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 2 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 Consultation Paper, while a separate letter, submitted concurrently, addresses the Proposed Amendments.

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 exempt 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 acknowledge that liquidity risk management (**LRM**) has become an area of increasing global regulatory focus in recent years. In this context, we support the CSA's decision to consult on these important issues before proposing specific regulatory changes. A consultative approach that considers international developments while carefully assessing the Canadian market context is both appropriate and welcome.

In considering potential enhancements to Canada's LRM framework, it is important to recognize that the Canadian investment fund industry has functioned well through periods of market stress and liquidity events affecting Canadian investment funds are extremely rare. This experience suggests that the existing regulatory framework and industry practices have effectively supported the management of liquidity risk.

Canada's investment fund framework already incorporates several safeguards that address liquidity risk. These include limits on illiquid assets under National Instrument 81-102 *Investment Funds* (**NI 81-102**), existing regulatory expectations for risk management under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**), and the fiduciary and statutory duties of IFMs to act in the best interests of the funds they manage. Liquidity considerations are also addressed at the distribution stage through the KYC, KYP and suitability obligations applicable to dealers and advisers under NI 31-103, which require registrants to ensure that investment recommendations, including investments in funds with less liquid strategies, are appropriate for each investor's circumstances. Together, these elements form a regulatory framework that has generally functioned effectively through periods of market stress.

Against this backdrop, it is important that the CSA clearly articulate the regulatory objectives that any new liquidity risk management measures are intended to achieve. Additional requirements should be introduced only where they are expected to meaningfully

improve regulatory oversight, investor protection, or market functioning beyond what is already addressed by the current framework. Introducing more prescriptive requirements without a clearly demonstrated policy need risks imposing additional operational burden on firms while delivering limited market or investor benefit.

In this regard, we urge the CSA to also remain mindful of the competitive environment in which Canadian investment funds operate. Canadian investors can readily access investment products domiciled in other jurisdictions, particularly the United States. If Canada were to adopt a significantly more prescriptive or operationally burdensome regime than its international counterparts, Canadian funds could face higher costs and reduced flexibility in portfolio management, potentially placing them at a competitive disadvantage without corresponding benefits to investors or market stability.

Finally, it is important that liquidity considerations do not inadvertently assume an outsized role in investment fund regulation beyond what is necessary to manage genuine risks. IFMs are best positioned to assess the liquidity characteristics of their portfolios in light of each fund's investment strategy, redemption terms, and investor base. Regulatory frameworks that are overly prescriptive risk constraining the professional judgment of managers and may encourage unnecessarily conservative portfolio construction, potentially limiting investment opportunities and reducing returns for investors.

KEY RECOMMENDATIONS

In light of the considerations outlined above and discussed in greater detail throughout this submission, PMAC encourages the CSA to adopt a measured and principles-based approach to liquidity risk management. In particular, if the proposals in the Consultation Paper are pursued further, we recommend that the CSA:

1. **Carve out investment funds that are not reporting issuers, money market funds, and in-kind ETFs from the proposed LRM requirements.**
2. **Maintain a flexible, principles-based model that defers to the IFM's expertise and fiduciary judgment. Specifically:**
    a. **do not mandate the use of specific liquidity management tools (LMTs) or prescribe a minimum number of LMTs;**
    b. **avoid introducing prescriptive liquidity classification categories, which may reduce adaptability and inadvertently constrain prudent risk management practices; and**
    c. **maintain the existing definition of "illiquid asset".**
3. **Avoid additional liquidity disclosure requirements to regulatory authorities or investors.**

Executive summary

We provide the following summary of our key responses to the questions raised in the Consultation Paper.

1. **Permit a broader range of liquidity management tools.** We support the CSA's proposal to permit IFMs to access a broader range of LMTs, including those contemplated in the Consultation Paper as well as additional tools that may assist funds in managing liquidity during periods of market stress. In particular, we recommend that the CSA permit the use of LMTs such as redemption gates, notice periods, extensions of settlement periods, side pockets, and increased temporary borrowing limits, as well as other mechanisms such as soft closures and streamlined cross-sales in appropriate circumstances.

2. **Do not mandate the use of specific liquidity management tools.** We oppose mandating the use of any specific LMTs or requiring funds to adopt a minimum number or category of such tools. The appropriateness and operational feasibility of particular tools will vary across funds depending on factors such as the investment strategy, investor base, distribution channels, and portfolio composition. It is important that IFMs retain the discretion to determine which tools are appropriate for a particular fund, consistent with their fiduciary obligations and professional judgment.

3. **Do not prohibit the use of particular liquidity management tools.** We do not support prohibiting the use of any particular LMTs. IFMs are subject to statutory and fiduciary duties to act in the best interests of the funds they manage, and these obligations already require managers to exercise appropriate judgment in selecting and applying LMTs.

4. **Maintain the current "illiquid asset" definition, and reconsider the proposed liquidity classification framework.** We ask the CSA to reconsider the introduction of the proposed liquidity classification framework. As currently contemplated, the framework appears overly prescriptive and may create operational complexity without clear regulatory benefit. Liquidity is inherently dynamic, and attempts to classify assets according to rigid timelines, particularly where those timelines require predictions about behaviour under stressed market conditions, may lead to subjective classifications and unintended portfolio distortions.

   Instead, we believe that the current NI 81-102 framework, including the definition of "illiquid asset", be maintained. If a classification framework is nevertheless pursued, we recommend that the CSA consider aligning it more closely with the classification framework implemented by the U.S. Securities and Exchange Commission (**SEC**) Rule 22e4.

5. **Ensure that any new reporting requirements are clearly justified and tied to defined regulatory objectives.** Before introducing any new reporting requirements, we urge the CSA to clearly articulate the regulatory objectives such requirements are intended to achieve, along with how the additional reporting would meaningfully contribute to improved regulatory outcomes. Regulators already receive extensive information about investment fund portfolios and operations through existing mechanisms, such as the OSC's Investment Funds Survey (**IFS**) and the continuous disclosure framework under National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**). Where additional data is required, we encourage the CSA to consider whether existing reporting channels can be leveraged rather than creating entirely new reporting obligations.

6. **Avoid introducing additional investor-facing disclosure unless a clear regulatory need is demonstrated.** We ask the CSA to exercise caution before introducing additional disclosure regarding portfolio liquidity characteristics. Liquidity metrics can be complex and highly technical, and additional disclosure may risk confusing investors or contributing to disclosure fatigue, without meaningfully improving investor understanding or investment decision-making. Investors also benefit from existing registrant obligations in NI 31-103, which require registrants to consider liquidity-related factors as part of the suitability analysis. No additional disclosure requirements are warranted unless a clear regulatory purpose and demonstrable benefits to investors can be identified. Any additional disclosure should be subject to behavioural analytics and testing.

7. **Ensure that any new measures are appropriately scoped.** If the CSA proceeds with introducing additional LRM requirements, we recommend that certain types of investment funds be excluded from the scope of those measures, including exempt pooled funds, money market funds (**MMFs**), and exchange-traded funds (**ETFs**) that process subscriptions and redemptions primarily in-kind. These structures operate with redemption mechanics and liquidity characteristics that differ materially from daily redeemable prospectus offered funds and therefore raise different liquidity considerations. We recommend that any new framework be calibrated to reflect these structural differences.

We now turn to our responses to the specific questions posed in the CSA's Consultation Paper.

CONSULTATION QUESTIONS

1. For investment funds that are reporting issuers, is there a need for the CSA to permit the use of LMTs that are not already currently permitted? Please explain, and if applicable, identify any specific LMTs that the CSA should permit the use of.

We support the CSA permitting a broader range of LMTs for investment funds that are reporting issuers. Permitting a broader range of LMTs could provide IFMs with additional tools to respond to stress events or unusual market conditions in a manner that protects remaining investors and promotes fair treatment among unitholders. In particular, we are supportive of permitting the following LMTs discussed in the Consultation Paper: redemption gates, notice periods, extension of settlement periods, side pockets and increased temporary borrowing limits.

Please also see our responses to questions 2, 5, 6, and 7.

2. For IFMs of investment funds that are reporting issuers, have there been past situations in which one of your investment funds would have benefited from being permitted to use an LMT that is not already currently permitted? If so, please explain, including an explanation for why you did not apply for exemptive relief from the applicable securities regulatory authority to use the LMT.

Firms do not generally contemplate seeking exemptive relief to use LMTs that are not currently permitted under NI 81-102 largely because liquidity events are often sudden and unpredictable, and seeking exemptive relief is generally not feasible within the timeframes in which such tools would need to be deployed. In addition, IFMs have been able to effectively manage liquidity events within the confines of the current NI 81-102 framework.

However, we believe that additional flexibility with respect to temporary borrowing could be particularly helpful during stressed market conditions. Allowing investment funds to temporarily borrow up to 10% of net asset value (**NAV**) for the purpose of meeting redemption requests could provide an additional buffer during periods of stress and help avoid forced sales of portfolio assets at depressed prices, which could otherwise dilute value for remaining investors. It can also help prevent portfolio distortions that may arise when managers are required to sell assets in order to meet redemption requests, which may disrupt the fund's intended asset allocation or investment strategy. When used prudently and on a temporary basis, borrowing can therefore serve as a stabilizing LMT.

We note that the CSA recognized the usefulness of this tool during the COVID-19 market disruption, when temporary relief was granted permitting mutual funds investing in fixed income securities to increase their borrowing capacity from five to 10% in order to meet redemption requests and avoid disorderly sales of portfolio assets. However, that relief was limited to funds with fixed income exposure.

In addition, exemptive relief has been granted in specific cases permitting flexibility on a longer-term basis, subject to appropriate conditions and safeguards.[1] A more standardized framework permitting greater temporary borrowing across funds could promote consistency, reduce reliance on firm-specific exemptive relief, and provide IFMs with a practical tool to manage liquidity stress in future market events.

3. Are there any LMTs that the CSA should not permit to be used by investment funds that are reporting issuers? If so, please identify the specific LMTs and explain.

In our view, the CSA should not prohibit the use of any particular LMTs for investment funds that are reporting issuers. While not all tools will be suitable or operationally feasible for all funds (see our response to question 4 below), it is important for IFMs to maintain the discretion to determine which tools are appropriate for a particular fund based on factors such as the fund's investment strategy, investor base, distribution channels and operational capabilities.

IFMs are also subject to statutory and fiduciary duties to act in the best interests of the funds they manage, which supports the responsible and appropriate selection and use of LMTs.

4. Should the CSA be requiring investment funds that are reporting issuers to adopt LMTs, including by requiring that such investment funds adopt a minimum number of LMTs or for example, a minimum number of price-based LMTs? Please explain, and if applicable, identify any specific LMTs that the CSA should require investment funds that are reporting issuers to adopt.

We disagree with any requirement for investment funds that are reporting issuers to adopt LMTs, nor should a minimum number or a minimum category of LMTs (such as price-based LMTs) be mandated.

As noted above, liquidity events involving Canadian reporting issuer funds have historically been rare. This experience suggests that the current regulatory framework and industry practices have been effective in managing liquidity risk. In our view, this does not support the need for mandatory adoption of a minimum number of tools or particular LMTs, which may not be appropriate or operationally feasible for all funds.

In addition, we note that certain LMTs may present operational or infrastructure challenges for some funds. For example, implementing dual pricing (separate NAVs for subscriptions and redemptions) may be difficult in practice given the current operational structure of the Canadian fund distribution ecosystem, including the widespread use of platforms such as Fundserv, which only allows a single NAV. In addition, implementing and maintaining dual

[1] See, for example, the decision involving AGF Investments Inc. et al., which permits certain mutual funds to exceed the standard borrowing limits in NI 81-102, subject to conditions and safeguards.

pricing would require potentially significant system changes, operational complexity and costs across fund managers, service providers and distribution platforms.

Similarly, redemptions in kind may not be operationally feasible for funds that are distributed through Fundserv, which does not support in-kind settlement. In addition, where investors access such funds through mutual fund dealers that are restricted to dealing in mutual funds, there may be regulatory challenges, as those dealers may not be permitted to advise clients on the disposition of securities received through an in-kind redemption.

Certain tools such as side pockets may also be difficult to implement in the context of prospectus offered mutual funds that operate with daily pricing and fungible units, as this would require operational capabilities to track different entitlements among investors within the same fund.

Accordingly, it is important for IFMs to maintain flexibility in determining which LMTs are appropriate and operationally feasible for a particular fund, consistent with their fiduciary obligations and knowledge of the fund's strategy, investor base, distribution channels and operational capabilities. A prescriptive requirement to adopt specific LMTs or a minimum number of LMTs would risk imposing tools that are unnecessary, ineffective, or potentially inappropriate for certain funds.

We recommend a flexible framework that permits, but does not require, the use of LMTs. Optionality allows IFMs to select and calibrate LMTs that are proportionate, effective, and aligned with the fund's liquidity profile, investor base, and operational capabilities while preserving adaptability in LRM practices.

5. Should the CSA expand the circumstances in which an investment fund that is a reporting issuer can suspend redemption rights without regulatory approval beyond the circumstances set out in subsection 10.6(1) of NI 81- 102? If so, please explain and identify the circumstances.

We are not aware of any situation in the Canadian market where a suspension of redemptions by a reporting issuer investment fund has been widely required. Such circumstances would be expected to arise only in rare and exceptional situations where extraordinary market conditions exist and reliable valuation of a material portion of a fund's portfolio is not reasonably available.

Expanding the circumstances in which a reporting issuer investment fund may suspend redemption rights without prior regulatory approval should therefore be limited to extreme situations, where a market-wide event materially impacts a fund or group of funds such that reliable valuation cannot reasonably be determined.

In particular, suspension should be permitted where extraordinary market conditions result in the unavailability or unreliability of valuation sources for a material portion of a fund's portfolio, including circumstances involving widespread market closures, severe market dislocations, or disruptions to pricing or settlement infrastructure. In such situations,

requiring the IFM to continue to process redemptions could result in materially inaccurate NAV determinations and unfair treatment of redeeming and remaining investors.

Providing limited, clearly defined additional flexibility for such exceptional circumstances would better enable IFMs to act in the best interests of investors, preserve equitable treatment, and support market integrity, while avoiding unnecessary delays associated with seeking regulatory approval during periods of acute market stress.

6. Should the CSA increase the temporary borrowing limit beyond what is currently permitted under section 2.6 of NI 81-102? If so, please explain and identify any potential parameters around the increased temporary borrowing limit.

We support the proposal to increase the temporary borrowing limit in section 2.6 of NI 81-102 to up to 10% of a fund's net asset value, consistent with the existing limit on illiquid investments. Of the LMTs discussed in the Consultation Paper, we believe that this tool is the most likely to be used by IFMs that are reporting issuers.

Aligning the temporary borrowing limit with the 10% illiquid investment limit would provide a coherent and internally consistent liquidity framework. In particular, where a fund holds up to the permitted level of illiquid investments, an equivalent borrowing capacity would allow the fund to meet redemption requests without being forced to sell illiquid assets at distressed prices or suspend redemptions. Allowing funds to temporarily borrow in these circumstances can also help prevent portfolio distortions that may arise when managers are required to sell more liquid assets in order to meet redemption requests, which may disrupt the fund's intended asset allocation or investment strategy and dilute value for remaining investors.

An increased temporary borrowing limit would enhance a fund's ability to manage short-term liquidity pressures arising from redemption activity or market stress, while remaining appropriately constrained and consistent with the fund's overall risk profile.

As noted in our response to Question 2, temporary relief has previously been granted to permit increased borrowing capacity in stressed market conditions, and exemptive relief has also been granted in certain cases permitting similar flexibility on a longer-term basis, subject to conditions and safeguards. Codifying a 10% borrowing limit, or granting blanket relief, would promote consistency, reduce reliance on case-by-case exemptive relief, and maintain an appropriate level of regulatory oversight.

7. For investment funds that are reporting issuers, are there any LMTs that are not discussed in this Consultation Paper that the CSA should consider permitting or requiring the use of? Please explain.

In addition to the LMTs discussed above, it may be beneficial to consider a limited form of a LMT that would permit a related party, in exceptional circumstances, to purchase assets from an investment fund at a cross-fair value (a "cross-sale"), subject to appropriate conditions and safeguards.

We note that transactions of this nature may be permitted under existing frameworks, including with independent review committee approval and in accordance with applicable related-party transaction requirements. In our view, the CSA could consider whether additional clarity or guidance regarding the use of such transactions in stressed market conditions would be helpful, including through the establishment of defined parameters under which they may be used.[2]

This type of LMT may be particularly effective where otherwise high-quality securities become temporarily illiquid due to market-wide disruptions, valuation uncertainty, or the absence of active trading, and where a related-party entity with appropriate capital and risk appetite is able to acquire the assets at fair value. Allowing such transactions, with appropriate safeguards, can help stabilize the fund, protect remaining investors, and avoid forced sales at distressed prices.

In addition, investment funds benefit from the use of "soft closures" as a tool. Soft closures enable an IFM to temporarily restrict new subscriptions (aside from pre-authorized contributions) into a fund while continuing to permit redemptions. This tool can help IFMs manage fund capacity and protect existing investors in circumstances where continued inflows could strain the liquidity profile of the portfolio or impair the effective execution of the fund's investment strategy.

8. Are there any types of investment funds that are reporting issuers that should: (a) be carved out of any requirements relating to LMTs; (b) be subject to different requirements relating to LMTs; or (c) not be permitted to use any specific LMTs? Please explain.

In our view, the CSA should not mandate any particular LMT for any fund, and swing pricing, in particular, should not be mandated for MMFs or in-kind ETFs. The operational framework for swing pricing is very expensive to implement, and there would not be a corresponding benefit to investors. For in-kind ETFs, retail investors transact in the secondary market at NAV, and there is a built-in pricing mechanism. For MMFs, which typically transact at a stable NAV, the underlying assets are generally highly liquid and structured to preserve capital and price stability. In this context, swing pricing would be operationally challenging to implement and may undermine the simplicity and predictability that are core features of these products, without delivering meaningful additional benefits to investors. The SEC attempted to mandate the use of swing pricing for these funds, but ultimately did not adopt amendments pertaining to swing pricing.[3] Please also see our response to question 4 regarding operational challenges or infrastructure challenges that firms may face in implementing certain LMTs.

[2] See, for example, the decision involving Chou Associates Management Inc. and Chou Associates Fund, which permitted certain cross trades between related parties subject to conditions and safeguards.
[3] Securities and Exchange Commission, Release No. IC-35308, at p. 13

9. Do you agree with the four classification categories? If not, please explain.

It is not entirely clear what regulatory objective the proposed liquidity classification framework is intended to achieve. If the purpose is regulatory monitoring or reporting, the CSA already receives extensive portfolio-level information through existing reporting mechanisms such as the OSC Investment Fund Survey (**IFS**). If the intent is to influence portfolio construction or impose additional liquidity constraints, we believe the existing framework in NI 81-102, including limits on illiquid assets and the availability of LMTs, already provides an appropriate safeguard. In either case, the additional complexity and operational burden associated with the proposed classification system may outweigh any perceived benefits.

Even if limited to investment funds that are reporting issuers, we do not agree with the proposed liquidity classification categories. The framework is overly prescriptive and does not provide IFMs with sufficient flexibility to assess liquidity in light of the specific characteristics of a fund's portfolio, strategy and investor base.

Liquidity is inherently dynamic and can change rapidly depending on market conditions, trading activity, and market depth. Attempting to assign static liquidity "buckets" to individual holdings therefore risks producing classifications that are speculative, subjective, and potentially misleading. In practice, determining the time required to liquidate publicly traded securities depends on factors such as position size, market conditions, trading volume, and execution strategy, and may vary significantly even for the same security over time.

The proposed framework also raises practical challenges because it ties the liquidity classification directly to the price used in calculating the NAV. The requirement that an asset be capable of disposition within a specified period at a price that approximately aligns with the NAV valuation is problematic. Differences between the last NAV and the ultimate sale price are to be expected due to normal market fluctuations. Requiring close alignment between these prices could result in many assets being classified as illiquid even though they are regularly traded under normal market conditions.

These challenges are further exacerbated for funds that do not calculate NAV on a daily basis, which is common for many exempt pooled funds. In such cases, NAV may not reflect current market conditions at the time of disposition, making any requirement to align disposal price with NAV inherently unreliable and potentially misleading. This further supports excluding such funds from the proposed framework.

This approach may also create tension with the valuation framework under IFRS 13. IFRS 13 is based on the principle that fair value represents the price that would be received to sell an asset in an orderly transaction at the measurement date. While NI 81-106 establishes disclosure requirements rather than prescribing detailed valuation methodologies, it requires investment funds to prepare their financial statements in accordance with IFRS, which in turn governs the measurement of investments, including fair value. Introducing

liquidity classifications that depend on hypothetical short-term liquidation prices may therefore create inconsistencies with existing valuation practices.

In addition, the proposed categories do not appear to align with the information collected through the IFS. The IFS currently provides regulators with detailed information about the time required to liquidate portfolio holdings, which for most publicly traded securities is typically within one business day. Given that regulators already receive this information, the introduction of a separate liquidity classification framework would be superfluous and unnecessary.

The proposed classification framework could also have unintended market consequences. Canada's public markets include a relatively high proportion of small and mid-capitalization issuers. If these securities are systematically classified as illiquid under the proposed framework, this could discourage funds from investing in them, potentially reducing market depth and limiting access to capital for Canadian companies.

More broadly, rigid liquidity classifications may influence portfolio construction in ways that are unrelated to sound investment management. Funds may feel pressure to maintain larger allocations to assets that fall within the most liquid categories in order to ensure compliance with classification thresholds or monitoring expectations. This could reduce portfolio diversification, limit exposure to certain asset classes, and impair funds' ability to achieve their stated investment objectives and strategies.

There is also a risk that the proposed framework could incentivize disorderly liquidation. If funds are required to demonstrate that positions can be liquidated within extremely short timeframes, this could encourage IFMs to model or execute sales in a manner resembling fire-sale conditions. Such behaviour could amplify market stress rather than mitigate it, which would be inconsistent with the objectives of effective liquidity risk management.

The framework may also conflict with common market practices, including securities-lending programs which are permitted under NI 81-102. Securities lending arrangements commonly involve 30- to 60-day lock-up periods. A requirement that securities be capable of being returned within five days in order to be classified as liquid could therefore impair the ability of funds to participate in these programs.

In our view, liquidity risk is more effectively managed through the availability of appropriate LMTs and the exercise of professional judgment by IFMs, rather than through rigid classification in prescriptive liquidity buckets. A principles-based framework that allows managers to assess and manage liquidity in light of a fund's strategy, investor base and market conditions is more likely to support orderly portfolio management and better investor outcomes.

We also note that the European Securities and Markets Authority (**ESMA**) Guidelines do not prescribe a standardized classification framework comparable to the proposed approach. If a classification framework is nevertheless introduced, our recommendation would be to have

these align with the SEC's rule 22e-4 classification model. It is not clear to us why the Consultation Paper diverges from the SEC Rule classifications.

10. Do you agree with including the settlement period in the timeline set out in each of the four classification categories? If not, please explain.

We disagree with including the settlement period in the timelines set out in the four classification categories.

Liquidity should focus on the length of time required to exit a position in an orderly manner, taking into account market conditions, trading volumes, and the size of the position being sold. Settlement periods are a post-trade operational consideration and do not necessarily reflect the true liquidity of a security. Moreover, settlement cycles can change over time due to regulatory reforms or market infrastructure developments and are also different internationally, which makes them an unstable and inappropriate basis for liquidity classification.

Please also refer to our response to question 9, including the reference that the classification categories may be in conflict with IFRS. If the settlement timeline is set out in categories, we recommend that these align with the SEC Rule's classification model.

11. Should any of the four classification categories be revised to distinguish between the timeline required to readily dispose of and settle an asset during normal market conditions and the timeline required to do so during stressed market conditions? If so, please explain the distinction that should be made.

We do not support the proposal to distinguish between the timeline required to dispose of assets under normal market conditions and under stressed market conditions within the classification framework.

Liquidity is inherently dynamic and can change rapidly depending on market conditions and trading activity. Attempting to predict in advance how assets may trade under hypothetical stressed conditions introduces significant uncertainty and subjectivity. In addition, the Consultation Paper does not clearly define what would constitute "stressed market conditions," which further complicates the practical application of such a framework and limits its usefulness as a supervisory tool.

As noted in our response to Question 9, it is not entirely clear what regulatory objective the proposed classification framework is intended to achieve. Introducing additional distinctions within that framework, such as separate timelines for normal and stressed market conditions, would further increase complexity without a clearly articulated supervisory benefit.

If a classification framework were nevertheless introduced, we recommend that it be aligned with the SEC's classification model.

12. Do you agree with the potential change to the definition of illiquid asset? If not, please explain.

We do not agree with the potential change to the definition of "illiquid asset." We are concerned that the new definition would have significant negative consequences for the capital markets. As discussed above, we consider the proposed classification framework to be problematic, and we recommend retaining the existing definition. The proposed approach would result in a significantly larger number of securities being classified as illiquid, even where this may not reflect their true market liquidity.

Prospectus offered funds are already subject to a 10% limit on illiquid assets, and expanding the scope of what is treated as illiquid would create unnecessary constraints on portfolio construction, and could impair investment strategies, particularly in markets with a high proportion of small and mid-cap issuers.

For example, the liquidity of a given security may depend on the fund's holdings in that security; it would take longer to dispose of a greater quantity of a security. Investment funds more typically look at how much of the security they own, and how many days it would take to liquidate a portion of that position in an orderly manner, having regard to typical market trading volumes and without materially impacting the market price. A fund may be required to accept a lower price to sell enough of the security to meet redemption demands, but would seek to avoid forced sales at distressed or fire-sale prices.

Though a security may be thinly traded, this is not a test of true liquidity. The proposed definition is risky for the capital markets; many Canadian securities are thinly traded, and a prescriptive definition would unnecessarily trigger the liquidity restriction in NI 81-102. It is not possible to align all of the proposed requirements without impacting various issuers. For example, thinly traded securities are purchased without the expectation that they would be included in *pro rata* redemptions. It is not as simple as labeling each security and performing a *pro rata* distribution, particularly in an actively managed fund, where PMs actively determine which assets to sell in order to meet redemptions, taking into account liquidity, market conditions and portfolio construction considerations, rather than selling holdings on a *pro rata* basis.

This is different for fixed income securities, where the ability to dispose of the security is more dependent on the price.

A principles-based approach that allows the IFM to manage the fund's liquidity in accordance with market conditions is preferable. It allows the IFM to adhere to the liquidity restriction in NI 81-102 without impacting thinly traded issuers. We believe the current definition is working well; the Consultation Paper does not indicate any evidence of a problem that would justify making this change.

13. Are there other aspects of the current definition of illiquid asset that should be revised? If so, please explain.

As noted above, we recommend that the CSA maintain the current definition of "illiquid asset".

14. Do you agree that IFMs should be permitted to use a classification method that groups together portfolio assets that have similar characteristics? If not, please explain.

As noted above, it is unclear why the CSA would implement another classification system and we question how the reported information would be used. This additional layer of classification would result in significant added burden to the IFM.

If the CSA were to proceed with a classification framework, IFMs should be permitted to use a classification method that groups together portfolio assets with similar characteristics. The SEC permits funds to classify the liquidity of portfolio investments according to asst class, instead of on an investment-by-investment basis.

15. Do you agree that the CSA should not prescribe the liquidity classification category of specific asset classes or asset types as part of the classification framework and should leave such classification to the IFM?

We are not supportive of the liquidity classification proposal. However, if the CSA proceeds with implementing the liquidity classification framework, we agree that IFMs should be permitted to determine the appropriate liquidity classification category for specific asset classes or asset types. IFMs are best positioned to apply their professional judgment based on the characteristics of the security, prevailing market conditions, and portfolio-specific considerations.

We also note that the factors referenced in the proposal are already considered by many IFMs as part of their existing LRM practices. However, these assessments are conducted outside of a rigid and prescriptive classification framework. While we support allowing IFMs to make these determinations, we do not support embedding these considerations within a mandatory and prescriptive system that would limit IFM discretion and impose significant operational burden, without corresponding benefit to investors.

We believe it would be duplicative and burdensome for the fund to classify each investment within the portfolio and then re-classify the assets by asset class or asset type, and we do not see the utility in imposing multiple classification systems. Funds would need to develop technology solutions for this classification, or would have to do it manually. It is not clear how the information would be used by the regulators.

16. Do you agree with the examples of factors included above? If not, please explain why you disagree, and if there are other factors that should be included as examples, please indicate.

We believe the factors described in the proposal are generally sufficient and align with the considerations IFMs already consider as part of their existing LRM processes. However, as noted throughout our responses, we disagree with the application of these factors within the proposed liquidity classification categories. The rigidity of the framework does not appropriately reflect how these factors interact in practice, nor does it provide IFMs the flexibility needed to apply their professional judgment in a principles-based manner. The SEC requirements adopted "a principles-based approach for funds to take into account relevant trading, and investment-specific considerations in classifying its portfolio investments" rather than mandating consideration of specific factors.[4] If the framework is adopted, we recommend that the CSA follow a similar principles-based approach.

17. If the classification framework requires that the IFM take into account the reasonably anticipated trade size for a portfolio asset in classifying the portfolio asset, should the framework require that the entire holding of that portfolio asset be classified into a single liquidity classification category, or should it allow for different portions of that portfolio asset to be classified into multiple liquidity classification categories?

While we do not support the introduction of a liquidity classification framework (as discussed above), if such a framework were to be adopted, we would recommend that the CSA permit a single liquidity classification for each portfolio asset based on the reasonably anticipated trade size, rather than requiring different portions of the same position to be classified into multiple liquidity categories.

We recognize that liquidity conditions are inherently dynamic. A fund may hold a relatively large position but anticipate trading only moderately-sized blocks of the position in the ordinary course, which may not materially affect market liquidity. However, if market depth decreases, the anticipated trading may have a greater impact on liquidity, and a downward adjustment to the liquidity classification may be necessary. If that adjustment were applied to the entire position, the fund could unexpectedly exceed the illiquid investment limit even though the PM does not anticipate liquidating the entire holding.

On the other hand, requiring IFMs to classify different portions of the same portfolio asset into multiple liquidity categories would also introduce significant operational complexity. In practice, such a requirement would require substantial algorithmic modeling, complex quantitative analytics, and continual recalibration as market conditions evolve. For many IFMs, this would likely require the establishment of a dedicated liquidity analytics team and systems, adding significant operational burden without clear supervisory benefit.

[4] Investment Company Liquidity Risk Management Programs, Investment Company Act Rel. No. 32315 (Oct. 13, 2016 as amended by Release No. IC-33142)at p. 102

For these reasons, if the CSA were to adopt a liquidity classification framework, we would recommend permitting IFMs to classify the entire holding based on the reasonably anticipated trade size that the PM would expect to transact under current market conditions. This approach would also be consistent with the framework adopted by the SEC under Rule 22e-4.

18. Do you agree with a minimum monthly frequency for the requirement to review the liquidity classification of each of the fund's investments? If not, please explain.

We do not agree with a minimum monthly requirement to review the liquidity classification of each of the fund's investments. A monthly review would introduce a significant operational burden with limited additional risk-management value. Liquidity risk is more often driven by market-wide events rather than routine month-to-month fluctuations in asset-specific liquidity profiles. As the investment objectives of a fund typically do not change, the normal course of buying and selling should not impact the fund's overall liquidity profile, as most funds do not experience sufficiently high portfolio turnover within a one-month period to materially alter their liquidity classification.

IFMs should be aware of changes in portfolio liquidity – while some funds do the review on a daily basis, others would require a much less frequent review, and for certain exempt pooled funds, such a review would be unnecessary. Typically the liquidity profile does not change quarterly. The fund should be managed and invested in accordance with its objectives. We therefore propose a principles-based approach where the liquidity classification review be conducted as deemed necessary by the IFM, supplemented by event-driven reviews where material changes warrant earlier assessment.

19. Are there any types of investment funds that should be carved out of the liquidity classification framework or be subject to different liquidity classification requirements? Please explain.

As noted above, we do not support the introduction of a liquidity classification framework. However, if the CSA were to proceed with such a framework, certain categories of funds should be carved out or subject to different requirements.

In particular, exempt pooled funds, MMFs and in-kind ETFs should be carved out of any requirements. For exempt pooled funds, the proposed classification framework would have limited practical relevance particularly for funds that hold private securities. These funds typically operate under customized redemption terms that reflect the liquidity characteristics of their underlying investments and the expectations of their investor base. Investors in these funds are generally sophisticated and invest with an understanding of the liquidity profile of the strategy. As a result, imposing a standardized liquidity classification framework designed primarily for prospectus offered, daily redeemable funds would add operational complexity without meaningfully improving investor protection.

MMFs also warrant separate treatment. These funds invest predominantly in highly liquid, short-term instruments and already operate within a well-established regulatory framework under NI 81-102 that is specifically designed to maintain high levels of liquidity and stability. Applying an additional portfolio liquidity classification framework would therefore provide limited incremental value.

Similarly, ETFs that primarily process subscriptions and redemptions in-kind do not face the same liquidity management dynamics as traditional prospectus offered mutual funds that meet redemptions in cash. Because primary market transactions occur through in-kind exchanges with authorized participants, redemption activity does not generally require the fund to sell portfolio securities to generate cash. As a result, the risks that a liquidity classification framework is intended to address are less relevant in this context.

For these reasons, if a liquidity classification framework were introduced, it should at a minimum exclude these categories of funds.[5]

20. Should liquidity profile information be disclosed in the Proposed Fund Report? Please explain and if applicable, identify the liquidity-related information that should be included in the Proposed Fund Report and the format in which it should be disclosed.

As noted in our response to the 2025 CSA consultation on the continuous disclosure regime,[6]

> [w]e do not support the proposed Liquidity disclosure due to (i) the additional burden it would impose on issuers, as the requirement extends to each fund; and (ii) we do not believe this information will be useful to investors. Most of our members already adhere to the guidance provided in CSA Staff Notice 81-333 *Guidance on Effective Liquidity Risk Management for Investment Funds* (SN 81-333). While liquidity risk data is required to be reported in the annual OSC Investment Funds Survey, and would therefore be available to IFMs, we do not believe that this data would be meaningful to investors. Given that not all funds may have the same liquidity schedule and where many funds can be easily liquidated, this disclosure requirement would not provide any additional value to investors. For example, for many funds, the assets of that fund can be disposed of in the market within a few days without creating a liquidity risk. Whereas such funds may hold illiquid assets, the funds are sufficiently diversified that it would not prohibit the funds from meeting unitholder redemption needs. Additionally, liquidity disclosure should be based on qualitative

[5] Although we have not specifically recommended that all ETFs or ETF series should be exempted, 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.

[6] CSA Notice and Request for Comment – *Proposed Amendments to National Instrument 81-101 Mutual Fund Prospectus Disclosure, National Instrument 81-102 Investment Funds, National Instrument 81-106 Investment Fund Continuous Disclosure, National Instrument 81-107 Independent Review Committee for Investment Funds; and Related Proposed Consequential Amendments and Changes; Modernization of the Continuous Disclosure Regime for Investment Funds*

factors to be provided on an as needed basis. For investors to understand the meaning of this data, a detailed explanation and context would need to be provided. The prospectus notes that funds are redeemable on demand, and that redemptions may only be suspended with securities regulatory approval. In addition, the data provided in the Fund Report would be at a point in time, which may not be reflective of the fund's actual liquidity risk.

Including detailed liquidity profile disclosures risks confusing or alarming investors and may overemphasize this risk relative to others; furthermore, highlighting liquidity profile data in the Fund Report risks drawing disproportionate attention to a single risk dimension instead of other risks, such as market, currency, or credit risk. In addition, the liquidity classification categories proposed for disclosure are different from the liquidity classification requirements in the liquidity classification framework, which would generate additional and unnecessary work for IFMs and potentially create confusion.

Investors are protected through the existing registrant regulatory framework under NI 31-103. Registrants are required to consider liquidity-related factors as part of their suitability obligations, including whether an investment is appropriate in light of a client's circumstances and investment time horizon. In our view, these existing safeguards further reduce the need for additional highly technical liquidity disclosures. Any new requirements should be subject to behavioural analysis and testing.

21. If the CSA permits or requires the use of LMTs that are not already currently permitted or required, should the CSA require that all information about LMTs be disclosed in a new, separate section of the prospectus relating to LMTs or in an existing section of the prospectus, such as the "Purchases, Switches and Redemptions" section of the simplified prospectus? Please explain.

We do not support any mandatory use of LMTs, and also do not support requiring additional disclosure.

We are of the view that the IFM is in the best position to determine whether disclosure is required. Any additional disclosure would significantly add to the length of the documents, and would be an additional cost and resource commitment for the IFM. Adding to disclosure documents contributes to investor information fatigue and confusion.

More broadly, before introducing additional disclosure requirements, it is important for the CSA to clearly articulate the regulatory objectives that such disclosure is intended to achieve and how it would meaningfully improve investor understanding or market outcomes. Any increased disclosure should be subject to a thorough cost/benefit and behavioural analysis.

22. Is there any other liquidity-related information that should be disclosed in the prospectus, fund facts or ETF facts? Please explain.

We do not believe that additional liquidity-related information should be disclosed in the prospectus, Fund Facts, or ETF Facts. In our view, this information would be confusing and

concerning to investors, who understand that the fund is redeemable on demand. There is no evidence of a liquidity problem in the Canadian market that should be of concern to investors. We do not believe this disclosure is relevant to an investor's decision-making and should not be required to be disclosed in the Fund Facts/ETF Facts. Currently, information regarding suspension of redemptions is not included in these documents.

Existing regulatory requirements already ensure that liquidity risk is appropriately managed and addressed through internal LRM frameworks, and further disclosure in such documents would not provide meaningful additional benefit. Adding additional disclosure requirements represents a significant burden for IFMs.

23. Do you agree with requiring that investment funds disclose on a confidential basis to the applicable securities regulatory authority the liquidity classification category of each investment held by the fund? Please explain.

We question the need for additional disclosure to regulatory authorities and request that the CSA advise how the information would be used. A quarterly reporting requirement would be far too frequent and would result in a tremendous amount of data being repeated, requiring additional regulatory resources to process. This additional data would not help to prevent a liquidity event in the market. As noted above, we are concerned that the proposed classification may inadvertently create a liquidity event.

Securities regulators already receive extensive portfolio-level information through existing regulatory frameworks, including via the continuous disclosure regime and the IFS; adding a separate liquidity-classification submission would be burdensome and unnecessary. The IFS provides details about the time taken for liquidation of underlying portfolio holdings, which is generally within 1 business day for most funds that trade in public securities. This should provide a sufficient basis for the CSA to determine the existing liquidity of underlying portfolio holdings, and whether there is a liquidity risk in the market.

In addition, the CSA has the ability to request additional information from IFMs at any time, if needed. As a result, a blanket reporting requirement for liquidity classifications across all funds is not necessary.

Implementing quarterly or more frequent liquidity-classification reporting would require significant operational resources for IFMs, without providing commensurate regulatory or investor benefit. It would be helpful for the CSA to clearly articulate the supervisory objectives that any additional reporting is intended to achieve, and how the proposed liquidity classification data would provide insights that are not already available through existing regulatory reporting and disclosure mechanisms.

24. If the answer to question 23 is yes, do you agree with a quarterly reporting frequency? Please explain.

N/A

25. Is there any other liquidity profile-related information that the CSA should require investment funds to report to securities regulatory authorities on a confidential and periodic basis? Please explain.

We are aware that other jurisdictions require periodic reporting, but do not believe that additional reporting is required in the Canadian context. Securities regulators already receive extensive portfolio-level information through existing regulatory frameworks, including the continuous disclosure regime and other regulatory data collections. It is therefore not clear what additional supervisory insights would be gained through further liquidity profile reporting.

If any reporting is to be required, it should be principles-based, subject to a materiality threshold, and left to the IFM's business judgment. Before introducing new reporting requirements, it would be helpful for the CSA to clearly articulate the regulatory objectives that such reporting is intended to support and how it would provide information that is not already available through existing mechanisms.

26. Should investment funds be required to publicly disclose the liquidity classification category of each investment held by the fund and if so, what would be the appropriate frequency and timing of such disclosure? Please explain.

We do not believe this information should be made public. Public disclosure of liquidity categories could create unnecessary concern or misinterpretation, without improving investor decision-making. Accordingly, we do not think this should be a public disclosure requirement, nor do we see a need to establish any frequency or timing for such reporting.

Public disclosure requirements represent a significant burden for IFMs. There could also be differences between methodologies, such that the information would differ depending on the fund. In our view, investors do not require this granular information regarding the individual holdings in the fund as they are managed by PMs.

27. Should investment funds that are not reporting issuers be subject to this periodic reporting requirement? Please explain.

As discussed above, we do not believe that the proposed periodic liquidity reporting requirements should apply to investment funds generally. We question the regulatory need for such reporting and do not understand how the proposed information would materially enhance regulatory oversight beyond what is already available through existing regulatory reporting and supervisory mechanisms.

If the CSA were to introduce such a reporting requirement, it should not apply to investment funds that are not reporting issuers. Exempt pooled funds operate in a fundamentally different context from prospectus offered investment funds. Their liquidity terms are typically tailored to the investment objectives, investment strategy and the expectations of their investor base. Investors are generally accredited, permitted, or institutional investors

who are capable of understanding the liquidity characteristics and risks associated with their investments.

Liquidity risks are already disclosed in offering documents, and investors in these funds frequently receive customized reporting based on their individual requirements. These funds are generally not structured to offer daily liquidity in the same manner as prospectus offered funds, and their liquidity management practices therefore differ significantly.

In addition, exempt pooled funds are already captured through existing regulatory data collections, including the IFS. Requiring a separate liquidity reporting regime would be unnecessary and would impose additional compliance burdens on IFMs without a commensurate investor protection benefit.

28. Do you agree with requiring that investment funds promptly report to the applicable securities regulatory authority when the above liquidity-related events occur? Please explain.

We do not agree with imposing an additional prompt-reporting requirement for these liquidity-related events. In our view, the existing material change framework is sufficient to cover liquidity risk. Any extenuating circumstances would be communicated to the regulatory authorities and investors under the current regime.

- **Redemption requests above a certain threshold:**

  Every fund has a different redemption pattern and a different threshold at which redemption activity becomes meaningful. Imposing a standardized reporting trigger would be impractical and could result in excessive, low-value reporting. In addition, when a fund is terminated, there is already extensive disclosure and regulatory communication, making an additional reporting requirement redundant.

- **Breaches of the illiquid asset restriction under NI 81-102:**

  Breaches of the illiquid asset limit are already required to be reported to the fund's board of directors, which provides appropriate oversight. This existing governance mechanism is sufficient, and duplicative reporting to regulators would not add meaningful value.

- **Suspension of redemptions:**

  A prospectus offered fund cannot suspend redemptions without prior regulatory approval. As a result, regulatory authorities would already be aware of any such event through the approval process itself, making an additional prompt-reporting requirement unnecessary.

- **Borrowing cash or providing security interests as a temporary measure to meet redemptions:**

  NI 81-102 permits funds to borrow up to 5% of NAV on a temporary basis to facilitate orderly redemption activity. We do not believe any additional reporting to regulatory authorities is needed.

For these reasons, we do not view a new prompt-reporting requirement as necessary or proportionate. Existing regulatory, governance, and approval mechanisms already ensure appropriate oversight of these events. There is no evidence of a problem in the Canadian market that would justify this additional reporting. We request that the CSA advise how this information would be used.

29. Are there any other liquidity-related events for which the CSA should require prompt reporting to the applicable securities regulatory authority? Please explain.

We do not believe any additional reporting to be necessary.

30. Should the occurrence of any of the above liquidity-related events also require public disclosure beyond the current material change reporting requirements? Please explain.

In our view, the existing material change regime is sufficient and no additional disclosure should be required. There is a risk that too-frequent reporting of non-material events would cause investor concern, and could risk a run on the fund and a drop in value. This would be an unfortunate consequence for routine or temporary liquidity issues that are manageable by the IFM.

31. Should investment funds that are not reporting issuers be subject to these liquidity-related event reporting requirements? Please explain.

As discussed previously, we strongly disagree that funds that are not reporting issuers should be subject to the LRM framework, including liquidity-related event reporting requirements. The framework is not well suited to these types of funds. These funds are privately offered, operate under a different regulatory model, and already provide appropriate liquidity-related disclosure through their offering documents. Extending these reporting requirements to non-reporting issuers would impose unnecessary regulatory burden without enhancing investor protection or regulatory oversight in a meaningful way.

Currently, material changes are required to be reported to regulatory authorities and investors (or their dealer/adviser, where applicable); we therefore believe that the current system is working as intended, and that no additional reporting requirements are needed.

CONCLUSION

We encourage the CSA to carefully consider stakeholder feedback in designing and implementing any new LRM requirements. We strongly urge the CSA to exclude exempt pooled funds from any proposals, as we believe these requirements are not appropriate for these funds.

Seemingly small changes to the LRM regime can result in significant cost and administrative burden to investment funds, potentially reducing the competitiveness of the Canadian fund industry. It is very difficult for IFMs to manage their funds to prescriptive requirements, classification buckets and liquidity definitions, which may not be appropriate for specific funds. Additional disclosure could have the unintended consequence of undermining investor confidence, and could harm the Canadian market. A flexible and principles-based approach that allows the IFM to rely on its professional judgment is preferable. We believe the current system is working well and do not see a need to add additional requirements.

If new regulation is proposed, we look forward to providing further input during the public consultation process.

Thank you for the opportunity to respond to this consultation. If you have any questions or wish to discuss this further, please contact Katie Walmsley (kwalmsley@pmac.org) or Victoria Paris (vparis@pmac.org).

Sincerely,

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