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## PMAC Industry, Regulation & Taxation (IRT) Summary

10/29/2024

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### **Ottawa Update**

Robert Near, Prospectus Associates

The Prime Minister is currently facing several challenges, mainly from within his own party. Up to 24 Members of Parliament have requested that the Prime Minister step down with the willingness to conduct a secret ballot. Meanwhile, the Bloc Québécois is working alongside the Conservatives and the NDP to bring down the Liberal government. If the Bloc Québécois succeeds on their threat the NDP will be isolated creating further challenges as they have been in support of the Liberal government under the Supply and Confidence Agreement. Challenges are expected to continue for the PM until the next general election, which is expected this winter or early spring.

### **Member Questions:**

**Q:** Can we expect the Prime Minister to step down?

**A:** If the PM wanted to step down, he would have already done so. The PM believes he is the best candidate to take on Pierre Poilievre in the next election. In addition, the PM has a strong personal and political dislike for Poilievre, and does not want him to become the next PM.

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### **Canadian Regulatory Updates**

Victoria Paris, PMAC

Gavin Inkster, PMAC

### **OSC Investment Funds Continuous Disclosure Working Group**

On Wednesday, October 23<sup>rd</sup> PMAC Staff, PMAC Committee Chairs and PMAC Board Members had our semi-annual meeting with the Ontario Securities Commission (OSC). PMAC met with Matthew Onyeaju, the new Senior Vice President of the Registration Inspections and Examinations Division, formerly known as the Compliance and Registrant Regulation or CRR branch. PMAC also met with several other staff from various divisions to discuss the following topics:

- The proposed long-term asset funds consultation.
- Changes to the Competition Act to address greenwashing and the potential impact of those revisions on securities regulation and voluntary environmental, social, and governance (ESG) standards.
- Fee negotiation by portfolio managers (PMs), initially raised in the 2023 OSC Summary Report.
- Business arrangements between PM firms and investment managers, initially raised in the 2024 OSC Summary Report.



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- The registration of firms and individuals, including with respect to the Relevant Investment Management Experience (RIME) required for registration.
- Request to keep regulation of PMs under the Canadian Securities Administrators (CSA) and not move them to Canadian Investment Regulatory Organization (CIRO) as proposed in Phase 2 of the CIRO consolidation.
- Emerging risks, such as the use of artificial intelligence by PMs.

### OSC Long-Term Asset Fund (OLTF) Consultation

The OSC published a consultation on October 10 proposing to create a new type of investment fund that would hold long-term illiquid assets and be available to retail investors who would not usually be permitted to access investments of that nature. These new funds would be called Ontario Long-Term Funds (OLTFs)

OLTFs are intended to provide retail investors with greater access to illiquid, long-term assets. The OSC is proposing that OLTFs would become reporting issuers in Ontario and be available only to Ontario investors. To mitigate the risks of these long term, illiquid assets to retail investors, the OSC is proposing, that OLTFs be managed by Investment Fund Managers (IFMs) and PMs, and that OLTFs would invest alongside “Cornerstone Investors” in “collective investment vehicles”, or “CIVs”. Cornerstone Investors being experienced asset managers, institutional investors (including pension funds), and other sophisticated investors.

The OSC is proposing that no more than 10% of the funds’ assets be redeemed per year, and if redemption requests exceed that cap in two consecutive years, OLTF would be required to end. In the initial proposal, it is suggested that the OLTFs would be organized as corporations with an independent Board of Directors.

OSC threshold issues:

1. redemptions;
2. valuation (NAV);
3. monitoring, review and governance;
4. disclosure;
5. investment restrictions;
6. distribution.

The consultation closes on February 7, 2025. PMAC will organize a working group to gather feedback.



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**Member Comment:**

The Ontario government is considering this proposal. Initially, this would be exclusive to Ontario. The government is pursuing this initiative to secure funding for infrastructure projects within the province, providing retail investors with an opportunity to support long term government initiatives, and potential other private investment opportunities.

**Member Question:**

**Q:** Is there consideration for this to involve co-investments or companies to invest in other funds that have LP structures and are locked up?

**A:** The proposal includes several options. It will not be limited to one specific investment. They are looking to also include institutional investors such as pension plans, asset managers, and others.

**CSA – Modernization of the Continuous Disclosure Regime for Investment Funds Consultation**

On September 19, the CSA released a Notice and Request for Comment proposing amendments to the continuous disclosure requirements for investment funds. The changes are aimed at improving the quality of disclosures made to investors and reducing the regulatory burden to investment funds and reflect the CSA's ongoing efforts to modernize the continuous disclosure regime.

The main change is with respect to the management report of fund performance (MRFP), which will be renamed to the Fund Report. The CSA has found the current MRFP to not be as useful to investors and will make changes to make it easier to read and understand. IFMs will also be required to include what the CSA has called "did you know" sections throughout the fund report, that explain concepts such as management expense ratio, benchmarking and risk ratings, among several others, in plain language.

It will still be required to file the report twice a year (annual and interim). In addition to the new fund reports, the CSA is proposing exemptions for filing reports under NI 81-102 for certain related-party transactions that are already subject to reporting requirements.

PMAC is organizing a working group on Friday, November 1 to gather member feedback.

**OBSI Consultation on Loss Calculations for Illiquid Exempt Securities**

The Ombudsman for Banking Services and Investments (OBSI) released a consultation on September 26 regarding its approach to calculating investor losses in cases involving illiquid exempt market securities. The consultation describes OBSI's loss calculation process where it determines that an investor purchased unsuitable investments, and those investments are illiquid.

Where it is not possible to calculate the investor's actual losses, an ending value of zero is assigned to the security and the losses are calculated on that basis. The investor would get their initial investment back. The OBSI would then have the investor transfer the securities back to the firm. Should there be any residual value at some point in the future the firm is now able to realize that value.

This consultation closes on November 27, PMAC welcomes any feedback.



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### **TCR Exemptive Relief Update**

PMAC has approached the OSC for exemptive relief for institutional non-permitted clients (institutional clients who do not meet the permitted client threshold as the assets are not in a high enough range to meet the threshold). The OSC has asked PMAC to propose a draft order for further consideration.

### **Proposed Amendments to the Prohibiting Cluster Munitions Act**

The Bill is currently with the Senate Committee and would extend a ban on dealing with cluster munition investments in companies that are involved in that space. PMAC is in support of the Bills intention to prohibit the proliferation of these weapons. There are concerns that the language used in the Bill is too broad and may result in unintended consequences.

PMAC is preparing a joint draft letter on behalf of several industry associations to outline concerns and potentially draft amendments to the Bill.

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### **Adjournment and Next Meeting**

**Please note the IRT schedule has changed, IRT will now be on the last Tuesday of every month**