturity of 365 days or less and have approved credit rating;

(ii) floating rates evidences of indebtedness; or

(iii) securities of a money market fund as defined in NI 81-102 managed by AMCA or one of its affiliates (collectively, the Money Market Funds);

(c) the requirement in sections 2.8(1)(d) and 2.8(1)(f) of NI 81-102 in order to permit each of the Funds when it

(i) 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) enters into or maintains a swap position and during the periods when the Fund is entitled to receive payments under the swap;

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

(d) the requirement in sections 2.6(a), 2.6(c) and 6.1(1) of NI 81-102 in order to permit each of the Funds to:

(i) sell securities short;

(ii) provide a security interest over a Fund's assets; and

(iii) deposit any part of a Fund's assets with an entity other than the Fund's custodian;

2. the HSBC Emerging Markets Debt Fund and the HSBC Emerging Markets Debt Pooled Fund from the requirement in section 2.1(1) of NI 81-102 (the Concentration Restriction) in order to permit each to invest:

(i) up to 20% of its net assets in securities issued or guaranteed as to principal and interest by any government or agency thereof (other than a government or agency of Canada or a province thereof or of the United States, in which investment by all of the Funds is unrestricted) or any permitted supranational agency (as defined in NI 81-102), provided that the securities have a minimum AA rating by Standard & Poor's Rating Service or the equivalent rating by any other rating agency listed in NI 81-102;

(ii) up to 35% of its net assets in securities issued or guaranteed as to principal and interest by any government or agency thereof (other than a government or agency of Canada or a province thereof or of the United States, in which investment by all of the Funds is unrestricted) or by any permitted supranational agency (as defined in NI 81-102), provided that the securities have a minimum AAA rating by Standard & Poor's Rating Service or the equivalent rating by any other rating agency listed in NI 81-102;

provided that sub-paragraphs (i) and (ii) of this paragraph (2) cannot be combined for any one issuer.

Paragraph 1(a) is referred to as the Swap and Currency Derivatives Requested Relief, paragraph 1(b) is referred to as the Fixed Income, FRN and Money Market Fund Cover Requested Relief, paragraph 1(c) is referred to as the Put Option Cover Requested Relief, paragraph 1(d) is referred to as the Short Selling Requested Relief, and paragraph 2 is referred to as the Sovereign Government and Supranational Entity Concentration Requested Relief, and collectively, the Swap and Currency Derivatives Requested Relief, Fixed Income, FRN and Money

Market Fund Cover Requested Relief, Short Selling Requested Relief and Sovereign Government and Supranational Entity Concentration Requested Relief shall be referred to as the Relief Sought.

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

(a) the British Columbia Securities Commission is the principal regulator for this application;

(b) the Filers have provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in Alberta, Saskatchewan, Manitoba, Quebec, New Brunswick, Nova Scotia, and Newfoundland and Labrador, 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

¶ 2 Defined terms contained in National Instrument 14-101 *Definitions*, NI 81-102 and MI 11-102 have the same meaning in this decision, unless otherwise defined. For the purposes of this decision an issuer is considered an "affiliate" of another issuer if one of them is the subsidiary of the other, or each of them is controlled by the same person.

Representations

¶ 3 This decision is based on the following facts represented by the Filers:

AMCA

1. AMCA is a corporation continued under the laws of Canada, with its head office in Vancouver, British Columbia; AMCA is currently registered under applicable securities legislation in British Columbia as an investment fund manager and is registered in each of the provinces of Canada (other than Prince Edward Island) as an adviser in the category of portfolio manager and as a dealer in the category of exempt market dealer;

2. AMCA, or an affiliate of AMCA, is, or will be, the manager and/or principal portfolio adviser of the Funds;

3. AMCA is not in default of securities legislation in any jurisdiction;

The Funds

4. the Existing Funds are mutual fund trusts established under the laws of British Columbia and any Future Funds will be mutual fund trusts or mutual fund corporations established under the laws of one of the jurisdictions of Canada;

5. the Existing Funds are offered by a simplified prospectus filed in all the provinces of Canada other than Prince Edward Island; any Future Funds will be offered by a simplified prospectus in one or more of the jurisdictions of Canada; as a result, the Existing Funds are and the Future Funds will be reporting issuers in one or more of the jurisdictions of Canada;

6. no Existing Fund is in default of securities legislation in any jurisdiction of Canada;

7. the investment objective and strategies of each Fund will be set out in the Fund's simplified prospectus; in most cases, the primary investment objective is to invest in, or gain exposure to, fixed income securities, such as bonds and debentures issued by governments, supranational entities and corporations, or a combination of fixed income and equities; in other cases, the investment objective is focused primarily on equities but the Fund retains the right to include a portion in fixed income either routinely or under conditions determined by AMCA or one of its affiliates;

8. in all cases, the Funds will be permitted to use specified derivatives to hedge against losses caused by changes in securities prices, interest rates, exchange rates and/or other risks; the Funds may also use specified derivatives for non-hedging purposes under their investment strategies in order to invest indirectly in securities or financial markets or to gain exposure to other currencies, provided the use of specified derivatives is consistent with the particular Fund's investment objective; when specified derivatives are used for non-hedging purposes, the Funds are subject to the cover requirements of NI 81-102;

Swap and Currency Derivatives Requested Relief

9. paragraph 2.7(1)(a) of NI 81-102 prohibits mutual funds from entering into swaps or currency forwards with terms to maturity of greater than three years, or greater than five years if the contract provides the fund with a right to eliminate its exposure within three years; AMCA and its affiliates seek the ability to enter into interest rate swaps and credit default swaps for the Funds or, if the transaction is for hedging purposes, currency forwards on behalf of the Funds without a restriction as to term of the swap or forward;

10. in order to achieve adequate diversification at a reasonable cost, AMCA and its affiliates anticipate utilizing credit default swaps (CDS) or indexes of credit default swaps (CDX); CDX indexes are linked to the number of the most highly liquid CDS, and therefore permit quick and cost effective diversification to high yield and emerging market issuers;

11. fixed income investments have risks which include (but are not limited to) interest rate risk, credit risk and currency risk; these risks can be controlled or mitigated through the use of over-the-counter (OTC) derivatives; interest rate risk may be managed by interest rate swaps, credit risk is managed by credit default swaps and currency risk by currency swaps or forwards;

12. the term of a swap equals the maturity of its exposure, in contrast to other OTC derivatives transactions, such as options and certain other types of forwards, where the contract term and maturity of the underlying security are not related; as a result, there is no restriction under NI 81-102, for example, on a forward referencing an underlying interest having a term of 10 years whereas there is a restriction if the derivative is in the form of a swap;

13. credit default swaps have a similar risk profile to their reference entity (corporate or sovereign bonds), or in the case of a CDX, to an average of all the reference entities in the CDX index; the term of a CDS imparts credit risk similar to that of a bond of the reference entity with the same term; the Funds will not be able to achieve the same sensitivity to credit risk as their underlying benchmarks by using CDSs with a maximum term of 3 years because their underlying benchmarks may have an average term of greater than 3 years; there is no term restriction in NI 81-102 when investing directly in the reference entities (corporate or sovereign bonds);

14. the term of a swap equals the maturity of its exposure, in contrast to other over-the-counter transactions, such as options and forwards, where the contract term and maturity of the underlying security are not related; there is no restriction under NI 81-102, for example, on a forward with an underlying interest having a term of 10 years whereas there is a restriction if the derivative is in the form of a swap;

15. the interest rate swap market, CDS market and currency forward and swap markets are very large and liquid;

16. with respect to foreign exchange, the Bank for International Settlements reported that the notional amount of outright forwards and foreign exchange swaps outstanding was U.S. $31.3 trillion as at June, 2011; for comparative purposes, the S&P 500 had an estimated market capitalization of U.S. $11.4

trillion on such date; the Bank for International Settlements also reported that the average daily turnover of OTC foreign exchange was U.S. $4 trillion during April 2010; the average daily turnover of outright forwards and foreign exchange swaps totalled U.S. $2 trillion during such period; for comparative purposes, the daily trading during April, 2010 was, in the case of the New York Stock Exchange, approximately U.S. $75 billion; in the case of the Toronto Stock Exchange, the most recent data shows average daily turnover of approximately CAD $5 billion; daily trading is many times larger for currencies and currency forwards than for well-known equity exchanges;

17. the interest rate swap market, CDS markets and currency forward and swap markets are very large and liquid;

18. although there is no exchange through which swap and forward contracts are traded, there is a very active OTC market in these contracts; in order to unwind a position, a counterparty could find a new counterparty willing to take over its contract at a fair market price and get the other counterparty to approve the new counterparty; market participants can also unwind their positions in interest rate swaps and currency swaps or forwards by simply closing out the swap or forward with the counterparty at market value; in the case of CDS, the counterparty can either close out the CDS with the counterparty at market value or it can trade with another counterparty by assigning the swap to the other counterparty (with the consent of the original counterparty);

19. it is also not market convention to have a transaction with a 5 year term (subject to a right to eliminate the exposure within 3 years) as required by NI 81-102 and, as a result, from time to time, this off-market feature may subject a Fund to less efficient pricing;

20. credit risk exposure to a counterparty on an interest rate swap transaction is generally a small fraction of the underlying notional exposure, equal to the cumulative price change since the inception of the swap; even that small risk will be mitigated because the counterparty will be required to have an approved credit rating prescribed by NI 81-102 and AMCA or its appointed sub-adviser monitors the credit risk of the counterparties used; in addition, in situations where the counterparty does not meet AMCA's own internal criteria, AMCA will not enter into interest rate swap transactions with that counterparty;

21. potential credit exposure to a counterparty on a CDS or a CDX is equal to the notional exposure to any issuer in the index who has defaulted, or in the case of a single name CDS, equal to the full notional exposure; as is the case with

interest rate swaps, this exposure is mitigated because the counterparty will be required to have an approved credit rating prescribed by NI 81-102, exposure to any individual counterparty is limited by NI 81-102 and AMCA or its appointed sub-adviser monitors the credit risk of counterparties used;

22. by permitting the Funds to enter into swaps and forwards that have terms beyond 3 years the Relief Sought increases the possibility for the Funds to (i) increase returns, due to a wider array of investments being available to the Funds, and (ii) target exposures that might not otherwise be available in the cash bond markets or could not be achieved as efficiently as in the cash bond markets; further, the use of swaps and forwards with terms beyond 3 years enables the Funds to effect hedging transactions that help mitigate underlying investment risks associated with investing in fixed income investments;

Fixed Income, FRN and Money Market Fund Cover Requested Relief

<u>Cash Cover</u>

23. the purpose of the cash cover requirement in NI 81-102 is to prohibit a mutual fund from leveraging its assets when using certain specified derivatives and to ensure that the mutual fund is in a position to meet its obligations on the settlement date; this is evident from the definition of "cash cover", which is defined as certain specific portfolio assets of the mutual fund that have not been allocated for specific purposes and that are available to satisfy all or part of the obligations arising from a position in specified derivatives held by the mutual fund; currently, the definition of "cash cover" includes six different categories of securities, including certain evidences of indebtedness (cash equivalents and commercial paper) that generally have a remaining term to maturity of 365 days or less and that have an approved credit rating or are issued or guaranteed by an entity with an approved credit rating (collectively, short-term debt);

24. in addition to the securities currently included in the definition of cash cover, the Funds would also like to invest in Fixed Income Securities and/or floating rate evidences of indebtedness and/or Money Market Fund securities for purposes of satisfying their cash cover requirements;

<u>Fixed Income Securities</u>

25. while the money market debt instruments that are currently permitted as cash cover are highly liquid, these instruments typically generate very low yields relative to longer dated instruments and similar risk alternatives;

26. other fixed income securities with remaining terms to maturity of less than 365 days and approved credit ratings are also highly liquid but provide the potential for higher yields;

27. the definition of cash cover addresses regulatory concerns of interest rate risk and credit risk by limiting the terms of the instruments and requiring the instruments to have an approved credit rating; it is submitted that by permitting the Funds to use for cash cover purposes Fixed Income Securities with a remaining term to maturity of 365 days or less and an approved credit rating, the regulatory concerns are met, since the term and credit rating will be the same as other short-term debt instruments currently permitted to be used as cash cover;

Floating Rate Evidences of Indebtedness

28. floating rate evidences of indebtedness, also known as floating rate notes (FRNs), are debt securities issued by the federal or provincial governments, the Crown or other corporations and other entities with floating interest rates that reset periodically, usually every 30 to 90 days; although the term to maturity of FRNs can be more than 365 days, the Funds propose to limit their investment in FRNs used for cash cover purposes to those that have interest rates that reset at least every 185 days;

29. allowing the Funds to use FRNs for cash cover purposes could increase the rate of return earned by each of the Fund's investors without reducing the credit quality of the instruments held as cash cover; the frequent interest rate resets mitigate the risk of investing in FRNs as cash cover; for the purposes of money market funds under NI 81-102 meeting the 90 days dollar-weighted average term to maturity, the term of a floating rate evidence of indebtedness is the period remaining to the date of the next rate setting; if a FRN resets every 365 days, then the interest rate risk of the FRN is about the same as a fixed rate instrument with a term to maturity of 365 days;

30. financial instruments that meet the current cash cover requirements have low credit risk; the current cash cover requirements provide that evidences of indebtedness of issuers, other than government agencies, must have approved credit ratings; as a result, if the issuer of FRNs is an entity other than a government agency, the FRNs used by the Funds for cash cover purposes will have an approved credit rating as required by NI 81-102;

31. given the frequent interest rate resets, the nature of the issuer and the adequate liquidity of FRNs, the risk profile and the other characteristics of FRNs are

similar to those of short-term debt, which constitute cash cover under NI 81-102;

Money Market Funds

32. under NI 81-102, in order to qualify as money market funds, the Money Market Funds are restricted to investments that are, essentially, considered to be equivalent to cash cover; these investments include FRNs (as described above) if their principal amounts continue to have a market value of approximately par at the time of each change in the rate to be paid to their holders;

33. if the direct investments of the Money Market Funds would constitute cash cover under NI 81-102, then indirectly holding these investments through an investment in the units of any Money Market Fund should also satisfy the cash cover requirements of NI 81-102;

Put Option Cover Requested Relief

34. 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 futures and forwards and long positions in swaps 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; in other words, those sections of NI 81-102 do not permit the use of put options or short future positions to cover long future, forward or swap positions;

35. regulatory regimes in other countries recognize the hedging properties of options for all categories of derivatives, including long positions evidenced by standardized futures or forwards or in respect of swaps where a fund is entitled to receive payments from the counterparty, provided they are covered by an amount equal to the difference between the market price of a holding and the strike price of the option that was bought or sold to hedge it; NI 81-102 effectively imposes the requirement to over collateralize, since the maximum liability to the fund under the scenario described is equal to the difference between the market value of the long and the exercise price of the option; overcollateralization imposes a cost on a fund;

36. section 2.8(1)(c) of NI 81-102 permits a mutual fund to write a put option and cover it with buying a put option on an equivalent quantity of the underlying interest of the written put option; this position has similar risks as a long position in a future, forward or swap and therefore, AMCA submits that the

Funds should be permitted to cover a long position in a future, forward or swap with a put option or short future position;

General Information on AMCA's Derivative Policies and Risk Management

37. AMCA and its affiliates have written policies and procedures relating to the use of derivatives for the Funds and these policies and procedures are reviewed by senior management of AMCA; in addition, regular risk management reviews are conducted by AMCA and any issues that arise as a result of the reviews are reported to senior management on a quarterly basis, and to the Board of Directors of AMCA; the derivatives contracts entered into by or on behalf of the Funds must be in accordance with the investment objectives and strategies of each of the Funds and in compliance with NI 81-102;

38. the prospectus and annual information form of the Funds discloses the internal controls and risk management processes of AMCA regarding the use of derivatives and, upon renewal, will include disclosure of the nature of the exemptions granted in respect of the Funds;

39. without these exemptions regarding the cash cover requirements of NI 81-102, the Funds will not have the flexibility to enhance yield and to manage more effectively their exposure under specified derivatives;

Short Selling Requested Relief

40. AMCA proposes that each Fund be authorized to engage in a limited, prudent and disciplined amount of short selling; AMCA is of the view that the Funds could benefit from the implementation and execution of a controlled and limited short selling strategy; this strategy would operate as a complement to the Funds' current primary discipline of buying securities with the expectation that they will appreciate in market value;

41. short sales will be made only if they are consistent with each Fund's investment objectives;

42. in order to effect a short sale, a Fund will borrow securities from either its custodian or a dealer (in either case, a Borrowing Agent), which Borrowing Agent may be acting either as principal for its own account or as agent for other lenders of securities;

43. the Fund will be required to deposit Fund assets with the Borrowing Agent as security in connection with the short sale transaction in accordance with usual industry practice;

44. all short sales will be effected through market facilities through which the securities sold short are normally bought and sold and will be sold short within normal trade settlement periods for the market in which the short sale is effected; securities will be sold short for cash only;

45. the securities sold short will not be "illiquid assets" as such term is defined in NI 81-102, and will be securities that are either:

    (a) listed and posted for trading on a stock exchange; and

        (ii) the issuer of the security will have a market capitalization of not less than CDN $100 million, or the equivalent, at the time the short sale is effected; or

        (iii)the Fund's portfolio advisor has pre-arranged to borrow the securities for the purpose of such sale; or

    (b) bonds, debentures or other evidences of indebtedness of, or guaranteed by, any issuer;

46. each Fund will hold cash cover (as defined in NI 81-102) to cover its obligations in relation to the short sale;

47. each Fund will maintain appropriate internal controls regarding its short sales including written policies and procedures, risk management controls and proper books and records of all short sales and Fund assets deposited with Borrowing Agents as security;

Sovereign Government and Supranational Entity Concentration Requested Relief

48. the HSBC Emerging Markets Debt Fund (the HEMD Fund) is an Existing Fund offered under a simplified prospectus and annual information form dated September 26, 2011 and is a reporting issuer in all the provinces of Canada other than Prince Edward Island;

49. the investment objective of the HEMD Fund is to maximize return, which consists of both income and long-term capital growth, by investing primarily in fixed income securities issued by governments or corporations that provide exposure to emerging markets;

50. the HEMD Fund invests primarily in a diversified portfolio of fixed income securities issued by governments in emerging market countries and corporations or other issuers either based in or that have a significant business or investment link with emerging market countries, and currencies of emerging market countries;

51. the HSBC Emerging Markets Debt Pooled Fund (the HEMD Pooled Fund) is an Existing Fund offered under a simplified prospectus and annual information form dated December 20, 2010 and is a reporting issuer in all the provinces of Canada other than Prince Edward Island;

52. the investment objective of the HEMD Pooled Fund is to provide income and long-term capital growth by investing, directly or indirectly, primarily in fixed income securities issued by governments or corporations that provide exposure to emerging markets;

53. the HEMD Pooled Fund directly or indirectly invests in a diversified portfolio of investment grade and non-investment grade debt instruments issued by governments in emerging market countries and corporations or other issuers that have a significant business or investment link with emerging market countries;

54. the HEMD Fund and HEMD Pooled Fund (together, the Emerging Markets Debt Funds) may also invest a portion of their assets in Canadian fixed income securities such as bonds and debentures issued or guaranteed by the Government of Canada, its agencies or Canadian government-sponsored enterprises or other Canadian issuers;

55. the Concentration Restriction prevents the Emerging Markets Debt Funds from purchasing a security of an issuer or entering into a specified derivatives transaction, if immediately after the transaction, more than 10 percent of the net assets of the Emerging Markets Debt Funds would be invested in securities of any issuer;

56. the Concentration Restriction does not apply to a purchase of a "government security", which, under NI 81-102, means an evidence of indebtedness issued, or fully and unconditionally guaranteed as to principal and interest, by any of the government of Canada, the government of a jurisdiction or the government of the United States of America;

57. AMCA believes that the Sovereign Government and Supranational Entity Debt Concentration Requested Relief will be in the best interests of the Emerging Markets Debt Funds for the following reasons:

(a) it will provide more flexibility and more favourable prospects for the Emerging Markets Debt Funds because the Emerging Markets Debt Funds will be better able to compose fixed income portfolios that will best achieve their investment objectives;

(b) in certain international jurisdictions, the securities of supranational agencies or governments may be the only liquid or rated debts available for investment; and

(c) higher concentration limits may allow the Emerging Markets Debt Funds to benefit from investment efficiencies and reduced transaction costs as certain foreign government treasury offerings are more readily available for investment and trades can be completed faster in certain markets that are more readily accessible to foreign investment.

Decision

¶ 4 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 Makers under the Legislation is that the Relief Sought is granted provided that:

1. in the case of the Fixed Income, FRN and Money Market Fund Cover Requested Relief:

(a) the Fixed Income Securities have a remaining term to maturity of 365 days or less and have an "approved credit rating" as defined in NI 81-102;

(b) the FRNs meet the following requirements:

(i) the floating interest rates of the FRNs reset no later than every 185 days;

(ii) the FRNs are floating rate evidences of indebtedness with the principal amounts of the obligations that will continue to have a market value of approximately par at the time of each change in the rate to be paid to the holders of the evidences of indebtedness;

(iii) if the FRNs are issued by a person or company other than a government or "permitted supranational agency" as defined in NI 81-102, the FRNs must have an "approved credit rating" as defined in NI 81-102;

(iv) if the FRNs are issued by a government or permitted supranational agency, the FRNs have their principal and interest fully and unconditionally guaranteed by:

(A) the government of Canada or the government of a jurisdiction in Canada; or

(B) the government of the United States of America, the government of one of the states of the United States of America, the government of another sovereign state or a "permitted supranational agency" as defined in NI 81-102, if, in each case, the FRN has an "approved credit rating" as defined in NI 81-102; and

(v) the FRNs meet the definition of "conventional floating rate debt instrument" in section 1.1 of NI 81-102;

2. in the case of the Put Option Cover Requested Relief:

(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, Fixed Income Securities, FRNs, or Money Market Fund securities (collectively, 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 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 clauses (a) and (b) that is sufficient, without recourse to other assets of the Funds, to enable the Funds 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, Fixed Income Securities, FRNs or Money Market Fund securities (collectively, 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 Cover that together with margin on account for the position, is not less than the amount, if any, by which the 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 acquire the underlying interest of the future or forward contract; and

(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) and (f) of NI 81-102, if immediately after the purchase or writing of such option, more than 10% of the net assets of the Fund, taken at market value at the time of the transaction, would be in the form of (1) 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 (2) options used to cover any positions under section 2.8(1)(b), (c), (d), (e) and (f) of NI 81-102;

3. in the case of the Swap and Currency Derivatives Requested Relief, Fixed Income, FRN and Money Market Fund Cover Requested Relief, and the Put Option Cover Requested Relief (collectively, the Cover Requested Relief), on the date which is the earlier of (i) the date when an amendment to the annual information form of a Fund is filed for reasons other than the Cover Requested Relief and (ii) the date on which the initial or renewal annual information form of the Fund is receipted, the Fund shall

(a) disclose the nature and terms of the Cover Requested Relief in the annual information form of the Fund; and

(b) include a summary of the nature and terms of the Cover Requested Relief in the simplified prospectus of the Fund under the Investment Strategies section or in the introduction to Part B of the simplified prospectus with a cross reference thereto under the Investment Strategies section for the Fund;

4. in the case of the Short Selling Requested Relief:

(a) any short sales made by the Fund will be subject to compliance with the investment objectives of the Fund;

(b) any short sales will be effected through market facilities through which the securities sold short are normally bought and sold;

(c) the security sold short is sold for cash;

(d) no proceeds from short sales by the Fund will be used by the Fund to purchase long positions in securities other than cash cover;

(e) the Short Selling Requested Relief will not apply to a Fund that is classified as a money market fund;

(f) the aggregate market value of all securities sold short by the Fund does not exceed 20% of the total net assets of the Fund on a daily marked-to-market basis;

(g) the aggregate market value of all securities of an issuer that are sold short by the Fund does not exceed 5% of the total net assets of the Fund on a daily marked-to-market basis;

(h) the Fund will hold "cash cover" (as defined in NI 81-102) in an amount, including the Fund assets deposited with Borrowing Agents as security in connection with short sale transactions, that is at least 150% of the aggregate market value of all securities sold short by the Fund on a daily marked-to-market basis;

(i) except where the Borrowing Agent is the Fund's custodian, where the Fund deposits Fund assets with a Borrowing Agent as security in connection with short sale transactions, the amount of Fund assets deposited with the Borrowing Agent does not, when aggregated with the amount of the Fund assets already held by the Borrowing Agent as security for outstanding short sale transactions of the Fund, exceed 10% of the total net assets of the Fund, taken at market value as at the time of the deposit;

(j) for short sale transactions in Canada, every dealer that holds Fund assets as security in connection with short-sale transactions by the Fund shall be a registered dealer in Canada and a member of a self-regulatory organization that is a participating member of the Canadian Investment Protection Fund;

(k) for short sale transactions outside of Canada, every dealer that holds Fund assets as security in connection with short sale transactions by the Fund shall:

(i) be a member of a stock exchange, and, as a result, is subject to a regulatory audit; and

(ii) have a net worth in excess of the equivalent of $50 million determined from its most recent audited financial statements that have been made public;

(l) the security interest provided by a Fund over any of its assets that is required to enable that Fund to effect short sale transactions, is made in accordance with industry practice for that type of transaction and relates only to obligations arising under such short sale transactions;

(m) the Fund will maintain appropriate internal controls regarding its short sales including written policies and procedures, risk management controls and proper books and records;

(n) prior to conducting any short sales, the Fund discloses in its simplified prospectus a description of: (i) short selling, (ii) how the Fund intends to engage in short selling, (iii) the risks associated with short selling, and (iv) the Investment Strategy section of the simplified prospectus, the Fund's strategy and this exemptive relief;

(o) prior to conducting any short sales, the Fund discloses in its its annual information form the following information:

(i) that there are written policies and procedures in place that set out the objectives and goals for short selling and the risk management procedures applicable to short selling;

(ii) who is responsible for setting and reviewing the policies and procedures referred to in the preceding paragraph, how often the policies and procedures are reviewed, and the extent and nature of the involvement of the board of directors of AMCA in the risk management process;

(iii) whether there are trading limits or other controls on short selling in place and who is responsible for authorizing the trading and placing of limits or other controls on the trading;

(iv) whether there are individuals or groups that monitor the risks independent of those who trade; and

(v) whether risk measurement procedures or simulations are used to test the portfolio under stress conditions;

(p) prior to conducting any short sales, either the Fund's initial simplified prospectus and annual information form and each renewal of those documents has included the disclosure in the Fund's simplified prospectus and annual information form as outlined in paragraph (n) and (o) above or the Fund has provided to its securityholders not less than 60 days' written notice that discloses the Fund's intent to begin short selling transactions and such disclosure is included in the Fund's simplified prospectus and annual information form; and

5. in the case of the Sovereign Government and Supranational Entity Debt Concentration Requested Relief:

(a) each Emerging Markets Debt Fund may only invest:

(i) up to 20% of its net assets in securities issued or guaranteed as to principal and interest by any government or agency thereof (other than a government or agency of Canada or a province thereof or of the United States, in which investment by all of the Funds is unrestricted) or any permitted supranational agency (as defined in NI 81-102), provided that the securities have a minimum AA rating by Standard & Poor's Rating Service or the equivalent rating by any other rating agency listed in NI 81-102; and

(ii) up to 35% of its net assets in securities issued or guaranteed as to principal and interest by any government or agency thereof (other than a government or agency of Canada or a province thereof or of the United States, in which investment by all of the Funds is unrestricted) or by any permitted supranational agency (as defined in NI 81-102), provided that the securities have a minimum AAA rating by Standard

& Poor's Rating Service or the equivalent rating by any other rating agency listed in NI 81-102;

(b) subparagraphs (i) and (ii) above shall not be combined for any one issuer;

(c) the securities that are purchased pursuant to this Sovereign Government and Supranational Entity Debt Concentration Requested Relief are traded on a mature and liquid market;

(d) the acquisition of the securities purchased in reliance on this Sovereign Government and Supranational Entity Debt Concentration Requested Relief is consistent with the fundamental investment objective of each of the Emerging Markets Debt Funds, as applicable;

(e) the simplified prospectus of each Emerging Markets Debt Fund discloses any additional risks associated with the concentration of net assets of the Funds in securities of fewer issuers, such as the potential additional exposure to the risk of default of the issuer in which the Fund has so invested and the risks, including foreign exchange risks, of investing in the country in which that issuer is located; and

(f) on the date which is the earlier of:

(i) the date when an amendment to the annual information form of an Emerging Markets Debt Fund is filed for reasons other than the Sovereign Government and Supranational Entity Debt Concentration Requested Relief; and

(ii) the date on which the initial or renewal annual information form of an Emerging Markets Debt Fund is receipted,

the simplified prospectus of the Emerging Markets Debt Fund discloses, in the investment strategy section, the details of the Sovereign Government and Supranational Entity Debt Concentration Requested Relief along with the conditions imposed and the type of securities covered by this relief.

The Swap and Currency Derivatives Requested Relief will terminate on the coming into force of any securities legislation related to the term to maturity restrictions contained in section 2.7(1)(a) of NI 81-102.

The Fixed Income, FRN and Money Market Fund Cover Requested Relief will terminate on the coming into force of any securities legislation relating to the use of Fixed Income Securities, FRNs and Money Market Fund securities as cash cover in compliance with section 2.8 of NI 81-102.

The Put Option Cover Requested Relief 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.

The Short Selling Requested Relief will terminate on the coming into force of any securities legislation in relation to the permitted use of short selling in the context of sections 2.6(a), 2.6(c) and 6.1(1) of NI 81-102.

The Sovereign Government and Supranational Entity Debt Concentration Requested Relief will terminate on the coming into force of any securities legislation relating to the application of the Concentration Restriction in section 2.1(1) to investments in Sovereign Government and Supranational Entity Debt.

Andrew S. Richardson, CA
Acting Director, Corporate Finance
British Columbia Securities Commission

SCHEDULE A

HSBC Canadian Money Market Fund
HSBC U.S. Dollar Money Market Fund
HSBC Mortgage Fund
HSBC Canadian Bond Fund
HSBC Monthly Income Fund
HSBC U.S. Dollar Monthly Income Fund
HSBC Canadian Balanced Fund
HSBC Dividend Income Fund
HSBC Equity Fund
HSBC Small Cap Growth Fund
HSBC Global Equity Fund
HSBC U.S. Equity Fund
HSBC European Fund
HSBC AsiaPacific Fund
HSBC Chinese Equity Fund
HSBC Indian Equity Fund
HSBC Emerging Markets Fund
HSBC BRIC Equity Fund
HSBC Emerging Markets Debt Fund
HSBC World Selection Diversified Conservative Fund
HSBC World Selection Diversified Moderate Conservative Fund
HSBC World Selection Diversified Balanced Fund
HSBC World Selection Diversified Growth Fund
HSBC World Selection Diversified Aggressive Growth Fund
HSBC Canadian Money Market Pooled Fund
HSBC Mortgage Pooled Fund
HSBC Canadian Bond Pooled Fund
HSBC International Bond Pooled Fund
HSBC U.S. High Yield Bond Pooled Fund
HSBC Canadian Dividend Income Pooled Fund
HSBC Canadian Equity Pooled Fund
HSBC Canadian Small Cap Equity Pooled Fund
HSBC U.S. Equity Pooled Fund
HSBC International Equity Pooled Fund
HSBC Emerging Markets Pooled Fund
HSBC Global Inflation Linked Bond Pooled Fund
HSBC Emerging Markets Debt Pooled Fund
HSBC MultiAlpha Canadian Bond Pooled Fund
HSBC MultiAlpha Canadian Equity Pooled Fund
HSBC MultiAlpha Canadian Small Cap Equity Pooled Fund
HSBC MultiAlpha U.S. Equity Pooled Fund

HSBC MultiAlpha U.S. Small/Mid Cap Equity Pooled Fund
HSBC MultiAlpha International Equity Pooled Fund