

Annex A

Proposed Amendments to National Instrument 81-102 *Investment Funds*

- 1. *National Instrument 81-102 Investment Funds is amended by this Instrument.***
- 2. *Section 1.1 is amended by adding the following definitions:***
 - “liquidity risk management committee”** means a committee that provides oversight of a liquidity risk management framework;,
 - “liquidity risk management framework”** means a system in respect of the management of liquidity risk; **and**
 - “liquidity risk management supervisor”** means an individual that provides oversight of a liquidity risk management framework;.
- 3. *Section 1.2 is amended***
 - (a) *by replacing subsection (2) with the following:***
 - (2) Despite subsection (1), this Instrument does not apply to a scholarship plan, except for Part 6.1.,
 - (b) *by replacing subsection (2.1) with the following:***
 - (2.1) Despite subsection (1), section 2.5.1 and Part 6.1 apply to an investment fund that is not a reporting issuer., **and**
 - (c) *in subsection (3) by adding the following paragraph:***
 - (b.1) Part 6.1;.

4. *The following Part is added:*

PART 6.1 LIQUIDITY RISK MANAGEMENT

6.1.1 Liquidity Risk Management Framework

- (1) An investment fund must establish and maintain a liquidity risk management framework.
- (2) For the purposes of subsection (1), an investment fund must establish, maintain and apply policies and procedures in respect of all of the following matters:
 - (a) compliance with this Part;
 - (b) identification of the following:
 - (i) if the investment fund appoints a liquidity risk management supervisor under subsection 6.1.3(1), the position within and specified by a manager for appointment as the liquidity risk management supervisor;
 - (ii) if the investment fund establishes a liquidity risk management committee under subsection 6.1.3(1), each position within and specified by a manager for appointment as a member of the liquidity risk management committee;

- (c) any other matter relating to the management of liquidity risk of the investment fund.

6.1.2 Operational Requirements

- (1) Before the filing of an initial prospectus of a newly established investment fund, a manager must ensure that the investment fund's investment objectives and investment strategies and permitted redemption frequency of the investment fund's securities align with the nature of the investment fund's expected portfolio assets and expected redemption activity of the investment fund's securities.
- (2) Before the distribution for the first time of securities of a newly established investment fund for which the prospectus requirement does not apply, a manager must ensure that the investment fund's investment objectives and investment strategies and permitted redemption frequency of the investment fund's securities align with the nature of the investment fund's expected portfolio assets and expected redemption activity of the investment fund's securities.
- (3) An investment fund must monitor, review and assess the investment fund's liquidity profile and relevant market conditions on an ongoing basis using qualitative and quantitative metrics and, if necessary, adjust the composition of the investment fund's portfolio assets.
- (4) An investment fund must establish and maintain liquidity thresholds and targets to monitor, review and assess the investment fund's liquidity profile under subsection (3).
- (5) An investment fund must conduct stress tests of the liquidity of the investment fund's portfolio assets to monitor, review and assess the investment fund's liquidity profile under subsection (3), including, for greater certainty, the application to the stress tests of historical and hypothetical scenarios that are relevant to the investment fund's liquidity profile.
- (6) If market conditions are normal, an investment fund must conduct stress tests under subsection (5) at least quarterly.
- (7) If market conditions are stressed, an investment fund must increase the frequency of the stress tests conducted under subsection (6) until market conditions are normal.
- (8) An investment fund must assess the impact of a portfolio transaction on its liquidity profile before making a decision in respect of entering into the transaction.
- (9) An investment fund must establish and maintain contingency plans that address liquidity risk, including, for greater certainty, contingency plans that include the use of liquidity risk management tools.
- (10) An investment fund must periodically test contingency plans referred to in subsection (9) to ensure that, to a reasonable person, the contingency plans are suitable for the adequate management of liquidity risk.

6.1.3 Oversight

- (1) An investment fund must appoint a liquidity risk management supervisor or establish a liquidity risk management committee.

- (2) For the purposes of subsection (1), an investment fund that is required to appoint a liquidity risk management supervisor must appoint as the liquidity risk management supervisor one of the following:
 - (a) the chief compliance officer of the manager;
 - (b) an individual who reports directly to the chief compliance officer of the manager;
 - (c) an individual who reports directly to the chief compliance officer of the manager in respect of liquidity risk management matters.
- (3) For the purposes of subsection (1), an investment fund that is required to establish a liquidity risk management committee must appoint as a member of the liquidity risk management committee one of the following:
 - (a) the chief compliance officer of the manager;
 - (b) an individual who reports directly to the chief compliance officer of the manager.
- (4) An investment fund must ensure that a liquidity risk management supervisor or each individual who is a member of a liquidity risk management committee, as applicable, has sufficient knowledge of the management of liquidity risk.
- (5) An investment fund must ensure the following:
 - (a) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, approves a liquidity risk management framework referred to in subsection 6.1.1(1), periodically assesses the effectiveness of the liquidity risk management framework and, if applicable, approves any proposed updates to the liquidity risk management framework;
 - (b) that, before the filing of an initial prospectus referred to in subsection 6.1.2(1), a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews and approves the investment fund's investment objectives and investment strategies and the permitted redemption frequency of the investment fund's securities to ensure that the investment objectives, investment strategies and permitted redemption frequency align with the nature of the investment fund's expected portfolio assets and expected redemption activity of the investment fund's securities;
 - (c) that, before a distribution referred to in subsection 6.1.2(2), a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews and approves the investment fund's investment objectives and investment strategies and the permitted redemption frequency of the investment fund's securities to ensure that the investment objectives, investment strategies and permitted redemption frequency align with the nature of the investment fund's expected portfolio assets and expected redemption activity of the investment fund's securities;
 - (d) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews and approves the liquidity thresholds and targets referred to in subsection 6.1.2(4), and, if applicable, approves any proposed updates to those liquidity thresholds and targets;

- (e) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews the results of the stress tests referred to in subsection 6.1.2(5) and, if applicable, approves proposed actions to address those results;
 - (f) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews and approves the contingency plans referred to in subsection 6.1.2(9) and, if applicable, approves proposed updates to those contingency plans;
 - (g) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews the results of the contingency plan testing referred to in subsection 6.1.2(10) and, if applicable, approves proposed actions to address those results;
 - (h) that a liquidity risk management supervisor or liquidity risk management committee, as applicable, reviews a referral by a manager of a matter under subsection (6) and, if applicable, approves proposed actions to address the matter.
- (6) A manager must, as soon as reasonably possible, refer for review to the liquidity risk management supervisor or liquidity risk management committee, as applicable, a matter that would reasonably be expected to significantly impact the liquidity profile of the investment fund and provide, with the referral, information in respect of both of the following:
- (a) actions taken to address the matter;
 - (b) whether other actions to address the matter, including obtaining approvals of the other actions, are necessary.
- (7) An investment fund that is required to establish a liquidity risk management committee must ensure that the liquidity risk management committee meets to conduct the business of the committee as often as necessary and at least quarterly each consecutive 12-month period.

5. This Instrument comes into force on ●.