

SIMA⁷ Securities and
Investment
Management
Association

AMVI⁷ Association
des marchés de
valeurs et des
investissements

SIMA Submission

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

March 27, 2026



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Delivered electronically to <https://www.securities-administrators.ca/consultations>

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Dear Sirs and Mesdames:

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 Securities and Investment Management Association (**SIMA**) appreciates the opportunity to comment on the Canadian Securities Administrators (**CSA**) proposed amendments (the **Proposed Amendments**) to National Instrument 81-102 *Investment Funds* (**NI 81-102**) regarding liquidity risk management (**LRM**) and proposed changes (the **Proposed CP 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 Paper**).

All terms used and not defined in this submission have the meanings ascribed to them in the Proposed Amendments, Proposed CP Changes and Consultation Paper.

SIMA empowers Canada's investment industry. The association is the leading voice for the securities and investment management industry, which oversees approximately \$4 trillion in assets for over 20 million investors and participates in the Canadian capital markets. Our members – including investment fund managers, investment and mutual fund dealers, capital markets participants, and professional service providers – are committed to advancing a thriving, resilient investment industry that fuels Canada's economic growth, creating opportunities for all Canadians.

SIMA operates in a governance framework through which we gather input from our member working groups. The recommendations of these working groups are submitted to the SIMA board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of SIMA members.

This letter reflects a variety of SIMA member perspectives, including investment fund managers and portfolio managers, and is informed by SIMA's own research.

Please find SIMA's responses to questions on the Proposed Amendments and Proposed CP Changes in our Appendix A and responses to questions in the Consultation Paper in our Appendix B. We have indicated

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our support for several proposals and where we have concerns with other proposals, we have so indicated and provided our rationale and analysis.

SIMA'S Overall Comments and Key Recommendations

SIMA welcomes regulatory initiatives that seek to safeguard the interests of investors through strengthened risk management processes such as the liquidity risk management (**LRM**) framework (**LRM Framework**). SIMA commends the CSA for their continued efforts to continue to evolve rules with international standards.

Principles-based Approach

A high-level, principles-based approach that gives firms the flexibility to apply professional discretion and judgment in implementing an effective LRM framework should be central to the initiative. This considers the professional judgment of investment fund managers and considers their existing obligations in the liquidity risk management of investment funds. Specifically, an investment fund should be permitted to develop and implement policies and procedures in a way most appropriate for the investment fund's particular liquidity risk profile.

While SIMA recognizes the importance of alignment with international standards for LRM, proposed changes should also consider the specific reality of the Canadian investment fund landscape, specifically reporting issuers, which have not historically encountered liquidity issues. Accordingly, the Proposed Amendments and Proposed CP Changes should be principles-based and less prescriptive in nature and should be more reflective of the liquidity experience of public funds in Canada.

For example, where the amendments suggest a procedure or solution, the language should be permissive. Further, each IFM should be permitted to establish the liquidity risk management program that it believes, in its professional judgment, is best able to manage the risks applicable to its funds, rather than the Proposed Amendments mandating specific program requirements for all funds.

Regulatory Burden Reduction

Burden reduction must remain a guiding principle with focused consideration of the initial and ongoing operational and compliance costs associated with the Proposed Amendments relative to (i) the lack of historical liquidity issues for reporting issuers in Canada, and (ii) the lack of data regarding a clear benefit to investors. Finally, we caution the CSA in recommending further prospectus disclosure regarding LRM which may have an unintended consequence of discouraging investment funds as a wealth solution.

Carve Out for Non-Reporting Issuers and ETFs

Non-reporting issuer funds should be excluded from the scope of the Proposed Amendments and Proposed CP Changes (including private/non-prospectus qualified funds).

If the CSA nevertheless extends the LRM requirements to such funds, it should do so only through a separate consultation focused on non-reporting issuer/private funds. As such, SIMA has not provided feedback on matters relating to non-reporting issuer funds in this submission.

ETFs (including exchange-traded series of mutual funds) should also not be in scope for the LRM Framework because ETF liquidity is primarily provided through the secondary market by independent market makers and dealers that quote prices, manage spreads and only support products whose underlying baskets are sufficiently liquid and hedgeable. This built-in screening mechanism prevents illiquid portfolios from entering or staying in the ETF ecosystem. The operational mechanism to create and redeem ETF

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units through secondary market trading mitigates part of the liquidity risk associated with ETFs. Extending LRM requirements to ETFs would therefore be unnecessary and inconsistent with ETF market structure.

Transition Period

Consistent with other significant regulatory initiatives and depending on the content of the final amendments and CP changes, SIMA recommends a minimum 12-month implementation period to ensure effective compliance with the LRM Framework. If certain of the changes were to proceed as proposed, specifically the requirement for pre-trade liquidity assessments, a more realistic implementation period could be 18 months or longer. SIMA members have noted that they will need this time to design, test, and operationalize the LRM Framework in a careful and controlled manner.

SIMA has highlighted its key recommendations on certain elements below. More detailed feedback is provided within Appendix A and Appendix B.

Pre-trade Liquidity Assessments

SIMA recommends removal of proposed requirements for pre-trade liquidity assessments, believing that the existing illiquid asset limit in NI 81-102 combined with other elements of the proposed LRM Framework, ensure that liquidity risks are appropriately identified and managed. Requiring transaction-level pre-trade assessments would be both impractical and operationally unworkable across many funds and would introduce delays that undermine a portfolio manager's ability to achieve best execution.

Stress Testing

SIMA supports stress testing and risk monitoring as essential parts of LRM but takes the view that IFMs should have the flexibility to set their own testing frequency through internal policies and procedures. A prescriptive requirement for quarterly stress testing is counter to proportionality and burden reduction principles and is also not aligned with international standards.

Illiquid Asset Definition

SIMA does not support the proposed change to the definition of "illiquid asset," as it does not resolve existing issues and would introduce additional complexity and operational burden. The proposed definition risks conflating genuinely illiquid assets with otherwise liquid assets that are part of large positions or have long settlement cycles, and linking this definition to liquidity classification may distort an IFM's classification processes and weaken risk management outcomes. SIMA therefore recommends separating liquidity classification from the NI 81-102 illiquid asset definition, consistent with the approach taken in Europe, where illiquid-asset limits (e.g., the "trash ratio") are treated separately from liquidity profiling.

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CONCLUSION

SIMA is pleased to have had this opportunity to provide our comments. Please feel free to contact me by email at amitchell@simamvi.ca or, by phone 416-309-2300. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION



By: Andy Mitchell
President and CEO

**Appendix A:
Request for Comments on the Proposed Amendments and Proposed CP Changes, Responses to Questions:**

Question #1

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

SIMA’s Response:

SIMA supports the LRM Framework language as proposed in s.6.1.1 with the exception of s.6.1.1(2)(b) where the appointment of an LRM Supervisor or member of an LRM Committee might be limited to certain positions held within the IFM’s organization. Please see SIMA’s response to Question 3 in this Appendix A for more details.

Question #2

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

SIMA’s Response:

SIMA wishes to raise important considerations regarding the proposed operational requirements in section 6.1.2 as set out in the chart below.

Proposed Amendment	Comments
Section 6.1.2(1)	<p>SIMA notes that IFMs are already required to consider redemption practices to inform prospectus disclosure (i.e. Form 81-101F1, Item 7(1)).</p> <p>SIMA requests that the guidance be expanded to include suggested or acceptable ways to project or estimate “expected redemption activity” for a newly established fund.</p> <p>SIMA notes the ambiguity of the term “align with” in s.6.1.2(1) and recommends either making the revision proposed below or providing a more explicit definition or guidance on the intended meaning of “align with”.</p> <p><i>“Before the filing of an initial prospectus of a newly established investment fund, a manager must ensure that the investment fund’s investment objectives and investment strategies and permitted redemption frequency of the investment fund’s securities give consideration to align with the nature of the investment fund’s expected portfolio assets and expected redemption activity of the investment fund’s securities.”</i></p>
Section 6.1.2(3)	<p>SIMA supports the ongoing monitoring, review and assessment of liquidity risk for investment funds. However, any adjustment to portfolio composition must be left to the discretion of IFMs and not be prescribed by regulation. IFMs must have flexibility to make decisions with respect to fund management that are informed by liquidity risk but also account for other considerations including market risk, alpha generation, trading costs, and other factors.</p> <p>Market conditions may be monitored using qualitative and/or quantitative metrics, as IFMs may use different metrics depending on the market conditions and the type of investment fund. IFMs should also be provided with discretion to decide when to adjust the composition of the fund’s portfolio</p>

Proposed Amendment	Comments
	<p>assets. A prescriptive requirement to adjust portfolio composition whenever certain metrics change could lead to unnecessary trading, increased transaction costs, and potential deviation from the fund's investment objectives or strategies.</p> <p>Where portfolio composition is adjusted "if necessary", it should be clarified that this necessity is within the IFM's assessment and further clarification that this means "within the manager's reasonable professional judgment depending on the nature of the fund" could be included in the Proposed CP Changes.</p> <p>Proposed revisions are suggested below.</p> <p><i>"(3) An investment fund must monitor, review and assess the investment fund's liquidity profile and relevant market conditions on an ongoing basis using qualitative and and/or quantitative metrics and, if the manager deems it necessary, adjust the composition of the investment fund's portfolio assets, as appropriate at the discretion of the manager."</i></p>
Section 6.1.2(4)	<p>SIMA agrees that investment funds should establish appropriate thresholds and/or targets for liquidity monitoring. However, IFMs require flexibility to set, adjust, interpret and determine appropriate actions with respect to such thresholds and targets in its professional judgment.</p> <p>Proposed revisions are suggested below.</p> <p><i>"(4) An investment fund must establish and maintain liquidity thresholds and and/or targets to monitor, review and assess the investment fund's liquidity profile under subsection (3) as appropriate and at the discretion of the manager."</i></p>
Section 6.1.2(5) to (7)	<p>SIMA agrees that stress tests and risk monitoring are important elements of an LRM framework. IFMs should have flexibility to design and implement stress tests and/or risk monitoring as they determine is appropriate, with a requirement for the IFM's policies and procedures to clearly set out how frequently stress testing will be conducted for its funds. SIMA does not support a prescriptive requirement for quarterly stress testing of all funds.</p> <p>Uniform prescriptive testing for every fund regardless of size, complexity, liquidity profile, or investor base is not aligned with regulatory burden reduction, proportionality principles embedded in securities regulation or with the principles-based supervisory frameworks adopted internationally for LRM (i.e., IOSCO), which emphasize flexibility and risk-sensitivity. The May 2025 IOSCO Final Report on Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes¹ states that stress testing should be carried out at a frequency relevant to the specific collective investment scheme (CIS) and does not mandate periodic stress testing for every fund. The report also mentions that fund-level stress tests may not be required where this would be disproportionate, considering the size,</p>

¹ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD798.pdf>

Proposed Amendment	Comments
	<p>investment strategy, nature of the underlying assets, and investor profile of the CIS. Other major jurisdictions, such as the United States and Australia, do not impose such prescriptive, one-size-fits-all requirements, particularly with respect to mandatory stress testing.</p> <p>In stressed environments, liquidity risk monitoring should be conducted more frequently, including stress testing to the extent deemed appropriate, with particular focus on net redemption activity and asset classes or areas of the market experiencing liquidity challenges.</p> <p>SIMA encourages revisions to s.6.1.2(5) to (7) to recognize that stress testing needs may vary depending not only on market conditions, but also on the fund's investment strategy, liquidity profile and risk characteristics, and to allow the IFM to apply its professional judgment in determining appropriate stress testing and/or risk monitoring frequency and scope.</p> <p>SIMA also suggests that the proposed guidance be expanded to include relevant factors that IFMs might consider in determining whether a fund is experiencing "stressed market conditions" or "normal market conditions". If the CSA would find it helpful, SIMA would be happy to facilitate further discussion with its members in the development of this guidance.</p> <p>Proposed revisions are suggested below.</p> <p><i>"(5) An investment fund must may conduct stress tests and/or risk monitoring of the liquidity of the investment fund's portfolio assets to monitor, review and assess the investment fund's liquidity profile under subsection (3), including, for greater certainty, the application to the stress tests of historical and hypothetical scenarios that are relevant to the fund's or group of funds' liquidity profile.</i></p> <p><i>(6) If market conditions are normal, an investment fund must may conduct stress tests under subsection (5) at least quarterly, as the manager considers necessary in its professional judgment.</i></p> <p><i>(7) If market conditions are stressed, an investment fund must consider increasing the frequency of monitoring, including increasing the frequency of the stress tests and/or risk monitoring, if appropriate at the discretion of the manager, conducted under subsection (6) until market conditions are normal."</i></p>
Section 6.1.2(8)	<p>SIMA strongly proposes removing the requirement for pre-trade liquidity risk assessment in subsection (8) and relying on the existing illiquid asset requirement under NI 81-102, supplemented by this proposed LRM Framework. A transaction-by-transaction pre-trade assessment would be impractical, duplicative, and unnecessarily burdensome relative to the incremental risk it is intended to address.</p> <p>In practice, it is not operationally feasible for an investment fund to assess, on a pre-trade basis, the impact of each individual portfolio transaction on its overall liquidity profile before executing the trade. Some funds use different portfolio teams (or even sub-advisors) to manage various sleeves which would render the ability to perform pre-trade assessments extremely complex if not impossible. A requirement to conduct such an assessment</p>

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Proposed Amendment	Comments
	<p>would significantly delay trade execution, impede a portfolio manager's ability to respond quickly to market opportunities, and risk impairing best execution obligations, which require timely and efficient execution. The pre-trade assessment would also introduce substantial operational burden for routine, low-risk trades that do not meaningfully affect a fund's liquidity position.</p> <p>A similar requirement in Europe has resulted in over a decade of confusion and compliance issues². Pre-trade assessments are complex to implement, unnecessary for most trades and represent a significant and unreasonable regulatory burden. Limits on illiquid assets in NI 81-102 already require IFMs to assess illiquid assets and their impact on limit utilization prior to purchase when such purchase could have a bearing on the liquidity utilization. In all other cases, pre-trade assessments are unnecessary for purposes of liquidity risk management. Ongoing liquidity profiling as required under subsection (3) will identify liquidity changes in investment funds and portfolio adjustments can be made, if necessary, as determined by the IFM.</p> <p>While SIMA agrees that it might be reasonable to conduct a liquidity assessment in advance for notable changes that could materially impact a fund's liquidity profile (such as portfolio repositioning due to changes in investment strategies or a fund merger), SIMA believes that the IFM is best positioned to determine whether this would be useful or relevant in the circumstances.</p>
Section 6.1.2(9), (10)	Given the very limited LRM Tools (LMTs) available to retail mutual funds under NI 81-102, it's not clear what a mutual fund's contingency planning policies could be or what the LRM Committee would approve.

Proposed CP Changes	Comments
Section 8.1.2(6)	<p>SIMA recommends that the definition of "hypothetical scenario analysis" be revised to allow the IFM to focus on scenarios that the IFM reasonably considers to be within the realm of possibility. This ensures that resources are directed toward stress testing relevant and meaningful hypothetical scenarios, rather than being diverted to extremely remote or implausible scenarios that provide limited risk management value.</p> <p>Proposed revisions are suggested below.</p> <p><i>"Hypothetical scenario analysis is forward-looking and measures the potential impact of an event which has not yet occurred and that the manager considers to have a reasonable likelihood of occurring."</i></p>
Section 8.1.2(8)	SIMA recommends that, for the purposes of conducting stress testing, the IFM determine the appropriate response following the outcome of the review in s.6.1.2(5), which may include, but is not limited to, a "pro rata" methodology.

² Article 26(4) of CSSF Regulation 10-4 requires an IFM when implementing their risk management policy, and where it is appropriate after taking into account the nature of a foreseen investment, to formulate forecasts and perform analyses concerning the investment's contribution to the UCITS' portfolio composition, liquidity and risk and reward profile before carrying out the investment.

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Proposed CP Changes	Comments
	<p>It may be impractical for a fund to consider a “pro rata” methodology if the fund holds illiquid assets, which is permitted for public funds under NI 81-102. For funds holding illiquid assets, a strict pro rata liquidation approach may not be operationally feasible, may produce distorted redemption pricing outcomes, and may not reflect the fund’s actual liquidity profile.</p>

Question #3

Do you have any comments pertaining to section 6.1.3 Oversight?

SIMA’s Response:

SIMA wishes to raise important considerations regarding the proposed oversight requirements in section 6.1.3 which are set out in the chart below.

Proposed Amendment	Comments
<p>Section 6.1.3(2)</p>	<p>SIMA recommends that s.6.1.3(2) be revised to give the IFM flexibility in selecting an appropriate LRM Supervisor instead of requiring that the role be fulfilled by the CCO or an individual who reports directly to the CCO.</p> <p>While the CCO has responsibility for the obligations in s.5.2 of NI 31-103, in some organizations the CCO may be informed of various matters of non-compliance through established governance processes, from heads of specialized control functions, such as Operational Risk, AML, and Privacy.</p> <p>Accordingly, SIMA recommends that s.6.1.3(2) be drafted in a more principles-based and flexible manner, allowing the LRM Supervisor to be selected at the IFM’s discretion.</p>
<p>Section 6.1.3(4)</p>	<p>SIMA agrees that the LRM Committee, as a whole, should have sufficient knowledge of the management of liquidity risk. Certain members of the committee may have specialized knowledge of certain asset classes or risk metrics, for example, and SIMA does not feel that it would be practical or appropriate for the regulator to review the skills and knowledge of each individual member. Rather, SIMA believes that the IFM should design the composition of the committee or determine which committee within its existing framework should have responsibility for LRM of its funds and appoint members with a view to ensuring that the committee as a whole has “sufficient knowledge of the management of liquidity risk”.</p> <p>SIMA further recommends that the Proposed CP Changes include guidance for IFMs on the regulatory expectation around the knowledge of the members of the LRM Committee, while leaving IFMs the flexibility to implement the structure that best serves their funds. Specific guidance to help IFMs determine whether the LRM Supervisor or LRM Committee has “sufficient knowledge” as mentioned in s.6.1.3(4) should be provided. This assessment could include, but would not be limited to, number of years of relevant experience, demonstrated capability from previous employment and formal qualifications or designations.</p>
<p>Section 6.1.3(5)(b), (c)</p>	<p>As a general principle, SIMA believes that IFMs should have flexibility to structure governance committees and responsibilities to meet regulatory and business needs, and that the Proposed Amendments should be less</p>

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Proposed Amendment	Comments
	<p>prescriptive on the governance process for new investment funds with respect to liquidity risk.</p> <p>Many IFMs have existing approval processes for new products that include risk management and liquidity risk reviews that also consider the obligations of the UDP and CCO in s.5.1 and s.5.2, respectively, of NI 31-103. The prescriptive nature of the proposed change adds unnecessary regulatory burden where appropriate governance already exists that aligns with the principles of the regulation.</p> <p>Liquidity risk management is an important component of fund design, but it is only one of several factors considered in the creation and ongoing management of a fund. Investment objectives and strategies are typically determined through a broader governance process that incorporates portfolio construction considerations, market opportunities, investor needs, tax and regulatory factors, operational feasibility, and risk-management practices more broadly. Embedding an approval requirement for LRM personnel at the level contemplated in paragraphs (b) and (c) would elevate liquidity considerations above other core elements of fund design and could create unnecessary procedural complexity without corresponding investor protection benefits.</p>

Proposed CP Changes	Comments
Section 8.1.3(3)	<p>As noted in SIMA's response to Question 3 above, SIMA recommends that IFMs are best positioned to determine the composition of an LRM Committee and to appoint an LRM Supervisor or members of an LRM Committee. Given differing business models and firm sizes, IFMs and their LRM Committee should have the flexibility to decide who is best suited to support the committee's mandate. Allowing IFMs full discretion over committee composition also provides the greatest ability to address potential conflicts of interest, including those that may arise in firms that typically use performance fees.</p> <p>In the spirit of taking a principles-based approach, SIMA suggests removing subsection (3).</p>

Question #4

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

SIMA's Response:

SIMA strongly supports limiting the application of Proposed Amendments and related Proposed CP Changes to **reporting issuers only**. While SIMA recognizes the statement in the "Substance and Purpose" section that the proposed liquidity framework would apply broadly to all investment funds (including those that are not reporting issuers), non-reporting issuers, including private investment funds, should be expressly carved out. Private funds should not be in scope because they are typically offered to accredited investors and/or permitted clients (as each are defined) who are informed of and accept, or even expect, the liquidity characteristics and related risks of the investment strategies they select, and therefore do not

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require the same prescriptive LRM protections designed for public retail investors. This includes private funds that provide periodic redemption rights subject to contractual conditions.

Private funds also operate under contractual liquidity terms tailored to their investment strategies and disclosed in offering documents; often hold inherently illiquid assets that are incompatible with retail-style liquidity rules; and are already regulated under NI 31-103's principles-based liquidity oversight framework, which is more appropriate for the structure and risk profile of private funds.

To promote continued investment in private markets, SIMA strongly encourages the CSA to limit the application of the Proposed Amendments and Proposed CP Changes to reporting issuers only.

ETFs (including exchange-traded series of mutual funds) should not be in scope for the LRM Framework because ETF liquidity arises primarily through trading in the secondary market, where market makers and dealers provide two-sided quotes and manage bid-ask spreads. Market makers evaluate the liquidity and hedgeability of the underlying basket before agreeing to support an ETF; if the assets cannot be reliably traded or hedged, they simply will not take on the mandate, and the ETF cannot launch or sustain effective market operations. This functions as an inherent structural safeguard that prevents illiquid products from entering or remaining in the ETF ecosystem. In addition, ETF secondary market trading does not require the fund to meet investor redemption requests or manage daily cash flow variability at the fund level, because investors buy and sell ETF units with other market participants on the exchange rather than asking the IFM to redeem their units. The operational mechanism to create and redeem ETF units through secondary market trading mitigates part of the liquidity risk associated with ETFs. Applying LRM requirements to ETFs would therefore be redundant and misaligned with the ETF market structure.

A more prescriptive Canadian LRM regime for ETFs could place Canadian-listed ETFs at a competitive disadvantage relative to U.S.-listed ETFs, because U.S. ETFs are already subject to a clearly defined but more tailored regime under SEC Rule 22e-4. In the United States, ETFs, other than In Kind ETFs which are excluded from key portions of the rule, must maintain a liquidity risk management program, classify portfolio investments, monitor liquidity risk on an ongoing basis and comply with limits on illiquid investments. U.S. regulators have not adopted additional ETF-specific liquidity requirements beyond Rule 22e-4 and the associated guidance issued in 2024. As a result, imposing broader or more onerous LRM obligations uniquely on Canadian-listed ETFs could make them less competitive relative to U.S.-listed peers that operate under a more proportionate framework.

Question #5

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

SIMA's Response:

SIMA notes the following additional comments for consideration:

- **Implementation period:** Requiring the Proposed Amendments and Proposed CP Changes to take effect three months after final publication would not allow sufficient time to implement the necessary governance, operational and oversight changes, many of which may involve technology updates. Firms will need time to compare their existing LRM framework policies/processes with the final amendments and adjust as necessary. Specific sources of delay may include the time required to:
 - hire and onboard new personnel;
 - reassign existing personnel;
 - provide training on the updated requirements;
 - complete the procurement process for any new service providers;
 - implement any new or required changes to technology; and
 - further operationalize the necessary changes.

Consistent with other significant regulatory initiatives and depending on the content of the final amendments, SIMA recommends a minimum 12-month implementation period to ensure effective compliance. If certain of the changes were to proceed as proposed, specifically the requirement for pre-trade liquidity assessments, a more realistic implementation period could be 18 months or longer. Most IFMs will need this time to design, test, and operationalize the LRM Framework in a careful and controlled manner.

- **International experience:** Regulators in other major jurisdictions, including the U.S. Securities and Exchange Commission (**SEC**), do not impose prescriptive liquidity risk management requirements such as mandatory stress testing for open-end funds.
 - Under SEC Rule 22e-4, the SEC did not mandate standardized stress testing or fixed liquidity thresholds and recently declined to adopt proposals that would have imposed significantly more prescriptive frameworks.
 - IOSCO, the global standard-setting body for securities regulators, also follows a principles-based approach to liquidity risk management. Its May 2025 Revised Recommendations for Liquidity Risk Management for Collective Investment Schemes³ preserve a high-level, outcomes-focused framework, offering guidance and good practices across fund design, liquidity management tools, governance, day-to-day liquidity practices, and stress testing without imposing rigid quantitative requirements on funds.
 - In Australia, managed investment schemes are not subject to a dedicated, prescriptive liquidity risk management regime. Liquidity oversight is instead governed through principles-based statutory obligations under Chapter 5C of the Corporations Act 2001 (Cth), including responsible entity obligations and the requirement to maintain adequate compliance and risk management arrangements. Standardized liquidity stress testing requirements for investment funds are not imposed.
- **Competitiveness:** Given this international context, imposing significantly more prescriptive liquidity requirements in Canada would have direct competitive consequences for the Canadian funds industry. Canadian investors already frequently purchase U.S. ETFs, as these products are widely accessible across platforms through cross-border dealers and registered firms. Because U.S. funds would continue to operate under a less burdensome, principles-based regime, while Canadian IFMs would face materially stricter regulatory standards, the result would be an even greater structural competitive disadvantage for Canadian funds. Canadian products would be more expensive to operate, potentially less flexible in portfolio construction, and therefore less attractive to investors compared with U.S. alternatives that do not face similar operational and compliance constraints.
- For these reasons, we strongly encourage the CSA to align with international regulatory norms and maintain a principles-based approach to LRM. Implementing more prescriptive standards, particularly those exceeding Australian, U.S., and IOSCO requirements, would impose significant additional compliance and operational costs on Canadian IFMs and place them at a competitive disadvantage relative to both international peers and the U.S.-domiciled products that Canadian investors can readily access.

³ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD798.pdf>

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Appendix B: Feedback on Consultation Paper, Responses to 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.**

SIMA's Response:

Yes. SIMA agrees that there is a need for the CSA to permit the use of LMTs that are not currently permitted. Currently, IFMs do not have a sufficient toolkit to address specific issues such as large redemptions by a small group of investors and potential market freezes due to market events and temporary supply and demand dislocation. As described in the Consultation Paper, each of the LMTs has its advantages and disadvantages. SIMA recommends permitting all of the LMTs listed with clear definitions and conditions to ensure their proper use and adoption.

Repurchase agreements are an effective, efficient and low risk LMT for investment funds, as they permit funds to quickly raise cash from counterparties without having to permanently dispose of portfolio assets. Further, unlike cash borrowing from one lender, the use of multiple counterparties to effect repurchase agreements reduces the concentration risk that the lender decides to no longer permit the fund to borrow cash. Unfortunately, the current requirements in s.2.13 of NI 81-102 make repurchase transactions generally unworkable for liquidity risk management. Among the conditions in s.2.13 that are not workable is the requirement that the proceeds of the repurchase transaction be used only to purchase short-term qualified securities or to enter a reverse repurchase transaction. We believe the CSA should revisit the conditions in s.2.13 to permit repurchase agreements as a LMT for Canadian funds, consistent with U.S. practice.

- 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.**

SIMA's Response:

Yes. Certain SIMA members noted that their funds have temporarily experienced overdraft of more than 5% of the fund's net asset value, which is the threshold currently permitted under s.2.6. of NI 81-102. These IFMs would have been able to benefit from an increased temporary borrowing limit of greater than 5%. Some members have applied for and obtained exemptive relief which allows funds to borrow up to 10% of their net asset values subject to certain conditions. See SIMA's response to Question 6 below for more specific insights regarding borrowing.

Liquidity events are often sudden and unpredictable, and seeking exemptive relief is not feasible in the timeframes in which such tools would be required, which limits their practical usefulness.

SIMA recommends that the borrowing limit in s.2.6(1)(a)(i) of NI 81-102 be increased to 10% of the fund's net asset value at the time of the borrowing, while maintaining the other conditions in 2.6(1).

- 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.**

SIMA's Response:

There are no specific LMTs the CSA should not permit and, for those that are permitted, SIMA recommends the CSA provide clear definitions of those LMTs and conditions to avoid improper uses.

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- 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.**

SIMA's Response:

SIMA does not believe that investment funds should be required to adopt LMTs, including adopting a minimum number of LMTs or a minimum number of price-based LMTs. SIMA recommends that IFMs be given the flexibility to decide which LMTs are suitable for each fund.

Many IFMs have not made use of suspension of redemptions, the currently available LMT, and requiring IFMs to implement one or more LMTs would impose new and potentially unnecessary costs. Some price-based LMTs are much more difficult to operationalize than others and certain funds created under older trust agreements may have structural limitations to implementing certain LMTs. SIMA therefore recommends that the CSA provide flexibility by permitting a range of price-based tools and allowing IFMs to select the tools they deem to be most appropriate. As noted in our response to Question 3, SIMA also supports a level of standardization in how each LMT is applied, with clear definition and conditions to avoid improper uses.

SIMA would also like to take this opportunity to provide more specific feedback on challenges relating to swing pricing.

Swing Pricing

SIMA notes that swing pricing would be particularly hard to implement and would require an industry-wide, multi-year initiative to put in place. SIMA does not, however, believe that swing pricing should be required and that other price-based tools that are simpler to implement can be as effective or potentially more effective than swing pricing.

The CSA's consultation appropriately frames swing pricing as one of several potential antidilution liquidity management tools, but the evidence does not support making its use mandatory for Canadian investment funds. Experience in the United States is instructive. Although swing pricing has long been permitted by the SEC, it has not been adopted by U.S. mutual funds, largely due to significant operational, governance, and investor-experience challenges. Commenters to the SEC's 2022 proposal, *Open-End Fund Liquidity Risk Management Programs and Swing Pricing*⁴, overwhelmingly cautioned that mandatory swing pricing would materially disrupt fund distribution, disadvantage retail and retirement investors, impose substantial systems costs, and deliver uncertain benefits given that measured dilution in most mutual funds has historically been de minimis.

These concerns are amplified in the Canadian context. Canada's mutual fund market is highly intermediated, relies on same-day pricing expectations, and includes a large retail investor base for whom pricing certainty and operational simplicity are critical. Mandating swing pricing could introduce pricing opacity, result in small investors being adversely affected by large transactions from a few investors, and undermine investor confidence during periods of market stress.

The CSA's own consultation paper acknowledges the complexity, governance burden, and transparency challenges associated with swing pricing, including its need for sophisticated calibration, the potential for apparent NAV volatility, and the risk of impact to other transacting investors when a single large transaction can drive a swung price for all.

Recent FSB and IOSCO work calls on authorities to ensure the availability of a broad set of anti-dilution and quantity-based tools and to encourage greater use of such tools

⁴ <https://www.sec.gov/comments/s7-26-22/s72622.htm>.

where appropriate; it does not prescribe any single mechanism, such as swing pricing, as universally mandatory. A Canadian framework that codifies robust liquidity-risk governance, stress testing and contingency planning, and permits, but does not require, sophisticated price-based tools like swing pricing, alongside simpler mechanisms such as redemption fees or anti-dilution levies, would in SIMA's view align with these international recommendations while respecting the structure and distribution channels of the domestic fund market.

Where funds do choose to adopt swing pricing, it should be subject to strong governance and disclosure: clear policies on calibration and maximum swing factors, transparent descriptions of how and when swing pricing may apply, and meaningful oversight by the fund's LRM Supervisor or LRM Committee.

In summary, the CSA should permit swing pricing as an optional tool within a fund's LRM framework, subject to clear disclosure and governance, but should avoid imposing it as a mandatory requirement across the industry.

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.

SIMA's Response:

SIMA recommends that the CSA consider expanding the circumstances in which an investment fund that is a reporting issuer can suspend redemptions by lowering the underlying market exposure in s.10.6(1) of NI 81-102 to 33%. At this level of exposure, disruptions in a significant marketplace can distort underlying security prices and make it difficult to determine fair value. IFMs would be empowered to act quickly in protecting a fund and its investors, following up with timely reporting to the regulator after enacting a suspension.

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.

SIMA's Response:

With respect to temporary borrowing, SIMA recommends that the CSA distinguish between Financial Leverage and Settlement Borrowing. The current NI 81-102 limit on temporary borrowing lacks precision because it does not distinguish between a high-risk activity (**Financial Leverage**) and a low-risk activity (**Settlement Borrowing**). High-risk borrowing for Financial Leverage should be distinguished from low-risk Settlement Borrowing, with different risk mitigants applied to each activity.

For the purpose of this submission, SIMA defines Settlement Borrowing as temporary borrowing that an investment fund may use to address a mismatch in settlement differences between redemption orders and the securities in the underlying investment portfolio. Settlement Borrowing is different from Financial Leverage because portfolio securities trades have been executed (but not settled) so purchase/sale prices are determined, and the borrowing does not amplify returns or increase market risk in the fund. Settlement Borrowing instead introduces counterparty risk if a counterparty fails to settle the previously executed trades. Counterparty risk can be mitigated without limiting Settlement Borrowing.

There are other considerations, including industry-wide structural factors outside the control of IFMs, that make the current limit impractical in certain circumstances. Despite Canada's move to T+1 settlement, many overseas markets remain on T+2 with different trading hours and holidays. This creates settlement mismatches that can constrain a fund's ability to raise cash in time to meet redemption payments, increasing liquidity risk during periods of large outflows.

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Importantly, it should be noted that in this type of scenario the fund is not leveraged. Securities are sold on trade date, and proceeds are reflected as cash for NAV purposes; the issue arises solely due to settlement timing mismatches.

The only alternative way to prevent overdrafts in the scenarios described above would be to require portfolio managers to maintain significant cash or cash equivalent balances. This would not be in the best interests of unitholders, as it may negatively impact performance. For equity and fixed income funds, holding excess cash would result in missed investment opportunities, as cash and cash equivalents typically generate materially lower returns than longer-term securities.

This situation commonly leads to temporary overdrafts and associated overdraft expenses. If the overdraft exceeds 5% of NAV, the fund would be in breach of NI 81-102. The exemptive relief allowing funds to borrow up to 10% of the fund's NAV, subject to certain conditions, is not sufficient to resolve the issue of large redemptions, particularly for smaller funds.

As noted in SIMA's response to Question 2 in this Appendix B, SIMA recommends that the borrowing limit in s.2.6(1)(a)(i) of NI 81-102 be increased to 10% of the fund's net asset value at the time of the borrowing, while maintaining the other conditions as they currently appear in s.2.6(1).

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.

SIMA's Response:

The Consultation Paper mentions redemption in kind as an LMT in use in Canada, but it is not listed and described in the Types of LMTs section. SIMA requests that in-kind redemptions remain permitted.

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.

SIMA's Response:

SIMA notes the following:

- Money market funds should be out of scope (i.e., fixed NAV per unit investment funds) for requirements related to all price-based LMTs and, except in extreme circumstances, most quantity-based LMTs. Money market funds are short-term in nature and primarily invest in cash, cash equivalents and short-term, high-quality debt instruments with short maturities. This inherently limits liquidity risk compared to other fund types. Tools such as swing pricing and redemption gates are generally designed to address liquidity mismatches in less liquid portfolios. For money market funds, these tools are either unnecessary or impractical given the nature of their assets and liquidity profile.
- ETFs (including exchange-traded series of mutual funds) may be another category to consider carving out of requirements relating to LMTs, recognizing that the operational mechanism to create and redeem ETF units through secondary market trading mitigates part of the liquidity risk associated with ETFs. Please also see SIMA's response to Question 4 in our Appendix A.

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

SIMA's Response:

SIMA does not agree with the four classification categories.

Mandatory Liquidity Classification of Underlying Portfolio Assets

The CSA's proposed four-bucket liquidity classification regime would impose a detailed, position-level labelling exercise on all investment funds, but there is little evidence that this added complexity and cost would generate commensurate regulatory or investor benefits. Canadian regulators already have meaningful visibility into fund-level liquidity profiles, notably through the OSC's Investment Fund Survey. The Survey already requires funds registered in Ontario to allocate 100% of net assets across time-to-sale buckets (daily, 2–7 days, 8–30 days, etc.), and the CSA Systemic Risk Committee (SRC) explicitly relies on this dashboard for aggregated insight into funds' liquidity and holdings. Recent SRC reporting indicates that even in the segment identified as most exposed – fixed income mutual funds – approximately 64% of assets can be liquidated within one day under normal trading conditions, and that overall liquidity risks remain low. It has also observed that liquidity profiles have remained stable over time. Against this backdrop, a new, more prescriptive framework risks adding substantial compliance costs without commensurate enhancement to systemic risk oversight.

Conceptually, the proposed classification regime also rests on judgments that are inherently subjective and therefore difficult to standardize across funds. IFMs would be required to estimate the time needed to both sell and settle each position at a price that does not “significantly” deviate from its carried value, based on a “reasonably anticipated” trade size. None of those terms – significant price impact, reasonably anticipated trade size, stressed versus normal conditions – have uniform definitions. As a result, two fund complexes can legitimately put the exact same security into different buckets simply because they have different internal tolerances for price impact, or different assumptions about how much they would try to sell in each scenario. That undermines one of the main objectives of prescriptive bucketing: improved comparability and clean, aggregated data for supervisory use. In practice, what regulators receive may be an opaque mixture of models, risk appetites and vendor methodologies and not a consistent cross-fund measure of liquidity.

The classification of assets based on how quickly they can be readily disposed of “at an amount that at least approximates the amount at which the asset is valued” requires funds to make hundreds of highly subjective determinations about asset liquidity for a single fund, as opposed to one overall assessment at the fund level. Essentially, for each asset, a fund would have to determine how quickly and how much of it could be convertible to cash at a price that at least approximates the amount at which the asset is valued. It is extremely difficult to make judgments with any precision and confidence about how quickly an asset can be sold at a particular price prior to actually selling the asset, particularly for those instruments that trade over the counter. Further, given the inherent judgment calls involved in assigning specific liquidity classifications to portfolio securities, there is a high likelihood that different IFMs will categorize securities differently, and even inconsistently, based on their own evaluation criteria. Finally, the ability to convert a portfolio security to cash may be impacted by external or idiosyncratic events that cannot be predicted or measured accurately.

Operationally, implementing and maintaining a four-bucket, security-level classification framework is non-trivial. Experience under the U.S. SEC's liquidity rule illustrates how costly and operationally intensive a prescriptive bucketing regime can be. In its [2017 Liquidity Rule Implementation Working Group survey](#), the Investment Company Institute (ICI) reported that 74% of respondents expected the rule's bucketing and related reporting requirements to account for more than half of their initial compliance costs, and 35% expected to spend more than US \$1 million up-front just to comply with the bucketing and associated reporting. For ongoing compliance, 60% of respondents anticipated that bucketing and related reporting would account for more than half of their annual liquidity program costs, and 56% expected to spend more than US \$500,000 per year to maintain compliance with these requirements. Two-thirds of firms (66%) expected to add staff specifically to implement and administer their liquidity programs, with at least one large complex reporting initial implementation costs exceeding US \$10 million and another expecting US \$2–3 million in annual ongoing costs.

The same survey work showed that most U.S. firms were driven toward external vendors to meet the rule's asset classification obligations at scale: 91% of respondents were considering, or had decided, to work with a vendor, and 90% expected to use vendors for bucketing itself. Over 80% also planned to use vendors for

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market data and for aggregating information for regulatory filings. Overall, this suggests that a similar regime in Canada would not be incremental or low-cost but would instead represent a substantial new regulatory system that funds must build and maintain.

When assessing whether such costs are justified, it is critical to weigh them against the actual historical behaviour of Canadian fund investors and the liquidity profile of Canadian funds. Over multiple episodes of severe market stress, Canadian mutual fund investors have not exhibited “run-like” redemption patterns⁵. During the 2008 financial crisis, when the S&P/TSX Composite Index fell by approximately 42.4%, redemptions from Canadian equity mutual funds amounted to only about 3.2% of total industry equity assets. In earlier episodes, such as the 1998 Asian financial crisis, industry data show that redemptions were even more muted, with equity fund outflows of less than 1% of assets during a roughly 20% index decline.

More recent experience during the March 2020 COVID-related market turmoil tells a similar story. Despite pronounced stress in underlying bond markets and the temporary “no-trade” conditions observed for some instruments, Canadian bond mutual funds saw net redemptions of only about 2.9% of total assets, while equity mutual funds experienced net redemptions of roughly 0.9% of assets. Net sales quickly turned positive again as markets stabilized. These data are consistent with the CSA Systemic Risk Committee’s own conclusion in its 2024 Annual Report on Capital Markets that fixed income mutual funds, the segment flagged as carrying the most liquidity risk, hold a large share of assets in relatively liquid instruments and that, overall, liquidity risks in this sector remain low. Considering this empirical record of modest redemptions through severe downturns, and the already-demonstrated resilience of Canadian open-end funds, it is not evident that a highly granular, prescribed bucketing regime is necessary to guard against system-wide liquidity shocks.

The composition and behaviour of the Canadian mutual fund investor base further argue against the need for highly prescriptive liquidity bucketing. Industry data indicate that roughly half of mutual fund assets are held in long-term, tax-advantaged vehicles such as RRSPs and TFSAs, which are structurally oriented toward retirement saving rather than short-term trading⁶. Most investors buy funds with professional help: eight in ten use an advisor for all or part of their portfolio and 63% of mutual fund investors made their last purchase through an advisor⁷. This combination of long-horizon, tax-sheltered savings and adviser-led decision-making supports a relatively stable investor base that has historically “stayed the course” through market cycles, which in turn reduces the likelihood of rapid, destabilizing redemption spikes that a granular public bucketing regime is ostensibly designed to address.

Against mandatory public disclosure of quantitative liquidity buckets

SIMA cautions strongly against any public disclosure of quantitative liquidity classification information. For most retail investors, granular bucket percentages are unlikely to be decision-useful and will potentially be misread as precise, forward-looking signals⁸. Behavioural research and survey evidence suggest many investors have limited numeracy⁹ and rely on simple heuristics; when presented with data such as “X% of assets are illiquid” or “Y% take more than five days to sell and settle,” they may treat these figures as hard indicators of safety or risk, rather than as rough, model-based estimates that depend heavily on assumptions about trade size and market conditions. In stressed markets, even small changes in reported bucket allocations could therefore be over-interpreted, not because the underlying risk has fundamentally changed, but because the numbers appear to have moved in a way that is difficult for non-experts to contextualize.

The U.S. SEC’s experience underscores these concerns. After initially planning to require public reporting of aggregate liquidity buckets, the SEC ultimately stepped back. The Commission concluded that the

⁵ SIMA Research.

⁶ Investor Economics, SIMA request.

⁷ SIMA-Pollara 2025 Investor Survey.

⁸ The complexity of economic decisions, by Xavier Gabaix & Thomas Graeber (National Bureau of Economic Research, 2024).

⁹ <https://www.ciro.ca/sites/default/files/2024-06/2024-Investor-Survey-Report-EN.pdf>.

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apparent objectivity of the figures masked a highly subjective classification process. The SEC noted that presenting the data as simple percentages “may imply precision and uniformity in a way that obscures its subjectivity,” and that, in this format, there was “a significant risk of confusing and misleading investors”¹⁰.

The SEC also highlighted how much model risk and methodological discretion sit behind apparently simple liquidity labels. It expressly warned that public dissemination of aggregate bucket data, “without an accompanying full explanation to investors of the underlying subjectivity, model risk, methodological decisions, and assumptions that shape this information,” could be misleading, and that such data “may not be useful for investors” because it would not yield a genuine “apples to apples” comparison between funds. In other words, two funds could report similar percentages in a “5-day” bucket even though they got there using very different models and tolerances for price impact. The Commission further observed that, to make the data truly interpretable, one would need a long, technical narrative explaining each input and assumption, something that would be inconsistent with the purpose and format of standardized positional reports.

On that basis, the SEC ultimately decided to eliminate public disclosure of aggregate liquidity buckets and to pivot toward narrative disclosure in shareholder reports. It reasoned that effective communication of liquidity risk, and its management is better achieved through tailored, qualitative discussions of a fund’s LRM program rather than through bucket percentages that can give investors a “false impression that they can rely on the sole results of time bucketing for comparing liquidity of different funds in making their investment decisions.” The Commission’s conclusion was that public bucket data, in the absence of extensive context, risked doing more harm than good.

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.

SIMA’s Response:

SIMA does not agree with including the settlement period in the timeline for the four classification categories. Settlement risk is a distinct risk that should be separated from other types of liquidity risk for the purpose of risk assessment and risk mitigation. In SIMA’s response to Question 6, we proposed a risk mitigation framework for settlement risk. Including settlement period in the classification categories again mixes two distinct types of liquidity risk together, the market trading liquidity of assets and the settlement cycle for assets. We believe that mixing the two risk types together obscures the source and severity of risk which can make the classification process less useful for IFMs. For example, if an investment fund holding is classified in the fourth category, it is not known if the holding is difficult to trade or if it simply has a long settlement cycle.

Settlement risk should be addressed separately. Settlement classification can also be conducted. For example, asset settlement risk could be assessed by dividing assets into settlement categories such as:

- Normal settlement assets ($\leq T+3$): requiring minimal additional liquidity buffers.
- Extended settlement assets ($> T+7$): requiring more scrutiny due to prolonged exposure to market gaps, counterparty risk, and funding constraints.

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.

¹⁰ <https://www.sec.gov/files/rules/final/2018/ic-33142.pdf>.

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SIMA's Response:

As noted in SIMA's response to Question 9, SIMA does not believe that it is possible to conduct a single classification that captures both normal and stressed market conditions. SIMA believes that best practice is to conduct liquidity classification under typical or current market conditions and to conduct a separate classification under stressed market condition assumptions. Typical and stressed classifications are reviewed and interpreted separately. Requiring both a normal and stressed market condition framework and timeline to dispose would duplicate work efforts and invite unnecessary subjectivity.

The Proposed Amendments to NI 81-102 include a requirement for IFMs to conduct liquidity risk monitoring periodically, including stress testing. Liquidity stress testing typically includes conducting liquidity classification under stressed market condition assumptions and comparing the results with stressed redemption assumptions. SIMA believes that liquidity stress testing is an appropriate way to incorporate stressed market assumptions into the liquidity assessment of an investment fund.

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

SIMA's Response:

SIMA does not support the potential change to the definition of illiquid asset in the Consultation Paper. The potential change fails to address the current shortcomings in the definition of "illiquid asset" and introduces further complexity and operational burden.

The linkage between the illiquid asset limit and liquidity classification may result in IFMs modifying their classification process to ensure compliance with the limit, which could inadvertently weaken the liquidity classification and risk management process. Liquidity classification should be separated from the NI 81-102 definition of illiquid assets. We also note that the European regulators have elected to separate the concept and monitoring of illiquid assets (i.e., the "Trash Ratio") from liquidity classification / profiling¹¹.

While SIMA strongly believes the NI 81-102 definition of illiquid assets should not be considered alongside changes to liquidity classification, we would like to share concerns identified with the proposed definition:

- The current definition refers to "market facilities on which public quotations in common use are widely available". This definition appears to have been designed for equity securities, where the stock markets use public quotations that are widely available. However, other types of assets, including fixed income securities, do not generally trade on market facilities with widely available public quotations, and therefore IFMs have had to interpret those terms in a way to permit their funds to invest in non-equity liquid assets. Therefore, we would recommend that the CSA delete the reference to "market facilities on which public quotations in common use are widely available" from the definition of illiquid asset.
- The current definition contains a reference to "restricted security", which is itself unclear. This has created some confusion in the industry; for example, whether 144A securities are restricted securities under the definition. We recommend the CSA move to a single prong definition that excludes the restricted security reference.
- The addition of "5 business days" to the definition as proposed by the CSA differs from the time horizon in the equivalent U.S. securities law definition, which uses "seven calendar days". It's not clear why the CSA chose five business days and whether there was a specific reason not to align with the timing in the U.S. regulation. This inconsistency would make operationalization by IFMs who have U.S.-based affiliates more challenging.

¹¹ European Securities and Markets Authority (ESMA), *Final Report: Technical Advice on the UCITS Eligible Assets Directive*, 26 June 2025. This report explains that the 10% "trash ratio" operates as a standalone exposure limit within the eligible-assets framework—separate from liquidity classification or profiling.

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- The proposed definition will group truly illiquid securities with, for example, securities with no active markets and/or high valuation uncertainty, together with relatively liquid securities with low valuation uncertainty where the investment fund simply has a large holding and/or the security has a long settlement cycle.

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

SIMA's Response:

Please refer to SIMA's response to Question 12 above. SIMA believes it would be beneficial for the CSA to provide additional guidance and/or add precision to the current definition of illiquid asset and, in particular, the phrase "an amount at least approximates the amount at which the portfolio asset is valued". We recommend that the illiquid asset definition focus on assets that have a high degree of valuation uncertainty (i.e., Level III assets under IFRS 13) and/or those that have highly restricted trading conditions (i.e., Russian securities following the imposition of sanctions, or delisted securities).

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.

SIMA's Response:

Yes, SIMA agrees that IFMs should be permitted to use a classification method that groups together portfolio assets that have similar characteristics. For some asset classes, liquidity estimation with models is not available or not meaningful and a grouped treatment is appropriate. The IFM therefore requires the flexibility to apply a grouping approach as needed to develop a comprehensive classification methodology. SIMA notes however that groupings can lead to large differences between IFMs in their approaches to classification and may render comparisons between IFMs based on classification categories to be uninformative.

To the extent that these classifications may flow through to reporting or inclusion in fund disclosure, SIMA believes the same definition should be used across the industry to ensure appropriate comparability.

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?

SIMA's Response:

Yes, SIMA agrees. It is challenging to prescribe "one size fits all" approach for many of the asset classes. There is a risk that the liquidity classification may be either too permissive or too strict for particular asset types if this approach is taken. For example, some asset types, like high-yield bonds, can have more or less liquid issues, depending on the supply and demand for types of issuers, sectors, industries, credit ratings etc. It should be left to the IFM to classify the assets in the funds they manage. The IFM is best equipped to assess and review the liquidity classification of each of its fund portfolio assets.

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

SIMA's Response:

SIMA believes the factors listed in the Consultation Paper should be considered examples, not prescribed requirements. Some of the listed factors are generic and others are not applicable to all assets. It should be left to IFMs to determine which factors they will consider when classifying and reviewing the classification of portfolio assets.

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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?

SIMA's Response:

As noted in SIMA's response to Question 9, SIMA does not agree with mandating a four-bucket, security-level classification framework. For the purpose of providing a response to this specific question and if liquidity bucketing were to be mandated, SIMA supports using "reasonably anticipated trade size" (RATS) to determine liquidity classifications. While RATS is endorsed, SIMA also believes the firms should have the flexibility to classify portions of holdings into different liquidity classification categories at their discretion. Using multiple liquidity categories is more complex, but firms may wish to use this approach when a single category does not accurately reflect the liquidity of the holding.

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.

SIMA's Response:

SIMA believes that there should be flexibility for IFMs to set the frequency of review for the liquidity classification as part of their LRM program. Prescribed rules in this space create a "one size fits all" solution that will be difficult to implement given the breadth of different fund types (e.g., mutual fund, ETF, closed-end fund) and investments that funds can make. SIMA agrees that it is reasonable to require that a review of liquidity classification be performed at least annually and that IFMs should have the flexibility to perform the review more frequently, such as quarterly, in its sole discretion.

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.

SIMA's Response:

SIMA supports limiting the application of Proposed Amendments, related Proposed CP Changes and the LRM Framework to reporting issuers other than ETFs. Please see SIMA's response to Question 4 in Appendix A.

Fixed NAV per Unit funds should be carved out of the liquidity classification framework as they have an established liquidity profiling methodology based on maturities and the proposed liquidity classification would be of limited informational value for the securities held in these funds.

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.

SIMA's Response:

SIMA does not agree that liquidity profile information should be disclosed in the Proposed Fund Report. Only liquidity at the fund level is relevant information to an investor. SIMA does not consider the liquidity of a fund's portfolio of securities to be material to an investor's decision to buy, hold or redeem, given the prospectus states that funds are redeemable on demand and suspension of redemptions may only be made with regulatory approval. Liquidity profile information is even less relevant to an ETF investor as liquidity is obtained through trading on public markets. Portfolio securities classified and disclosed based on a moment in time is not helpful disclosure and may even present a distorted or incomplete picture of the fund's actual liquidity. Such disclosure would also create unnecessary confusion, as mutual funds and ETFs are generally liquid products by design. It is unclear what incremental, or decision-useful information investors would gain from detailed liquidity classifications of individual portfolio holdings.

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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.

SIMA’s Response:

SIMA does not believe that the simplified prospectus should include all information about LMTs. LMTs are operational, fund-level tools used in exceptional circumstances and are not relevant to retail investors’ decision-making. Adding extensive disclosure about all LMTs, whether in a new section or within “Purchases, Switches and Redemptions”, would introduce unnecessary complexity and may confuse investors about the likelihood or nature of LMT use.

This position is consistent with SIMA’s response to Question 20, where we have stated that LMT-related disclosure should not be included in the Proposed Fund Report. Treating the simplified prospectus the same way avoids duplicative, technical disclosure that offers little incremental value to retail investors and helps prevent over-disclosure that could distract from information that is genuinely material to investment decisions.

SIMA believes that including Part B and any applicable risk factor disclosure - like what is required for use of derivatives and securities lending - would appropriately inform investors that a fund may rely on LMTs, even if only in exceptional circumstances.

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

SIMA’s Response:

SIMA does not believe that any additional liquidity-related disclosure should be required in the prospectus, Fund Facts or ETF Facts. This is consistent with SIMA’s responses to Questions 20 and 21. Issuers are already required to disclose the appropriate information in the prospectus, namely, short-term trading fees, redemption fees and when redemptions can be suspended. Additional liquidity-related language would likely confuse investors and would not provide decision-useful information.

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.

SIMA’s Response:

SIMA does not support requiring that investment funds disclose such information, even if on a confidential basis.

For IFMs with a principal regulator in Ontario, portfolio liquidity breakdowns are already reported to the OSC annually as part of the Investment Funds Survey. The CSA should not increase regulatory burden by requiring additional disclosure to the regulator of the same information in a different format. The CSA may instead wish to consider harmonizing the collection of the survey information across jurisdictions.

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

SIMA’s Response:

N/A. See SIMA’s response to Question 23.

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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.

SIMA's Response:

No comments.

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.

SIMA's Response:

See also SIMA's response to Question 9.

No. SIMA believes that public disclosure of the liquidity classification of each investment held by a fund would be confusing and misleading to investors. Investors are primarily concerned with the fund's liquidity (i.e., the investor's ability to redeem daily). A complex calculation is used to create liquidity classifications, and investors would be unable to make any meaningful inference based on such classifications and may inadvertently use the information on liquidity of the fund's individual securities for other unintended purposes.

Furthermore, IFMs are likely to categorize securities differently based on their own evaluation criteria. Any liquidity classification disclosure would also be based on a moment in time, which can change based on external or idiosyncratic events that cannot be predicted or measured accurately.

SIMA understands that there is an SEC requirement for quarterly disclosure of fund liquidity classifications and that this information is made publicly available by the SEC through the Edgar platform. If the CSA were to take a similar approach and take ownership of publicly disclosing the liquidity classifications of all investment funds on their comparable platform, SEDAR+, SIMA is wary of the additional regulatory, operational or system costs that might be directly or indirectly passed on to registered firms.

SIMA also refers to our submission regarding the *CSA Notice and Request for Comments – Proposed Amendments and Proposed Changes to Modernize the Continuous Disclosure Regime for Investment Funds* in connection with disclosure¹².

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

SIMA's Response:

No. Consistent with SIMA's comments provided above, SIMA feels that non-reporting issuer funds should be excluded from the scope of the Proposed Amendments and Proposed CP Changes (including private/non-prospectus qualified funds). If the CSA nevertheless extends the LRM requirements to such funds, it should do so only through a separate consultation focused on non-reporting issuer/private funds. As such, SIMA has not provided feedback on matters relating to non-reporting issuer funds in this submission.

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

¹² https://www.sima-amvi.ca/wp-content/themes/ific-new/util/downloads_new.php?id=30192&lang=en_CA

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SIMA's Response:

SIMA believes that investment funds that are reporting issuers should only be required to promptly report instances where a fund suspends redemptions and when the fund activates LMTs that materially impact the redemption price or an investor's ability to redeem out of the fund. The other liquidity-related events listed do not warrant immediate reporting to securities regulators, as many of these occur frequently. Requiring prompt reports for all such events creates unnecessary regulatory burden and has the potential to overwhelm regulators with notifications and risk diluting their focus on truly material liquidity concerns — such as those significant enough to necessitate a suspension of redemptions.

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

SIMA's Response:

SIMA believes that requiring firms to promptly report to securities regulators during a liquidity-related event could create unnecessary regulatory burden and divert focus from addressing time-sensitive matters. In the earliest moments of financial stress, it's essential that firms can concentrate fully on stabilizing fund liquidity without added distractions.

30. Should the occurrence of any of the above liquidity-related events under "Confidential reporting to securities regulatory authorities" also require public disclosure beyond the current material change reporting requirements? Please explain.

SIMA's Response:

SIMA believes that public disclosure of liquidity-related events beyond the current material change reporting requirements could create unnecessary noise and lead to unintended consequences. Such disclosures might unduly alarm investors, prompting excessive redemption requests that could further strain a fund that is already facing liquidity challenges. SIMA believes the existing material change reporting framework is sufficient, ensuring that truly important information is communicated to investors without triggering unnecessary market disruption.

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

SIMA's Response:

Consistent with our comments provided above, SIMA feels that non-reporting issuer funds should be excluded from the scope of the Proposed Amendments and Proposed CP Changes (including private/non-prospectus qualified funds). If the CSA nevertheless extends the LRM requirements to such funds, it should do so only through a separate consultation focused on non-reporting issuer/private funds. As such, SIMA has not provided feedback on matters relating to non-reporting issuer funds in this submission.