



# CANADA

## FINANCIAL SECTOR ASSESSMENT PROGRAM

### TECHNICAL NOTE ON REGULATION AND SUPERVISION OF INVESTMENT FUNDS

August 2025

This Technical Note on Regulation and Supervision of Investment Funds was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on July 22, 2025.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>

**International Monetary Fund**  
**Washington, D.C.**



INTERNATIONAL MONETARY FUND

# CANADA

FINANCIAL SECTOR ASSESSMENT PROGRAM

July 22, 2025

## TECHNICAL NOTE

REGULATION AND SUPERVISION OF INVESTMENT FUNDS

Prepared By  
**Monetary and Capital Markets  
Department**

This Technical Note was prepared by IMF staff in the context of the Financial Sector Assessment Program in Canada. It contains technical analysis and detailed information underpinning the FSAP's findings and recommendations. Further information on the FSAP can be found at <http://www.imf.org/external/np/fsap/fssa.aspx>

## CONTENTS

Glossary	3
<b>EXECUTIVE SUMMARY</b>	<b>5</b>
<b>INTRODUCTION</b>	<b>8</b>
A. Background	8
<b>REGULATORY AND MARKET STRUCTURE</b>	<b>9</b>
A. Institutional Structure	9
B. Market Structure	11
C. Key Developments Since 2019 FSAP	13
<b>REGULATION AND SUPERVISION OF INVESTMENT FUNDS</b>	<b>14</b>
A. Systemic Risk Monitoring	14
B. Regulation	16
C. Registration	25
D. Supervision	26
E. Enforcement	31
F. Reporting and Data	33
G. International Cooperation	35
<b>BOXES</b>	
1. Long-Term Asset Funds	25
2. Exchange Traded Funds	30
<b>FIGURES</b>	
1. Canada's Financial Sector Structure and NBFIs Sector	9
2. Number of Investment Funds in Canada	9
<b>TABLES</b>	
1. Recommendations on Regulation and Supervision of Investment Funds	7
2. Investment Fund Types	12
3. Oversight Responsibilities for Key Investment Fund Entities	13
4. AMF and OSC Sanctions Imposed on Market Participants in the Investment Fund Sector	33
<b>APPENDIX</b>	
I. Rules on Investment Fund Investments	36

## Glossary

AMF	Autorité des marchés financiers of Québec
AP	Authorized Participants
AUM	Assets Under Management
ASC	Alberta Securities Commission
BoC	Bank of Canada
BCSC	British Columbia Securities Commission
CCO	Chief Compliance Officer
CCMRS	Cooperative Capital Markets Regulatory System
CD	Continuous disclosure
CEO	Chief Executive Officer
CER	IOSCO Committee on Emerging Risks
CIRO	Canadian Investment Regulatory Organization
CIS	Collective Investment Scheme
CSA	Canadian Securities Administrators
CSRA	Comprehensive Systemic Risk Assessment
EMMoU	Enhanced Multilateral Memorandum of Understanding
ESG	Environmental, social and governance
ETF	Exchange-traded Fund
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSEG	IOSCO Financial Stability Engagement Group
FSRA	Financial Services Regulatory Authority of Ontario
GAAP	Generally Accepted Accounting Principles
HoA	Heads of Regulatory Agencies
IF	Investment Fund
IFIC	Investment Funds Institute of Canada
IFM	Investment Fund Manager
IFS	Investment Fund Survey
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IRC	Independent Review Committee
LMT	Liquidity Management Tool
MFD	Mutual Fund Dealer
MI	Multilateral Instrument
MM	Market Makers
MMoU	Multilateral Memorandum of Understanding
MoU	Memorandum of Understanding
MRFP	Management Report of Fund Performance
NAV	Net Asset Value
NBFI	Non-bank financial intermediation
NI	National Instrument

## CANADA

NRIF	Non-redeemable investment fund
OBSI	Ombudsman for Banking Services and Investments
OLTF	Ontario Long-Term Asset Fund
OSA	Ontario Securities Act, R.S.O. 1990, c.S.5
OSC	Ontario Securities Commission
OSFI	Office of the Superintendent of Financial Institutions
RAQ	Risk Assessment Questionnaire
SEC	United States Securities and Exchange Commission
SRC	CSA Systemic Risk Committee
SRSC	Systemic Risk Surveillance Committee
SRO	Self-Regulatory Organization
TN	Technical Note
TSX	Toronto Stock Exchange
UDP	Ultimate Designated Person
U.S.	United States

## EXECUTIVE SUMMARY

**This technical note considers the regulation, supervision and systemic risk monitoring of the investment fund (IF) sector in the Canadian provinces of Ontario and Québec.** The IF sector in Canada is dominated by mutual funds, including those investing in equity and fixed income, while privately offered funds represent a significant proportion of assets under management (AUM). Exchange-traded funds (ETFs) are attracting strong inflows. Canadian IFs invest a significant proportion of their assets in fixed income securities of Canadian issuers. Unitholders are predominantly domestic. The sector is systemically relevant within Canada and of global significance in terms of AUM. Taken together, 90 percent of the AUM of the industry is managed by registered entities that have either the Ontario Securities Commission (OSC) or Québec Autorité des marchés financiers (AMF) as their principal regulator.

**Canada has implemented many of the recommendations from the 2019 Financial Sector Assessment Program (FSAP), including several of those of most direct relevance to the IF sector.** The initiative to create a single securities regulator at the federal level was discontinued, leading to renewed efforts to promote harmonization and consistency among the provincial and territorial authorities via the umbrella organization, Canadian Securities Administrators (CSA). The substantive progress already made with respect to convergence of the regulatory framework should be sufficient to overcome any remaining obstacles to Ontario fully joining the passport system. Looking further ahead, regulatory and supervisory convergence would be facilitated by the CSA Secretariat taking on a more active role, including carrying out peer reviews of CSA members to encourage consistent application of common rules. The authorities also need to focus on deploying a full range of enforcement tools, including monetary sanctions, to constitute an effective deterrent.

**The OSC and the AMF are working to enhance the regulatory framework within the CSA, including on liquidity risk management and ETFs.** Canada has detailed and prudent rules on liquidity of assets held by publicly offered funds, but the availability of liquidity management tools is limited. There is also scope to make progress on stress testing, both at the level of industry practice and authority-led exercises. Meanwhile, as ETFs take an ever-greater share of the Canadian IF sector, the authorities' ongoing review of the ETF regulatory framework should be used to ensure robust arrangements are in place with respect to authorized participants (APs) and market makers (MMs).

**Cooperation on systemic risk continues within the CSA, and between the CSA and other financial sector agencies, but improved data collection and more comprehensive regulatory mandates would provide a firmer basis for this work.** The OSC's Investment Fund Survey should be expanded to cover IFs' credit lines and principal counterparty exposures, while sector-wide data on leverage and liquidity should be collected quarterly. In parallel, the AMF's statutory mandate should be amended to include an explicit systemic risk objective.

**IFs and their managers are subject to an extensive set of regulatory obligations and safeguards that could be strengthened through reforms to oversight of custody and the role of the Independent Review Committee (IRC).** Custody of IF assets is a cornerstone of the International Organization of Securities Commissions (IOSCO) standards in this area, and the CSA should broaden its supervisory program to cover this important activity. Further enhancements to the framework could be identified by reviewing and potentially expanding the role of the IRC beyond conflicts of interest.

**Table 1. Canada: Recommendations on Regulation and Supervision of Investment Funds**

	<b>Recommendations</b>	<b>Agency</b>	<b>Timing<sup>1</sup></b>
<b>1.</b>	The role of the CSA Secretariat should evolve incrementally to foster closer cooperation and consistency across the CSA. This should include ensuring adequate subject matter expertise within the Secretariat and introducing Secretariat-led peer reviews of implementation of commonly agreed rules. These reviews should aim at identifying best practices across the CSA (¶16).	CSA, CSA Secretariat	ST
<b>2.</b>	The legislation governing the AMF should be amended to incorporate an explicit objective for the AMF related to financial stability and reduction of systemic risk (¶16).	AMF, Ministère des Finances (Québec)	MT
<b>3.</b>	The CSA should evaluate the current oversight of custodians and broaden its supervisory activities accordingly to cover ongoing compliance with custody rules (¶26).	CSA	MT
<b>4.</b>	The CSA should take forward its liquidity management project as a priority with the aim of aligning the Canadian framework for liquidity risk management with the recent FSB Recommendations and IOSCO guidance (¶35).	CSA	MT
<b>5.</b>	The CSA should put in place a project aimed at enabling the authorities to carry out stress testing of IFs, including identifying the required data and adapting regulatory reporting requirements accordingly (¶37).	CSA	MT
<b>6.</b>	The authorities should assess the merits of broadening the role of the IRC beyond conflict-of-interest matters as a means of further safeguarding the interests of underlying investors (¶48).	CSA	MT
<b>7.</b>	The OSC should become a full member of the passporting system for registration of firms (¶58).	OSC	MT
<b>8.</b>	The CSA should use its ongoing review of the regulatory framework for ETFs with a view to ensuring more robust and transparent arrangements between ETF providers and authorized participants and market makers (¶73).	CSA	MT
<b>9.</b>	The OSC and AMF should make greater use of enforcement action involving monetary sanctions as a means of deterring misconduct (¶80).	AMF, OSC	MT
<b>10.</b>	The OSC should continue its work to broaden the scope and increase the frequency of its investment fund data collection (¶86).	OSC	MT

<sup>1</sup> I—Immediate (within 1 year), ST—Short term (within 1-2 years), MT—Medium term (within 3-5 years)

# INTRODUCTION

## A. Background

### 1. The work underlying this technical note<sup>1</sup> reviewed the regulation, supervision and systemic risk monitoring of the IF sector in the Canadian provinces of Ontario and Québec.

The review focused on requirements of most direct relevance for financial stability. This included authorization, ongoing supervision, valuation, liquidity, leverage, and segregation and safekeeping of fund assets, building on the relevant IOSCO Objectives and Principles of Securities Regulation (the Principles) e.g., Principles 6, 24, 25, 26, 27, 28<sup>2</sup>; other relevant recent IOSCO and Financial Stability Board (FSB) standards;<sup>3</sup> and analysis of vulnerabilities that could stem from the interconnectedness with other areas of the financial sector. The mission also assessed the arrangements made in Ontario and Québec for monitoring systemic risk arising from the IF sector.

**2. Relative to gross domestic product (GDP), Canada has one of the largest non-bank financial intermediation (NBFI) sectors in the world, of which the IF sector is a major component** (Figure 1). The number of funds grew from 5,615 in 2020 to 6,965<sup>4</sup> in 2023 (Figure 2), while net assets reached just over C\$4tn. The sector is diversified across publicly offered and exempt IFs, with a broad range of investment strategies and asset classes.

---

<sup>1</sup> The author of this technical note is Richard Stobo, Senior Financial Sector Expert in the Monetary and Capital Markets Department of the IMF. The on-site work supporting the findings and conclusions was conducted during the period October 21–November 4, 2024. The information in this note is current as of October 2024. The FSAP team thanks the authorities for the constructive dialogue and the insights they shared.

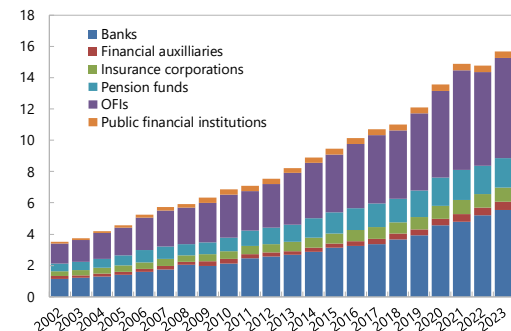
<sup>2</sup> These cover, inter alia, the capacity of the regulator to identify, monitor, mitigate and manage systemic risk; the need for the regulatory system to set standards for the eligibility, governance, organization and operational conduct of IFMs; and the importance of appropriate oversight by regulators of hedge funds and/or their managers.

<sup>3</sup> For example: IOSCO Recommendations for a Framework Assessing Leverage in Investment Funds (December 2019); Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds (May 2023); and Anti-dilution Liquidity Management Tools—Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for CIS (December 2023); FSB Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds (December 2023).

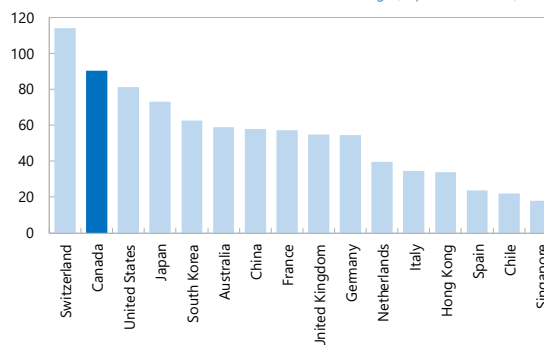
<sup>4</sup> This increase in the number of funds is largely due to a change in the data collection for the OSC's Investment Fund Survey: prior to 2023, data was collected on funds with net assets of at least \$10 million (CAD). From 2023 onwards reporting has been required for all IFs managed by IFMs registered in Ontario.

**Figure 1. Canada's Financial Sector Structure and NBFi Sector****Financial Sector Structure, 2002-2023**

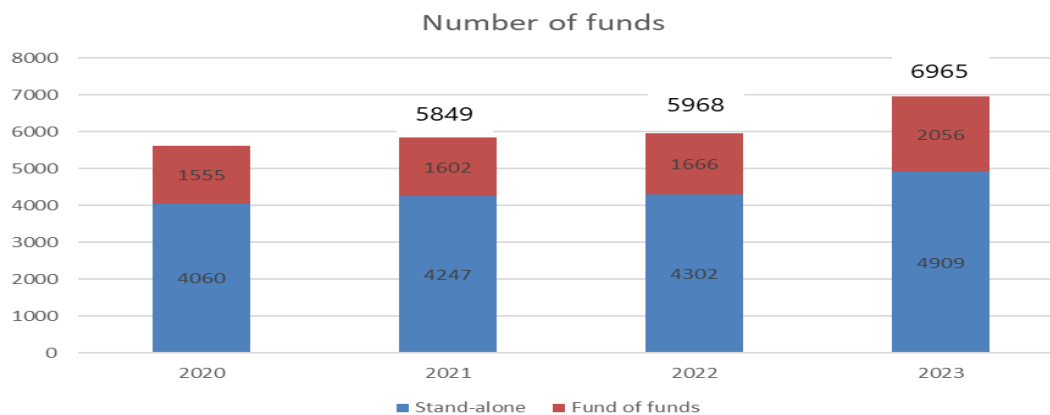
(USD Trillions)

**Nonbank Financial Intermediation, 2023**

Based on the FSB's "narrow measure" of "shadow banking" (in percent of GDP)



Sources: Financial Stability Board and Global Monitoring Report on Nonbank Financial Intermediation 2024.

**Figure 2. Number of Investment Funds in Canada**

Source: Ontario Securities Commission Investment Fund Survey.

## REGULATORY AND MARKET STRUCTURE

### A. Institutional Structure

**3. Responsibility for securities regulation, supervision and enforcement lies at the provincial level in Canada.** Securities legislation is specific to each province and territory but is broadly consistent in structure and overall approach. Each province or territory has a statutory regulator; many take the form of a standalone securities commission, while a few are integrated

financial sector authorities that also cover banking and insurance.<sup>5</sup> OSC is a standalone securities regulator, while the AMF is the integrated regulator for Québec.<sup>6</sup>

**4. In the absence of a single securities regulator at federal level<sup>7</sup>, the CSA was established as an informal, non-statutory umbrella organization that brings together the 13 provincial and territorial authorities.** The CSA's objective is to improve, coordinate and harmonize regulation of the Canadian capital markets to ensure the smooth operation of Canada's securities industry and protect investors. The CSA established a permanent Secretariat in March 2004 in Montreal to monitor and coordinate the work of various CSA committees (composed of representatives of member agencies) on policy initiatives. These collective efforts have led to the adoption of harmonized rules in the form of national instruments (NIs), in which all CSA members participate, and multilateral instruments (MIs), in which only a subset participate.<sup>8</sup> NIs and MIs are given effect in each province or territory according to that jurisdiction's legal regime. Key NIs relevant to the IF sector include NI 81-102 (Investment Funds) and NI 31-103 (Registration Requirements, Exemptions and Ongoing Registrant Obligations).<sup>9</sup> Taken together, the efforts of the CSA towards the establishment of a harmonized regulatory framework represent a significant achievement, particularly considering the complex institutional set-up.

**5. The CSA Secretariat's resources have increased over time to reflect the growth in activity across the CSA more broadly, but its role remains largely limited to project management.** The CSA is not a legal entity; it has neither statutory rules nor by-laws, and participation is voluntary. CSA members retain full responsibility for implementation of laws in each jurisdiction. Although the CSA is widely acknowledged to have been effective in developing common rules for the IF sector, more could be done to foster consistent application of those rules in practice. The CSA Secretariat is well placed to take on that role as it already provides project management support to the CSA members, and its resources have increased over time to allow it to follow the numerous CSA workstreams more closely. It would be a natural evolution in the CSA Secretariat's role for the Secretariat staff to build on existing subject matter expertise and play a

<sup>5</sup> Canada has a complicated financial sector oversight architecture composed of multiple federal and provincial agencies. A large share of financial institutions (particularly banks and insurance firms) is federally regulated by the OSFI.

<sup>6</sup> Throughout this TN, the terms "CSA" and "CSA members" are used interchangeably to refer to the collective group of 13 provincial and territorial authorities, while "authorities" refers to the OSC and AMF. Where a particular description or recommendation pertains to only one of the two authorities, that authority is identified as such. Similarly, the CSA Secretariat is expressly identified where relevant.

<sup>7</sup> Work to establish a Cooperative Capital Markets Regulatory System (CCMRS) was being undertaken by certain CSA jurisdictions and the Federal Government. However, in 2021, the work of related organizations funded by the federal government was paused. The entity that had been established to work on the implementation of the CCMRS was dissolved in 2022.

<sup>8</sup> List of CSA National and Multilateral Instruments: <https://www.securities-administrators.ca/resources/csa-national-and-multilateral-instruments/>

<sup>9</sup> Other key NIs include: NI 81-101 (Mutual Fund Prospectus Disclosure); NI 81-105 (Mutual Fund Sales Practices); NI 81-106 (Investment Fund Continuous Disclosure); and NI 81-107 (Independent Review Committee for Investment Funds).

more active role in driving forward convergence and consistency. In particular, added impetus would be given to the common implementation of CSA rules by putting in place a system of peer reviews.

**6. Recommendation 1:** The role of the CSA Secretariat should evolve incrementally to foster closer cooperation and consistency across the CSA. This should include ensuring adequate subject matter expertise within the Secretariat and introducing Secretariat-led peer reviews of implementation of commonly agreed rules. These reviews should aim at identifying best practices across the CSA.

**7. The authorities have stable and continuous sources of funding based on fees levied on regulated entities and are accountable to their respective Ministries of Finance or legislatures.** The power to adopt or approve rules lies with the Minister of Finance in both Ontario and Québec. To facilitate this adoption, the authorities consult with Ministry of Finance (MoF) staff throughout the policy development process. Any changes originating from the Ministry are generally related to legal drafting issues or to reflect feedback on government policy priorities. Although there is a perception among stakeholders that the policy development process in Canada is lengthy, this can be attributed to several factors, including the mandatory steps in the rule-making process (legislative counsel review, public comment process etc.) and the need for the 13 members of the CSA to discuss and agree on a common position before it is issued for public comment.

## B. Market Structure

**8. Canadian securities legislation defines an “investment fund” as being either: a mutual fund (a fund whose securities are redeemable at net asset value) or a non-redeemable investment fund (NRIF).** A mutual fund means an issuer whose primary purpose is to invest money provided by its security holders and whose securities entitle the holder to receive on demand, or within a specified period after demand, an amount computed by reference to the value of a proportionate interest in the whole or in part of the net assets. The CSA considers an IF that is redeemable at net asset value more frequently than once a year to be a mutual fund. A NRIF is defined under Canadian securities legislation to mean an issuer that is not a mutual fund whose primary purpose is to invest money provided by its security holders but does not invest:

- for the purpose of exercising or seeking to exercise control of an issuer, other than an issuer that is a mutual fund or a non-redeemable investment fund; or
- for the purpose of being actively involved in the management of any issuer in which it invests, other than an issuer that is a mutual fund or a non-redeemable investment fund.

Common types of each fund category are set out in Table 2.

**Table 2. Canada: Investment Fund Types**

Category	Sub-Category	Definition
Mutual fund	Conventional mutual fund	A mutual fund that is not an exchange-traded fund, an alternative mutual fund, or a money market fund.
	Exchange-traded fund	A mutual fund that is exchange-traded.
	Alternative mutual fund	A mutual fund, other than a precious metal fund, that has adopted fundamental investment objectives that permit it to invest in physical commodities/derivatives, borrow cash or engage in short selling in a manner not permitted by NI 81-102.
	Money market fund	A mutual fund that generally invests in short-term, high-liquid, low-risk investments for the purposes of offering investors high liquidity with low levels of risk and is subject to section 2.18 (Money Market Fund) of NI 81-102.
NRIF	Closed-end fund	A fund that raises capital by issuing a fixed number of units, and which are not redeemable on demand. Typically, units of this type of fund are bought and sold on an exchange.
	Flow-through limited partnership	A fund that invests in a portfolio of flow-through shares of certain issuers in order to generally achieve capital appreciation and tax benefits for its investors.
	Scholarship plan	A type of fund whose primary purpose is to help save for post-secondary education.
	Development Capital Investment Fund	A type of fund whose main mission is to participate in the development of Québec companies through individuals residing in Québec.

Source: Canadian Securities Administrators.

**9. The key regulatory distinction between IFs in the Canadian context is whether the fund is offered to the public or is subject to a private offering.** Publicly offered IFs (also known as prospectus qualified IFs) are available to the retail public after a prospectus receipt has been issued by a Canadian securities regulator. This type of IF becomes a reporting issuer and is subject to various continuous disclosure requirements under securities laws. ETFs and mutual funds fall under this category. Privately offered IFs (also known as exempt funds) are distributed pursuant to prospectus exemptions (including those in NI 45-106 – Prospectus Exemptions), which commonly includes an exemption for sales to accredited investors (i.e., investors who meet certain net income or financial asset threshold requirements). Hedge funds are among the funds that fall under this category.

**10. The entities that can manage or provide services to an IF are consistent across IF types.** The key entities, the activities they provide, the agency responsible for applicable rules and guidance, and the relevant self-regulatory organization (SRO) are set out in Table 2. Other entities that provide services to IFs include: i) valuation agents that provide accounting and valuation services to IFs; ii) transfer agents providing securityholder registry services to IFs; iii) custodians that safeguard the assets; and iv) auditors.

**Table 3. Canada: Oversight Responsibilities for Key Investment Fund Entities**

Entity	Activity	Rules and Guidance	SRO
<b>Investment fund manager</b>	Managing the day-to-day operations of an IF	Each CSA jurisdiction	N/A
<b>Portfolio manager</b>	Providing investment advice from Canada or to an IF domiciled in Canada	Each CSA jurisdiction	N/A
<b>Dealer (either investment dealer or mutual fund dealer)</b>	Engaging in the business of trading in securities (including executing orders to purchase, sell or redeem securities of an IF)	Each CSA jurisdiction and CIRO	CIRO
<b>Dealer (either exempt market dealer or scholarship plan dealer)</b>	Engaging in the business of trading in securities distributed pursuant to an exemption from the prospectus requirement or securities of scholarship plans	Each CSA jurisdiction	N/A

Source: Canadian Securities Administrators.

### C. Key Developments Since 2019 FSAP

**11. The authorities have implemented several important reforms of the Canadian regulatory framework for fund management since the 2019 FSAP, reflecting that FSAP’s recommendations, domestic priorities as well as developments at international level.** The Client Focused Reforms (CFRs), which came fully into effect in December 2021, introduced significant enhancements to the conduct obligations for registered entities. Also in 2021, the OSC launched the Investment Fund Survey (IFS) to collect annual data on IFs managed by investment fund managers (IFMs) registered in Ontario. Another area of focus of the CSA has been the merger of two self-regulatory organizations<sup>10</sup> into a single, pan-Canadian entity, the Canadian Investment Regulatory Organization (CIRO). In parallel, the authorities have been further enhancing their supervisory approaches with respect to high impact firms. The CSA has also continued its focus on strengthening the Ombudsman for Banking Services and Investments (OBSI) as an independent dispute resolution service provider, including through a binding authority framework that is fair, efficient and accessible. The design of the proposed framework published for consultation in November 2023 considered international best practices and contemplates providing OBSI with the authority to make awards that are binding, balancing investors’ need for an accessible procedure with the need for fairness, proportionality and efficiency for all parties.

<sup>10</sup> The Investment Industry Regulatory Organization of Canada and the Mutual Fund Dealers Association of Canada.

# REGULATION AND SUPERVISION OF INVESTMENT FUNDS

## A. Systemic Risk Monitoring

**12. The CSA's mission is to harmonize securities regulation, policy and practice around three main objectives: 1) protection of investors; 2) fair, efficient and transparent markets; and 3) the reduction of systemic risk.** Notable among the multiple committees set up by the CSA is the Systemic Risk Committee (SRC), which was created in 2009 to address the need to identify, analyze, monitor, and mitigate systemic risk. The SRC reports to the CSA Chief Executives on its analysis and other activities at least once a year and as otherwise required by the Chief Executives (examples of the latter include the Russia invasion of Ukraine in March 2022 and the United States (U.S.) regional banking crisis in March 2023). However, the development of policy to mitigate identified risks in securities markets is the responsibility of other CSA committees and CSA Chief Executives as appropriate, depending on the risk being addressed. The SRC works with other CSA committees to follow up on identified systemic risks and data gaps and to monitor the status of each.

**13. The SRC and its members have put in place a robust and structured process for the identification, monitoring, assessment, and mitigation of emerging and systemic risks through broad cooperation.** The first step is a Comprehensive Systemic Risk Assessment (CSRA), which is conducted every 1–2 years, and consists of categorization, prioritization, and analysis and identification of main vulnerabilities. This work is complemented by insights gathered from market participants via the annual Systemic Risk Survey. The survey targets portfolio managers and investment dealers to obtain a broad picture of buy-side and sell-side views within the CSA's remit. A high-level summary of the results is published on the CSA website.<sup>11</sup> Further input to the process is collected through thematic analyses (staff research) on potential risks in Canadian capital markets, including risks that are emerging and may become systemic over time. Examples of topics addressed in recent years include the resilience of the repo market and the exchange-traded fund market, the liquidity risk associated with mutual funds, the risks posed by exempt-market funds, and the leverage used by non-bank dealers. SRC members also use a range of metrics and indices to help quantify emerging and systemic risk.

**14. As part of the CSRA, key vulnerabilities and main conclusions for each category are consolidated in a Summary Table of Vulnerabilities.** Each active category is assigned to an SRC member/agency to ensure the Table is up-to-date, and to ensure accountability and a collective ability to monitor these categories over time. The final output of this work is the production of the SRC's Annual Report on Capital Markets. This report presents the SRC's overall assessment of the recent evolution of key financial vulnerabilities within Canadian capital markets and highlights the

<sup>11</sup> <https://www.securities-administrators.ca/resources/csa-surveys/2024-csa-systemic-risk-survey-2/>

CSA's efforts to mitigate those vulnerabilities. With effect from February 2024,<sup>12</sup> this report is published on the CSA website.

**15. Mandates with respect to systemic risk are not consistent across the AMF and OSC.**

Under the Securities Act (Ontario) and the Commodity Futures Act (Ontario), the OSC has a mandate to contribute to the stability of the financial system and the reduction of systemic risk. The AMF is mandated by the Government of Québec to regulate the financial sector while ensuring investor protection and market efficiency. In practice, the AMF does take systemic risk into account as part of its day-to-day registration, supervision and enforcement activities, and it contributes to discussions on systemic risk through the CSA. In addition, the AMF's Chief Economist Office monitors systemic risks across financial markets (including securities markets) and the financial sector. However, enshrining a formal systemic risk objective would give clarity on the importance of this topic and provide a firmer basis for the AMF's work on systemic risk.<sup>13</sup>

**16. Recommendation 2:** The legislation governing the AMF (*Loi sur l'encadrement du secteur financier*) should be amended to incorporate an explicit objective for the AMF related to financial stability and reduction of systemic risk.

**17. At the national level, the CSA works with other domestic agencies to address systemic risk, notably through the HoA.** The HoA serves as a coordinating mechanism for the major federal and provincial financial regulators in Canada. Specifically, the HoA provides a forum for members to:

- share information and cooperate on areas of common interest, including systemic risk surveillance and data gaps;
- inform each other of their agencies' policy priorities;
- share views on domestic and international regulatory work underway;
- support relationships and coordinate with member agencies, including to prepare for and manage crises; and
- discuss policy and inform the formulation of their agencies' own policies, including with respect to mitigating systemic risk.

The HoA is composed of heads or senior representatives of key federal and provincial agencies with regulatory and prudential responsibility for different elements of the financial system.<sup>14</sup> Other

<sup>12</sup> [https://www.securities-administrators.ca/src-2023-annual-report\\_final/](https://www.securities-administrators.ca/src-2023-annual-report_final/)

<sup>13</sup> Section 2 of the Québec Derivatives Act sets out the purposes of the Act; paragraph 5 thereof states: "to facilitate the control of systemic risk in derivatives trading, particularly through rules applicable to derivatives clearing and to clearing house operations." The recommendation set out above aims at introducing a broader systemic risk mandate that would cover the entirety of AMF's activities.

<sup>14</sup> Bank of Canada (Chair), ASC, AMF, BCSC, OSC, Department of Finance Canada, and OSFI.

authorities that are not members may be invited to HoA meetings to address specific matters, as needed.

**18. The HoA created the Systemic Risk Surveillance Committee (SRSC) in late 2019 to formalize and improve financial system monitoring and systemic risk assessment.** This includes identifying both existing and emerging financial system vulnerabilities that may become important over time. The composition of the SRSC is broader than of the HoA and includes the Canada Mortgage and Housing Corporation, Canada Deposit Insurance Corporation, British Columbia Financial Services Authority and the Financial Services Regulatory Authority of Ontario (FSRA). The SRSC reports to the HoA, providing updates at each HoA meeting and ad-hoc, as needed.

**19. The SRSC's work contributes to the Bank of Canada (BoC)'s assessment of financial system vulnerabilities and risks published in its Financial Stability Report.** When needed, the SRSC has formed sub-groups to investigate specific risks. For example, a subgroup was set-up in 2022 to study how fixed-income mutual funds in Canada manage risk arising from liquidity mismatches. The group recently focused on fund managers' stress-testing practices and hedge fund leverage and cash-futures basis trade.<sup>15</sup>

## B. Regulation

**20. The vast majority of securities laws and regulations in Canada are highly harmonized.**

This is due to the efforts of the CSA to cooperate, coordinate and communicate on policy development. Although each province and territory is legally able to pass its own legislation and securities regulators are authorized to make rules, most of the substantive areas of securities law have been largely harmonized in NIs and policies. Where differences remain, the CSA continues to work together to harmonize regulatory requirements and approaches or seeks to minimize the impact of these differences. The CSA maintains a list summarizing the substantive inter-jurisdictional differences in NIs and MIs.<sup>16</sup>

**21. An extensive set of requirements apply to registered firms and individuals, while broad obligations are in place to ensure continuous disclosure on IFs offered to the public.** Registered firms and individuals<sup>17</sup> must also comply with requirements that include establishing policies and procedures to demonstrate compliance with Canadian securities laws, proficiency and industry experience requirements for registered individuals, minimum working capital and insurance coverage requirements.

<sup>15</sup> As discussed in the BoC's [Financial Stability Report-2024](#) and further detailed in this recent BoC [Staff Analytical Note](#).

<sup>16</sup> [https://www.securities-administrators.ca/wp-content/uploads/2023/10/CSA\\_Regulatory\\_Differences\\_Chart\\_VF\\_Engl\\_20230915.pdf](https://www.securities-administrators.ca/wp-content/uploads/2023/10/CSA_Regulatory_Differences_Chart_VF_Engl_20230915.pdf)

<sup>17</sup> Registration is obligatory for individuals seeking to act as a dealer, underwriter or adviser; a chief compliance officer; or an ultimate designated person (full details are set out in NI 33-109 Registration Information).

**22. Both the OSC and AMF have the power to interpret their authority under their respective legislation.** They can adopt and issue guidance to regulated entities on how the authorities interpret specific aspects of securities law and the manner in which the requirements are applied.<sup>18</sup> In addition, almost every rule that the CSA makes is accompanied by a companion policy, which provides additional information relating to the CSA's approach to interpreting or applying the rule.

### Segregation and Custody of Assets

**23. Requirements on custody of IF assets in Canada differ between reporting issuer and non-reporting issuer IFs.** IFMs of IFs that are non-reporting issuers must ensure that assets of the IFs they manage are held by, broadly speaking, a bank or trust company<sup>19</sup> (or affiliates thereof), or an investment dealer that is a member of CIRO and permitted by the rules of CIRO to act as a custodian. For reporting issuer IFs, the list of eligible entities is limited to banks and trust companies (and their affiliates). Assets can be held outside Canada by a foreign custodian if appropriate to facilitate portfolio transactions of the IF outside Canada. Prescribed terms for custodial agreements are set out in NI 81-102 and NI 41-101 and include requiring that appropriate segregation arrangements be observed throughout the custody chain of the portfolio assets of the IF, and requirements for the appointment of sub-custodians.

**24. The CSA does not regulate custodians directly unless the securities regulator is also an integrated regulator like the AMF or through CIRO oversight.** The current approach adopted by OSC and AMF means that, for the institutions that hold a large majority of Canadian IF assets in custody, there is no direct supervisory oversight by the CSA. Custodians are treated as service providers of the IFM and are not directly inspected in the authorities' ongoing compliance review or inspection programs.<sup>20</sup> Although banks and trust companies permitted to act as custodians are overseen by the Office of the Superintendent of Financial Institutions (OSFI) and other provincial prudential authorities (e.g., AMF and FSRA), these do not supervise compliance with nor enforce CSA NIs in general or the custody rules contained therein in particular. The OSC (and AMF in cases where it is not the supervisor of the custodian) rely on their own role overseeing the IFM in this context, as well as on the auditor's reports on the services performed by the custodian. This leads to a material gap in the regulatory and supervisory framework for custody of IF assets in Canada.

**25. IOSCO recognized the importance of custody services by including a specific reference to the segregation and protection of client assets in Principle 25 and adopting Standards for the Custody of Collective Investment Schemes' (CIS) Assets in 2015.**<sup>21</sup> Obligations on segregation of assets, verification of ownership and appropriate independence of the custodian are

<sup>18</sup> The OSC issued a [staff notice](#) that provides a fuller explanation of the various regulatory instruments at its disposal. The AMF has not published such a notice, but indicated during discussions that its approach is broadly similar.

<sup>19</sup> OSFI regulates and supervises all federally incorporated or registered trust and loan companies, which conduct activities similar to banks.

<sup>20</sup> For more on the compliance reviews of IFMs, please see paragraph 66 below.

<sup>21</sup> <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD512.pdf>

key safeguards in the framework for IFs and their underlying investors. Supervision of ongoing compliance with those requirements provides a further line of assurance that these important duties are being complied with.

**26. Recommendation 3:** The CSA should evaluate the current oversight of custodians and broaden its supervisory activities to cover ongoing compliance with custody rules. The optimal approach would be for the CSA members themselves (OSC and AMF for the purposes of this technical note (TN) to take responsibility for this new approach to supervision rather than seeking to rely on OSFI or other agencies. The CSA already has a good understanding of the custody rules and can leverage its direct oversight of IFMs and IFs in integrating custody activities into its ongoing compliance reviews. Additionally, collaboration with OSFI and provincial prudential authorities (e.g. FSRA in Ontario), where relevant, will be essential to enhancing information exchange and avoiding regulatory duplication.

### Valuation of Assets

**27. Part 14 of NI 81-106 sets out requirements relating to the calculation of net asset value, including frequency and use of fair value.** An IF must calculate its net asset value (NAV) at least as frequently as: (a) if the IF does not use specified derivatives or sell securities short, once a week; and (b) if the IF uses specified derivatives or sells securities short, once every business day. In practice, the vast majority of IFs that are not closed-ended calculate their NAV daily, in line with their daily redemption frequency. The NAV of an IF must be calculated using the fair value of the IF's assets and liabilities. Fair value is defined as either (a) the market value based on reported prices and quotations in an active market or (b) if the market value is not available, or the manager of the IF believes that it is unreliable, a value that is fair and reasonable in all the relevant circumstances. When a fair value technique is used, it should be applied consistently and reviewed for reasonableness on a regular basis. For less liquid assets, it is common for IFMs to make use of external valuation providers.

### Accounting Standards

**28. The regulatory framework in Canada for an IFM's accounting and auditing has been harmonized in NI 52-107 (Acceptable Accounting Principles and Auditing Standards).** Registrants, other than foreign registrants, are generally required to prepare annual and interim financial statements in accordance with Canadian Generally Accepted Accounting Principles (GAAP) applicable to publicly accountable entities. This framework means that registrants must prepare non-consolidated financial statements. A registrant must also prepare a Form 31-103F1 (Calculation of Excess Working Capital) on the same basis as the financial statements. The requirement to prepare non-consolidated financial statements and working capital calculations allows the authorities to understand each registrant's financial assets and liabilities, and prohibits registrants from using affiliates to support a registered entity. In addition, IFMs must submit quarterly and annual financial information to the regulators, including interim and annual financial statements, and calculations of excess working capital.

## Liquidity Risk Management

**29. Regulatory obligations on liquidity risk management of Canadian IFs stem from broader obligations that apply under the Canadian securities regulatory regime.** These include the general statutory obligation on IFMs to exercise the powers and discharge the duties of their office honestly, in good faith and in the best interests of the IF. The CSA considers that, in exercising their duties under this statutory conduct standard, it is both in the best interest of the IF and prudent for IFMs to consider investor redemptions and fund liquidity when designing the IF's operations and managing the IF's assets.

**30. Both NI 81-102 and NI 31-103 contain provisions that are relevant to liquidity risk management and the roles and responsibilities of IFMs in managing liquidity risk.** NI 81-102 is generally applicable to all IFs that are reporting issuers, while NI 31-103 is applicable to all registered IFMs. As a fund's liquidity risk is associated with the business of the fund, NI 31-103 requires registered IFMs to have policies and procedures that establish a system of controls and supervision sufficient to address such risk. In addition, the Companion Policy to NI 81-102 states that the CSA expects an IFM to establish an effective liquidity risk management policy that considers the liquidity of the types of assets in which the IF will be invested and the IF's obligations and other liabilities. It also states that IFMs should regularly measure, monitor and manage the liquidity of the IF's underlying portfolio assets, keeping in mind the time to liquidate each underlying portfolio asset, the price the asset may be sold at, and the pattern of redemption requests.

**31. More detailed regulatory expectations relating to liquidity risk management are set out in the guidance in CSA Staff Notice 81-333 (*Guidance on Effective Liquidity Risk Management for Investment Funds*).** It contains guidance to IFMs on developing and maintaining a liquidity risk management framework for the IFs it manages, and covers the following topics: strong and effective governance, creation and ongoing maintenance, stress testing, disclosure of liquidity risks, and the use of liquidity management tools (LMTs) to manage potential and actual liquidity issues.

**32. The only LMTs expressly covered in the regulatory framework for reporting issuer IFs are suspension of redemptions and redemptions in-kind.** There is currently no provision for swing pricing or other anti-dilution LMTs, nor are gates or deferred redemptions permitted. IFMs are encouraged to contact their regulator on a timely and proactive basis to apply for exemptive relief to use LMTs as needed. Such relief was provided in April 2020 to enable fixed income mutual funds to temporarily increase their borrowing limits with certain conditions.

**33. Policymakers at the international level have identified liquidity risks arising from IFs as a priority and been active in seeking to strengthen the regulatory framework accordingly.** In December 2023, FSB issued its *Revised Policy Recommendations to Address Structural Vulnerabilities from Liquidity Mismatch in Open-Ended Funds*, while IOSCO published its *Anti-dilution Liquidity Management Tools – Guidance for Effective Implementation of the Recommendations for Liquidity Risk Management for Collective Investment Schemes* in parallel. Recommendation 4 of the FSB states the following:

*Authorities should ensure that a broad set of liquidity management tools and measures is available for use by managers of open-ended funds in normal and stressed market conditions as part of robust liquidity management practices. Authorities should also reduce operational and other barriers that prevent the use of such tools and measures. In this regard, IOSCO should review its 2018 recommendations and, as appropriate, enhance them.*

Meanwhile, Guidance 1 of the IOSCO document states:

*Responsible entities should have appropriate internal systems, procedures and controls in place at all times in compliance with applicable regulatory requirements for the design and use of anti-dilution LMTs as part of the everyday liquidity risk management of their OEFs to mitigate material investor dilution and potential first-mover advantage arising from structural liquidity mismatch in OEFs.*

**34. The CSA is currently undertaking a broader policy project on liquidity risk management, triggered partly by the aforementioned international developments.** The project is a valuable opportunity to bring the Canadian framework into line with the FSB Recommendations and IOSCO Guidance. While it will be important for the CSA to follow its standard process of consultation and engagement with external stakeholders, there should be a strong presumption that the key elements of the FSB and IOSCO recommendations will be adopted. Feedback from stakeholders during the mission indicated that IFMs would welcome a broader range of LMTs being available (without having to request exemptive relief), but that a move towards the widespread adoption of anti-dilution mechanisms would likely require a strong push from the CSA.

**35. Recommendation 4:** The CSA should take forward its liquidity management project as a priority. The exercise should be conducted with the aim of aligning the Canadian framework for liquidity risk management with the FSB Recommendations and IOSCO guidance discussed above. Once the framework has been updated, the authorities should incorporate it into their registration and compliance review processes.

**36. Regulatory approaches to stress testing of IFs have evolved in recent years, both in the context of stress testing by the IFs themselves and top-down exercises by authorities.** Stress tests are increasingly seen as a crucial component of liquidity risk management programs. Staff Notice 81-333 set out useful guidance on stress testing, including on risk identification, frequency, scenario analysis, and use of results. However, there would be merit in elevating the guidance to an obligation to promote consistent practices and emphasize the importance of stress testing as part of IFMs' liquidity risk management programs. Similarly, the CSA should work towards performing stress testing itself on the basis of an enhanced set of regulatory reporting data (see also Section F, Reporting and Data).

**37. Recommendation 5:** The CSA should put in place a project aimed at enabling the authorities to carry out stress testing of IFs, both as a means of improving its supervisory oversight of the sector and contributing to the identification of systemic risk. This should include identifying the data that would be needed and adapting regulatory reporting requirements accordingly.

## Pricing Errors

**38. IOSCO's Principles for the Valuation of CIS state that IFs should have policies and procedures in place that seek to detect, prevent and correct pricing errors.** The Principles also state that pricing errors that result in a material harm to CIS investors should be addressed promptly, and investors fully compensated. The CSA Companion Policy to NI 31-103 outlines the authorities' expectations regarding the reporting of NAV adjustments: a NAV adjustment is necessary when there has been a "material" error and the NAV per unit does not accurately reflect the actual NAV per unit at the time of the computation. The Companion Policy also describes some examples of the causes of NAV errors, including:

- mispricing of a security;
- corporate action recorded incorrectly; and
- human error, such as inputting an incorrect value.

**39. Canadian IFMs are expected to have policies that clearly define what constitutes a material error that requires an adjustment, including threshold levels, and how to correct material errors.** As market practice, most firms use 50 bps (in line with guidance developed by the Investment Funds Institute of Canada (IFIC)) as the threshold for a material error. The OSC carried out a review of IFMs' submissions on pricing errors received between April 1, 2020, and January 31, 2021. The review determined that most of the errors were identified and rectified in a timely manner.

## Leverage<sup>22</sup>

**40. Requirements on leverage differ between i) mutual funds and ii) alternative mutual funds and NRIFs.** Mutual funds are generally not permitted to create leverage through borrowing, derivatives or short sales, while alternative mutual funds and NRIFs are subject to a 300 percent leverage limit for these transactions.<sup>23</sup>

**41. Disclosures on investment strategies in the IF's prospectus must address permitted use of leverage, including any restrictions and limits.** Similar information has to be provided in the summary of the prospectus. Where ETFs and NRIFs that are alternative funds use leverage, they must also disclose, as part of their investment objectives in the prospectus and, in the case of an ETF, in the ETF Facts<sup>24</sup>, the sources of leverage (e.g., borrowing, short selling, use of derivatives) that the IF is permitted to use and the maximum aggregate exposure to those sources of leverage the IF

<sup>22</sup> Section F (Reporting and Data) of this TN includes a discussion on regulatory data on leverage, including a corresponding recommendation.

<sup>23</sup> The calculation is done on a gross exposure basis; the specific methodology is set out in section 2.9.1 of NI 81-102.

<sup>24</sup> The ETF Facts is a four-page document that summarizes key information about an ETF in a simple, accessible and easily comparable format. Since December 2018, investment dealers have been required to deliver the ETF Facts to investors no later than midnight on the second business day following the purchase of ETF securities.

is permitted to have. Broadly comparable requirements apply to mutual funds that fit within the definition of an alternative mutual fund.

**42. Continuous disclosure requirements apply with respect to leverage for all reporting issuer IFs.** There must be disclosure in the IF's financial statements and Management Report of Fund Performance (MRFP)<sup>25</sup> of (i) the sources of leverage used during the reporting period; (ii) the lowest and highest levels of aggregate exposure to these sources of leverage during the reporting period; and (iii) an explanation of the significance to these levels of exposure in the IF's financial statements.

**43. Non-reporting issuer IFs are generally not subject to the prospectus and continuous disclosure requirements relating to leverage (but leverage data is captured for these IFs via the IFS—see Section F).** However, in Ontario and Québec, mutual funds that are not reporting issuers must prepare financial statements that include the leverage disclosure described above for financial statements of investment funds that are reporting issuers.

### Operational/Conduct of Business Requirements

**44. Canada applies an extensive set of rules on operational and conduct of business requirements to IFMs.** The starting point for these requirements in Ontario and Québec is the statutory standard of care that applies respectively in each province:

In Ontario, an IFM must:

- a. act honestly, in good faith and in the best interests of the IF; and
- b. exercise the degree of care, diligence, and skill that a reasonably prudent person would exercise in the circumstances.

In Québec an IFM must:

in the best interests of the IF and its beneficiaries or in the interest of the fulfilment of its purpose, exercise prudence, diligence and skill, and discharge its functions loyally, honestly and in good faith.

**45. Building on these statutory duties, NI 31-103 sets out standards of conduct with which all IFMs must comply.** These include requirements on internal systems and controls to manage risks, effective monitoring and supervision systems, maintenance of appropriate records, and establishment of a compliance system. An IFM is required to designate two individuals to supervise firm-wide compliance: the Ultimate Designated Person (UDP) and the Chief Compliance Officer (CCO). The responsibilities for an UDP include supervising the activities of the firm that are directed towards ensuring compliance with securities legislation by the firm and each individual acting on its behalf, and promoting compliance by the firm and individuals acting on its behalf, with securities legislation. The responsibilities of the CCO include establishing and maintaining policies and procedures for assessing compliance by the firm, and individuals acting on its behalf, with securities

<sup>25</sup> The MRFP is discussed further in Section F (Reporting and Data) of this TN.

legislation; and monitoring and assessing compliance by the firm and individuals with securities legislation.

**46. Since 2006, the CSA has required each IF that is a reporting issuer to have an IRC.** The IRC is intended to bring an independent perspective to bear on decisions of an IFM that may involve, or be perceived to involve, a conflict of interest with its statutory standard of care. IFMs must establish written policies and procedures on conflict of interest matters before referring such a matter to the IRC; the IRC is charged with reviewing conflicts of interest that may arise between the interests of an IFM and its duty to manage an IF in the best interests of the unitholders. The IRC must be made up of at least three members that are independent of the IF, its IFM or an entity related to the IFM, and it is required to perform regular assessments of the adequacy and effectiveness of the IFM's policies and procedures, any standing instructions it has provided to the IFM, and the IFM's and the IF's compliance with any conditions imposed on them by the IRC.

**47. The IRC has proved an effective mechanism that provides an additional safeguard for the underlying investors in reporting issuer IFs.** This role is of particular importance in the Canadian context given that most IFs are structured as trusts, not corporate entities, and therefore do not have a separate board with independent members who could advocate for the interests of the unitholders. Discussions with stakeholders during the mission indicate that there is an appetite for expanding the role of the IRC beyond conflicts-of-interest matters. This could include, for example, oversight of third-party service providers (e.g., for custody or portfolio management services), or reviewing the IFM's valuation policies.

**48. Recommendation 6:** The authorities should assess the merits of broadening the role of the IRC beyond conflicts-of-interest matters as a means of further safeguarding the interests of underlying investors. In doing so, the authorities should seek to ensure that any extension of the IRC's mandate does not lead to unintended delegation of accountability by the fund manager to the IRC.

### Composition of Investment Fund Portfolios

**49. Canada's approach to composition of IF portfolios is exclusionary i.e., unless an asset is expressly prohibited, an IF may invest in it (subject to other restrictions such as concentration or liquidity).** There are generally no investment restrictions that apply to non-reporting issuer IFs. For IFs that are reporting issuers, NI 81-102 sets out the standard investment restrictions, which can apply differently to NRIFs and certain types of mutual fund, such as alternative mutuals funds, precious metals funds and money market funds. Some of the main restrictions are set out in Appendix I.

**50. The regulatory framework provides for extensive disclosures to investors, including on portfolio composition.** In the simplified prospectus (a shorter version of the full prospectus), a mutual fund must describe its principal investment strategies and indicate what types of securities, other than those held by the mutual fund in accordance with its fundamental investment objectives, may form part of the portfolio under normal market conditions. Specific disclosure requirements

apply to mutual funds that intend to use derivatives. In addition, mutual funds (other than those that are newly established) must include a table in their Fund Facts<sup>26</sup> disclosing the following: (a) the top 10 positions held by the mutual fund, each expressed as a percentage of the net asset value of the mutual fund; (b) the percentage of net asset value of the mutual fund represented by the top 10 positions; and (c) the total number of positions held by the mutual fund.

**51. The CSA has issued specific guidance to IFs on environmental, social and governance (ESG) disclosures, reflecting increased investor interest in such considerations.** A CSA Staff Notice<sup>27</sup> published in January 2022 was targeted principally at funds whose investment objectives reference ESG factors and other funds that use ESG strategies. The Notice, which also provides guidance on the types of investment fund that may market themselves as being focused on ESG, includes best practices that the CSA believes would enhance ESG-related disclosure and sales communications. A revised version of the Notice issued in March 2024 took account of ESG-focused reviews of the disclosure and sales communications of investment funds carried out by CSA members; those reviews had indicated, inter alia, that there was a need to provide guidance for specific types of ESG-Related Funds in order to reduce the potential for greenwashing.

**52. The OSC has issued a proposal for a new vehicle, the Ontario Long-Term Asset Fund (OLTF), that would facilitate retail investor access to long-term assets (Box 1).** This is a local initiative announced by the Ontario Government in its 2023 Fall Economic Statement. It follows a similar proposal put forward by the Capital Markets Modernization Taskforce<sup>28</sup> set up in February 2020 by the then Minister of Finance for Ontario to make recommendations to modernize Ontario's capital markets regulation. The OSC has committed to keeping other CSA members informed as the project progresses.<sup>29</sup>

**53. Subject to how the initiative develops in the coming years, it will be important for the OSC – and any other CSA members that may wish to introduce a similar vehicle – to ensure that the redemption policy prescribed for the OLTF matches the relative illiquidity of the underlying portfolio.** In this context, the authorities will be able to draw on the outcomes of the broader project on liquidity risk management (discussed in paragraph 34 above) when designing the features of the OLTF framework.

---

<sup>26</sup> A disclosure document which is no more than four pages long, written in plain language, follows a prescribed format, and highlights key information about a mutual fund.

<sup>27</sup> CSA Staff Notice 81-334 - ESG-Related Investment Fund Disclosure

<sup>28</sup> <https://www.ontario.ca/document/capital-markets-modernization-taskforce-final-report-january-2021>

<sup>29</sup> An initiative of this kind would typically have been brought forward by the CSA as a whole rather than by the OSC acting alone.

### Box 1. Long-Term Asset Funds

In October 2024, the OSC published a [consultation paper](#) aimed at improving retail investor access to illiquid investments through a framework for a long-term asset investment fund product structure. This initiative follows in the footsteps of similar reforms in the European Union (i.e. the European Long-Term Investment Fund regime) and the UK (i.e., the Long Term Asset Fund regime).

The consultation proposes the creation of a new investment fund category, the Ontario Long-Term Asset Fund (OLTF), which would allow Ontarians to invest in assets to which they may not previously have had exposure. These assets include venture capital, private debt and equity, and infrastructure and natural resource projects. Currently, such assets are generally only available in exempt funds that are not available to the general public. Investors would have an opportunity to diversify their portfolio across assets, but also across different types of businesses or projects.

The proposed new framework would allow retail investors to gain exposure to these long-term assets through the professional management of a registered IFM and registered portfolio manager. Distribution through a prospectus-qualified investment fund product would mean that suitability, know-your-client (KYC) and know-your-product (KYP) requirements would generally apply. The consultation also seeks feedback on investor access to OLTFs through order-execution-only, or "DIY" dealers.

## C. Registration

**54. Suitability for registration is principally assessed through proficiency, integrity and solvency criteria.** Applicants must submit an extensive set of information, which is then verified by the regulators using internal and external sources. The authorities take a consistent approach to their reviews and assessments by adhering to a common CSA registration operations manual. Where novel issues arise, the regulators aim to implement a harmonized approach by discussing these novel policy-related matters at the CSA Registration Operational Working Group (which includes staff from the CSA member jurisdictions and from CIRO).

**55. Individuals seeking designation as CCO of an IFM have to satisfy certain specified criteria, such as being a lawyer in a jurisdiction of Canada or having passed the specified qualifying examinations.** Firms and individuals can apply for registration in more than one province or territory when they make their initial application for registration. Once registered in any jurisdiction, firms and individuals can apply to register in additional provinces or territories.

**56. Most firms applying for registration in more than one province or territory can use the "passport" and "interface" registration system.** The system used allows a firm to submit the application with its principal regulator,<sup>30</sup> which reviews the application on behalf of the regulators in the other jurisdictions (the non-principal regulators) where the firm is also seeking registration. The firm or the individual's sponsoring firm communicates only with the principal regulator. Once registered in the principal jurisdiction, a firm is registered in the same registration category in the

<sup>30</sup> The principal regulator for registration for a firm is the regulator of the Canadian jurisdiction where the firm's head office is located; in the case of foreign firms, the principal regulator is the regulator of the Canadian jurisdiction where the firm expects most of its clients to be resident at the end of its current year.

other jurisdictions where the firm is seeking registration, either automatically or through the interface, depending on the circumstances.

**57. The OSC is not part of the passport system.** Where the OSC is not the principal regulator and a firm is also seeking registration in Ontario, the registration decision of the principal regulator does not automatically apply in Ontario. However, in deciding whether to opt into the decision of the principal regulator, the OSC places significant reliance on the review performed by the principal regulator for these applications, and opting out is generally a rare occurrence. The OSC will perform an additional review using a risk-based approach where: the application raises novel issues, there are suitability concerns, the principal regulator recommends regulatory action (e.g., terms and conditions), the principal regulator requests consultation with the OSC, or where the application involves areas that are unique to the OSC or where the OSC has a different view from the CSA. In instances where the OSC is the principal regulator or the applicant is not seeking registration in Ontario, the application is processed under the passport system.

**58. Recommendation 7:** The CSA regulatory framework is sufficiently harmonized, and supervisory cooperation appropriately embedded, that Ontario should now become a full member of the passporting system for registration of firms.

**59. The authorities conduct a “Registration as the First Compliance Review” of firms applying for registration.** This review process, which was introduced in January 2014, includes in-person interviews and review of select documents with all applicants on key matters such as their business activities, compliance structure, risk management, fund administration and KYC/suitability practices. This approach allows the securities regulators to:

- proactively identify and support firms in correcting compliance issues before firms commence operations;
- risk rank new firms and schedule future onsite reviews based on assessed risk; and
- identify and provide resources available to help applicants understand and meet their regulatory obligations.

Firms applying for registration are also required to describe the proposed arrangements for the custody of assets of an IF.

## D. Supervision

**60. The authorities have extensive statutory authority to review the books, records and documents required to be kept by a market participant as defined in the legislation.**

Leveraging those powers, the securities regulators have developed comprehensive compliance reviews and inspection programs for various market participants. On an ongoing basis, the authorities conduct both full and issue-oriented reviews of the continuous disclosure (CD) filings of reporting issuers, including IFs. These reviews—which can be on-site or off-site—are designed to assess whether issuers are complying with their disclosure obligations under NI 81-106 (Investment

Fund Continuous Disclosure) and that the filings are made in a timely manner. “Full” reviews are broad in scope and generally involve a review of the issuer’s CD record for a period of at least 12 months, including financial statements, the MRFP, prospectus, Fund Facts, press releases and issuer’s website. “Issue-oriented” reviews are in-depth reviews focusing on a particular industry segment or on a particular topic, or based on complaints. Generally, a risk-based approach is used to select issuers for reviews; however, some issuers are also selected for review on a random basis, or due to market events (e.g., issuers exposed to U.S. banks that collapsed). Other risk factors which may be used to select an issuer for review include issuers who report material changes, a change of auditor, new reporting issuers and issuers with a previous CD review issue.

**61. For IFMs registered in Ontario, a comprehensive annual IFS gathers several data points on the IFs they manage which are used to identify higher risk issuers or an area of focus for a review.** Based on the data gathered in the survey, IFs that have outlier data points relative to other IFs of a similar nature may be flagged for further review. The IFS is a useful tool as it supplements data that is required to be reported in the CD filings of IFs, and the information can be compared to look for trends over several periods, compared to other reporting issuers, or identify outliers that require more focus or follow-up.

**62. The authorities conduct compliance reviews of selected registrants on a review cycle that each regulator sets according to its priorities and resources.** Compliance reviews generally focus on a registrant’s conduct, practices, operations and capital adequacy established through the harmonized compliance requirements under NI 31-103. The overall framework for reviews is risk-based. The risk-based approach is intended to identify the registrants that are most likely to have material compliance issues, particularly issues that may cause investor harm, and prioritize the reviews of those firms. However, the regulators also consider the need to do routine monitoring of all registrants to minimize the possibility of leaving risks unidentified. Therefore, the regulators generally follow a blended approach to reviews. Every year, using a risk-based approach for the most efficient allocation of resources, each of the regulators determines an inspection plan that includes conducting periodic or routine reviews and the possibility of conducting for-cause reviews as well as thematic sweeps targeting a specific group of registrants based on a variety of criteria such as the type of products or services offered, their target market, their business model or size of operations.

**63. The frequency of reviews varies across Ontario and Québec, reflecting the specificities of each authority’s risk-based methodologies and resources.** The AMF is able to review all registrants within a prescribed period, or cycle, although the higher risk firms are subject to more intense and frequent monitoring. The OSC uses an approach that combines risk-based criteria and a set review cycle for certain types of firms.

**64. Compliance staff may conduct a review on-site at a registrant’s premises or off-site such as annual desk reviews of registrants’ financial statements and capital adequacy to assess compliance with working capital requirements.** The majority of reviews are proactive in nature, but securities regulators also perform reviews on a for-cause basis where staff are aware of a potential compliance issue, for example, from a complaint, or a referral from another division, the

SRO or another regulator. Securities regulators also conduct sweeps, targeted reviews or thematic reviews, which are compliance reviews of a sample of registrants on a specific topic or in a particular industry sector over a short period of time. Sweeps allow securities regulators to respond on a timely basis to industry-wide concerns or issues. A review can be either full or limited in scope and can be either a desk review or an on-site review.

**65. Generally, any weakness or violation of securities law discovered during a review is brought to the attention of the market participant for resolution.** If the securities regulators are not satisfied with the market participant's corrective action, or if the deficiencies uncovered are significant in nature, the securities regulators may take further action, including referring the matter to their enforcement division for further investigation and regulatory action.

**66. Compliance reviews of IFMs often cover the relationship between the IFM and its service providers, including the custodian.** Staff of the securities regulators review the agreements that govern the relationship between the IFM and the custodian or sub-custodian. The agreement is expected to reflect the registrants' statutory standard of care obligation and should not contain any statement or clause that contravenes this obligation. They also review the policies and procedures that the IFM sets and follows in overseeing the custodian's operations. For example, staff will ensure that the IFM performs monthly reconciliations of custodial portfolio asset positions.

**67. Multiple options are available to the authorities when following up on deficiencies identified during a compliance review.** Registrants may be subjected to suspension of registration, enhanced oversight, or restrictions imposed by way of terms and conditions or undertakings. In such cases, firms may be required to hire a compliance monitor, establish a compliance plan to rectify deficiencies and send periodic filings and reports to CSA jurisdictions on the progress made in implementing the compliance plan. Under enhanced oversight, CSA jurisdictions monitor registrants and review regular (monthly, bi-monthly, or quarterly) filings and reports on a continuous basis until the compliance plan has been fully implemented.

**68. In Ontario, the OSC distributes its Risk Assessment Questionnaire (RAQ) to entities registered in the province.** The RAQ is a comprehensive bi-annual questionnaire covering all registrants' business operations, and enables OSC staff to populate its registrant risk assessment models and risk rank all registrants. OSC staff share firms' responses with each firm's principal regulator to enhance that regulator's understanding and risk assessment of the firms they regulate. The OSC also distributes periodic questionnaires and surveys to deepen and update its understanding of industry and product risks. In addition to the RAQ data, this information assists OSC staff to better identify systemic risks and more accurately target thematic issues and high-risk firms for on-site reviews.

**69. Where the firm has outsourced certain functions to a service provider, the regulator, the registrant and the firm's auditors are expected to have the same access to the work product of the service provider as they would if the firm itself performed the activities.** Registrants are expected to ensure this access is provided and include a provision requiring it in the contract with the service provider. The compliance review of an IFM may include the review of the

agreements that govern the relationship between the IFM and its service providers as well as the policies and procedures that the IFM sets and follows in selecting a service provider and overseeing the service provider's performance of the delegated functions.

**70. The OSC also has a “high impact firms” program under which systemically important registrants are identified using the RAQ data and are subject to a compliance review on a three-year cycle (as part of the high impact program or another aspect of the inspection plan).** As any material compliance issues with these firms could potentially affect a significant number of investors (including retail) and the industry itself, the OSC ensures that a review of these firms is part of its inspection plan every year. The reviews for high impact firms focus on assessing the firm's ability to identify and effectively manage its regulatory and compliance risks by reviewing each firm's:

- governance structure;
- risk framework, including the risk identification and risk management process; and
- identified compliance issues during the review period, including how any non-compliance was remediated and what steps were put in place to prevent recurrence.

CIRO conducts compliance reviews of the dealing operations of investment dealers, futures commission merchants and mutual fund dealers. If a firm is registered in multiple categories, it may be subject to a compliance review by both the OSC and CIRO.

### **Exchange-Traded Funds**

**71. The Canadian ETF sector has grown rapidly in recent years and continues to attract strong inflows (Box 2).** There are a total of 1,189 ETFs listed in Canada, over 900 of which on the Toronto Stock Exchange (TSX), with assets of C\$478.5 billion at the end of September 2024 according to IFIC statistics (a rise of 25 percent over the year). The number of actively managed ETFs continues to grow. As of December 2022, there were 176 actively managed ETFs that reported to the OSC's IFS, growing to 223 ETFs as of December 2023 (27 percent increase). In contrast, index-tracking ETFs grew from 451 funds to 555 funds (23 percent increase) in the same period. There is an increasing number of alternative mutual funds as managers seek to bring alternative strategies to ETFs. The number of ETFs that are alternative mutual funds grew from 54 in December 2022 to 89 in December 2023.<sup>31</sup>

---

<sup>31</sup> The figures in this paragraph exclude mutual funds with an ETF series.

### Box 2. Exchange Traded Funds

Canada has a large and diverse ETF sector that continues to grow rapidly. Increasingly, IFMs are adding exchange-traded series to their mutual funds rather than launching a standalone ETF. There were 141 mutual funds with an ETF series as of December 2022, growing to 185 in December 2023. In this dual class structure, a fund offers conventional mutual fund series (not listed on an exchange) together with series that are listed on an exchange, with the assets of all series referable to the same pool. Investors that purchase conventional mutual fund units of the fund receive a fund facts document, while investors that purchase exchange-traded units of the fund receive an ETF facts document.

ETFs have proven to be an important innovation in the investment fund sector, and provide a relatively low-cost option to investors, with the added benefit of being listed on an exchange. However, the mechanisms underlying the ETF structure are complex and can give rise to specific risks. These mechanisms rely on APs—the entities that create and redeem shares directly from an ETF at the NAV per share—and MMs i.e., entities that register with the relevant exchange to provide liquidity by posting two-way quotes on a regular and continuous basis, balance supply and demand, and profit from arbitrage opportunities. ETFs typically have multiple APs. Based on the OSC's IFS, as of December 2023, approximately 90 percent of ETFs had 4 or more APs. However, 60 ETFs (6 percent of the sector) had 1 AP, 23 ETFs had 2 APs and 6 ETFs had 3 APs.

Under the Canadian regulatory framework, APs and MMs are investment dealers. Investment dealers are required to be registered under securities legislation and be members of CIRO, and are therefore subject to CIRO rules and policies. MMs must meet the market making program requirements of the listing exchange, including performance obligations, to act as the MM for an ETF. ETF managers typically nominate a dealer to act as the MM for its ETF. APs and MMs act in their commercial interests; however, a listing exchange may, in accordance with its procedures, revoke or suspend a MM's appointment and/or benefits due to underperformance, subject to discussion with the ETF manager.

As the ETF sector continues to grow in Canada, it will be important for the authorities to monitor developments closely. Effective cooperation is crucial in this respect given that different parts of ETF structures and activities are overseen by different entities, i.e., the OSC or AMF supervises the IFM, CIRO oversees the APs and MMs, while TSX plays a role in verifying compliance with continued listing requirements such as timely and periodic disclosure of material information.

The first Bitcoin ETF was approved in Canada in February 2021. That followed a separate decision of the OSC's Tribunal in 2019 (overturning the decision of the relevant OSC's Director at the time) to approve a closed-end Bitcoin fund. The CSA has been working to enhance the regulatory framework for crypto funds in general, and is currently finalizing rules (including those on custody) for crypto funds that it hopes to issue in early 2025.

**72. The CSA has already launched a review of the regulatory framework for ETFs in Canada.** As part of the overall aim of aligning the rules with IOSCO's *Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds* (May 2023), the review will look at possible changes to the disclosure rules, including the information that is needed for the arbitrage mechanism to function effectively. More generally, the rapid increase in the number of ETFs, and the complexity of many of the strategies and assets, underlines that the mechanisms on which smooth functioning of ETFs relies should be resilient.

**73. Recommendation 8:** The CSA should use its ongoing review of the regulatory framework for ETFs with a view to ensuring more robust and transparent arrangements between ETF providers and APs/MMs.

## E. Enforcement

**74. Across Canada, all CSA jurisdictions have similar investigation powers and remedial powers, and there is a broadly similar delineation between administrative/regulatory investigations and criminal/quasi-criminal investigations.** While the approach to and priorities of investigations may be driven by specific issues seen in the respective capital markets of the CSA jurisdictions, CSA members often harmonize and collaborate on novel or significant matters through the CSA Enforcement Committee. In addition, CSA members collaborate on investigations that have a connection to more than one province or territory.

**75. The OSC and the AMF have implemented a prioritization process to determine which cases proceed to formal enforcement action.** The Enforcement Divisions have multi-level review and approval processes, from intake to investigation to litigation, to identify and assess serious misconduct and employ appropriate enforcement tools in a timely and effective manner. The Enforcement Divisions also have established frameworks, partnerships, and committees with local, national and international regulatory authorities and law enforcement.

**76. The OSC Enforcement Division's Case Assessment Team (which conducts initial assessments) has a centralized intake process.** The process involves identifying and assessing all tips, inquiries, complaints, or referrals as well as a separate intake process for the OSC whistleblower program. The Case Assessment Team will investigate, as needed, to make a risk-based evaluation and recommendation. Factors taken into account in Enforcement's case selection process include:

- the nature or seriousness of the misconduct;
- when it occurred;
- for how long it has been occurring;
- who is engaged in it and whether they are registered or reporting issuers; and
- who is being harmed and to what extent.

Cases identified for further enforcement action are those where there is some reliable evidence of serious breaches of Ontario securities law that otherwise meet a threshold for consideration by the Enforcement Prioritization Committee using a Risk Assessment Profile.

**77. AMF's Enforcement Division's Case Assessment Team follows a similar approach to initial assessments as its OSC counterpart.** The team not only reviews the initial information that comes in, but also gathers further information from a variety of different sources (e.g., open sources, internal databases, calls to witnesses or use of power to compel) and conducts analysis as necessary to complete the assessment. The Case Assessment Team will investigate, as needed, to make a risk-based evaluation and recommendation. Factors taken into account in the case assessment process include:

- jurisdiction;
- risks of the activity;
- who is being harmed and to what extent;
- impact on the markets and impact on the confidence in the markets; and
- public profile of the misconduct;

Cases identified for further enforcement action are those contemporary impactful cases likely to act as a deterrent based on an assessment of costs and benefits, and where there is reliable evidence of breaches of Québec securities law.

**78. The authorities are able to make requests for assistance to agencies or regulators in other jurisdictions to obtain evidence that may assist with an enforcement investigation.** This includes requests made pursuant to IOSCO’s Multilateral Memorandum of Understanding (MMoU) and Enhanced Multilateral MoU (EMMoU) for signatories to those instruments (i.e., OSC, AMF, ASC (Alberta Securities Commission), and British Columbia Securities Commission (BCSC)). Provisions in provincial legislation support the ability of securities regulatory authorities in Canada to cooperate on investigations across jurisdictions.<sup>32</sup>

**79. The 2019 FSAP recommended that the authorities deploy a full range of enforcement tools to constitute an effective deterrent and enhance collaboration with other law enforcement bodies to ensure successful enforcement actions.** Although some progress has been made in this area, the number of sanctions (especially monetary sanctions) imposed on registrants in the IF sector remains low (Table 4).<sup>33</sup> Within the case assessment and prioritization processes at the OSC and AMF, the authorities should make a meaningful shift towards greater use of enforcement action involving monetary sanctions as a means of deterring misconduct. For such a change to gain traction, it is likely to require active engagement by the senior management of the authorities in challenging whether possible breaches are followed up as part of compliance reviews instead of moving to the enforcement process.

**80. Recommendation 9:** The OSC and AMF should make greater use of enforcement action involving monetary sanctions as a means of deterring misconduct.

---

<sup>32</sup> See also Section G below.

<sup>33</sup> Enforcement action by CIRO is detailed in its Enforcement Report: <https://www.ciro.ca/sites/default/files/2024-07/CIRO-Enforcement-Report-2024.pdf>

<b>Table 4. Canada: AMF and OSC Sanctions Imposed on Market Participants in the Investment Fund Sector<sup>1</sup></b>				
<b>Year</b>	<b>No. of sanctions</b>	<b>Entity type</b>	<b>Breach</b>	<b>Sanction type</b>
<b>AMF</b>				
2019	0	-	-	-
2020	1	Fund Manager, Director/Officer of Fund	Fraud/registrant misconduct	Administrative penalty, director/officer ban, disgorgement
2021	0	-	-	-
2022	3	Portfolio Manager, Fund Manager	Registrant Misconduct/Non-conformity	Administrative penalty
2023	4	Portfolio Manager, Fund Manager	Registrant Misconduct/Non-conformity	Administrative penalty, director/officer ban, mandatory training
<b>OSC</b>				
2019	3	Fund Manager, Portfolio Manager	Registrant Misconduct	Administrative penalty, Costs of investigation
2020	1	Portfolio Manager	Fraud	Registration ban
2021	0	-	-	-
2022	3	Fund Manager	Registrant Misconduct	Administrative penalty, Costs of investigation, Disgorgement
2023	3	Investment Fund	Fraud	Administrative penalty, Costs of investigation, Disgorgement
Source: Canadian Securities Administrators.				
<sup>1</sup> The total value of monetary sanctions imposed over the period 2019-23 by the AMF and OSC was C\$2.4 million and C\$4.5 million respectively.				

## F. Reporting and Data

**81. The authorities collect a broad range of regulatory reporting data and financial statements to assist in their ongoing supervision of the IF sector.** The requirements are complex and vary according to the type of IF. For example, all reporting issuer IFs must file annual financial statements for the IF's most recently completed financial year that include a statement of investment portfolio as at the end of that financial year. The statement of investment portfolio must disclose, for each portfolio asset held or sold short: the name of the issuer of the portfolio asset, a description of the portfolio asset (e.g. for an equity security, the name of the class of the security), the number or aggregate face value of the portfolio asset, the cost of the portfolio asset, and the current value of the portfolio asset.

**82. All reporting issuer IFs are also obliged to file an annual MRFP for each financial year and an interim MRFP for each interim period.** Both MRFPs are required to include a summary of

the IF's portfolio as at the end of the financial year of the IF to which the annual MRFP pertains. The summary has to break down the entire portfolio of the IF into appropriate subgroups, and show the percentage of the aggregate net asset value of the IF constituted by each subgroup, as well as the top 25 positions held by the IF, each expressed as a percentage of net asset value of the IF. The MRFPs also require a discussion of how changes to the IF over the financial year affected the overall level of risk associated with an investment in the IF. The CSA has issued guidance noting that IFs should consider disclosing any significant liquidity challenges faced over the relevant period, how those challenges affected the IF and how they were addressed.

**83. As noted elsewhere in this TN, the OSC's IFS is an extensive data-gathering exercise introduced in 2021 that provides valuable input to the CSA's ongoing supervision and systemic risk work.** The IFS uses a standardized reporting format to collect data on several areas, including leverage, liquidity, and asset class exposures of IFs. The frequency of the IFS has been increased from every two years to yearly, while the scope has been expanded to include both reporting issuer IFs and non-reporting issuer IFs. This data contributes to IOSCO and the FSB's monitoring of fund leverage and non-bank financial intermediation. The OSC shares this fund data with other CSA members and the BoC. Aggregated summary data is also available on the OSC's website.

**84. Two of the key items in the IFS are liquidity and leverage.** The leverage metrics include short positions relating to geographical exposure (North America, Europe, Asia, etc.), asset class and derivatives, as well as borrowing and lending broken down by cash borrowing, securities borrowing, and securities lending. On liquidity, respondents are required to provide a breakdown of portfolio liquidity as a percentage of net assets (8–30 days, 31–90 days, 91–180 days etc.). This data allows the OSC, and the CSA more broadly, to monitor the overall state of liquidity and leverage in the IF sector, thereby facilitating the identification of potential systemic risks.

**85. The authorities have access to third party data sources to complement the regulatory reporting, financial statements and IFS results they receive.** Third-party sources of data and information include Morningstar Direct, Funddata, and Bloomberg.

**86. Recommendation 10:** As part of its financial stability monitoring, the OSC should continue its work to broaden the scope and increase the frequency of its IF data collection, as follows:

- Data on liquidity and leverage should be collected quarterly. This will allow the authorities to identify in a more timely manner any new developments that could be of broader concern from a supervisory or systemic risk perspective. The leverage data could also usefully feed into systemic risk analysis carried out either by the CSA itself, or by other agencies (such as the recent work by the BoC on the cash-futures basis trade).<sup>34</sup>
- Credit lines are a key part of the liquidity risk management toolkit for IFs. Data on credit lines is also important for regulators as it gives insights into potential interconnectedness between IFs

<sup>34</sup> See paragraph 19 of this TN.

and credit institutions, as well as providing a broader picture of how an IF would manage unexpected, short-term liquidity pressures. Such data should include whether the credit lines are shared and to what extent they have been drawn down.

- The IFS asks respondents to identify any prime broker they use but does not currently gather data on principal counterparty exposures. Adding this information would give a clearer picture of possible concentration of exposures.

One means of addressing this recommendation would be to make corresponding changes to the IFS. If a different mechanism is chosen, the OSC should ensure that key features of the IFS are replicated i.e., the same broad universe of IFs is covered, and the data is shared with all CSA members.

## G. International Cooperation

**87. The OSC and AMF cooperate extensively with foreign counterparts through IOSCO and on the basis of MoUs.** The Chief Executive Officers (CEOs) of the OSC and AMF serve on the IOSCO Board and participate in the Board-level Financial Stability Engagement Group (FSEG) and Committee on Emerging Risks (CER). The OSC and AMF participate in all major IOSCO Committees. The OSC uses data gathered through its IFS to contribute to IOSCO's Investment Fund Statistics Report. The authorities are both signatories to IOSCO's MMoU and EMMoU, which provide a strong framework for cooperation on enforcement matters. The authorities also have the authority to share information with other domestic and international authorities, even without a specific MoU or formal arrangement.<sup>35</sup>

**88. Cooperation with the U.S. Securities and Exchange Commission (SEC) is frequent and extensive given the interlinkages between the Canadian and U.S. IF sectors.** The relevant MoU was signed by the OSC and AMF in 2010, and several other CSA members have since joined. OSC uses the MoU to seek information from the SEC regarding compliance reviews conducted by the SEC, while the SEC regularly notifies OSC under the terms of the MoU, especially in connection with regulatory inquiries or examinations of SEC-registered investment advisers located in Ontario. When a firm is also registered under Ontario securities legislation (including the category of IFM), OSC staff may request that the SEC share its material findings. In addition, OSC staff conducts joint reviews with SEC staff, leveraging the MoU for efficient information exchange. Outside the IF sphere, the AMF has made outbound requests for information to SEC staff regarding ongoing SEC proceedings involving a crypto trading platform. Those exchanges helped assess the probity and suitability for registration of the crypto trading platform in Canada.

---

<sup>35</sup> The securities regulators are signatories to over 50 international cooperation agreements directly or indirectly related to IF management activities, including fund management, investment management, and custody. Both [OSC](#) and [AMF](#) publish lists of the MoUs they have signed.

## Appendix I. Rules on Investment Fund Investments

### Concentration Restrictions

No more than 10 percent of the NAV of the IF can be held in the securities of one issuer (except for government securities, securities issued by a clearing corporation, index participation units that are securities of an IF and securities issued by an IF if the purchase is made within certain parameters).

The same restrictions apply to alternative mutual funds and NRIFs but the cap is increased to 20 percent of the NAV.

For the purposes of the concentration restrictions, for each long position in a specified derivative that is held by the IF for a purpose other than hedging, the IF is considered to directly hold the underlying interest of that specified derivative.

### Control Restrictions

In general, IFs do not seek to obtain control of, or become involved in, the management of investee companies. As such IFs usually hold a passive stake in the companies in which they invest. In addition, IFs may hold no more than 10 percent of the votes attaching to the outstanding voting securities of an issuer in which they invest or 10 percent of the outstanding equity securities of that issuer. Some exceptions are allowed, for example when the issuer is an IF, if the purchase is made in accordance with certain requirements.

### Restrictions Concerning Types of Investments

Certain types of investments are prohibited for IFs, including investments in real property, mortgages excluding guaranteed mortgages (if after the purchase no more than 10 percent of its NAV consists of guaranteed mortgages), physical commodities, precious metal certificates other than a permitted precious metal certificate and interest in a loan syndication or loan participation if the IF would have any responsibility for administering the loan.

An IF cannot buy, sell or use a specified derivative instrument that does not comply with a set of regulatory requirements.

An IF cannot have more than 10 percent of its NAV in a permitted precious metal (gold, silver, platinum or palladium), a precious metal certificate or specified derivative whose underlying interest is a physical commodity. An alternative mutual fund is not subject to such limits for these three types of investments.

A precious metal fund can hold up to 100 percent of its NAV in permitted precious metals, permitted metal certificate or a specified derivative of which the underlying interest is one or more permitted precious metals.

## Restrictions Concerning Illiquid Assets

Illiquid asset is defined as:

*a portfolio asset that cannot be readily disposed of through market facilities on which public quotations in common use are widely available at an amount that at least approximates the amount at which the portfolio asset is valued in calculating the net asset value per security of the investment fund, or a restricted security held by an investment fund*

An IF must not purchase more than 10 percent of its NAV in illiquid assets and must not hold more than 15 percent of its NAV in illiquid assets for a period of 90 days or more.

A NRIF has different limits and must not hold more than 20 percent of its NAV in illiquid assets and must not hold more than 25 percent of its NAV in illiquid assets for a period of 90 days or more.