CFA Societies Canada

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April 1, 2026

VIA EMAIL

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

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 (the "Consultation")

The Canadian Advocacy Council of CFA Societies Canada (the "**CAC**")[1] appreciates the opportunity to provide comments on the Proposed Amendments to National Instrument 81-102 *Investment Funds* (the "Proposed Amendments"), the Proposed Changes to Companion Policy 81-102 *Investment Funds* (the "Proposed CP Changes"), and the Consultation Paper on Liquidity Risk Management Tools, Liquidity Classification, and Regulatory Disclosure and Data (the "Consultation Paper"), published by the Canadian Securities Administrators (the "CSA") on November 27, 2025 (collectively, the "Consultation").

Executive Summary

We commend the CSA for undertaking a comprehensive and well-structured consultation on liquidity risk management ("LRM") for investment funds. The dual-track approach of codifying existing guidance from CSA Staff Notice 81-333 *Guidance on Effective Liquidity Risk Management for Investment Funds* ("SN 81-333") into enforceable rules through the Proposed Amendments, while simultaneously seeking views on broader LRM enhancements through the Consultation Paper is thoughtful and reflects the significant recent international regulatory

[1] The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 21,000 Canadian CFA charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

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momentum in this area, helping to address both macroprudential and investor protection concerns.

While we generally support addressing these concerns and the objective of strengthening LRM frameworks for all investment funds, including those that are not reporting issuers, we are concerned that the proposed governance architecture for LRM oversight contains a fundamental design deficiency. The Proposed Amendments house LRM oversight with the Chief Compliance Officer ("CCO"), conflating the distinct disciplines of risk management and compliance, without solid policy justification other than apparent expedience of pre-existing regulatory responsibility residing primarily within this function. As far as we're aware, major international comparators' frameworks addressing similar macroprudential and investor protection concerns generally treat these areas as separate and co-equal functions. Risk management and compliance serve different purposes, require different expertise of staff and leadership, and must operate with different reporting lines. We are aware of no other major jurisdiction that entirely subordinates risk management to compliance in the manner proposed. We believe the framework should instead articulate the need for a non-subordinated and distinct risk function, headed by a senior leader such as a Chief Risk Officer ("CRO"), with direct reporting to the CEO or board, independent of the other major functions of the firm including portfolio management and compliance. Given the comparative weaknesses in the legacy risk-mitigation model, in part from Canada's relatively disempowered Independent Review Committee ("IRC") model relative to independent fund board structures in comparable jurisdictions, the quality of internal risk governance design becomes even more consequential for Canada's proposed regulatory response.

We also believe and agree that the Canadian liquidity management tool ("LMT") toolbox must be expanded. IOSCO's 2022 Thematic Review rated Canada only "broadly consistent" on LMT availability, and the limited toolkit creates well-documented first-mover disadvantages that discourage voluntary adoption of additional measures.[2] We recommend that the three LMTs currently available without exemptive relief (suspension of redemptions, short-term trading fees, and redemptions in kind) become a mandatory minimum baseline for all funds, with standardized disclosure to destigmatize additional LMT adoption and eliminate competitive barriers to their use. We believe all additional LMTs discussed in the Consultation Paper should be made available, with market-standard methodologies developed collaboratively with industry such that disincentives to adoption are minimized.

The proposed liquidity classification framework is an acceptable baseline for regulatory communication as a shared vocabulary between investment fund managers ("IFMs") and the CSA. However, in its current form it is purely time-based and omits critical dimensions that the CSA's own factors section already contemplates, including price impact and position size relative to market depth. We recommend specific enhancements to bring the framework closer to reflecting actual liquidity dynamics, while explicitly framing it as a regulatory minimum that IFMs should go well beyond for internal risk management purposes.

Finally, we note that the Consultation does not directly address the broader macroprudential landscape. The LRM challenges the CSA seeks to address for investment funds do not exist in isolation and without comparable and major sources of similar macroprudential risks. Pension

[2] IOSCO, "Thematic Review on Liquidity Risk Management Recommendations: Final Report" (November 2022).

funds, closed-end funds, structured products, private vehicles, and other investment vehicles present analogous liquidity risks but fall outside this consultation's scope. We encourage the CSA to address the coordination mechanisms between securities regulators and macroprudential authorities in future work, and would encourage stakeholder and public transparency relating to the status of these developments.

General Commentary

I. Governance and Risk Management Architecture

As noted, we support the codification of LRM requirements from guidance into enforceable rules. Moving the substance of SN 81-333 into the regulatory framework is an important step that strengthens both investor protection and the CSA's supervisory toolkit. We also acknowledge that the Proposed Amendments' requirements for written policies and procedures, stress testing, and escalation processes represent meaningful enhancements over the existing guidance.

Our concern is with the governance architecture through which these requirements are overseen. The Proposed Amendments route LRM oversight through the CCO both as the LRM supervisor and as a required participant in the LRM committee structure. In our view, this model's overdependence on compliance as the responsible regulatory function conflates two fundamentally different functions that are deserving of distinct and separate resourcing.

Risk management and compliance are distinct disciplines. Compliance focuses on adherence to rules and regulations; while risk management focuses on identifying, measuring, and managing risks that may or may not be addressed by existing rules. We believe this distinct purpose is deserving of direct regulatory recognition, as it has been recognized in other major jurisdictions' governance and regulatory framework:

The EU UCITS Directive requires that the risk management function be "hierarchically and functionally independent from operating units, including portfolio management," and treats risk and compliance as separate functions.[3]

The UK FCA requires that the risk function be "hierarchically and functionally independent" and report directly to senior risk management personnel through to the board, not through compliance.[4]

The US SEC's 2022 amendments to Rule 22e-4 route LRM program oversight to the independent fund board, not to the CCO.[5]

Australia's ASIC Regulatory Guide 259 states explicitly that "risk management and compliance are different functions" and that compliance is "not a substitute for a risk management function."[6]

3 EU UCITS Directive 2009/65/EC; Commission Directive 2010/43/EU, Article 12.
4 UK FCA, COLL 6.6.3.
5 US SEC, Rule 22e-4, as amended (2022).
6 Australia, ASIC Regulatory Guide 259.

While not directly instructive, we believe this approach to be appropriately interpretive of IOSCO's 2025 revised recommendations call that for "appropriate seniority and independence" in LRM oversight.[7]

We recommend that the framework articulate a defined and non-subordinated CRO function, with the CRO reporting directly to the board (with potential for day-to-day reporting to be partially delegated to senior management, but with a clear line of ultimate reporting duty to the board), independent of the compliance or other senior management function.

The firm's ultimate governing body (the board) and the Ultimate Designated Person ("UDP") of the firm should bear ultimate accountability for liquidity risk governance. Liquidity risk is not a compliance matter to be managed at the CCO level — it is a fundamental business risk that requires board-level and chief executive accountability.

Canada's IRC model compounds this concern. The IRC provides weaker external governance than independent fund board structures in comparable jurisdictions. US fund boards, for instance, have general fiduciary duties to investors and, under SEC Rule 22e-4, direct oversight responsibility for LRM programs. The IRC's mandate is confined to conflict-of-interest review without general fiduciary oversight of fund operations. This governance gap makes the quality of internal risk governance (including the CRO's independence, reporting line, and mandate) even more consequential in the Canadian context. The need for investor-serving enhancements to this fund governance model has been a long-standing position of ours, and we reiterate it here because the LRM framework makes it newly urgent: every LMT discussed in the Consultation Paper presents manager to investor conflicts, and reinforces the need for empowered and independent fund fiduciaries, particularly tools involving valuation conflicts and complex or novel unitholder-versus-unitholder tensions.

II. A Framework Tuned to the Nature of Liquidity

We are concerned that the proposed operational requirements, while comprehensive on paper, are too anchored in a compliance-led framework rather than reflecting the reality of the discontinuous nature of liquidity. As we are periodically reminded with novel circumstances, liquidity can episodically evaporate in an asset class that appeared sound at the most recent quarterly committee meeting. If the responsible individuals and processes are not anchored in this reality, the framework risks becoming process that does not address the intended outcome, adding regulatory burden that appears to address the challenge without substantively designing controls that matter when most needed and called upon.

We believe the framework, as proposed, is too divorced from investment decision-makers and those closest to real dynamic liquidity conditions. Risk monitoring should be tuned to the characteristics of the actual portfolio and its assets, rather than driven primarily by a process and compliance calendar.

We acknowledge that the quarterly stress testing frequency, monthly classification review, and quarterly committee meetings set out in the Proposed Amendments represent acceptable regulatory baselines and the skeleton of a minimally-acceptable process. However, they should

7 IOSCO, Revised Recommendations for Liquidity Risk Management for Open-Ended Funds (2025).

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be understood as floors, not ceilings. IFMs should be encouraged and expected to go well beyond these minimums in building their internal risk management practices, and should deeply adapt their processes to the assets, concentration and other characteristics of their funds and holdings, and should be reflective and aware of aspects of their investment and portfolio management processes, such that they can be complementary. Stress testing, in particular, should be integrated into contingency planning and scenario analysis that is ongoing and asset-, strategy-, and portfolio specific, not confined to periodic compliance exercises.

We also observe that contingency plans are valuable for foreseeable scenarios. But it is in unforeseeable and novel scenarios when skills, governance, and reporting lines are most tested and that governance quality matters most. This is a further reason why the governance architecture must be designed with the right professionals, process expectations, independence, and accountability.

III. Expanding the LMT Toolbox

We support expanding the Canadian LMT toolbox beyond the three tools currently available without exemptive relief. As we noted, Canada's limited toolkit has been flagged internationally: IOSCO's 2022 Thematic Review rated Canada only "broadly consistent" on the recommendation relating to the implementation of additional LMTs, noting a lack of flexibility in their application.[8]

Mandatory minimum adoption. We believe the three currently available LMTs (suspension of redemptions, short-term trading fees, and redemptions in kind) should become a mandatory minimum baseline for all funds, with standardized disclosure in fund documents. The well-documented first-mover disadvantage means that voluntary adoption of LMTs penalizes early movers in investor perception. Academic evidence demonstrates that regulatory signaling and universal adoption reduce stigma and eliminate first-mover effects: Jin, Kacperczyk, Kahraman, and Suntheim (2022) found that swing pricing eliminates the first-mover advantage and significantly reduces outflows during market stress.[9] The French AMF's experience following its November 2024 regulatory incentive measures (where adoption of gates went from approximately 20% to 66% of AUM, and anti-dilution tools reached 45%) suggests that regulatory signaling drives adoption and reduces stigma.[10]

Any additional LMTs adopted beyond the baseline must also be disclosed. LMT disclosures should reference a related contingency plan, but should not require description or disclosure of the contingency plan itself or its details, as we worry this required disclosure would serve as disincentive to adoption. There should be an onus on the IFM if few or no LMTs are adopted to explain how this is consistent with their contingency planning and to address gaps through proactive adoption.

We believe the CSA should design regulatory examination mechanisms and incentives that encourage expansive contingency planning and LMT adoption, rather than allowing market

8 *Supra*.
9 Jin, D., Kacperczyk, M., Kahraman, B. and Suntheim, F., "Swing Pricing and Fragility in Open-End Mutual Funds," *Review of Financial Studies* 35(1) (2022), pp. 1-50.
10 Autorité des marchés financiers (AMF, France), data on LMT adoption following regulatory incentive measures (November 2024).

dynamics to penalize early and additional non-mandatory LMT adopters. The regulatory architecture should push toward non-mandatory LMT adoption, not be neutral to market forces that push against it.

Price-based tools. We are generally supportive of making all price-based tools available: swing pricing, dual pricing, anti-dilution levies, and bid/ask valuation. Each requires market-standard methodologies developed collaboratively with industry, both for best-practices development, but also for disincentives to be present for use of investor-unfriendly non-standard measure design. If mechanisms are adopted in a non-standard or non-market-practice way, the implementation itself could cause compounding problems around signaling and first-mover disadvantages.

The cross-border dimension is relevant. Canada operates in an integrated North American marketplace adjacent to the United States, which has adopted a swing pricing mechanism, but has seen no voluntary take-up, likely due to noted collective action challenges and disincentives to first movers. Canadian funds cannot simply adopt widely permissive EU-style mechanisms without considering this adjacency.

We note that each price-based tool exposes conflicts between different classes of unitholders (redeeming versus remaining), and between unitholders and the manager. As we've noted, we believe these conflicts stretch current mandated conflict governance, and are better addressed through independent fund fiduciaries than through current IRC structures. Setting unitholder against unitholder requires independent fiduciaries to manage conflicts effectively.

Quantity-based tools. We believe all quantity-based tools discussed in the Consultation Paper should be available as LMTs, including gates, notice periods, and settlement period extensions where useful for non-market-traded assets, but each with some development of market-standard practices (ideally, then articulated through guidance) to better promote understanding by investors and higher-quality common practices underlying manager usage. We also believe use of side pockets should be available, but in more exceptional circumstances given the many inherent investor-investor and investor-manager conflicts, highlighting the need for more robustly staffed and governed fund oversight functions through independent fund fiduciaries. Similarly, expanding suspension of redemptions could be sensible to make slightly more dynamically available in extreme circumstances, but conflicts and governance issues abound.

Temporary borrowing limit. The current 5% of NAV limit under section 2.6 of NI 81-102 should be raised and made more flexible and responsive to novel circumstances without the cumbersome and slow process of seeking exemptive relief. The COVID-19 experience in 2020, when the CSA provided emergency exemptive relief for fixed income mutual funds, demonstrates that requiring regulatory relief in a crisis is exactly backwards. The facility should be designed to be available when needed.

Additional tools to consider. We would recommend the CSA also consider three additional LMTs:

1. **Redemptions in kind** should be formally named and included in the framework as a designated LMT with appropriate governance and disclosure standards, consistent with

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the EU and UK approaches, even though they are already permitted in Canada, to encourage their adoption in appropriate circumstances.
2. **Deferred redemptions** should be considered per IOSCO's 2025 revised recommendations, parameterized appropriately. This tool is functionally distinct from gates and settlement extensions.
3. **Committed credit facilities** deserve more direct discussion as an LMT, noting that the availability and pricing of these facilities may themselves be constrained in the stress scenarios when they would be most needed.

IV. Liquidity Classification Framework

We accept the four-bucket classification framework as a common mode of regulatory communication and a shared vocabulary for IFM-regulator interaction. However, it should by no means be positioned to or relied upon by a given IFM as a complete liquidity classification framework for internal risk assessment, contingency planning, or LMT calibration. We recommend the following specific enhancements be articulated either through regulation or guidance:

1. **Add a price impact qualifier.** The classification definitions should qualify disposal as being "without materially impacting market value" or using similar language, bringing Canada in line with the SEC's approach at minimum. A fund should not be able to classify a large position as "highly liquid" simply because the security trades daily, if liquidating that position would materially move the market.
2. **Integrate position size relative to market depth.** The CSA's own factors section already contemplates anticipated trade size, relative position size, market depth, impact of large transactions, and bid-ask spreads, but these factors are not reflected in the classification definitions themselves. They should be integrated into the framework as expectations, not left as optional methodology considerations.
3. **Explicitly frame the classification as a minimum baseline.** IFMs should be expected to employ more granular, multidimensional liquidity assessment for internal risk management. The regulatory framework should state this expectation directly, and then support its application through guidance.
4. **Address the liquidity illusion.** Classifications should account for stressed-condition liquidity, not just normal-condition observables. Investors and managers often mistake high trading volumes and tight bid-ask spreads as signs of robust liquidity, yet during periods of stress, liquidity can evaporate swiftly.[11] ESMA's guidance that funds should not assume liquidation at full average daily volume supports this principle.[12]
5. **Consider removing the listed-asset presumption.** Listing status alone should not be treated as a proxy for liquidity, consistent with the UK FCA's approach. This is particularly applicable in Canadian markets where liquidity can be concentrated and transitory.

V. Disclosure and Reporting

Investor-facing disclosure. We do not believe the proposed liquidity profile pie chart is informative to investors in its current form. Given the static and unqualified nature of the

11 European Systemic Risk Board (ESRB), Report on Vulnerabilities in the EU Financial System (February 2025).
12 European Securities and Markets Authority (ESMA), Guidelines on Liquidity Stress Testing in UCITS and AIFs.

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underlying classification framework, the pie chart could prove misleading, anchor unreliable investor expectations, and ultimately age very poorly. The underlying frameworks need to be improved and governance strengthened before layering investor-facing liquidity disclosures on top.

LMT disclosure, by contrast, should be robust: full detail in the prospectus, with a standardized form of summary in fund facts and ETF facts using mandatory consistent terms and presentation. This supports destigmatization and enables comparability across funds.

Any event that fundamentally changes the nature of a fund's liquidity for new subscribers should require public disclosure, with appropriate overlap by guidance (or rules if necessary) with existing material change reporting requirements for funds.

Confidential regulatory reporting. Quarterly confidential reporting of classifications is only as good as the underlying classification and its governance. We strongly support the principle of confidential reporting to regulators, but the framework needs to be improved before the reporting is meaningful for individual or aggregate analytical purposes.

Critically, reporting must be technologically enabled through utility solutions such as API connectivity, utility tools, and standardized data formats to be both easily aggregated for regulatory analysis and not costly or inordinately burdensome for IFMs. Otherwise, it risks becoming an exercise in lawyering and paperwork without direct and easy insight into individual fund or macroprudential risks, which we see as regulatory burden without service of goals or outcomes. **We believe regulators should provide modern integration and reporting utility infrastructure for the reporting they mandate**, rather than prescribing demands that beget technology builds for the industry to uniquely service regulatory paper/PDF-era intake mechanisms.

Event-driven reporting. Event-driven reporting is useful and should extend beyond fund-level triggers to include asset-level events (material changes to the liquidity profile of significant holdings), asset-class-level events, and market-wide liquidity disruptions. Needs for more responsive and frequent reporting during stressed periods without cumbersome and sclerotic reporting processes reinforces the need for technology-enabled reporting infrastructure.

Event-driven reporting should provide conduits for both IFM-direct reporting and fund fiduciary reporting (should independent fund governance be appropriately revisited), to reduce the potential for under-reporting where the IFM has its own conflicts around disclosing developing problems.

VI. Macroprudential Scope

We believe the Consultation should have included discussion of broader sources of macroprudential liquidity risk beyond solely the investment funds in scope such as pension funds, closed-end funds, structured products, private vehicles, family offices, and other investment vehicles, including decisions to exclude coverage of certain vehicles, or how they are covered by other regulatory regimes and will be considered via coordinative regulatory mechanisms.

This points to the abiding tension between macroprudential and securities regulators for both coverage and competing objectives. Prescriptive rulemaking for one vertical raises the question of what is being achieved without addressing the broader landscape. We encourage the CSA to engage in more direct discussion about the shortcomings of the current coordination mechanisms and how the structure could be evolved toward better overall outcomes, rather than having to invent coordination mechanisms di novo in times of market stress, potentially disconnected from market participant expectations.

Responses to Specific Questions on the Proposed Amendments and Proposed CP Changes

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

As noted, we support the requirement for all investment funds to establish and maintain an LRM framework with written policies and procedures. Codifying the guidance in SN 81-333 into enforceable requirements is an important step.

However, as discussed in our general commentary on governance, the framework should distinguish between the risk management function and the compliance function. The LRM framework should be overseen by a non-subordinated risk function, not housed within the compliance apparatus. We would recommend that the framework explicitly articulate the role of a CRO or equivalent risk officer with direct reporting to the board (with delegation day-to-day to executive management), independent of the CCO.

The requirement for written policies and procedures is appropriate, but we would encourage the CSA to frame these requirements in a way that drives genuine risk engagement rather than seeking to document compliance. The policies should be living documents tied to actual process and portfolio dynamics, not static compliance artifacts.

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

We support the operational requirements in principle, including the pre-launch alignment requirement, ongoing monitoring, liquidity thresholds and targets, stress testing, pre-transaction liquidity impact assessment, and contingency planning.

As noted in our general commentary, we believe the quarterly stress testing frequency, monthly classification review, and other periodic requirements are acceptable as regulatory baselines but should be understood as floors. IFMs should be expected to employ more frequent and granular risk monitoring tuned to the actual characteristics of their portfolios and market conditions. Stress testing should be integrated into scenario analysis that is asset- and strategy-specific.

We also note that contingency plans should be integrated with LMT adoption. IFMs should adopt LMTs appropriate for the most foreseeable circumstances, and there should be an onus on IFMs that adopt few or no LMTs to explain how this is consistent with their contingency planning.

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

This is where our most significant concerns arise. As detailed in our general commentary, the proposed oversight structure routes LRM oversight through the CCO, conflating risk management and compliance, and effectively subordinating the risk function for expediency of existing regulatory accountability mechanisms. We recommend the following changes:

1. Articulate a non-subordinate CRO function with direct reporting to the CEO or board, independent of compliance.
2. Vest the UDP (with authority from the board) with ultimate accountability for liquidity risk governance.
3. Ensure the LRM committee and supervisor roles are anchored in risk management expertise, not compliance expertise.
4. Revisit the IRC model's limitations for LRM oversight, with reference to independent fund board structures in comparable jurisdictions that provide stronger external governance.
5. The quarterly meeting frequency for the LRM committee is acceptable as a minimum, but the committee should be expected to meet more dynamically and frequently during periods of market stress or when portfolio liquidity conditions change materially.

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.

No. We do not believe that any types of investment funds should be carved out of the Proposed Amendments. The LRM framework should be flexible enough to accommodate all in-scope fund types, strategies, and underlying assets, and the LRM program expectations should scale on a risk-indexed basis to accommodate different asset classes, fund types, and business models. Carving out specific fund types would create gaps in investor protection and could facilitate regulatory arbitrage.

The framework should be principles-based and scalable, allowing IFMs to tailor their LRM practices to the specific liquidity characteristics of their funds but without exempting any category from the fundamental requirements.

5. Do you have any other comments pertaining to the Proposed Amendments and Proposed CP Changes?

We note the absence of discussion regarding the broader macroprudential landscape with concern. As discussed in our general commentary, the LRM challenges the Proposed Amendments seek to address do not exist in isolation. We encourage the CSA to proactively address coordination mechanisms between securities regulators and macroprudential authorities, and to explain how related risks in pension funds, closed-end funds, structured products, and private vehicles are being addressed.

We also reiterate our view that the framework's effectiveness will depend significantly on the quality of its governance architecture. The strongest operational requirements will not achieve their intended outcomes if oversight is housed with the wrong professionals and operates under the wrong reporting lines.

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Responses to Specific Questions in the Consultation Paper

A. Liquidity Risk Management Tools

Question 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.

Yes. As discussed in our general commentary. We support making all LMTs discussed in the Consultation Paper available to investment funds, with reductions to disincentives for adoption. Each tool requires market-standard methodologies developed collaboratively with industry, and each must be accompanied by appropriate governance and disclosure standards.

Question 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.

While we respond as an advocacy organization rather than an IFM, we note that the COVID-19 market stress in March-April 2020 provides a clear case study. The CSA provided emergency exemptive relief to increase temporary borrowing limits for fixed income mutual funds, demonstrating that the existing toolkit was insufficient for a stress scenario. Requiring regulatory relief in the midst of a crisis is exactly backwards, as the facility should be designed to be available before it's needed.

The FSB has acknowledged that "cost, competitive or reputational concerns, as well as operational hurdles, may have prevented OEF managers from both including [LMTs] in the constitutional documents of OEFs and using them."[13] This underscores the need for regulatory action to normalize and mandate LMT adoption rather than relying on voluntary uptake.

Question 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.

No. We believe all LMTs discussed in the Consultation Paper should be available, provided market practices are developed and adopted to require their responsible adoption, governance and use. The best solution in form of LMT depends on the problem encountered, and IFMs should have the full range of tools available to deploy contextually and responsibly. With this said, clear disclosure and appropriate governance with this heightened latitude becomes critical, particularly independent fund fiduciary oversight for tools that create conflicts between unitholders (such as swing pricing, gates, and side pockets).

Question 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

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13 Financial Stability Board, "Assessment of the Effectiveness of the FSB's 2017 Recommendations on Liquidity Mismatch in Open-Ended Funds" (December 2022).

applicable, identify any specific LMTs that the CSA should require investment funds that are reporting issuers to adopt.

Yes. As discussed in our general commentary, we recommend that the three currently available LMTs become a mandatory minimum baseline for all funds. Beyond the mandatory minimum, LMT adoption should be integrated into contingency plans. IFMs should adopt LMTs appropriate for the foreseeable circumstances they have identified in their contingency planning. There should be an onus on IFMs that adopt few or no additional LMTs beyond the mandatory minimum to explain how this is consistent with their contingency planning and risk assessment.

We do not recommend a blanket requirement for a minimum number of price-based LMTs at this stage, given the need for market-standard methodology development and the cross-border considerations discussed in our general commentary.

Question 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.

Yes. It is sensible to make suspension slightly more dynamically available in extreme circumstances. We recognize, however, that expanded suspension authority raises the acute question of who represents unitholder interests when access to capital is completely cut off. This is a further illustration of why independent fund fiduciary governance is essential as a manager deciding to suspend redemptions in a fund it manages faces an inherent conflict of interest. Any expansion of suspension authority should be accompanied by clear governance requirements, including mandatory notification to unitholders and, ideally, oversight by independent fiduciaries.

Question 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.

Yes. The temporary borrowing limit should be raised above the current 5% of NAV and made more flexible and dynamic. Parameters to consider include: a higher baseline limit (we would suggest the CSA consult with industry on the appropriate level), with the capacity for the limit to adjust dynamically in response to market conditions, and clear disclosure requirements regarding the use of the borrowing facility.

Question 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.

Yes, we would recommend the CSA consider three additional LMTs:

1. **Redemptions in kind** should be formally named and designated as an LMT with appropriate governance and disclosure standards, consistent with the EU and UK approach. While already permitted in Canada, formally incorporating redemptions in kind

into the LMT framework with standardized disclosure would support transparency and comparability, and encourage adoption as an LMT.

2. **Deferred redemptions** should be considered per IOSCO's 2025 revised recommendations. This tool — which allows an IFM to defer redemption requests beyond the normal settlement cycle under defined conditions — is functionally distinct from gates and settlement extensions and would provide useful additional flexibility.
3. **Committed credit facilities** deserve more direct discussion as an LMT. While useful as a buffer, the CSA should note that the availability and pricing of these facilities may themselves be constrained in the stress scenarios when they would be most needed.

Question 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.

No fund types should be entirely carved out of LMT requirements. The LMT framework should be made flexible and scalable enough to account for all in-scope fund types, IFMs, strategies, and underlying assets. Carve-outs would create gaps in investor protection and undermine the destigmatization that universal adoption is designed to achieve.

B. Liquidity Classification

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

We accept the four-category framework as a useful regulatory baseline but have noted reservations given the current definitions are purely time-based and omit critical dimensions of liquidity. As discussed in our general commentary, we recommend:

1. Adding a price impact qualifier to the definitions, so that disposal is qualified as being "without materially impacting market value."
2. Integrating position size relative to market depth into the classification framework.
3. Explicitly stating that the regulatory classification is a minimum baseline, and that IFMs should employ more granular, multidimensional assessments for internal risk management.
4. The framework should not be relied upon as a complete liquidity classification for internal risk assessment, contingency planning, or LMT calibration.

Question 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.

Including settlement in the timeline is appropriate for non-normally-settled assets. However, this is an edge case that does not address the underlying classification deficiencies we have identified.

Question 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.

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Yes. Classifications should account for stressed-condition liquidity, not just normal-condition observables. The European Systemic Risk Board has noted that "investors often mistake high trading volumes and tight bid-ask spreads as signs of robust liquidity, yet during periods of stress, liquidity can evaporate swiftly."[14] ESMA's guidance explicitly directs funds not to assume liquidation at full average daily volume.

We believe the classification framework should require IFMs to assess liquidity under both normal and stressed conditions, and to classify assets based on the more conservative of the two assessments, or at minimum to disclose both assessments confidentially to regulators.

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

The proposed 5-business-day disposal concept is acceptable but incomplete. There can be significant illiquidity without reaching a 5-day disposal horizon as assets may be illiquid at any reasonable price impact threshold long before the time dimension becomes the binding constraint. The price impact qualifier we recommend would address this gap in part.

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

Yes. As noted above, the definition should incorporate a price impact dimension. An asset that cannot be disposed of without materially impacting market value should be treated as illiquid or less liquid regardless of the time required for disposal.

We would also encourage the CSA to consider removing the presumption that listed assets are liquid. Listing status alone is not a reliable proxy for liquidity, as the UK FCA has recognized in its approach.

Question 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.

We are sceptical of this approach. Even within a category such as large-cap Canadian equities, liquidity dynamics vary widely due to idiosyncratic factors such as float, average daily volume, sector-specific stress dynamics, and other position-specific characteristics, and be temporally unstable due to idiosyncratic or market-wide events such as corporate events or index rebalancing. A grouping approach is too facile and prone to masking meaningful differences. In our view, this approach points to a compliance exercise rather than genuine engagement with realistic portfolio liquidity dynamics.

If the CSA proceeds with permitting asset grouping, the baseline expectations for what constitutes "similar characteristics" should be significantly more demanding, and IFMs should be required to demonstrate that the liquidity characteristics of grouped assets are genuinely comparable under both normal and stressed conditions.

14 ESRB, Report on Vulnerabilities in the EU Financial System (February 2025).

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Question 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?

Yes. The CSA should not prescribe classification by asset class, as asset class alone is an artificial classification that does not capture actual liquidity dynamics. Classification should address the characteristics and type of assets, and fit the liquidity scenarios and contingencies the IFM has identified.

However, this discretion must be exercised within a framework that incorporates the enhancements we recommend, particularly price impact and position size considerations. Leaving classification to the IFM is appropriate only if the IFM is working with a sufficiently rigorous framework.

Question 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.

The factors enumerated in the Consultation Paper are appropriate and essential. Our concern is that these factors are presented as optional methodology considerations rather than being integrated into the classification definitions themselves.

We recommend that the factors relating to price impact and position size relative to market depth be elevated from examples to required elements of the classification framework. A classification framework that contemplates these factors in its guidance but omits them from its definitions has identified the right dimensions of liquidity but failed to incorporate them where they matter most.

Question 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?

This question reflects a fundamental aspect of how liquidity works. The sale of the first portion of a position impacts the available pricing and liquidity for the remaining portion. Tranches do not exist in isolation. A simple classification cannot capture this dynamic — a large position in a security may be "highly liquid" for its first 10% but "less liquid" or "illiquid" for the balance, depending on market depth and market impact dynamics following commencement of trading.

This points to the need for a more complex, multidimensional classification framework that goes beyond time-based buckets. At minimum, the framework should allow for multiple classifications for portions of the same holding to reflect this reality. However, we note that this complexity further underscores our recommendation that the regulatory classification be explicitly framed as a baseline, with IFMs employing more sophisticated internal assessments.

Question 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.

Monthly review is acceptable as a minimum baseline. However, it should not be an upper limit. Classification review cadence should be driven by actual portfolio dynamics and market conditions. During periods of market stress or when the liquidity characteristics of significant holdings change materially, more frequent and dynamic review should be expected, and the governance framework should require it.

Question 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.

No, not in our view. The classification framework should be flexible enough to accommodate all in-scope IFMs, fund types, strategies, and underlying assets. Consistent with our response to Question 4 of the Proposed Amendments, carve-outs create gaps in investor protection and undermine the universality that makes the framework useful as a regulatory tool, particularly from a macroprudential risk perspective.

C. Regulatory Disclosure and Data

Question 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.

We do not believe the proposed liquidity profile pie chart is informative to investors in its current form. The underlying classification framework is static and unqualified as it does not incorporate price impact, position size relative to market depth, or stressed-condition liquidity. Presenting this information to investors as a simple chart pneumonic on marketing materials could prove misleading and unreliable, anchoring investor expectations improperly.

We would recommend deferring investor-facing liquidity profile disclosure until the underlying classification framework has been enhanced to address the deficiencies we have identified, and until the governance framework provides adequate assurance of classification quality.

LMT disclosure in the Proposed Fund Report, by contrast, would be useful and should be encouraged in standardized language as investors benefit from understanding what tools a fund has available to manage liquidity stress.

Question 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 would recommend a new, dedicated section of the prospectus for LMT disclosure. This approach supports visibility, comparability, and investor understanding. The section should include full detail on all LMTs adopted by the fund, their objectives, the circumstances under which they may be activated, and the governance process for their activation and management.

A standardized summary of LMT information could also appear in fund facts and ETF facts, using mandatory consistent terms and prescribed presentation elements. This supports destigmatization and enables investors to compare LMT adoption across funds.

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

Beyond the LMT disclosure discussed above, we would recommend that fund facts and ETF facts include a standardized, plain-language summary of the fund's overall approach to liquidity risk management. This should be brief and focused on enabling investors to understand how the fund manages liquidity risk at a high level, without requiring detailed technical disclosure.

We reiterate that the liquidity profile pie chart should not be included in fund facts or ETF facts at this stage, for the reasons discussed in our response to Question 20.

Question 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 support the principle of confidential regulatory reporting of liquidity classifications. Regulators need this data to monitor liquidity risk across the fund industry and to identify potential systemic concerns.

However, as discussed in our general commentary, this reporting is only as good as the underlying classification framework and its governance. The CSA should enhance the classification framework before placing significant weight on the reported data.

Critically, the reporting mechanism must be technologically enabled through utility solutions to ensure the data is easily aggregated for regulatory analysis and not unduly costly or burdensome for IFMs. Regulators should provide modern integration infrastructure for the reporting they mandate.

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

Quarterly reporting is acceptable as a baseline frequency for routine periodic reporting. We note, however, that the value of periodic reporting is complemented by event-driven reporting, which provides more timely information during the periods when it matters most.

Question 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.

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We would recommend that confidential reporting extend to include information on LMT activation and usage, borrowing facility utilization, and any material changes to the fund's contingency plan. This information, combined with classification data, would give regulators a more complete picture of liquidity risk management across the industry.

Question 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.

No, we don't believe this is necessary at this time. Public position-level classification disclosure raises significant concerns around front-running, competitive harm, and the potential for misinterpretation by retail investors. Confidential reporting to regulators is the more appropriate channel for this granular data.

If the CSA determines that some form of public liquidity disclosure is warranted, it should be at the portfolio level (not position level), and only after the underlying classification framework has been enhanced to address the deficiencies we have identified.

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

Yes. Non-reporting issuers should be subject to both periodic and event-driven reporting requirements. Liquidity risk does not distinguish between reporting and non-reporting issuers, and regulators need visibility into the liquidity risk profile of the entire fund industry to monitor systemic risk effectively.

The same technology-enabled utility approach should apply, to ensure that reporting is efficient and not disproportionately burdensome for smaller or less-resourced IFMs.

Question 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.

Yes. We support event-driven reporting to regulators for the liquidity-related events identified in the Consultation Paper, including redemptions above threshold levels, illiquid asset limit breaches, fund suspensions, LMT activations, and temporary borrowing.

We would recommend that event-driven reporting extend beyond fund-level triggers to include:

1. **Asset-level events:** Material changes to the liquidity profile of significant holdings.
2. **Asset-class-level events:** Material changes to the liquidity characteristics of an asset class in which the fund has significant exposure.
3. **Market-wide liquidity disruptions:** Events affecting overall market liquidity conditions.

More frequent reporting during stress periods reinforces the need for technology-enabled reporting infrastructure.

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

Yes, as noted in our response to Question 28. Asset-level, asset-class-level, and market-wide events should trigger reporting. In addition, any material change to a fund's contingency plan or LMT availability should be reported promptly.

Event-driven reporting should also provide conduits for both IFM-direct reporting and fund fiduciary reporting (should independent fund governance be appropriately revisited), to reduce the potential for under-reporting where the IFM has its own conflicts around disclosing problems.

Question 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.

Any event that fundamentally changes the nature of a fund's liquidity for new subscribers should require public disclosure. The existing material change reporting framework provides a useful starting point, and we would recommend the CSA ensure that the liquidity-related events identified in the Consultation Paper are clearly in-scope of material change reporting where they meet the applicable thresholds.

For events that do not meet the material change threshold but are nonetheless significant for investor decision-making such as the first activation of a previously unused LMT, the CSA should consider whether additional targeted disclosure requirements are warranted.

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

Yes. Non-reporting issuers should be subject to event-driven reporting requirements, through the same technology-enabled utility approach recommended for periodic reporting. The CSA's ability to monitor systemic liquidity risk requires visibility across all in-scope funds, regardless of reporting issuer status.

Concluding Remarks

We thank you for the opportunity to provide these comments. We are supportive of the CSA's objectives and offer our recommendations in the spirit of constructive engagement. We would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in the future.

(Signed) *The Canadian Advocacy Council of*
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