Ontario Securities Commission (OSC) Investment Management Division Annual Summary Report: Insights from Staff Notice 81-741

October 21, 2026

On Sept. 15, 2026, the Ontario Securities Commission (OSC) published OSC Staff Notice 81-741 Investment Management Division Annual Summary Report (the Staff Notice), summarizing the activities and regulatory focus of the OSC's Investment Management Division for the fiscal year ended March 31, 2026.

The past fiscal year was defined by accelerating product innovation, a continued shift in investor preferences toward Exchange-Traded Funds (ETFs), and significant movement on long-anticipated policy files, including the modernization of continuous disclosure, liquidity risk management and ETF regulation. The Staff Notice provides a timely overview of the Division's recent activities and ongoing policy work, while also offering insight into areas that may attract continued regulatory attention.

Below, we highlight the Staff Notice's main insights and five key action items for Canadian fund managers (IFMs) and advisers.

Emerging product trends

This year's prospectus activity highlights how innovation continues to reshape Canada's fund landscape.

- **Collateralized Loan Obligation (CLO) ETFs**: CLO ETFs moved into the mainstream, with the Canadian Securities Administrators (CSA) receipting several AAA-rated CLO ETFs in April 2025. Notably, the CSA determined that investment-grade CLOs are not "illiquid assets" as defined in section 1.1 of NI 81-102, citing the size of the global CLO market (over $1 trillion), growing trading volumes and established secondary markets;
- **Solana and XRP ETFs**: These became the first North American ETFs to provide direct spot exposure to those crypto assets, with Solana ETFs also permitted to stake a portion of their holdings;

- **Triple leveraged (3x) ETFs**: These ETFs received their first Canadian prospectus receipts in 2025, subject to leverage limits, enhanced risk disclosure and investor protection measures; and
- **Single issuer ETFs**: These expanded to include Canadian and certain international issuers through exemptive relief from concentration restrictions, prompting the CSA to propose insider reporting amendments to address potential reporting gaps.

Evolving exemptive relief applications

- **Custodial relief for crypto asset funds:** Relief was granted to permit a U.S. bank to act as sub-custodian for crypto asset funds despite not meeting the NI 81-102 equity threshold, subject to a C$100 million parental guarantee;
- **International inter-fund trading:** Relief was granted to permit Canadian-domiciled reporting issuer funds to purchase debt securities from, or sell debt securities to, related funds in the U.K., Ireland, Luxembourg and Hong Kong. Related relief was also granted permitting Canadian reporting issuer funds, pooled funds and managed accounts to purchase or sell securities to or from those related international funds, expanding cross-border inter-fund trading opportunities within global fund families; and
- **Coordinated blanket order for the Bank of Canada's Contingent Term Repo Facility (CTRF):** The CSA issued coordinated local blanket orders providing relief from certain repurchase transaction requirements in NI 81-102 to allow eligible investment funds to access the Bank of Canada's CTRF during periods of severe market-wide liquidity stress. The CSA subsequently published proposed amendments to NI 81-102 that would codify the temporary relief provided under Coordinated Blanket Order 81-930 and extend similar relief to future Bank of Canada repurchase facilities.

Regulatory continuous disclosure reviews

Throughout fiscal 2026, OSC staff undertook a series of focused compliance reviews and surveillance initiatives aimed at identifying disclosure deficiencies, monitoring regulatory compliance and addressing operational risks within the investment fund industry.

- **Mid-size issuer review:** Building on its prior small issuer review, OSC staff expanded its review to IFMs with less than $1 billion in Assets under management (AUM) and identified Management Report of Fund Performance (MRFP) disclosure that was inconsistent with regulatory requirements or insufficiently fulsome, as well as minor issues involving compliance reports and custodian letters, with a follow-up review expected after implementation of the modernized investment fund disclosure regime;
- **Outlier analysis of Investment Fund Survey data:** OSC staff reviewed data collected during its 2024 Investment Fund Survey relating to liquidity, borrowing, short selling and leverage. The OSC found that most outliers were attributable to exemptive relief, classification errors, clerical mistakes or temporary fluctuations and indicated that monitoring will continue;

- **Change of auditor notification:** OSC staff reviewed change of auditor notifications filed under NI 81-106 to assess whether any reportable events or unusual financial statement items may have contributed to the auditor change;
- **Risk rating corrections:** OSC staff identified one manager whose Fund Facts risk ratings for three funds were below the levels prescribed by the CSA methodology, resulting in corrective disclosure filings and placement of the funds on the Refilings and Errors List for three years;
- **Sales communications:** OSC staff reported recurring deficiencies in fund marketing materials, including non-compliant use of ratings, rankings and performance data, and reiterated that such deficiencies may result in corrective disclosure, placement on the Refilings and Errors List or further enforcement action; and
- **Compliance reports:** OSC staff identified recurring deficiencies in compliance and custodian reports relating to the handling of investor cash, including overdrafts, cash commingling and lapping, and emphasized the importance of compliance with the cash handling requirements in Parts 9, 10 and 11 of NI 81-102.

Ownership changes and asset acquisitions involving registered firms (section 11.9 and 11.10 Notices)

OSC staff remind registered firms proposing ownership changes or certain asset acquisitions to ensure that notices under sections 11.9 and 11.10 of NI 31-103 include sufficient information for staff to assess the transaction. Notices must explain how any material conflicts of interest arising from the proposed changes have been or will be addressed in the best interests of clients. Incomplete notices may delay the OSC's review. Staff also caution that missed notices must be filed with the applicable fees and may result in a warning letter or, in limited cases, further regulatory action. Where a Canadian Investment Regulatory Organization (CIRO) member is involved, directly or through a deemed acquisition, the applicable filing fee may be payable to CIRO rather than the OSC.

Regulatory policy: Modernization moves from proposal to implementation

Completed initiatives

- **Continuous disclosure modernization (conflicts and financial statements):** Final amendments to NI 81-101, NI 81-102, NI 81-106 and NI 81-107 were published Jan. 22, 2026, and took effect April 22, 2026. IFMs must now file the new standardized Form 81-107A *Conflict Reporting Form for Related Issuer Purchases*, which replaces prior conflict of interest reporting obligations for in-scope related party purchases, and must prepare an annual Manager's Report on Related Party Transactions under new section 2.5 of NI 81-107, appended to the Independent Review Committee's (IRC's) annual report to securityholders;
- **Crypto asset funds, phase two:** Final amendments to NI 81-102 governing public funds investing in crypto assets came into force July 16, 2025, establishing restrictions on permitted crypto investments and enhanced custodial obligations. Phase three, which will consult on further areas of regulatory attention, is ongoing; and

- **Principal distributor model:** Final amendments were published June 11, 2026, clarifying that a principal distributor may act only for mutual funds in the same fund family and introducing enhanced disclosure of principal distributor arrangements and compensation in the prospectus, Fund Facts and annual report on charges and other compensation.

Ongoing initiatives

- **Access-based model:** On Sept. 27, 2022, the CSA published for comment, CSA Notice and Request for Comment - Proposed Amendments and Proposed Changes to Implement an Access-Based Model for Investment Fund Reporting Issuers, intended to modernize delivery of investment fund continuous disclosure documents by making them more readily available online, reflecting growing investor preference for electronic access. Comments on the Sept. 2022 proposal continue to inform a revised proposal, which is expected to be republished in 2026;
- **Fund Report (MRFP replacement):** Following the Sept. 2024 proposals and behavioural insights testing, the CSA is refining a revised, streamlined annual and interim Fund Report to replace the MRFP, to be tested and republished for further comment;
- **Chargeback prohibition:** Proposed amendments published June 26, 2025, would prohibit chargeback arrangements in the distribution of reporting issuer investment funds. The CSA is working toward finalization;
- **ETF regulation and foreign-listed ETFs:** Following the June 2025 ETF Consultation Paper and the concurrent OSC ETF Study, investor access to foreign-listed ETFs emerged as the key area of focus. On July 29, 2026, the CSA and CIRO published Staff Notice 81-339, cautioning that active marketing or promotion of a foreign ETF in Canada could trigger the prospectus requirement and, in some jurisdictions, IFM registration, clarifying applicable dealer conduct obligations, and encouraging order-execution-only dealers to provide point-of-purchase alerts. Managers with foreign affiliates should review Canadian-facing marketing practices carefully; and
- **Liquidity risk management:** On Nov. 27, 2025, the CSA published proposed amendments to NI 81-102 that would formalize liquidity risk management (LRM) frameworks, enhance operational practices including stress testing, and strengthen oversight and governance, alongside a consultation paper on LRM tools, liquidity classification and data reporting. The 120-day comment period closed March 27, 2026, and feedback is under review.

Emerging issues: Long-term assets, cross-border access and expanded data collection

- **Long-Term Asset Fund Project:** Building on Consultation Paper 81-737 and Staff Notices 81-738 and 81-740, the OSC continues to engage with stakeholders on potential retail access to private market investments through new fund structures, with recent discussions focusing on valuation, transparency, liquidity and redemption risks;
- **Hong Kong Memorandum of Understanding (MoU):** Effective May 13, 2025, the OSC and the Securities and Futures Commission of Hong Kong executed an

MoU to strengthen cross-border supervision and facilitate market access for Ontario-registered portfolio managers;

- **IFRS 18:** IFRS 18 applies to annual reporting periods beginning on or after Jan. 1, 2027. OSC staff noted that some accounting firms consider IFRS 18 not to permit separate presentation of realized and unrealized gains and losses from financial instruments, while section 3.2 of NI 81-106 requires those amounts to be presented as separate line items. IFMs should engage their auditors in advance regarding an approach that complies with both IFRS and applicable securities law requirements;
- **Foreign issuer reports of exempt distribution:** The temporary exemption from SEDAR+ filing requirements for certain foreign issuer exempt distributions to permitted clients has been extended under OSC Rule 13-513 to Jan. 21, 2028, pending a permanent solution;
- **Investment Fund Survey expansion:** The 2026 Investment Fund Survey has been expanded to include funds managed by IFMs not registered in Ontario, with further enhancements under consideration for 2027; and
- **Fee rule changes:** Proposed amendments to OSC Rule 13-502 and Rule 13-503, would provide fee relief for many market participants and affect prospectus filing and exemptive relief application fees, with the changes expected to come into force on April 5, 2027.

Five key action items for Canadian fund managers

1. **Implement the modernized continuous disclosure requirements:** Ensure processes are in place to file Form 81-107A for in-scope related party purchases and to prepare the annual Manager's Report on Related Party Transactions for inclusion with the IRC report. Update financial statement templates to reflect the streamlined requirements and monitor the forthcoming revised Fund Report proposal, which could replace MRFP.
2. **Audit risk ratings and sales communications:** Verify that Fund Facts risk ratings are no lower than prescribed by the CSA methodology and that written policies govern any upward discretion. Review websites and social media channels, including YouTube and LinkedIn, for ratings, rankings and performance claims that do not comply with Part 15 of NI 81-102. Depending on the circumstances, OSC staff may require corrective disclosure or a news release, place affected funds on the Refilings and Errors List for three years or refer continued non-compliance for further regulatory action.
3. **Strengthen cash handling and compliance reporting:** Review controls over trust accounts, settlement timing, commingling and lapping risks under Parts 9 to 11 of NI 81-102, and ensure compliance and custodian reports are complete and filed on time in SEDAR+.
4. **Prepare for the liquidity risk management framework:** Assess current LRM policies, stress testing and governance against the proposed amendments to NI 81-102.
5. **Assess product and relief opportunities, and cross-border exposure:** Consider whether recent precedents, including CLO ETFs, spot crypto ETFs, leveraged and single issuer ETFs, crypto custody relief and international inter-fund trading relief, create opportunities for your product shelf, and use the confidential pre-filing process for novel products. Managers with foreign-listed ETF affiliates should review Canadian marketing practices against Staff Notice 81-339.

Canada's investment management landscape continues to evolve alongside product innovation and shifting regulatory priorities. BLG's Investment Management team advises fund managers through every stage of fund formation, structuring and continuous disclosure compliance across alternative products, digital assets and crypto-based products.

For more information, please contact any of the authors below or your usual member of BLG's Investment Management Group.

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