



RE: Canadian Securities Administrators Notice and Request for Comment – Proposed Amendments to National Instrument 81-102 Investment Funds; and Proposed Changes to Companion Policy 81-102 Investment Funds; and Consultation Paper on Liquidity Risk Management Tools, Liquidity Classification, and Regulatory Disclosure and Data

March 27, 2026

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March 27, 2026

Submitted via CSA Consultation Portal

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission, New Brunswick
Superintendent of Securities, Department of Justice and Public Safety, Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Service NL
Northwest Territories Office of the Superintendent of Securities
Office of the Superintendent of Securities, Yukon
Nunavut Securities Office

Dear Sirs/Mesdames:

The Canadian Forum for Financial Markets/Forum Canadien des Marchés Financiers is dedicated to moving forward proposals to demonstrably grow healthy, competitive financial markets in Canada.

We provide the following comments in connection with CSA Notice and Request for Comment regarding Proposed Amendments to National Instrument 81-102 and its Companion Policy (the “**Request for Comment**”) and the Consultation Paper on Liquidity Risk Management Tools, Liquidity Classification, and Regulatory Disclosure and Data (the “**Consultation Paper**”), together (the “**Proposed Amendments**”).

We agree with the Canadian Securities Administrators’ (the “**CSA**”) goal of strengthening the liquidity risk management framework of investment funds, in line with protecting investors, promoting fair, efficient, and transparent markets, and reducing systemic risk.

The Proposed Amendments reflect restrictive and prescriptive requirements which do not meet the CSA’s goal. Rather, the CSA’s goal will be met by permitting investment fund managers (“**IFMs**”) access to additional sources of liquidity.

We offer the below constructive analysis, as a solutions partner, in furtherance of the CSA’s objective.

EXECUTIVE SUMMARY

The Proposed Amendments do not address the core domestic liquidity risk identified by the Bank of Canada. Even if implemented, funds facing significant redemptions may still be forced to sell assets into stressed markets, with the same potential for correlated price dislocation.

Canadian IFMs have demonstrated resilience through multiple periods of market stress. A principles-based framework that preserves IFM discretion is more appropriate and effective than the prescriptive approach taken by the Proposed Amendments.

Rather than imposing strict operational and classification requirements, the range of effective liquidity risk management tools available to IFMs should be expanded, without the IFM being required to adopt any particular liquidity tool. In particular, access to liquidity tools such as increased temporary borrowing capacity and the ability to suspend or gate redemptions in clearly defined stress scenarios should be available without prior regulatory approval. These tools would directly mitigate forced asset sales, reduce first-mover advantage, and better protect investors during periods of market stress.

A thorough and transparent cost benefit analysis has not been conducted. The available information suggests disproportionate costs without demonstrated benefit.

A. THE STATED RATIONALE HAS NOT BEEN SATISFIED

The stated rationale of the Proposed Amendments is twofold:

- i) The Bank of Canada has observed that funds facing redemption requests in excess of their cash reserves may be required to sell securities, potentially contributing to market price dislocation if multiple IFMs do so simultaneously; and
- ii) IOSCO and the International Monetary Fund have recommended that Canada adopt binding rules aligned with Financial Stability Board and IOSCO guidance.

In connection with the first rationale, the Proposed Amendments do not resolve the core issue identified by the Bank of Canada. Even if implemented as proposed, funds experiencing significant redemptions may still be required to sell securities, with the same potential for correlated market impact.

In connection with the second rationale, IOSCO had indicated that Canada's current approach is, depending on the recommendation, either "fully consistent" or "broadly consistent," suggesting that the Canadian approach is functioning well. In any event, the CSA should prioritize rules that are appropriate for Canada, rather than importing regulatory solutions that were not designed for the Canadian market.

B. A PRINCIPLED-BASED APPROACH IS NEEDED

Given IFMs' demonstrated resilience through multiple periods of market stress, a highly prescriptive framework is unnecessary and counterproductive. IFMs have shown that they possess the expertise to manage liquidity risk effectively and should retain flexibility to maintain frameworks tailored to their operations.

a) The Costs of the Proposed Amendments

The Request for Comment seek feedback on the proposed Liquidity Risk Management ("LRM") framework, including related operational requirements and oversight. The Proposed Amendments include highly prescriptive and unsupported elements including:

- Rigid stress-testing processes and timelines for all funds. Other jurisdictions don't have the prescriptive requirement for quarterly stress testing included in the Proposed Amendments.¹ For competitive purposes, implementing a more prescriptive standard would impose significant compliance and operational costs on Canadian IFMs, placing them at a competitive disadvantage to their international peers and US products that Canadian investor can readily access. Decisions regarding whether and when to conduct stress testing should instead remain within the professional judgment of the IFM, consistent with its duty to act in the best interests of the fund. Portfolio liquidity breakdowns are already reported to regulators annually as part of the Investment Funds Survey.
- The formalization of detailed liquidity analysis and monitoring for every fund, irrespective of need. This risks diverting attention from other critical considerations to the detriment of investors.
- The requirement that the fund assess the liquidity impact of every portfolio transaction, regardless of materiality. This requirement overlooks the role and expertise of portfolio managers. If such an assessment were operationally possible, it would certainly impede trading efficiency and therefore reduce the competitiveness of Canadian funds.
- The significant expansion of the responsibilities of the CCO, including requiring expansive CCO involvement in the creation of investment objectives, creation of investment strategies, determination of redemption frequency, review of stress testing reports, transaction-level liquidity assessments, and liquidity contingency planning. As drafted, these requirements risk creating operational bottlenecks. In addition, the mandated meeting frequency for liquidity risk management committees (where committees are used) may not yield commensurate benefits.

b) The Alternatives to the Proposed Amendments

The Consultation Paper raises several questions regarding the use of LRM tools. The CFFiM supports the use of the liquidity risk management tools outlined by IFMs, in their discretion. IFMs should use their own judgement and expertise when implementing an LRM tool rather than be mandated to adopt any particular liquidity tool. Asset managers are best placed to decide on the availability and use of the liquidity management tools in a specific fund.²

¹ E.g., United States (SEC Rule 22e-4 (17 C.F.R. § 270.22e-4) and Australia (*Corporations Act 2001* (Cth), Chapter 5C).

² [Liquidity management tools in open-ended investment funds: the right tools in the right hands? | Capital Markets Law Journal | Oxford Academic](#)

We note that one of IOSCO's "broadly consistent" assessments was due to the lack of flexibility in CSA Staff Notice 81-333, *Guidance on Effective Liquidity Risk Management for Investment Funds*, published September 18, 2020, in applying some of the liquidity risk management tools. [Question: 3,4]

Mandating the use of specific liquidity management tools could disadvantage IFMs for whom such tools are not operationally suitable. In addition, some IFMs have experience with specific tools in other jurisdictions. Funds in certain other IOSCO jurisdictions, have access to liquidity tools, which are not currently available in Canada. For example:

- In the United States, open-ended companies registered under the *Investment Company Act of 1940* are permitted to borrow cash from a bank providing certain requirements are met including there is asset coverage of at least 300% of the borrowings. This effectively allows a U.S mutual fund to borrow up approximately 33% of their total assets, measured after the borrowing for temporary emergency purposes, which may include funding redemptions of its securities. It is common for companies registered under this act to enter into credit facilities for temporary or emergency purposes, including liquidity needs. Such facilities can assist funds in paying redeeming investors without the need to sell portfolio securities under circumstances that could impair the fund's net asset value.
- UCITS funds have limited temporary borrowing up to 10% of fund assets or 15% in specific cases for short term liquidity needs or to acquire essential property.³
- European Securities and Markets Authority Guidelines on Liquidity Management Tools of UCITS and open-ended Alternative Investment Funds (the "**ESMA Guidelines**")⁴ provide that:
 - Suspension of subscriptions should be activated on in exceptional circumstances and justified as being in the interest of investors;⁵
 - Redemption gates should be considered by all funds and activated when thresholds are exceeded;
 - Notice periods should be considered by all funds and activated when useful;
 - Anti-dilution tools should be activated to impose the costs of liquidity on subscribing or redeeming investors; and
 - Anti-dilution tools should be activated to impose the costs of liquidity on subscribing or redeeming investors.
- The ESMA Guidelines also provide for:
 - Redemptions in kind considerations;
 - Redemption fees fee guidelines;
 - Swing pricing considerations;
 - Dual pricing considerations;
 - Anti-dilution levy considerations; and
 - Side pocket guidelines.

³ UR-Lex, Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on UCITS, Article 83.

⁴https://www.esma.europa.eu/sites/default/files/2026-03/ESMA34-671404336-1364_Guidelines_on_liquidity_management_tools_of_UCITS_and_open-ended_AIFs.pdf

⁵ UCITS Directive (Article 84) governs the right of a unitholder to redeem units and the conditions under which the UCITS may limit or suspend redemptions. Directive 2009/65/EC, OJ L 302, 17.11.2009, pp. 32–96

At present, Canadian investment funds may borrow only on a temporary basis and only up to 5% of net asset value, and redemption suspensions are permitted only in narrowly defined circumstances that offer little practical utility. Although IFMs may seek regulatory approval to suspend redemptions, the need to prepare and file an application for exemptive relief makes this option effectively unavailable for daily liquidity funds. [Question: 5 and 6]

As noted above, the Bank of Canada has observed that funds facing significant redemption requests may be required to sell securities to meet those redemptions and that large scale sales, even of highly liquid assets, can contribute to market price dislocation. Addressing this risk requires additional tools, like permitting funds to borrow for the purpose of meeting redemptions or to suspend or gate redemptions without regulatory approvals in appropriate circumstances and with the following qualifications:

- Suspension is for a defined period of time because this option should be restricted to where a short-term liquidity event is anticipated;
- The general conditions under which the fund can suspend redemptions are disclosed in the fund’s prospectus.
- Impacted investors are provided with notice to prevent a run on redemptions based on emotion;
- Actions are based on positive recommendation of the fund’s independent review committee; and
- There is post-event reporting to securities regulators. [Question: 5,6]

These tools could mitigate first mover advantage and could have the added advantage of providing investors with an opportunity to reassess redemption decisions made during periods of market stress. [Questions: 5 and 6]

C. COST BENEFIT ANALYSIS IS INSUFFICIENT

A national framework of rigorous, transparent, and comprehensive cost–benefit analysis is long overdue. Currently the requirement rests solely with the OSC pursuant to Section 143.2(2) of the Ontario *Securities Act* (the “**Act**”) which requires the OSC to publish a notice of a proposed rule that includes a description of its anticipated costs and benefits. In addition, section 2.1(6) of the Act emphasizes that regulatory and business costs, as well as other restrictions on market participants, should be proportionate to the regulatory objectives being pursued.

In support of the Proposed Amendments, the OSC has stated that:

“The primary benefit to IFMs of the Proposed Amendments will be an improvement in their ability to meet the redemption needs of investors in the investment funds that they manage in an orderly fashion. This will reduce the risk that they will be unable to meet redemption requests and in the worst-case scenario, need to terminate investment funds due to liquidity issues.

In addition, the Proposed Amendments set out clear regulatory expectations that would create a level-playing field for all IFMs.

[...] [T]he Proposed Amendments would help ensure that an investment fund is able to retain liquidity for remaining investors even after other investors have redeemed out of the investment fund and maintain the confidence of remaining investors in the ability of the investment fund to meet their future redemption requests.”

For the reasons set out in this correspondence, the above benefits are less clear.

The OSC acknowledges that it is unable to quantify the anticipated benefits of the proposals, yet asserts, without supporting analysis, that those benefits will be proportionate to the costs: “While we are unable to quantify these benefits with meaningful precision, we believe that they will be proportionate to the anticipated costs.”

However, the costs have been narrowly defined as compliance costs which comprise time spent implementing the Proposed Amendments and complying annually. These are conservatively estimated at \$4,800,000 and \$1,690,000 on an industry-wide basis. Amongst the assumptions in the estimations is that, based on ‘stakeholder consultations,’ many of the costs have already been assumed by IFMs, including IFMs of non-reporting issuers, already operating in alignment with the Guidance which the Proposed Amendments seek to codify. This assumption is unsubstantiated and does not meaningfully assess either the true costs of the Proposed Amendments or their proportionality relative to the asserted benefits.

The true costs of the Proposed Amendments include reducing the competitiveness of Canadian funds, impeding trading efficiency, and creating operational bottlenecks that risk diverting attention from other critical considerations to the detriment of investors.

In addition, the Guidance was not distributed for public comment before its release. The issuance of Guidance, which as a matter of unfortunate practice, is at times enforced through audits in advance of Proposed Amendments, should not shield the requirement to conduct a substantive cost benefit analysis.

Finally, the alternatives set out in this correspondence were not considered.

D. ADDITIONAL RECOMMENDATIONS

We provide the following comments and recommendations in response to the question raised in the Consultation Paper regarding the use of LRM Tools.

a) Liquidity Classification Benefit Is Unclear.

Several questions concern the proposed use of a liquidity classification system. The benefit of the liquidity classification model is unclear. Asset liquidity can be dynamic and may fluctuate significantly in response to certain market conditions. The CSA should conduct a comprehensive cost-benefit analysis before proposing such a system in Canada. **[Question: 9]**

b) Illiquid Asset Definition Should be Revised.

The current definition of an illiquid asset requires that the asset not be “readily disposed of through market facilities on which public quotations in common use are widely available at an amount that at least approximates the amount at which the portfolio asset is valued in calculating the net asset value per security of the investment fund.” In practice, the CSA has granted relief for certain asset classes that are generally regarded as liquid but would be considered illiquid under this definition, such as Rule 144 securities. This definition should be updated to eliminate the requirement for a public quotation and to include features of the liquidity classification system as discussed above. **[Questions: 12 and 13]**

c) Regulatory Disclosure and Data Related to LRM Should be Simplified.

Much of the proposed reporting framework depends on the prescriptive liquidity classification system discussed above, which is not supported. Before introducing new liquidity-related reporting or disclosure requirements, the CSA should conduct a robust cost benefit analysis and clearly articulate the necessity and incremental value of any information not otherwise available. **[Question: 27]**

Existing prospectus requirements mandate that risks associated with an LRM tool that the IFM may use must be disclosed, just like any other risk. Similarly, existing prospectus requirements include disclosure where a fund suspends redemptions. **[Questions: 21 and 22]**

Periodic reporting to securities regulatory authorities on liquidity-related matters, including the use of LRM tools is proposed. Requiring regulatory reporting solely as a result of deploying an LRM tool would disincentivize their use and may lead IFMs to pursue less effective alternatives, such as liquidating assets, even where borrowing would better protect investors. Provided applicable conditions are met, the use of LRM tools should not trigger regulatory reporting obligations, with the exception of the suspension of redemptions beyond a defined period. **[Questions: 27 and 28]**

Investor notification should be limited to affected investors to avoid exacerbating redemption pressures driven by short-term sentiment rather than informed decision-making. **[Question: 30]**

d) Compensation as a Conflict/Risk is Overstated

Proposed s. 8.1.1(3) of CP 81-102 CP states that a conflict of interest may arise if the level of a portfolio advisor's compensation is based on the level of the portfolio's returns, as a portfolio adviser may be incentivized to invest in more illiquid assets that have the potential for higher returns, even though those assets may not be suitable. This overstates the conflict and the risk. Portfolio advisers' performance incentives are already constrained by ~~the strict rules in NI 81-104, *Alternative Mutual Funds* and~~ the duties included in NI 31-103, *National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Real liquidity issues stem more from market stress or portfolio mismatches than adviser pay structures.

e) Non-application to Non-Reporting Issuer Investment Funds and ETFs

The Proposed Amendments should not apply to non-reporting issuer investment funds. NI 81-102 was developed specifically for reporting issuers. Extending its requirements to non-reporting issuers on a piecemeal basis is ineffective. The distinction between reporting issuers and the exempt market remains meaningful and, in the absence of evidence to the contrary, should be preserved. Non-reporting issuers can invest in assets that reporting issuers are not permitted to invest in, and currently have access to tools, like redemption gates, which are not available to reporting issuers. Non-reporting issuers tend to utilize these tools using their professional judgement and expertise. **[Question: 31]**

The Proposed Amendments also should not apply to ETFs. ETF investors (other than market makers) sell their ETF securities on the secondary market; they do not redeem their securities. Market makers can and do protect their own interests, including by way of hedging their risk.

E. CONCLUSION

In summary, it is recommended that the CSA recalibrate its approach toward a proportionate, principles-based framework that expands liquidity management options and meaningfully addresses systemic risk.

Respectfully submitted,

Canadian Forum for Financial Markets