

2002 BCSECCOM 914

Headnote

Mutual Reliance Review System for Exemptive Relief Applications – relief granted from the restriction against a mutual fund purchasing or selling securities to or from the account of a responsible person to permit a portfolio manager to purchase or sell government and non-government debt securities on the secondary market, subject to certain conditions

Applicable British Columbia Provisions

Securities Act, R.S.B.C. 1996, c.418, ss. 127(1)(b) and 130

IN THE MATTER OF THE SECURITIES LEGISLATION OF BRITISH COLUMBIA, ALBERTA, SASKATCHEWAN, ONTARIO, QUEBEC, NOVA SCOTIA AND NEWFOUNDLAND & LABRADOR

AND

IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM FOR EXEMPTIVE RELIEF APPLICATIONS

AND

TD ASSET MANAGEMENT INC.

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator (the “Decision Maker”) in each of British Columbia, Alberta, Saskatchewan, Ontario, Quebec, Nova Scotia, and Newfoundland & Labrador (the “Jurisdictions”) has received an application from TD Asset Management Inc. (“TDAM”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the provision (the “Investment Prohibition”) contained in the Legislation, which prohibits a portfolio manager from knowingly causing any investment portfolio managed by it to purchase or sell securities of any issuer from or to the account of a responsible person, any associate of a responsible person or the portfolio manager (collectively, the “Related Persons”), does not apply to TDAM in connection with the purchase or sale (a “Trade”) by mutual funds whose investment portfolios are managed by TDAM (collectively, the “Managed Funds”) of

- (i) debt securities issued or fully and unconditionally guaranteed by the federal or provincial governments (“Government Debt Securities”), or

2002 BCSECCOM 914

- (ii) debt securities of an issuer other than the federal and provincial governments (“Corporate Debt Securities”);

AND WHEREAS pursuant to the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the Ontario Securities Commission is the principal regulator for this application;

AND WHEREAS TDAM has represented to the Decision Makers that:

1. TDAM currently acts as portfolio manager for Managed Funds whose investment objectives permit them to invest in debt securities.
2. The head office of TDAM is in Toronto, Ontario.
3. In recent years, the amount of Government Debt Securities available for investment in Canada has declined significantly due to government deficit reduction programs. As a result, investors in debt securities have had to rely increasingly on Corporate Debt Securities. However, because of the limited supply of Corporate Debt Securities in the primary market, holders of outstanding Corporate Debt Securities have tended not to sell their holdings prior to the maturity date of their Corporate Debt Securities holdings. This has, in turn, led to the limited availability of Corporate Debt Securities in the secondary market. Moreover, because of their limited availability, the Corporate Debt Securities that are available in the secondary market are usually sold at prices that are higher than if they were purchased in the primary market, assuming no change in the markets and in the status of the issuer.
4. The debt securities market is primarily a dealers’ market where a dealer provides buy or sell price quotes (as the case may be) and, if the price quotes are accepted, the resulting Trade is effected with the dealer acting as principal.
5. TDAM and its affiliates are principal dealers in the Canadian debt securities market — both primary and secondary.
6. The Investment Prohibition, combined with the circumstances described in paragraphs 3 and 4 above, has made it even more difficult for TDAM to acquire debt securities for the Managed Funds in the secondary market.

AND WHEREAS pursuant to the System this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);

2002 BCSECCOM 914

AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Makers with the Jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers under the Legislation is that the Investment Prohibition does not apply so as to enable TDAM to cause the Managed Funds to purchase Government Debt Securities or Corporate Debt Securities from, or sell such debt securities to, the account of a Related Person, other than a mutual fund, in the secondary market,

PROVIDED THAT

1. at the time of causing a Managed Fund to Trade in Government Debt Securities or Corporate Debt Securities pursuant to this Decision, the following conditions are satisfied:

- (a) the Trade
 - (i) represents the business judgment of TDAM uninfluenced by considerations other than the best interests of the Managed Fund, or
 - (ii) is, in fact, in the best interests of the Managed Fund;
- (b) the Trade is consistent with, or is necessary to meet, the investment objective of the Managed Fund as disclosed in its simplified prospectus;
- (c) the terms of the Trade are better than the terms quoted by one or more dealers who are neither affiliates nor associates of the Related Person (the "Independent Dealers") with whom the Trade is made;
- (d) if the Trade is a purchase of Corporate Debt Securities,
 - (i) the purchase is not made from the Related Person during the 60-day period after the distribution of such Corporate Debt Securities, if the Related Person acted
 - (A) as underwriter in the distribution of the Corporate Debt Securities, or
 - (B) as a selling group member selling more than 5% of the underwritten securities;

2002 BCSECCOM 914

- (ii) the issuer of the Corporate Debt Securities is not a “related issuer” or “connected issuer”, as defined in National Instrument 33-105 Underwriting Conflicts, of the Related Person;
 - (iii) the Related Person is not
 - (A) the issuer of the Corporate Debt Securities, or
 - (B) a promoter of the issuer of the Corporate Debt Securities; and
 - (iv) the Corporate Debt Securities have been given, and continue to have, an “approved rating” by an “approved rating organization” as such terms are defined in section 1.1 of NI 44-101 - Short Form Prospectus Distributions;
- 2. prior to effecting any Trade pursuant to this Decision,
 - (a) the simplified prospectus of the Managed Fund discloses that it may purchase or sell Government Debt Securities or Corporate Debt Securities from or to the account of a Related Person pursuant to this Decision, and
 - (b) the annual information form of the Managed Fund describes the policies or procedures referred to in paragraph 3 below;
- 3. prior to effecting any Trade pursuant to this Decision, the Managed Fund has in place written policies or procedures to ensure that,
 - (a) there is compliance with the conditions of this Decision,
 - (b) in connection with any Trade in Government Debt Securities or Corporate Debt Securities with a Related Person,
 - (i) each Managed Fund maintains an itemized daily record of all such Trades showing, for each Trade,
 - (A) the name and principal amount of the debt securities,
 - (B) if the Trade is in Government Debt Securities, the relevant benchmark Canada bond (the “Benchmark Bond”), the bid-ask price of the Benchmark Bond, and the price that was paid or received by the Managed Fund on the Trade,

2002 BCSECCOM 914

- (C) if the Trade is in Corporate Debt Securities,
 - i. the relevant Benchmark Bond or, in the case of US\$-Pay Corporate Debt Securities, the relevant US Treasury Bond,
 - ii. the bid-ask price of the Benchmark Bond or US Treasury Bond, and
 - iii. the spread over the Benchmark Bond or US Treasury Bond that was paid or received by the Managed Fund on the Trade,

(D) the time and date of the Trade, and

(E) the name of the dealer on the Trade;

(ii) TDAM maintains written records of the quotations received from Independent Dealers, and each Managed Fund maintains a daily consolidated record of the quotations (including the price, quantity, time and date) received from one or more Independent Dealers, in respect of each Trade made with a Related Person;

(iii) TDAM conducts a timely review of each Managed Fund's Trades with Related Persons to confirm that each Trade

(A) represented the business judgment of TDAM uninfluenced by considerations other than the best interests of the Managed Fund, or

(B) was, in fact, in the best interests of the Managed Fund; and

4. the following particulars of each Trade pursuant to this Decision are set out in a report certified by TDAM and filed on SEDAR, in respect of each Managed Fund, no later than 30 days after the end of the month in which one or more such Trades were made:

- (a) the issuer of the debt securities,
- (b) the principal amount of debt securities purchased or sold by the Managed Fund,

2002 BCSECCOM 914

- (c) the price at which the purchase or sale was made,
- (d) the Related Person with whom the Trade was made, and
 - (i) in the case of a Trade in Government Debt Securities, the price paid or received by the Managed Fund, or
 - (ii) in the case of a Trade in Corporate Debt Securities, the spread over the relevant Benchmark Bond or US Treasury Bond that was paid or received by the Managed Fund, and
- (e) a certification by TDAM that the Trade
 - (i) represented the business judgment of TDAM uninfluenced by considerations other than the best interests of the Managed Fund, or
 - (ii) was, in fact, in the best interests of the Managed Fund; and

5. this Decision, as it relates to the jurisdiction of a Decision Maker, will terminate after the coming into force of any legislation or rule of that Decision Maker dealing with the matters regulated by section 4.2 of NI 81-102.

DATED this 13th day of September, 2002.

Paul M. Moore

Robert W. Korthals