Citation: 2025BCSECCOM 301

Headnote

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

An investment fund seeks relief from the borrowing requirements in s.2.6(1)(a)(i) - Any additional borrowing above 5% of a conventional mutual fund's net asset value may only be made when a fund has used all of its liquidity reserve and cannot exceed the amount a fund expects to receive from an investor's purchase of fund securities or from the sale of portfolio securities to honour an investor's redemption request, as applicable; the outstanding amount of all borrowings of the fund do not exceed 10% of the fund's net asset value; investors will be provided with disclosure of the relief provided.

Applicable Legislative Provisions

National Instrument 81-102 *Investment Funds*, paragraph 2.6(1)(a) and section 19.1.

July 7, 2025

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
JPMorgan Asset Management (Canada) Inc.
(the Filer)

and

In the Matter of
the Funds
(as defined below)

Decision

Background

¶ 1 The securities regulatory authority or regulator in each of the Jurisdictions (Decision Maker) has received an application from the Filer for a decision under the securities legislation of the Jurisdictions (the Legislation) exempting all current and future mutual funds that are not alternative mutual funds and that (i) are, or will be, reporting issuers and (ii) are, or will be, managed by the Filer or an affiliate or successor of the Filer (collectively, the Funds and individually, a Fund) from the Borrowing Limit (as defined below) of National Instrument 81-102

Investment Funds (NI 81-102) to allow each Fund to borrow cash on a temporary basis in an amount that does not exceed 10% of its net asset value at the time of borrowing to:

(a) accommodate requests for the redemption of securities of the Fund (each a Fund Redemption) while the Fund settles portfolio transactions initiated to satisfy such redemption requests (the Redemption Relief); and

(b) permit the Fund to settle a purchase of Portfolio Securities (as such term is defined below) (each a Portfolio Security Purchase) that is executed in anticipation of the settlement of an investor's purchase of securities of the Fund (each a Fund Purchase, and such relief, the Purchase Relief and together with the Redemption Relief, the Exemption Sought).

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

(a) the British Columbia Securities Commission (the Principal Regulator) is the principal regulator for this application,

(b) the Filer has provided notice that section 4.7(1) of Multilateral Instrument 11-102 *Passport System* (MI 11-102) is intended to be relied upon in each of Alberta, Saskatchewan, Manitoba, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, the Northwest Territories, Nunavut and Yukon in respect of the Exemption Sought, and

(c) the decision with respect to the Exemption Sought is the decision of the Principal Regulator and evidences the decision of the regulator in Ontario.

Interpretation

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

(a) Borrowing Limit means the five percent (5%) of net asset value threshold on cash borrowing in subparagraph 2.6(1)(a)(i) of NI 81-102.

(b) Fund Securities means the shares or units of a Fund.

(c) Liquidity Reserve means cash held by a Fund to manage the Fund's liquidity needs.

(d) Portfolio Securities means the securities held or purchased by a Fund.

(e) Pricing Date means the date on which the net asset value per Fund Security is calculated for the purpose of determining the price at which the Fund Security is to be issued or redeemed, as applicable.

(f) T+1 Securities means securities the trades in respect of which customarily settle on the first business day after a Trade Date.

(g) T>1 Securities means securities the trades in respect of which customarily settle on a day that is later than the first business day after a Trade Date.

(h) Trade Date means the date upon which pricing for a trade in a security is determined.

Representations

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

The Filer and the Funds

1. the Filer is a corporation formed by amalgamation pursuant to a certificate of amalgamation, dated August 3, 2004, as amended by a certificate of amendment dated February 24, 2005, under the laws of Canada;

2. the Filer is registered as an investment fund manager in British Columbia, Newfoundland and Labrador, Ontario and Québec and an exempt market dealer and portfolio manager in Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, the Northwest Territories, Nova Scotia, Nunavut, Ontario, Prince Edward Island, Québec and Saskatchewan. The head office of the Filer is in Vancouver, British Columbia;

3. each Fund is or will be, managed by the Filer or by an affiliate or successor of the Filer;

4. the Funds are, or will be, mutual funds subject to NI 81-102 that are not alternative mutual funds and are, or will be, reporting issuers in one or more of the Jurisdictions;

5. none of the Filer nor any of the Funds existing as at the date hereof are in default of securities legislation of any jurisdiction of Canada;

Background on Settlement Requirements for North American Securities

6. on December 1, 2021, the securities industry in the United States, represented by the Securities Industry and Financial Markets Association, the Investment Company Institute, and The Depository Trust & Clearing Corporation, published a report targeting the first half of 2024 to shorten the United States securities settlement cycle from the second business day after the Trade Date, commonly referred to as "T+2", to one business day after the Trade Date, commonly referred to as "T+1". On the same day, the Canadian Capital Markets Association (the CCMA) announced its plans to facilitate shortening Canada's standard securities settlement cycle from T+2 to T+1;

7. the Canadian Securities Administrators (the CSA) subsequently published CSA Staff Notice 24-318 Preparing for the Implementation of T+1 Settlement, which outlined their position on the benefits of shorter settlement cycles and highlighted the need for close collaboration and coordination across the Canadian securities industry to transition to T+1 settlement in alignment with U.S. markets;

8. on May 27, 2024 (the Implementation Date), Canada moved to the T+1 settlement cycle and on May 28, 2024, the United States moved to the T+1 settlement cycle;

9. despite this adoption of T+1 settlement for North American securities, many foreign markets maintain a T+2 or greater settlement cycle, including, the European Union, the United Kingdom, Japan, Brazil, Australia, and New Zealand;

Background on Settlement Requirements for NI 81-102 Funds

10. Section 9.4 of NI 81-102 requires payment of the issue price of Fund Securities to which a purchase order pertains, to be made to the Fund on or before the second business day after the Pricing Date of the Fund Securities, and if the payment of the issue price is not received by the Fund on or before the second business day after the Pricing Date of the Fund Securities, the Fund will be required to redeem the Fund Securities to which the purchase order pertains as if it had received an order for the redemption of the Fund Securities on the third business day after the Pricing Date;

11. additionally, Section 10.4 of NI 81-102 requires a Fund to pay the redemption proceeds for Fund Securities that are the subject of a redemption order within two business days after the Pricing Date (subject to satisfaction of all required redemption procedures established by the Fund in accordance with Section 10.1 of NI 81-102);

12. despite the change from T+2 to T+1 settlement for North American securities, NI 81-102 still permits purchases and redemptions of Fund Securities to settle on T+2. As of the Implementation Date, the Funds may elect to settle purchases and redemptions of Fund Securities on T+1 on a voluntary basis;

Mismatches in Settlement Periods

13. certain Funds settle, or may in the future settle, trades in Fund Securities on the first business day after a Trade Date (each a T+1 Fund). As only a limited number of Funds invest purely in T+1 Securities, many T+1 Funds will hold some T>1 Securities, resulting in a mismatch between the settlement timing of trades in Fund Securities and trades in Portfolio Securities. Such mismatch may lead to liquidity constraints in funding Fund Redemptions, giving rise to the need for the Exemption Sought;

14. additionally, certain Funds settle, or may in the future settle, trades in Fund Securities on a day that is later than the first business day after a Trade Date (each a T+2 Fund). As only a limited number of Funds invest purely in T>1 Securities, many T+2 Funds will hold some T+1 Securities, resulting in a mismatch between the settlement timing of trades in Fund Securities and trades in Portfolio Securities. Such mismatch may lead to liquidity constraints in funding Portfolio Security Purchases, giving rise to the need for the Exemption Sought;

Redemption Relief

15. T+1 Funds may have a portion of their assets invested in T>1 Securities; to fund redemptions, a T+1 Fund will effect an orderly liquidation of Portfolio Securities in order to accommodate redemption requests. However, liquidation of T>1 Securities effected on the Trade Date of the Fund Redemption will only settle after the Fund is required to settle the Fund Redemption in cash. This arises not only because T>1 Securities settle one business day following the Fund Redemption's Trade Date but also because T>1 Securities are generally in foreign jurisdictions where the stock exchanges are not open for trading at 4:00pm ET, which is generally the cut-off time for Fund Redemptions (the Cut-Off Time) or the markets in which the T>1 Securities trade may be closed due to public holidays. As such, Portfolio Securities may only be sold one business day after the Fund Redemption's Trade Date and would only settle three business days (or more) after the Fund Redemption's Trade Date. A T+1 Fund that holds some T>1 Securities may therefore be required to pay the redemption price for the Fund Securities that have been redeemed at a time when the Fund has insufficient cash to do so;

16. T+1 Funds may also encounter situations in which a liquidation of T+1 Securities will settle after the requirement to settle a Fund Redemption in cash, resulting in a cash shortfall. If Fund Redemption requests are placed at or shortly before the Cut-Off Time, a T+1 Fund may be in an unanticipated net redemption position and may not be able to effect a liquidation of sufficient T+1 Securities for the purposes of satisfying such Fund Redemptions until the following business day. In such circumstances, the Fund will be obligated to settle the Fund Redemption before it receives cash proceeds from selling its T+1 Securities. Additionally, T+1 Funds may encounter liquidity constraints when the Fund Redemptions are placed on days where the T+1 Securities are:

    (a) not trading due to public holidays or other reasons, as any such liquidation of the T+1 Securities will only settle after the Fund is required to settle the Fund Redemption in cash; or

    (b) trading but the settlement date for the T+1 Securities is delayed as the following day is a public holiday in the foreign jurisdiction where the T+1 Securities trade but it is not a public holiday in Canada. In such situations, the T+1 Securities are settling on a T+2 basis from the Fund's perspective and the Fund is required to settle the Fund Redemption in cash prior to receiving cash from the sale of the T+1 Securities.

17. a Fund is permitted to borrow cash as a temporary measure to accommodate requests for Fund Redemptions while the Fund effects an orderly liquidation of portfolio assets, provided that all borrowing by the Fund does not exceed the Borrowing Limit. Borrowing beyond the Borrowing Limit may be necessary for the purpose of settling Fund Redemptions in the scenarios set out above;

18. while liquidity management practices other than cash borrowing may be utilized by the Filer to manage the liquidity constraint scenarios set out above, permitting a T+1 Fund to borrow cash beyond the Borrowing Limit in an amount not exceeding 10% of the Fund's net asset value at the time of borrowing and on a temporary basis while the Fund awaits receipt of proceeds from the sale of Portfolio Securities (Fund Redemption Settlement Gap Funding) would be an approach that is more in line with the best interests of the Fund and its investors than such other liquidity management practices;

Purchase Relief

19. when a Fund is in significant net subscriptions on a Trade Date, the Fund may execute Portfolio Security Purchases in an amount that is equal to or less than the anticipated value of the net subscriptions to match the Trade Date of Portfolio Security Purchase with the Trade Date of the Fund Purchase (a Trade Date Matching). Certain Funds may engage in this practice to reduce cash drag and increase the investment exposure for Fund investors;

20. the need to borrow money for Trade Date Matching arises when a Fund Purchase settles after the settlement date of the Portfolio Security Purchase. Effective as of the Implementation Date, this occurs when T+2 Funds invest a portion of their assets in T+1 Securities;

21. while a Fund may stagger Portfolio Security Purchases to manage this so that the Fund only executes a related Portfolio Security Purchase after a Fund Purchase has settled, this delay in investing may result in cash drag and accordingly, certain Funds may not wish to engage in staggering;

22. permitting a T+2 Fund to borrow cash beyond the Borrowing Limit in an amount not exceeding 10% of the Fund's net asset value at the time of borrowing and on a temporary basis to settle the purchase of T+1 Securities (Portfolio Security Purchases Settlement Gap Funding, together with the Fund Redemption Settlement Gap Funding, the Settlement Gap Funding) is more in line with the best interests of the Fund and its investors than staggering Portfolio Security Purchases;

Risk Management

23. the Settlement Gap Funding will not create leverage in the Funds because it will not be used to purchase additional investments for the Funds;

24. the Fund will borrow cash beyond the Borrowing Limit in reliance on this decision solely for Settlement Gap Funding purposes and will not do so unless the Filer has determined that it would be in the best interests of the Fund to use the exemption from the Borrowing Limit; and

25. the Filer has written liquidity risk management policies and procedures that address the Funds' 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.

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 Exemption Sought is granted, provided that:

1. at the time a Fund relies on the relief under this decision, the Filer has written policies and procedures for relying on the relief that require the Filer to:

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

    (b) monitor levels of Fund Redemptions, Fund Purchases and the cash balance of each Fund.

2. a Fund may only borrow cash in excess of the Borrowing Limit if all of the following conditions are satisfied:

    (a) the Fund has used all of its available Liquidity Reserve;

    (b) the outstanding amount of all borrowings of the Fund do not exceed 10% of the net asset value of the Fund at the time of borrowing;

    (c) in the case of Fund Redemption Settlement Gap Funding, the amount of cash borrowed by the Fund will not exceed the amount of cash that the Fund expects to receive in respect of the sale of Portfolio Securities; and

    (d) in the case of Portfolio Security Purchases Settlement Gap Funding, the amount of cash borrowed by the Fund will not exceed the amount of cash that the Fund expects to receive from the investor in a Fund Purchase.

3. each Fund discloses the following in each prospectus filed after the date of this decision in connection with the continuous distribution of Fund Securities:

   (a) the terms of this decision;

   (b) the maximum percentage of assets of the Fund that the borrowing may represent; and

   (c) the Fund's intended use of the amounts borrowed for Settlement Gap Funding.

4. this decision expires on a date that is three (3) years after the date of this decision.

Gordon Johnson
Vice-Chair
British Columbia Securities Commission