VIA EMAIL

March 27, 2026

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 of 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 Yukon Superintendent of Securities
Nunavut Securities Office

Attention:

The Secretary	Me Phillippe Lebel
Ontario Securities Commission	Corporate Secretary and Executive Director, Legal Affairs Autorité des marchés financiers
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Re: CSA 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 – PMAC Response (Part 1 of 2)

The Portfolio Management Association of Canada (**PMAC**) appreciates the opportunity to submit the following comments on the Canadian Securities Administrators (**CSA**) Notice and Request for Comment – Proposed Amendments to National Instrument 81-102 *Investment Funds* and Proposed Changes to Companion Policy 81-102 *Investment Funds* (the **Proposed Amendments**) and Consultation Paper on Liquidity Risk Management Tools, Liquidity Classification, and Regulatory Disclosure and Data (the **Consultation Paper**, and together with the Proposed Amendments, the **Consultation**).

Please note that PMAC is submitting two separate comment letters in response to the Consultation. This letter addresses the Proposed Amendments while a separate letter, submitted concurrently, addresses the Consultation Paper.

PMAC represents over 330 investment management firms registered to do business in Canada as portfolio managers (**PMs**) with the members of the CSA. Approximately 60% of PMAC's members are also registered as investment fund managers (**IFMs**). PMAC's members encompass both large and small firms managing total assets in excess of $4 trillion as fiduciaries for institutional and private client portfolios. PMAC members manage both prospectus offered funds and pooled funds distributed under prospectus exemptions (**exempt pooled funds**).

PMAC's mission statement is "advancing standards". We are consistently supportive of measures that elevate standards in the industry, enhance transparency, improve investor protection, and benefit the capital markets as a whole.

Overview

We support the CSA's objectives of protecting investors, promoting fair, efficient and transparent markets, and reducing systemic risk. We also acknowledge the international momentum led by the International Organization of Securities Commissions (**IOSCO**), the Financial Stability Board (**FSB**), and the International Monetary Fund (**IMF**) toward strengthening liquidity risk management (**LRM**) frameworks for investment funds globally.

As referenced in the CSA's Consultation, IOSCO's thematic review of the implementation of its liquidity risk management recommendations assessed Canada as "broadly consistent", noting that certain expectations were reflected in guidance rather than binding rules. However, IOSCO did not conclude that Canada lacked substantive LRM expectations, nor did IOSCO recommend the adoption of a highly prescriptive or uniform operational regime across all fund types.[1] In IOSCO's recent *Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes*, IOSCO preserves a principles-based, outcomes-focused framework and emphasizes that liquidity management measures should be proportionate to the structure, size, investment strategy, and investor profile of the fund.[2]

Notably, IOSCO assessed the United States as fully consistent, notwithstanding that the U.S. liquidity risk management regime under U.S. Securities and Exchange Commission (**SEC**) Rule 22e-4 is generally principles-based, applies only to registered retail open-ended funds, and does not extend to private pooled vehicles.[3]

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[1] IOSCO, *Thematic Review on Liquidity Risk Management Recommendations* (November 2022).
[2] IOSCO, *Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes* (May 2025) (**IOSCO 2025 Revised Recommendations**).
[3] There is no comparable fund-level liquidity regime in the U.S. or any European jurisdiction applicable to private funds.

This international context is significant. Alignment with global standards does not require uniformity, nor does it require the adoption of operational requirements that exceed what international bodies themselves contemplate.

It is equally important to situate this Consultation within the Canadian market context. Canada has a longstanding and well-developed investment fund industry supported by a comprehensive regulatory framework. National Instrument 81-102 *Investment Funds* (**NI 81-102**) already imposes substantive liquidity constraints on prospectus offered funds, including limits on illiquid assets and detailed requirements governing portfolio construction and redemptions. The Consultation does not identify historical instances of systemic liquidity failure in Canadian investment funds, nor are we aware of any such instances that would warrant a materially more prescriptive regime.

Even during periods of significant market stress — including the 2008 global financial crisis and the March 2020 "dash for cash" — Canadian prospectus offered funds continued to meet redemption requests in an orderly manner. More broadly, the Bank of Canada has consistently characterized Canada's financial system as resilient,[4] and the IMF's 2025 Financial System Stability Assessment concluded that Canada's financial system is strong and well-regulated, with banks and non-bank financial institutions generally resilient to severe solvency and liquidity shocks.[5]

Against this backdrop, reform should be proportionate to demonstrated risks and tailored to the structure of the Canadian market. A one-size-fits-all operational model is neither required by international guidance nor justified by Canada's experience to date.

In our view, the Proposed Amendments go beyond codifying existing guidance and would materially alter Canada's LRM framework by introducing prescriptive operational and governance requirements that exceed what international standards contemplate. Such measures risk imposing regulatory burden that is not proportionate to investor protection or systemic risk mitigation, constraining professional judgment, and encouraging standardized liquidity practices that may amplify rather than reduce stress in volatile markets. To the extent the Canadian framework becomes materially more prescriptive than those in peer jurisdictions, these requirements will also place Canadian investment funds and managers at a competitive disadvantage in global capital markets.

In PMAC's view, the appropriate response to international feedback is a proportionate, outcomes-focused framework tailored to the Canadian context, that preserves flexibility and professional judgment. Consistent with this approach, we set out below our key recommendations.

[4] Bank of Canada, *Financial Stability Report* (May 2025).
[5] International Monetary Fund, Canada: Financial System Stability Assessment (August 2025).

KEY RECOMMENDATIONS:

1. **Carve out investment funds that are not reporting issuers from the LRM requirements.**

2. **Maintain a flexible, principles-based model that allows for differences between fund types, such as money market funds, in-kind ETFs and others.**

3. **Replace fixed-frequency stress testing with risk-based, judgment-driven monitoring.**

4. **Preserve governance flexibility by focusing on accountability rather than prescribed reporting lines.**

Carve out investment funds that are not reporting issuers from the LRM requirements

We begin with our response to Question 4 of the Proposed Amendments, as this issue is foundational to many of our comments and warrants consideration at the outset.

> *Question 4: Are there any types of investment funds that should be carved out of the Proposed Amendments? Alternatively, are there any types of investment funds that should be carved out of certain requirements in the Proposed Amendments? Please explain.*

While PMAC supports the CSA's objective of establishing baseline LRM expectations, we do not support the application of the Proposed Amendments' prescriptive operational and governance requirements to exempt pooled funds, whose liquidity risk profile, investor base, and structural design differ fundamentally from those of prospectus-offered funds with daily liquidity.

For exempt pooled funds, liquidity risk is primarily managed through fund design rather than continuous market-based liquidity monitoring. Liquidity risk is addressed *ex ante* through contractual and structural redemption features (such as lock-ups, advance notice periods, redemption gates, limited dealing windows, suspensions, and disclosure) designed to align redemption rights with the expected liquidity of the underlying assets. These funds are typically offered to accredited investors and permitted clients who are informed of, and accept, the liquidity characteristics of the strategies they select.

In this context, many of the operational requirements contemplated by the Proposed Amendments, including fixed-frequency stress testing, standardized liquidity thresholds, ongoing market-based liquidity metrics, and prescribed liquidation assumptions would be difficult for these funds to implement and would not meaningfully enhance investor protection. Where a fund is intentionally structured to hold less liquid or illiquid assets, and

sophisticated investors have expressly agreed to that liquidity profile, continuous asset-level liquidity measurement or simulated stress liquidation does not reduce risk. Rather, it would become a formalistic compliance exercise that is disconnected from the contractual design of the exempt pooled fund and the manner in which liquidity risk is actually allocated and managed.

This recommendation is not intended to suggest that exempt pooled funds should disregard liquidity risk management altogether. Investment fund managers are already subject to statutory and regulatory obligations to identify, monitor, and manage liquidity risk in accordance with prudent business practices and in the best interests of the investment fund. As highlighted in CSA Staff Notice 81-333 *Guidance on Effective Liquidity Risk Management for Investment Funds* (**SN 81-333**)*:*

> Under the Canadian securities regulatory regime, IFMs have a general statutory obligation to:
>
> - exercise the powers and discharge the duties of their office honestly, in good faith and in the best interests of the investment fund, and
> - exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in the circumstances.
>
> (the **IFM Statutory Conduct Standard**).
>
> In exercising their duties under the IFM Statutory Conduct Standard, it is both in the best interest of the fund and prudent for IFMs to consider investor redemptions and fund liquidity when designing the fund's operation and managing the fund's assets. Both NI 81-102 and NI 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**) also contain provisions which are relevant to LRM and the roles and responsibilities of IFMs in managing liquidity risk. As a fund's liquidity risk is a risk associated with the business of the fund, section 11.1 of NI 31-103 requires a registered firm to have policies and procedures, that establish a system of controls and supervision sufficient to address such risk.[6]

This principles-based guidance is appropriate and sufficient in the exempt market context. Our concern is not with the existence of liquidity risk management expectations, but with the application of retail-oriented operational requirements to exempt pooled funds whose structure and investor profile are fundamentally different from open-ended prospectus offered funds.

International standards support this distinction. IOSCO's liquidity risk management framework is principles-based and does not mandate a uniform operational model across all fund types. IOSCO's assessment of Canada as "broadly consistent" reflected the placement of certain requirements in guidance rather than binding rules, not a lack of

[6] CSA Staff Notice 81-333 *Guidance on Effective Liquidity Risk Management for Investment Funds*, page 3.

substantive expectations or a recommendation to impose prescriptive requirements on private or institutional funds. Notably, IOSCO assessed the U.S. as fully consistent, notwithstanding that the U.S. liquidity risk management regime is principles-based and applies only to registered retail open-ended funds. The same is true of comparable European and other international jurisdictions.

Existing registrant obligations further mitigate liquidity risk to investors in the exempt market. Advisers and dealers are generally subject to enforceable obligations under NI 31-103, including know-your-client, know-your-product, and suitability requirements, which require registrants to assess investors' liquidity needs, time horizons, and tolerance for illiquidity, and to understand, and, for dealers, to explain, fund-specific redemption mechanics. Institutional permitted clients often waive the suitability requirement, given their ability to assess whether the fund is appropriate for their investment needs and purposes.

Imposing retail-oriented operational requirements on exempt pooled funds would, in effect, attempt to fit a fundamentally different product structure into a regulatory framework designed for daily redeemable retail vehicles. This "square peg into a round hole" approach would introduce significant operational burden, increase compliance and system costs, and reduce structural flexibility without delivering commensurate investor protection benefits. Over time, these additional constraints could make Canadian exempt pooled fund structures less attractive relative to international alternatives, increase the cost of capital formation, and hinder the ability of managers to raise capital efficiently in the exempt market.

Exempt pooled funds with contractual redemption constraints do not create the same first-mover dynamics or liquidity externalities that international standard setters have identified as systemic concerns in daily redeemable retail funds. The "first-mover advantage" concern arises in open-ended funds where investors can redeem at NAV on short notice (often daily) while the fund holds assets that may be difficult or costly to sell quickly. In that structure, redeeming investors may be incentivized to exit early to avoid bearing the transaction costs and market-impact costs of meeting redemptions, which can be diluted across remaining investors. This dynamic can accelerate redemptions, force asset sales into declining or illiquid markets, and transmit stress through broader markets via price impacts and liquidity spirals.

By contrast, exempt pooled funds are commonly designed so that investors do not have an unconditional ability to redeem on short notice. Redemption tools such as lock-ups, advance notice periods, limited dealing windows, gates, and discretionary suspension rights materially reduce the ability and incentive for investors to "run" ahead of others. In many cases, the fund's liquidity risk is intentionally managed through these contractual mechanisms, and any liquidity risks are managed through fund design (including redemption terms, settlement timing, and the sequencing of realizations) rather than through continuous asset-level liquidity measurement. Where redemption requests are queued, pro-rated, deferred, or subject to manager discretion, investors cannot improve

their outcome by redeeming first, and the fund is not forced into immediate procyclical sales to meet daily cash demands. As a result, applying retail-oriented operational requirements designed to address daily redeemable "first-mover" dynamics is not proportionate for exempt pooled funds and would not meaningfully reduce systemic risk.

For these reasons, PMAC's recommendation is that exempt pooled funds be carved out of the Proposed Amendments.

In the alternative, if the CSA determines to retain exempt pooled funds within the scope of the Proposed Amendments, we would recommend a two-track framework under which:

- baseline, principles-based LRM requirements apply to all investment funds, implemented proportionately; and
- any prescriptive operational and governance requirements apply only to daily redeemable funds subject to NI 81-102.

In addition, if exempt pooled funds were to remain in scope of the Proposed Amendments, we would strongly recommend that the LRM framework be implemented through a standalone instrument, rather than in NI 81-102. This is because NI 81-102 has historically functioned as a product-specific regime for prospectus offered retail investment funds. IFMs operating exclusively in the exempt market do not structure their compliance programs around NI 81-102, nor was it designed to govern exempt pooled funds. Embedding cross-industry LRM requirements in NI 81-102 risks importing retail product assumptions into a regulatory instrument historically focused on prospectus offered funds, creating interpretive uncertainty for exempt pooled funds, as well as challenges for existing products, including private market investment funds. The guidance contained in Companion Policy 81-102CP (**Companion Policy**) is also specifically directed at prospectus offered investment funds.

Accordingly, while NI 81-102 may be an appropriate vehicle for LRM requirements applicable solely to prospectus offered retail funds, embedding such requirements in NI 81-102 creates structural concerns if they are extended to exempt pooled funds. A standalone, proportionate LRM instrument would provide clearer regulatory boundaries for non-reporting issuers.

Maintain a flexible, principles-based model that allows for differences between fund types, such as money market funds, in-kind ETFs and others.

As described below, maintaining a flexible, principles-based model is supported by IOSCO's principles-based and outcomes-focused approach; liquidity measures should be proportionate to a fund's structure, size, investment strategy, and investor profile. Global alignment does not require uniformity or superfluous operational requirements. For example, the U.S. was considered by IOSCO to be fully consistent even though its regime is generally principles-based and applies only to registered retail open-ended funds (not private pooled vehicles). Overly prescriptive operational and governance requirements can impose disproportionate burden, constrain professional judgment, and encourage

standardized practices that may amplify stress – underscoring why different fund types (including money market funds (**MMFs**) and in-kind Exchange Traded Funds (**ETFs**)) should be accommodated within a flexible framework.

In our view, there is no "one size fits all" – the framework should be customized for different fund types, including MMFs and in-kind ETFs. We note that SEC Rule 22e-4 largely exempts MMFs and in-kind ETFs.

Money market funds

A highly prescriptive liquidity risk management framework is generally seen as less appropriate for MMFs because of how these funds are structured and the specific risks they already address. MMFs operate under strict, rule-based constraints on portfolio composition—such as limits on maturity, credit quality, and liquidity buffers. Because these rules already embed liquidity management into the product design, layering an additional prescriptive regime can be duplicative rather than additive. MMFs are also designed to meet very short-term redemption demands and typically hold a significant portion of assets in daily and weekly liquid instruments. Their liquidity profile is therefore more standardized and predictable than that of other open-ended funds, reducing the need for flexible, fund-specific calibration through detailed prescriptive requirements. Prescriptive frameworks can reduce flexibility in stress situations. MMFs may need to respond quickly to market-wide liquidity events, and rigid rules can constrain managers' ability to use judgment or adapt tools (e.g., adjusting liquidity levels, using sponsor support where permitted, or managing investor flows). MMFs already have tightly defined liquidity safeguards and relatively homogeneous risk profiles; therefore, a principles-based or tailored approach is more effective than a one-size-fits-all prescriptive regime.

In-kind ETFs

Prescriptive liquidity risk management requirements are often viewed as ill-suited for in-kind ETFs because their structure, trading dynamics, and redemption mechanics differ fundamentally from those of cash-dealing open-ended funds.

Liquidity in ETFs is largely supported by the secondary market. Investors usually buy and sell ETF units on an exchange, rather than transacting directly with the fund. As a result, investor trading activity does not necessarily translate into flows in or out of the fund, weakening the link between redemptions and portfolio liquidity pressure.[7] The arbitrage mechanism helps keep ETF prices aligned with net asset value. Authorized participants step in to create or redeem units when price deviations arise, and they manage the liquidity of

[7] Although we have not specifically recommended that all ETFs or ETF series should be exempted from the Proposed Amendments, we encourage the CSA to consider the reasoning set out in the submissions of the Securities and Investment Management Association (SIMA) and the Canadian ETF Association (CETFA). We believe their reasoning supports a flexible and principles-based approach to liquidity risk management for different types of prospectus offered funds.

the underlying securities as part of that process. This externalizes much of the liquidity management function to sophisticated market intermediaries rather than the fund itself.

In addition, in-kind ETFs primarily meet redemptions through in-kind transfers of securities rather than cash. Authorized participants deliver or receive baskets of underlying assets, which means the fund itself is not typically required to sell portfolio holdings to meet outflows. This significantly reduces the risk of forced asset sales and the kind of liquidity stress that prescriptive frameworks are designed to address.

Prescriptive requirements (such as rigid liquidity bucketing or minimum cash buffers) can be operationally mismatched with in-kind ETFs. These funds typically do not hold large cash positions, and imposing such requirements could reduce efficiency, increase tracking error, or interfere with the basket construction process. In-kind ETFs generally exhibit lower redemption-driven liquidity risk compared to cash-redeeming funds.

Applying the same prescriptive framework across fundamentally different fund types can therefore lead to unnecessary constraints without materially improving investor protection. For these reasons, a more tailored or principles-based approach is better aligned with the ETF structure than a one-size-fits-all prescriptive regime.

Replace fixed-frequency stress testing with risk-based, judgment-driven monitoring.

As described below, we agree that stress testing can be a useful LRM tool where the portfolio manager deems it appropriate, but note that the Proposed Amendments would make stress testing mandatory and centralized for every framework, with fixed and escalating frequency requirements; we view this approach as overly prescriptive and inconsistent with a principles-based, risk-sensitive model. Uniform quarterly stress testing for every fund—regardless of size, complexity, liquidity profile, or investor base—is not aligned with proportionality principles or international practice. IOSCO's 2025 Revised Recommendations indicated that stress testing should be conducted at a frequency relevant to the specific fund and may not be required where disproportionate. Mandated quarterly testing can divert managerial and supervisory attention at critical times and add to already heavy quarterly reporting burdens, increasing costs and the risk of delinquent filings. We recommend integrating stress testing into the ongoing monitoring requirement as one tool among several, used when appropriate and at a frequency proportionate to the fund's liquidity risk profile and prevailing market conditions.

Preserve governance flexibility by focusing on accountability rather than prescribed reporting lines.

PMAC supports the objective of clear accountability and effective oversight for liquidity risk management, but we caution that the proposed oversight framework is highly prescriptive and could constrain effective risk management without commensurate investor-protection benefits. We support the Companion Policy clarification that an existing role or committee

can satisfy the oversight requirement; responsibilities should be embedded flexibly within established governance structures (e.g., a CCO role or an enterprise risk committee). In our view, the proposed mandatory reporting line to the CCO is overly prescriptive because it may not reflect how liquidity risk is effectively managed at many (especially larger/complex) firms, and instead recommend a principles-based approach that permits the supervisor to sit in an appropriate control function (such as Risk) so long as the CCO receives timely and sufficient information to discharge oversight responsibilities, avoiding duplicative structures and unnecessary internal approval lines.

Responses to Consultation Questions on the Proposed Amendments

We now turn to the CSA's specific questions regarding the Proposed Amendments in sequence. As noted above, PMAC's membership includes firms that manage private exempt pooled funds and/or prospectus offered funds. Accordingly, our comments below address the Proposed Amendments from both perspectives. Certain comments focus specifically on our concerns with applying prescriptive operational requirements to exempt pooled funds. Other comments are broader and reflect concerns regarding the overall level of prescription in the Proposed Amendments, which in our view exceeds what is appropriate for an effective liquidity risk management framework, even if such a framework were to apply solely to reporting issuer funds governed by NI 81-102.

1. Do you have any comments pertaining to section 6.1.1 Liquidity Risk Management Framework?

We support the principle that investment funds should have an appropriate liquidity risk management framework. In this respect, we do not have any specific comments on the requirement in section 6.1.1 that an investment fund establish, maintain, and apply appropriate policies and procedures to identify, assess, and manage liquidity risk.

2. Do you have any comments pertaining to section 6.1.2 Operational Requirements?

Subsections 6.1.2(1) and (2) – Alignment of Portfolio Liquidity and Redemption Terms

We do not have specific comments on subsections (1) and (2). These provisions appropriately reflect the principle that an investment fund's investment objectives, investment strategies, and permitted redemption frequency should align with the nature of its portfolio assets and expected redemption activity.

Subsection 6.1.2(3) – Ongoing Liquidity Monitoring

For many funds, particularly those that offer daily redemption rights and invest in publicly traded securities, ongoing liquidity monitoring is an important component of effective liquidity risk management.

However, as drafted and read together with the Companion Policy, subsection 6.1.2(3) can be interpreted as requiring continuous, formalized liquidity monitoring and portfolio

adjustment for all investment funds regardless of a fund's structure, asset profile, or redemption terms. In our view, this interpretation would be overly prescriptive and could lead to unintended and counterproductive outcomes.

First, the relevance of qualitative or quantitative liquidity metrics, and the frequency with which they should be assessed, will vary depending on the nature of the fund and its underlying assets. For funds investing in private or bespoke assets, many of the market-based metrics referenced in the Companion Policy (such as bid-ask spreads, trading volumes, or market depth) may be unavailable, unreliable, or not meaningful.

Second, an expectation that portfolio composition be reconsidered or adjusted whenever liquidity metrics change risks undermining the exercise of the investment fund manager's professional judgment, which is central to effective liquidity risk management, by implicitly requiring managers to justify inaction each time a metric fluctuates. Relatedly, such an expectation could result in unnecessary trading and increased transaction costs, without corresponding investor protection benefits.

Investment fund managers are already subject to statutory duties under securities legislation to exercise the care, diligence and skill of a reasonably prudent person and to act in the best interests of the investment fund. These obligations require managers to address liquidity concerns where warranted by the circumstances, without the need for prescriptive regulatory triggers. Accordingly, we recommend that the provision be revised to be more principles-based and flexible. For example:

> *An investment fund must monitor, review and assess the investment fund's liquidity profile and relevant market conditions on an ongoing basis using relevant qualitative ~~and~~or quantitative metrics ~~and, if necessary, adjust the composition of the investment fund's portfolio assets~~.*

In addition, we recommend that exempt pooled funds be carved out of subsection 6.1.2(3). As explained above, liquidity risk in exempt pooled funds is primarily managed through fund design rather than continuous market-based liquidity management. These funds are typically offered to accredited investors and permitted clients who are informed of, and accept, the liquidity characteristics of the strategies they select.

For example, an exempt pooled fund may be established as a "fund of one" for a single institutional investor to hold a long-term infrastructure project with a multi-year investment horizon and no periodic redemption rights. In such a structure, liquidity risk is addressed at inception through the fund's contractual terms and the investor's agreed investment horizon. There is no expectation of short-term liquidity, and the underlying asset is intentionally long-dated and illiquid. A fund such as this would fail any measure of liquidity described in the Proposed Amendments, but there is no associated market or investor risk.

Another example is a private credit or real estate fund offered to multiple accredited investors that provides quarterly redemption rights, subject to advance notice periods and

the manager's ability to impose redemption gates if needed to manage liquidity. In that case, liquidity risk is managed through structural features that align investor redemption rights with the expected realization profile of the underlying assets. Investors understand that liquidity is limited and conditional, and the fund's terms are designed accordingly.

In both examples, liquidity risk is managed through fund structure and contractual design rather than through continuous market-based liquidity assessments. The goals of the Proposed Amendments would be achieved, because the contractual liquidity tools are aligned with the nature of the underlying portfolio assets. Requiring formalized ongoing monitoring of asset-level liquidity metrics, or mechanical consideration of portfolio adjustments, would not be meaningful.

Subsection 6.1.2(4) – Liquidity Thresholds and Targets

We do not oppose the concept in subsection 6.1.2(4) that an investment fund may establish and maintain liquidity thresholds and targets as part of its liquidity risk management framework. Such thresholds can serve as a useful internal risk management tool for certain funds.

However, we are concerned that the proposed requirement would mandate liquidity thresholds and targets for all investment funds, including exempt pooled funds, for which such tools may not be relevant or meaningful. As discussed above, some exempt pooled funds hold significant levels of illiquid assets (in some cases exclusively) and are structured with redemption terms that are intentionally aligned with the liquidity characteristics of those assets. In these circumstances, requiring the establishment of liquidity thresholds and targets to monitor, review and assess the fund's liquidity profile would impose administrative burden without corresponding risk-management benefits.

We therefore recommend that exempt pooled funds be carved out of the requirement in subsection 6.1.2(4).

Subsections 6.1.2(5), (6) and (7) – Stress Testing and Frequency

We agree that portfolio managers should be able to use stress testing as a liquidity risk management tool where the portfolio manager deems it appropriate.

However, subsections 6.1.2(5), (6) and (7), taken together, would elevate stress testing into a mandatory and central feature of every liquidity risk management framework, subject to fixed and escalating frequency requirements. In our view, this approach is overly prescriptive and inconsistent with a principles-based, risk-sensitive model. In addition, mandating uniform quarterly stress testing risks diverting managerial and supervisory attention at critical junctures, which could potentially weaken overall risk prioritization. Furthermore, investment funds face a myriad of quarterly client and regulatory reporting requirements. Currently, many managers are under pressure in the areas responsible for

these functions. Additional burden in this regard will come with a potentially significant cost and/or result in delinquent filings.

Quarterly stress testing for every fund regardless of size, complexity, liquidity profile, or investor base is not aligned with proportionality principles embedded in securities regulation or with the principles-based supervisory frameworks adopted internationally for liquidity risk management, which emphasize flexibility and risk-sensitivity rather than uniform prescriptive testing. The IOSCO 2025 Revised Recommendations state that stress testing should be carried out at a frequency relevant to the specific collective investment scheme and do not mandate periodic stress testing for every fund. The report also mentions that fund level stress tests may not be required where this would be disproportionate, considering the size, investment strategy, nature of the underlying assets, and investor profile of the fund. Other jurisdictions, such as the U.S. and Australia, do not impose such prescriptive, one-size-fits-all requirements, particularly with respect to mandatory stress testing.

Funds with limited redemption activity, highly liquid portfolios, or low complexity do not pose the same liquidity management challenges as funds with more sensitive structures. Examples include funds that have low liquidity risk based on low twelve-month redemption levels, and funds that hold highly liquid securities (i.e., large cap securities and money market instruments).

Mandating the same frequency for all funds forces issuers to spread attention evenly, instead of focusing on funds that truly require more frequent stress testing. Quarterly stress testing for all funds also increases administrative and system costs and requires more personnel time, with limited added protection for funds with low liquidity risk, or where this testing is unnecessary or irrelevant due to fund design.

It would be preferable to leave the use of stress testing and its frequency up to the IFM.

Companion Policy Guidance

With respect to subsection 8.1.2(6) of the Companion Policy related to Operational Requirements, we would suggest the following amendment to the "hypothetical scenario analysis" definition, to include the qualifier that "the manager considers has a reasonable likelihood of occurring". Please see the suggested edit below:

> *Hypothetical scenario analysis is forward-looking and measures the potential impact of an event ~~which has not yet occurred~~ that the manager considers has a reasonable likelihood of occurring.*

Including this qualifier will allow the IFM to focus on scenarios that the IFM reasonably considers to be within the realm of possibility. This ensures that resources are directed toward stress-testing relevant and meaningful hypothetical scenarios, rather than being diverted to extremely remote or implausible scenarios that provide limited risk management value.

With respect to subsection 8.1(8) of the Companion Policy guidance, it may be impractical for a fund to consider a "*pro rata*" methodology if the fund holds illiquid assets, as permitted for prospectus offered funds under NI 81-102. For funds holding illiquid assets, a strict *pro rata* liquidation approach may not be operationally feasible, may produce distorted redemption pricing outcomes, and may not reflect the fund's actual liquidity profile.

Liquidity risk management is inherently fund and situation specific. IFMs should therefore retain discretion to determine the liquidation methodology (or combination of methodologies) that best reflects the fund's portfolio composition, liquidity characteristics, and prevailing market conditions, and that best promotes fairness and protects investors' interests. We therefore recommend that subsection 8.1(8) of the Companion Policy be either removed or amended to provide flexibility, allowing funds to consider both *pro rata* and non-*pro rata* methodologies based on the fund's portfolio, rather than expressing a preference for a particular methodology.

Exempt Pooled Funds

The rigidity of the proposed framework is particularly problematic for exempt pooled funds and funds investing in private or long-term illiquid assets. Referring to the examples mentioned above:

- A fund holding a long-term infrastructure asset with no periodic redemption rights does not present redemption-driven liquidity risk requiring quarterly simulation.
- A private credit or real estate fund offering redemptions subject to notice periods and gates manages liquidity primarily through structural alignment of redemption terms and asset realization timelines.

In these cases, liquidity risk is addressed *ex ante* through fund design and contractual terms rather than recurring market-based simulations, which may not be possible with private securities. Mandatory quarterly stress testing would impose administrative burden without demonstrable benefit.

Recommended Revision

We recommend that subsections 6.1.2(5), (6) and (7) be consolidated and integrated into subsection 6.1.2(3), such that stress testing is treated as one of several tools available to satisfy the ongoing liquidity monitoring requirement. Stress testing may be cited as an example in the guidance to the proposed subsection 6.1.2(3). Alternatively, it could be considered in separate subsections such as:

> *(5) In complying with subsection (3), an investment fund must consider whether stress testing of the liquidity of its portfolio assets is appropriate having regard to the fund's strategy, asset characteristics, redemption terms and investor base.*

(6) Where an investment fund determines that stress testing is appropriate, it must be conducted at a frequency proportionate to the fund's liquidity risk profile and prevailing market conditions.

This approach would emphasize stress testing as an important tool while ensuring proportionality and alignment with international standards.

Subsection 6.1.2(8) – Pre-Trade Assessment of Liquidity Impact

We agree that liquidity considerations should form part of an investment fund's portfolio management decision-making and that managers should be mindful of the potential liquidity implications of investment decisions.

However, subsection 6.1.2(8), as drafted, could be interpreted as requiring a formal, pre-trade assessment of the liquidity impact of every individual portfolio transaction before execution. In practice, such a requirement would not be operationally feasible for many strategies and could have unintended consequences.

A transaction-by-transaction pre-trade liquidity assessment would delay execution, constrain a portfolio manager's ability to respond efficiently to market opportunities, and risk impairing best-execution obligations, which require timely and efficient trade execution. It would also impose significant operational burden in respect of routine transactions that do not meaningfully alter a fund's overall liquidity profile.

For publicly offered funds subject to NI 81-102, liquidity risk is already governed by binding regulatory constraints, including limits on the acquisition and holding of illiquid assets. These existing restrictions provide an objective and enforceable liquidity discipline at the portfolio level. Overlaying a transaction-by-transaction pre-trade assessment requirement would be duplicative and disproportionate.

For exempt pooled funds, liquidity risk is typically addressed through fund structure, redemption terms, investor eligibility, and disclosure. In addition, investment fund managers are subject to enforceable duties under securities legislation to manage the risks associated with their business and to act in the best interests of the fund. These obligations require managers to consider liquidity implications where relevant, without mandating formalized pre-trade assessments for every transaction.

Liquidity risk is most effectively managed through portfolio-level oversight and professional judgment, rather than through rigid transactional procedures. Elevating liquidity impact assessments into a mandatory pre-condition for every trade risks distorting portfolio management priorities and interfering with the exercise of informed discretion.

Accordingly, we recommend that subsection 6.1.2(8) be removed. Existing liquidity restrictions under NI 81-102, together with the broader registrant obligations, provide sufficient safeguards without imposing impractical constraints on day-to-day trading activity.

Subsections 6.1.2(9) and (10) – Contingency Planning

We have no specific comments on subsections 6.1.2(9) and (10), provided that the examples of liquidity risk management tools referenced in the Companion Policy are understood to be illustrative only, and not exhaustive; investment funds (particularly exempt pooled funds) may establish, maintain, and test contingency plans using a broad range of fund-specific liquidity management mechanisms, including structural and contractual arrangements, in a manner that is proportionate to the fund's liquidity profile and investor base.

3. Do you have any comments pertaining to section 6.1.3 Oversight?

We support the CSA's objective of achieving clear accountability and effective oversight of liquidity risk management. However, section 6.1.3, as proposed, adopts a highly prescriptive approach to internal governance that will constrain effective risk management practices without delivering commensurate investor protection or financial stability benefits. We discuss these concerns in more detail below.

Subsection 6.1.3(1) – Designation of Liquidity Risk Management Oversight

We support the requirement in subsection 6.1.3(1) that an investment fund appoint a liquidity risk management supervisor or establish a liquidity risk management committee. Clear accountability and senior oversight are core components of effective liquidity risk management and are consistent with international standards and existing governance expectations.

We also support the Companion Policy guidance clarifying that an existing role or committee may be used to satisfy this requirement. It should be explicitly noted that the guidance is illustrative and not mandatory, or exhaustive. In our view, it is important that subsection 6.1.3(1) be interpreted flexibly, so that liquidity risk management responsibilities may be embedded within existing governance structures (such as a chief compliance officer (**CCO**) role or an enterprise risk committee).

Subsection 6.1.3(2) – Reporting Line for Liquidity Risk Management Oversight

We are concerned that subsection 6.1.3(2), as drafted, is overly prescriptive in requiring the liquidity risk management supervisor to be the CCO or an individual reporting directly to the CCO.

While this structure may be appropriate for some firms, it does not reflect how liquidity risk is effectively managed at many investment fund managers, especially larger or more complex organizations. In many cases, liquidity risk management appropriately resides within an independent risk function, with established reporting and escalation to the CCO and ultimate designated person (**UDP**) in accordance with NI 31-103.

In our view, subsection 6.1.3(2) should be applied in a principles-based manner that permits the liquidity risk management supervisor to be situated within an appropriate control function (such as Risk), provided that the CCO receives timely and sufficient information to discharge their oversight responsibilities. Mandating a specific reporting line risks duplicating existing governance frameworks and undermining effective risk management.

Subsection 6.1.3(3) – Requirement to Establish a Liquidity Risk Management Committee

We understand that the proposed framework permits an investment fund to satisfy the oversight requirement either by appointing a liquidity risk management supervisor or by establishing a liquidity risk management committee.

However, the drafting in subsection 6.1.3(3) refers to "an investment fund *that is required to establish* a liquidity risk management committee" (emphasis added), which could be interpreted as suggesting that certain funds must establish such a committee. Neither the rule nor the Companion Policy appears to specify circumstances in which a committee would be required.

We recommend clarifying the provision to confirm that the rule permits either governance structure (a supervisor or a committee), for example, by revising the drafting to refer to "an investment fund that establishes a liquidity risk management committee".

Subsection 6.1.3(4) – Knowledge and Competency of Oversight Personnel

We have no specific comments on subsection 6.1.3(4). We agree that individuals responsible for liquidity risk management oversight should have sufficient knowledge of liquidity risk management, having regard to the types of funds and assets relevant to the particular investment fund manager.

Subsection 6.1.3(5)(a) – Approval and Review of the Liquidity Risk Management Framework

We have no specific comments on the requirement in subsection 6.1.3(5)(a) for the liquidity risk management supervisor or committee to approve the liquidity risk management framework and periodically assess its effectiveness.

Subsections 6.1.3(5)(b) and (c) – Role of Liquidity Risk Management in Fund Design

We disagree with the requirements in paragraphs 6.1.3(5)(b) and (c) for the liquidity risk management supervisor or committee to "*review and approve"* an investment fund's investment objectives, investment strategies, and permitted redemption frequency.

Liquidity risk management is an important input into fund design, but it is only one of several considerations that inform investment objectives and strategies, alongside portfolio construction, market opportunity, investor needs, tax and regulatory considerations, and operational feasibility. Requiring formal approval by liquidity risk management personnel elevates liquidity considerations above other core elements of fund design and risks creating

unnecessary procedural complexity and internal veto points without corresponding investor protection benefits.

In our view, it is sufficient for the liquidity risk management supervisor or committee to review and be given the opportunity to provide input on these matters, rather than approve them, with final approval remaining within the firm's broader product governance framework.

Subsection 6.1.3(5)(d) – Oversight of Liquidity Thresholds and Targets

We do not oppose the requirement for the liquidity risk management supervisor or committee to review and approve liquidity thresholds and targets. However, as discussed in our comments above on subsection 6.1.2(4), we recommend that exempt pooled funds be carved out of any requirement to establish and maintain liquidity thresholds and targets.

Subsection 6.1.3(5)(e) – Review of Stress Testing and Other Monitoring Outputs

We recommend that subsection 6.1.3(5)(e) be aligned with the flexibility we have recommended in respect of subsections 6.1.2(5), (6) and (7).

Subsections 6.1.3(5)(f), (g), and (h) – Ongoing Oversight and Reporting Requirements

We have no specific comments on subsections 6.1.3(5)(f) and (g).

Subsection 6.1.3(6) – Escalation of Liquidity Risk Matters

We support the requirement for managers to refer matters that would reasonably be expected to significantly impact an investment fund's liquidity profile to the liquidity risk management supervisor or committee. However, it is important that this requirement not be interpreted or applied in a manner that interferes with timely, judgment-based liquidity management, particularly in stressed market conditions. Periods of market stress often require managers to focus on real-time liquidity management activities. In such circumstances, liquidity risk management is, and should continue to be, primarily an operational and judgment-driven exercise, rather than a procedural one driven by the need to comply with a prescriptive requirement.

To avoid the risk of hindsight interpretation, unnecessary over-escalation, or procedural delay during rapidly evolving market conditions, we recommend that the Companion Policy clarify that:

- the assessment of whether a matter would reasonably be expected to significantly impact an investment fund's liquidity profile should be made in light of the fund's size, liquidity profile, redemption terms, and prevailing market conditions; and

- the exercise of reasonable professional judgment is expected, including judgment as to the timing and manner of escalation, so that escalation complements rather than impedes effective real-time liquidity management.

Subsection 6.1.3(7) – Frequency of Liquidity Risk Management Committee Meetings

Subsection 6.1.3(7) requires a liquidity risk management committee to meet at least quarterly. While this may be appropriate for certain prospectus offered, daily redeemable funds, it should be read consistently with a proportionate and risk-based approach to liquidity risk management.

In particular, where stress testing and other liquidity monitoring are appropriately conducted on a less frequent or event-driven basis (as discussed in our comments on subsections 6.1.2(5), (6) and (7)), a mandatory quarterly committee meeting may not be meaningful and may impose unnecessary procedural burden. These concerns are compounded by the lack of clarity as to which investment funds are required to establish a liquidity risk management committee (see our response to subsection 6.1.3(3)).

In addition, many investment fund managers already oversee liquidity risk through existing governance structures, such as risk committees, portfolio oversight committees, or other internal committees responsible for investment risk management. It would be unnecessarily duplicative to require firms to establish a stand-alone liquidity risk management committee where appropriate oversight can be achieved within existing committee structures.

We recommend that the Companion Policy be clarified to confirm that:

- not all investment funds are expected to establish a liquidity risk management committee;
- where a committee structure is used, liquidity risk oversight may be carried out within an existing committee with an appropriate mandate; and
- the frequency of committee meetings should be proportionate to the fund's liquidity profile, redemption terms, and risk characteristics, and aligned with the frequency and form of liquidity risk monitoring that is appropriate for the fund. We recommend a principles-based rather than a prescriptive approach to meeting frequency.

4. Are there any types of investment funds that should be carved out of the Proposed Amendments? Alternatively, are there any types of investment funds that should be carved out of certain requirements in the Proposed Amendments? Please explain.

Please see the sections "Carve out investment funds that are not reporting issuers from the LRM requirements" and "Maintain a flexible, principles-based model that allows for differences between fund types, such as money market funds, in-kind ETFs and others", in addition to our comments on specific sections of the Proposed Amendments, above.

5. Do you have any other comments pertaining to the Proposed Amendments

Overall, while we support the CSA's objective of strengthening liquidity risk management and enhancing investor protection, we are concerned that the Proposed Amendments introduce a level of prescription that is disproportionate to the risks present in the Canadian investment funds landscape and inconsistent with international standards. As discussed above, we believe a principles-based and proportionate approach would better achieve the CSA's objectives. In particular, this would include carving out exempt pooled funds, MMFs and in-kind ETFs, permitting greater flexibility in stress-testing frequency and methodology, removing impractical pre-trade liquidity assessment requirements, and preserving appropriate governance flexibility within firms' existing risk management structures.

We also believe that the cost-benefit analysis accompanying the OSC's publication materially understates the operational and compliance burden associated with the Proposed Amendments. The analysis appears to assume that incremental costs will be modest because investment fund managers already manage liquidity risk in a manner broadly consistent with SN 81-333. However, the Proposed Amendments extend well beyond the guidance in SN 81-333, which is aimed at prospectus offered funds subject to NI 81-102, and not exempt pooled funds. That guidance explicitly emphasized a principles-based, flexible, and scalable approach, recognizing that liquidity risk management is inherently fund-specific and multi-dimensional and not suited to a "one-size-fits-all" framework.[8] By contrast, the Proposed Amendments introduce prescriptive operational requirements, mandated governance structures, fixed stress-testing expectations, transaction-level liquidity assessments, and expanded documentation obligations. Implementing these requirements will require significant systems enhancements, personnel resources, and ongoing monitoring processes that would go well beyond existing practices.

At the same time, we are not aware of evidence of market failure, systemic instability, or widespread investor harm under the current Canadian framework that would justify the degree of prescription proposed. During previous periods of market stress, such as the 2008 financial crisis, prospectus offered funds managed redemptions in an orderly manner, and no significant disruptions were noted. IOSCO's prior assessment of Canada as "broadly consistent" did not reflect a substantive deficiency in Canada's liquidity standards, but rather the fact that certain expectations were articulated through guidance rather than binding rules. IOSCO's revised 2025 recommendations continue to reflect a principles-based, outcomes-focused framework and do not mandate fixed-interval stress testing, standardized liquidity thresholds for all funds, or transaction-by-transaction pre-trade liquidity assessments. Similarly, SEC Rule 22e-4 remains principles-based and does not impose the type of prescriptive regime contemplated by the Proposed Amendments.

Imposing materially more prescriptive liquidity requirements in Canada than exist in other major jurisdictions would have negative competitive implications. Canadian investors have

[8] SN 81-333, page 1.

ready access to U.S.-domiciled mutual funds and ETFs, which would continue to operate under a comparatively less burdensome regulatory framework. As a result, Canadian investment fund managers could face higher operating costs and reduced portfolio management flexibility relative to foreign alternatives, potentially placing Canadian products at a structural disadvantage without delivering commensurate investor protection benefits.

Finally, should the Proposed Amendments and Companion Policy Changes proceed as currently drafted, a significantly longer implementation period will be necessary. Many investment fund managers will require substantially more than three months to design, test, operationalize, and document the required liquidity risk management frameworks, and may also need to enhance systems or hire additional personnel. An implementation period of approximately 12–18 months would be more appropriate and would better support orderly, effective, and compliant implementation.

CONCLUSION

PMAC appreciates the CSA's consideration of our comments on the Proposed Amendments. In our view, any changes to Canada's liquidity risk management framework should be proportionate, principles-based, and appropriately tailored to the structure, redemption terms, and investor base of the relevant fund. In particular, we urge the CSA to avoid imposing retail-oriented, prescriptive operational requirements on exempt pooled funds and to preserve governance and operational flexibility consistent with international standards and the Canadian market context.

If you have any questions, please contact Katie Walmsley (kwalmsley@pmac.org) or Victoria Paris (vparis@pmac.org). We would be pleased to discuss our comments and recommendations further.

Sincerely,

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