CSA Proposals on Liquidity Risk Management

December 09, 2025

On November 27, 2025, the Canadian Securities Administrators (CSA) published for comment proposed amendments to National Instrument 81-102 *Investment Funds* (NI 81-102) and its Companion Policy, and issued a related consultation paper.

Why now?

In 2020, the CSA issued CSA Staff Notice 81-333 *Guidance on Effective Liquidity Risk Management for Investment Funds* (LRM Guidance). In 2022, the International Organization of Securities Commissions (IOSCO) published a report assessing how IOSCO's member jurisdictions were implementing IOSCO's 2018 recommendations for liquidity risk management (LRM). Canada's grade was found to be "broadly consistent" rather than "fully consistent" in 4 of the 10 recommendations, generally because Canada had implemented guidance, rather than legally enforceable rules. Our CSA strives for the highest of grades.

The proposed amendments are meant to codify some of the LRM Guidance and align the Canadian LRM framework for investment funds with international guidance, and will apply to all investment funds, regardless of whether or not they are reporting issuers.

Exempt Market Impact

The proposals are not the first foray made by the CSA to regulate "pooled funds" through NI 81-102, the cornerstone Canadian securities regulation for publicly offered investment funds, including most mutual funds and exchange-traded funds. Private "pooled funds" are not subject to the full scope of NI 81-102, but the proposed amendments in respect of LRM serve as a reminder that while, exempt from prospectus requirements, the exempt market is not unregulated.

What's proposed to change in NI 81-102?

All investment funds would be required to:

1. **Establish and maintain an LRM framework.** This means creating policies and procedures that address LRM matters, compliance, and the creation of an LRM committee or appointment of an LRM supervisor (as further described below).

2. **Consider LRM throughout the lifecycle of a fund.** For example:

- **At creation:** New funds will be expected to match the proposed investment objectives and strategies and permitted redemption frequency with the nature of the proposed asset mix and expected redemption activity. They will also be required to establish liquidity thresholds and targets.
- **When conducting a portfolio transaction:** A fund will be required to consider the impact of the transaction on the liquidity profile of the fund.
- **On an ongoing basis:** A fund will be expected to monitor the market and the fund's liquidity profile using both quantitative and qualitative metrics. The proposed amendments to the Companion Policy to NI 81-102 include examples of such metrics. The fund will also be required to monitor the fund's established liquidity thresholds and targets.
- **Periodically:** A fund must conduct stress tests using relevant historical and hypothetical scenarios. These stress test must be performed quarterly under normal conditions and at an increased frequency while market conditions are stressed.
- **Contingency plans:** A fund must have suitable contingency plans that address liquidity risk, including plans that include the use of LRM tools (LRMTs).

3. **Create an LRM Committee or appoint an LRM Supervisor.** The proposed amendments will require funds to appoint an LRM supervisor or form an LRM committee. The chief compliance officer (CCO) of the fund's manager or someone directly reporting to the CCO must serve as the LRM supervisor or as a member of the LRM committee, as applicable. The LRM supervisor or the members of the LRM committee will be required to have sufficient expertise in LRM. In addition to overseeing the requirements discussed above, the proposed amendments include prescriptive responsibilities for the LRM supervisor/committee, including:

- Reviewing and approving the fund's investment objectives, strategies and permitted redemption frequency before the launch of the fund, to ensure they align with the nature of the fund's expected assets and redemption activity
- Approving the fund's liquidity thresholds and targets, including any modifications
- Reviewing stress test results and proposed responses
- Approving the LRM contingency plans and updates to those plans
- Reviewing the results of the contingency plan testing and actions to address those results.
- Periodically assessing the effectiveness of the LRM framework and any proposed updates
- Reviewing and addressing any significant liquidity-related concerns referred by the fund manager and proposed responses

Where an LRM committee is established, it will be required to meet as often as necessary and at least quarterly.

What else is proposed to change?

The CSA is also seeking feedback on other changes it is considering in order to address the following three LRM matters:

1. **Liquidity Risk Management Tools**. The consultation sets out potential LRMTs that the CSA is considering permitting or requiring, including: swing pricing, dual pricing, redemption or liquidity fees, anti-dilution levies, valuation at bid or ask prices, expansion of suspension of redemption ability, redemption gates, notice periods, extension of settlement periods, side pockets, and increased temporary borrowing limits.

2. **Liquidity classification of underlying portfolio assets** (aka "bucketing"). The CSA advances a potential standardized framework that classifies each investment into four categories based on the number of business days it takes to dispose and settle the asset at its appropriate value:

a. Highly liquid assets (within three business days)

b. Moderately liquid assets (in four to five business days)

c. Less liquid assets (disposed within five business days but settlement is reasonably expected to take more than five business days)

d. Illiquid assets (more than five business days to dispose and settle)

This framework would apply in both normal and stressed conditions.

The CSA is also contemplating revising the definition of "illiquid asset" in NI 81-102 to include the concept of disposal of the asset within 5 business days in order to accommodate the defined buckets in the classification framework.

3. **Regulatory disclosure and data relating to LRM.** The CSA is considering changes regarding regulatory disclosure and data in connection with LRM for both reporting and non-reporting issuers.

For reporting issuers, the CSA is consulting on public disclosure of liquidity profile information. This includes prescriptive integration with the proposed annual and interim fund report format, which was discussed in our previous article.

For both reporting and non-reporting issuers, the CSA is consulting on the potential requirement for confidential quarterly reporting to securities regulators. This reporting would cover the liquidity classification of each investment.

The CSA is contemplating prompt reporting obligations for certain liquidity-related events, including: if a fund receives redemption requests above a certain threshold, breaches illiquid asset restrictions under NI 81-102, suspends redemptions, activates any LRMT that affects its redemption price or access to redemption, or borrows cash or provides a security interest over portfolio assets to accommodate requests for redemption during the orderly liquidation of portfolio assets.

"Illiquid Asset" definition

Without proposing specific further amendments to the definition of “illiquid asset” in NI 81-102 (beyond the change proposed to reflect the classification framework noted above), the CSA ask stakeholders for feedback on other aspects of that definition that should be revised. In our view, the illiquid asset definition does merit an update, as it has long presented issues when applied outside of equity markets. BLG will be commenting on this point in our response to the regulators, and we encourage others to consider doing so as well.

What should you do?

Provide your comments to the CSA – this is your opportunity to be heard. Comments are due March 27, 2026.

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