ONTARIO SECURITIES COMMISSION

OSC Staff Notice 81-736

Summary Report for Investment Fund and Structured Product Issuers

November 5, 2024

Ontario

Contents

Senior Vice President's Message

I am pleased to share this annual Summary Report (**Report**) which provides an overview of the activities of the Investment Management Division (**IM Division**), known formerly as the Investment Funds and Structured Products Branch, of the Ontario Securities Commission (**OSC**) for the fiscal year ended March 31, 2024 (**Fiscal 2024**).

The OSC implemented changes to its organizational structure effective April 1, 2024, as part of a new vision and strategy that will enable us to be responsive to current market trends while continuing to provide balanced, flexible and responsive regulation. With this restructuring, the IM Division has also undergone some changes, which have broadened the scope of our work to include regulatory matters related to portfolio advisers. This Report, however, will focus on the activities of Fiscal 2024 prior to the change in our structure which is described later in more detail.

The investment management industry is a critical and growing part of Ontario's capital markets. Close to five million households in Canada own mutual funds[1] which are a significant component of the asset portfolios of retail investors. Exchange traded funds (**ETF**s) are gaining popularity with both retail and institutional investors in recent years, as the industry continues to innovate and build on their strength. The actively managed ETF sector is unique and vibrant in Canada. Actively managed ETFs allow traditional mutual fund firms to offer their investment strategies through ETFs. In addition, we continue to see investment fund offerings relating to sustainable finance, and new asset classes being offered to retail investors.

We continue to streamline our regulatory activities to be more efficient and effective. We understand that certain routine activities should continue to trend downwards, as this demonstrates less burden to market participants. The overall trend for routine exemptive applications is moving in the right direction, as we have codified more routine relief.

Our annual Investment Fund Survey (**IFS**) has enabled us to have better insight about risks and emerging issues, allowing us to respond quickly and proactively to perform risk-based oversight reviews. The IFS has been a very effective tool to identify and illustrate industry macro trends, which is critical from a systemic risk perspective.

We continue to advance several policy projects. In addition to the required public comment period, we have taken the time and resources to listen actively from our advisory committees and stakeholders to ensure that future rule amendments are reflective of today's capital markets environment, while ensuring adequate investor protection. Together, the Canadian Securities Administrators (**CSA**) have published new or revised guidance in key areas such as crypto asset investment funds,

[1] IFIC *The evolution of mutual funds*

environmental, social and governance (**ESG**) funds and independent review committees.

We hope you find this Report informative and that it provides insight into our work over the past year. As always, if you have a question, comment, or would like to discuss regulatory matters, please reach out to us. Our Staff Contact Information has been included for your convenience.

Raymond Chan
Senior Vice President, Investment Management
Ontario Securities Commission

Introduction

This Report provides an overview of the key operational and policy initiatives of the IM Division that impact investment fund and structured product issuers during Fiscal 2024. The Report can be used as a resource for investment fund managers (**IFMs**), entities who perform services on their behalf and other stakeholders, including investors.

The Report is organized into four key areas:

Part A - Operational Highlights

- Summarizes our key activities, including
  - prospectus reviews
  - applications for exemptive relief, and
  - continuous disclosure reviews.

Part B - Regulatory Policy Initiatives

- Identifies ongoing policy initiatives affecting investment funds with detail on their status.

Part C - Emerging Issues and Initiatives

- Summarizes recent or upcoming changes in the industry that affect investment funds.

Part D - Stakeholder Outreach and Resources

- Provides detail on our outreach initiatives and resources for issuers of investment funds and other stakeholders.

Responsibilities of the IM Division

The OSC's mandate is to protect investors from unfair, improper or fraudulent practices, to foster fair, efficient and competitive capital markets and confidence in the capital markets, to foster capital formation, and to contribute to the stability of the financial system and the reduction of systemic risk.

In support of the OSC's mandate, the IM Division is responsible for administering the regulatory framework for investment funds and portfolio management services that are offered to Ontario investors. Effective April 1, 2024, oversight of structured products is overseen by the Corporate Finance Division.

Publicly offered investment fund assets in Canada are comprised broadly of mutual funds, non-redeemable investment funds and specialized funds:

Types of Publicly Offered Investment Funds

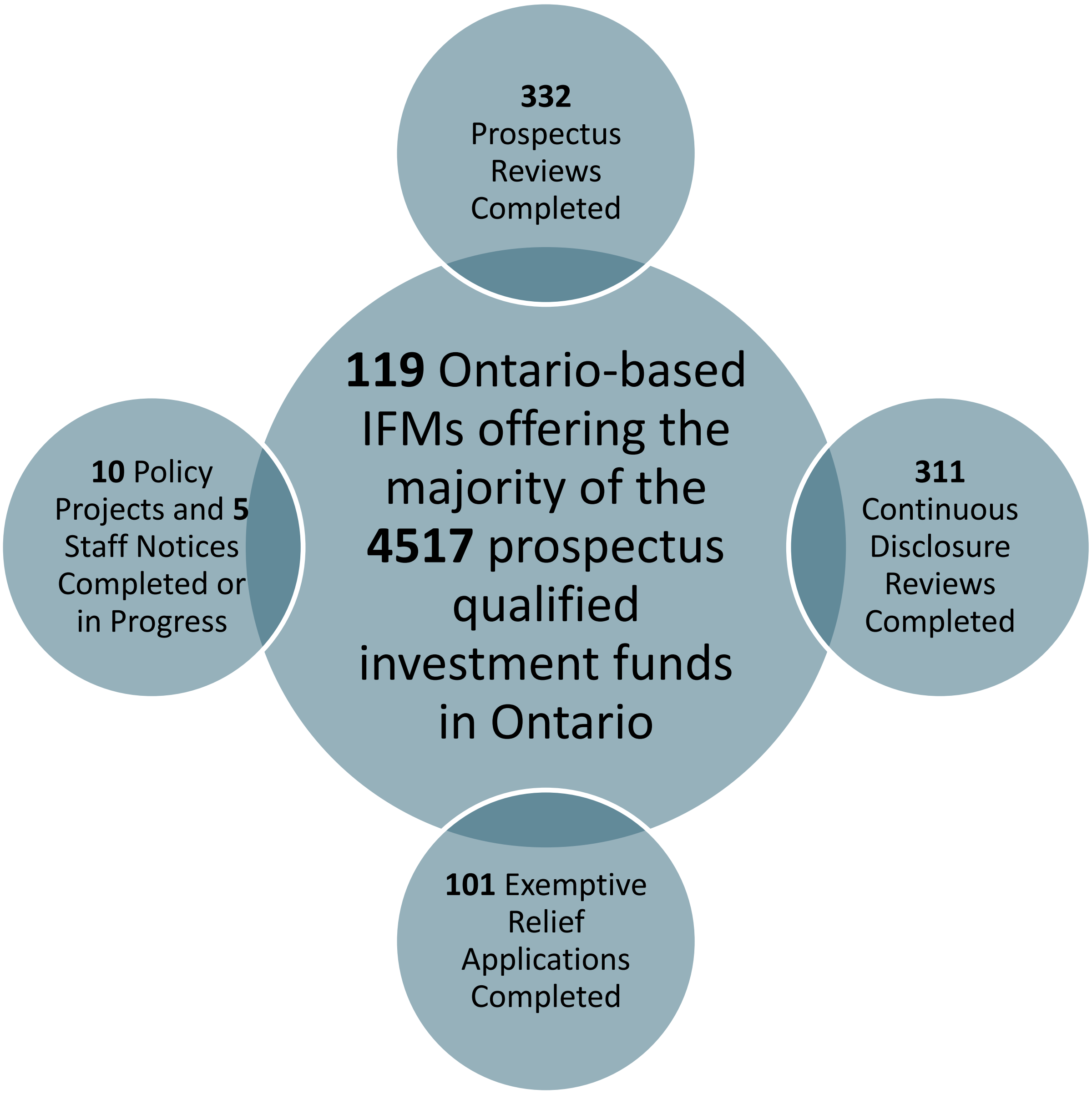
Mutual Funds	Non-Redeemable Investment Funds	Specialized Funds
• conventional mutual funds • exchange traded funds • alternative mutual funds • split share corporations	• closed-end funds • flow-through limited partnerships	• scholarship plans • linked notes • labour sponsored investment funds

During Fiscal 2024, the IM Division was organized into three dedicated teams: Product Offerings, Regulatory Policy and Risk and Analytics. Our key functions include:

- ✓ reviewing and assessing disclosure for all types of publicly offered investment funds,
- ✓ assessing applications for discretionary relief from securities legislation,
- ✓ policy making to adapt to changes in the capital market,
- ✓ engagement with stakeholders, including on advisory committees, and through regulatory updates in eNews articles,
- ✓ issuing guidance to stakeholders through staff notices to communicate our expectations on process or policy matters,
- ✓ monitoring and responding to emerging capital market and investor protection risks more effectively, using tools such as our continuous disclosure review sweeps, the IFS, and other information and analytical resources, and
- ✓ monitoring and participating in investment fund regulatory developments globally, primarily through our work with the International Organization of Securities Commissions (**IOSCO**), and other financial regulators.

Effective April 1, 2024, a new Portfolio Advisers team has been added to the IM Division. The team will be responsible for policy matters, including applications for exemptive relief, relating to portfolio management services offered by individuals and firms. The team will liaise with the Registration, Inspection and Examination Division (**RIE**) on novel and complex registration issues related to portfolio management and advice. As needed, RIE may conduct targeted examinations for certain data requests on behalf of the IM Division.

At a Glance - Fiscal 2024 Landscape and IM Division Activities



Investment Funds Market Landscape

Canada's public investment funds have shown a slight growth since the prior year based on assets under management (**AUM**)[2]:

---

[2] AUM of mutual funds and ETFs obtained from IFIC Monthly Investment Fund Statistics and closed end fund AUM from TSX

Investment Fund Product	AUM as of March 31, 2023	AUM as of March 31, 2024	% of Investment Fund AUM as at March 31, 2024
Conventional Mutual Funds	$1.9 trillion	$2.1 trillion	82%
ETFs	$337.1 billion	$417.1 billion	16%
Closed End Funds	$36.2 billion	$41.6 billion	2%
TOTAL	$2.3 trillion	$2.6 trillion	

Structured notes outstanding as of March 31, 2024, were approximately $34.2 billion[3].

ETFs experienced the highest rate of growth in AUM (23%) as compared to conventional mutual funds (11%) and closed end funds (15%). Market share for each remained relatively stable with only a 1% shift moving from mutual funds to ETFs as compared to the prior year.

During the fiscal year, IOSCO also released its [2023 Investment Funds Statistics Report] which collects data from 28 IOSCO member jurisdictions on open-ended and closed end mutual funds, as well as hedge funds. IOSCO estimates that its data captures approximately 80% of the aggregate net asset value (**NAV**) of the global investment funds industry. Based on this IOSCO report, the Canadian investment funds industry is quite significant when measured globally. For open-ended funds, Canada is ranked 5th based on aggregate NAV and 6th based on the total number of funds. For closed end funds, Canada is ranked 7th for aggregate NAV and 12th for the total number of funds.

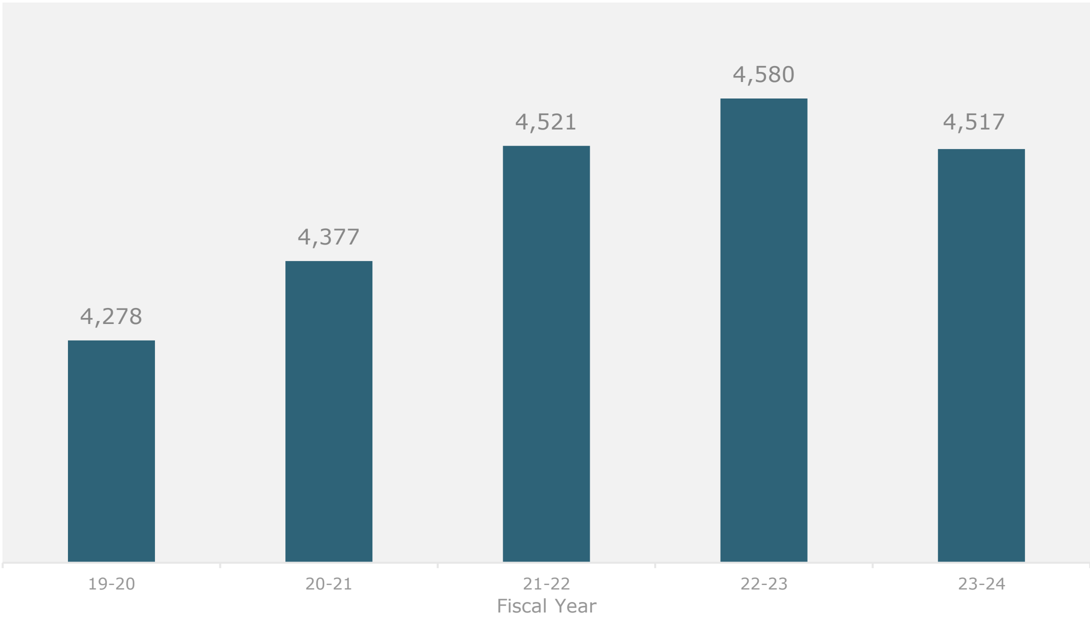
Investment Fund Population

As of March 31, 2024, there were 119 Ontario-based IFMs offering the majority of the over 4,500 publicly offered investment funds, as compared to 126 IFMs in the prior year.[4] Fiscal 2024 saw a decline in the total investment funds population after a period of gradual growth in the prior four periods. There was a decline of approximately 63 funds in Fiscal 2024 as compared to growth of 59 funds in the previous fiscal year. In addition to the fewer number of IFMs based in Ontario, part of this decline is attributable to IFMs streamlining their product offerings, resulting in fund mergers or terminations.

[3] Information provided by filers through OSC Linked Note e-Form.

[4] Source – Internal reporting issuer database.

TOTAL INVESTMENT FUND POPULATION

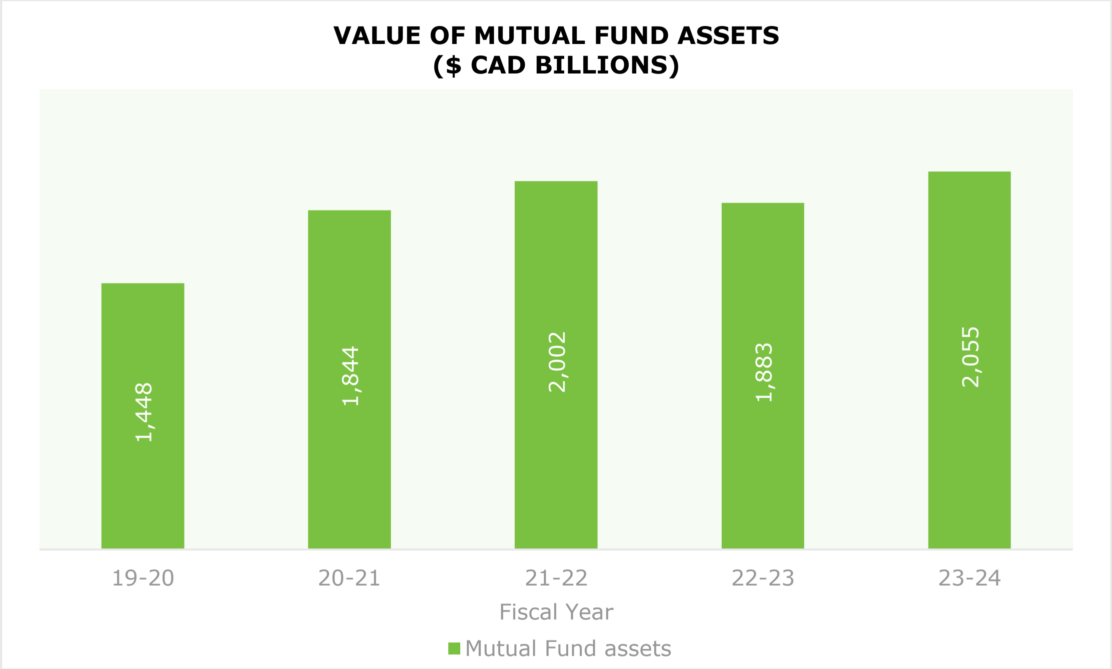


Source: Internal reporting issuer database showing investment funds active in Ontario

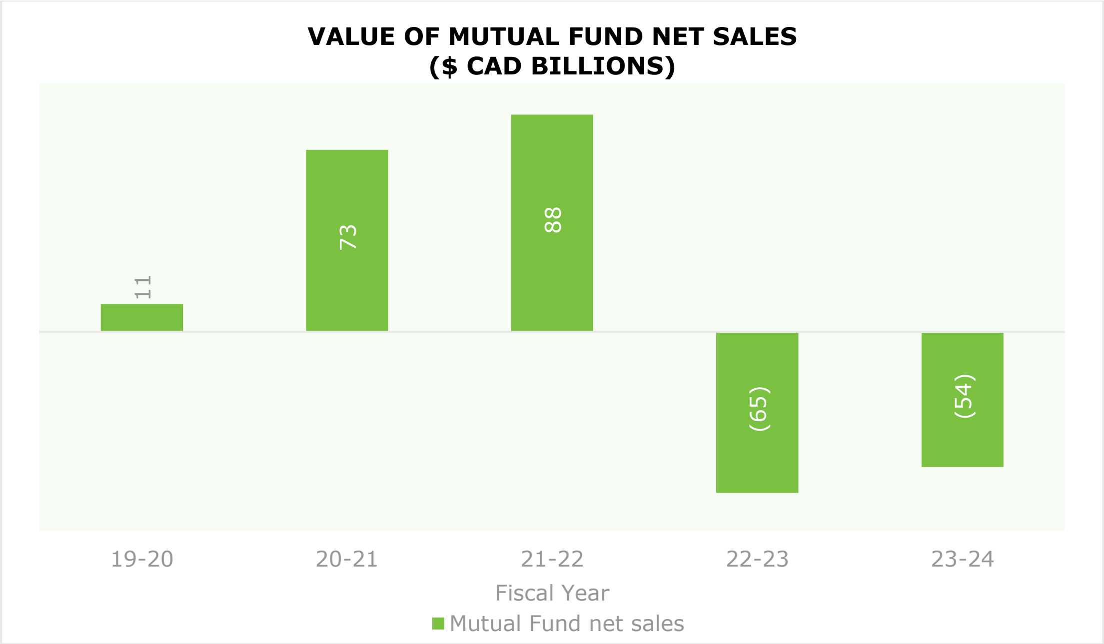
Conventional Mutual Fund Assets and Net Redemptions

Even though mutual funds experienced overall net redemptions during Fiscal 2024, the total AUM for conventional mutual funds rose slightly from $1.9 trillion in the previous fiscal year to $2.1 trillion at the end of Fiscal 2024, reversing the prior year's decline. Mutual fund AUM has appeared to recover from the low point experienced at the beginning of the pandemic. The largest area of growth was in the money market asset category[5], due in part to the high interest rate environment. Similar to the previous year, net redemptions were primarily in the balanced asset class category.

[5] As per IFIC's Investment Funds Report for 2023, money market mutual fund assets grew by 48%



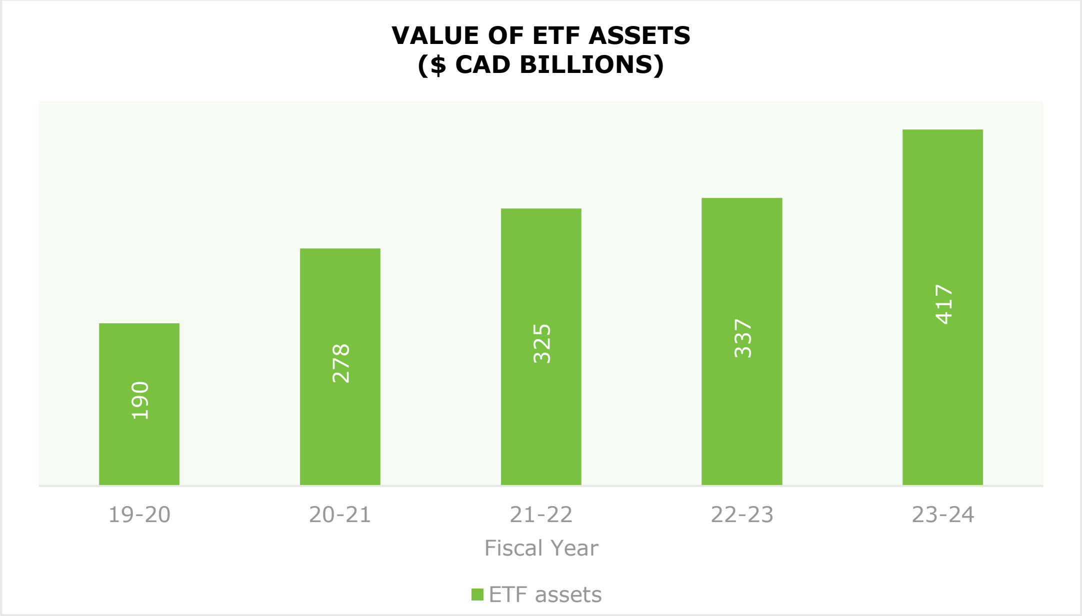
Source: IFIC Industry Statistics



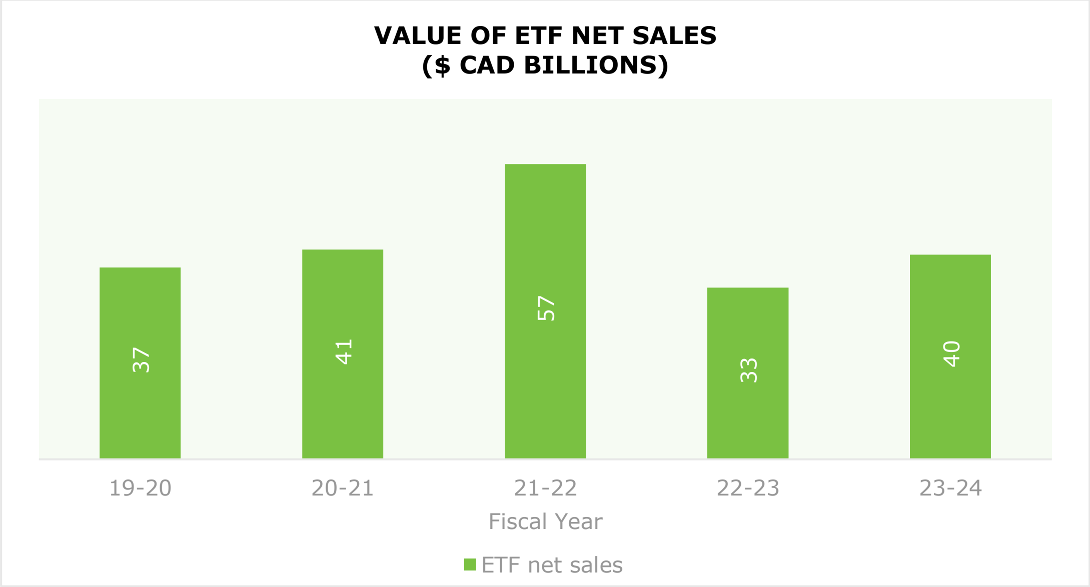
Source: IFIC Industry Statistics

ETF Assets and Net Sales

The AUM of ETFs has continued its positive upward trend, with $417 billion total AUM in Fiscal 2024 as compared to $337 billion in the prior year. This increase is partly attributable to $40 billion of positive net sales, with equity, bond and money market ETFs each experiencing comparable net inflows. Similar to conventional mutual funds, the money market ETF asset category grew substantially, primarily in high interest saving account funds (**HISAs**) which benefited from the high interest rate environment through much of Fiscal 2024. A change in interest rate expectations at the start of the year, as well as stricter liquidity rules announced by the Office of the Superintendent of Financial Institutions (**OSFI**) which took effect January 31, 2024, contributed to a decline in their popularity in the last quarter of Fiscal 2024.



Source: IFIC Industry Statistics



Source: IFIC Industry Statistics

Part A: Operational Highlights

The OSC has set service standards and timelines which stakeholders can rely on when interacting with OSC staff. The Service Commitment document can be found on our website and includes timelines for prospectus filings and amendments, and the review of exemptive relief applications, which comprise some of our key operational functions. The IM Division is committed to ensuring that services are delivered efficiently and effectively, and in accordance with those standards.

Sections I to III below will highlight each of our main operational functions in more detail. Overall, issuer activity around prospectus filings and applications for exemptive relief were stable as compared to the prior year. For the second year in a row, the number of continuous disclosure reviews increased.

I. Prospectus Filings

One of our key operational functions is the review of preliminary and pro forma prospectuses in connection with the distribution of publicly offered investment funds. Under Canadian securities law, an issuer must file and obtain a receipt for a prospectus to "distribute" securities to the public or rely upon a prospectus exemption.

There are two main types of prospectuses for investment funds: the simplified prospectus pursuant to National Instrument 81-101 *Mutual Fund Prospectus Disclosure* (**NI 81-101**), and the long form prospectus pursuant to National Instrument 41-101 *General Prospectus Requirements*. The type of prospectus that is required to be filed depends on the type of investment fund that is offering securities. A mutual fund that is not an ETF must file a simplified prospectus. This includes alternative mutual funds that are not structured as ETFs. All other investment funds (including ETFs) must file a long form prospectus. Depending on the type of investment fund and prospectus, certain other disclosure documents may also be required to be filed along with the prospectus.

A preliminary prospectus is filed for an initial offering of investment funds which have never previously been distributed. A *pro forma* prospectus is used for renewals, once an investment fund has already been in continuous distribution.

Prospectus filings are categorized by the IM Division into one of three review types: standard, issue-oriented or full review. Most prospectus filings are subject to standard review, as these generally relate to investment funds that are already in distribution and have been previously reviewed. An issue-oriented review targets specific issues with the filing while a full review is undertaken when the prospectus is for a new manager, new fund or product that has features or characteristics that could raise novel issues. These filings are sometimes also accompanied by a related application for exemptive relief.

In the case of prospectus filings for which Ontario is the principal regulator, we ensure that the information provided in SEDAR+ is complete and accurate when filings are received, and before we issue the final receipt. If there are any discrepancies, we inform the filer to make the necessary update. This process includes ensuring that:

- ✓ the filing (the prospectus and all other required documents that must be filed in order to obtain a prospectus receipt) was made within 3 days of the date of the prospectus and of the certificate,
- ✓ the filer used the correct Submission Type and Document Type on SEDAR+,
- ✓ the dates entered in SEDAR+ are consistent with the dates in the prospectus, and
- ✓ the class and series information for each fund in SEDAR+ is consistent with the class and series indicated in the prospectus.

Staff also ensure that the renewal filings are made within the prescribed timeline and that the wording and signatures in the prospectus certificates comply with the requirements in section 58 of the *Securities Act* (Ontario) and Form 81-101F1 *Contents of Simplified Prospectus* or Form 41-101F2 *Information Required in an Investment Fund Prospectus*.

Pre-File Process

For unique or novel products, we recommend that filers use the confidential pre-file process for prospectus and exemptive relief applications. Many filers who wish to launch a novel type of product in the market have used this process as it maintains the confidentiality of the product offering as the regulatory issues are resolved. For more information on the pre-file process click here.

Review Process for Substantive Changes

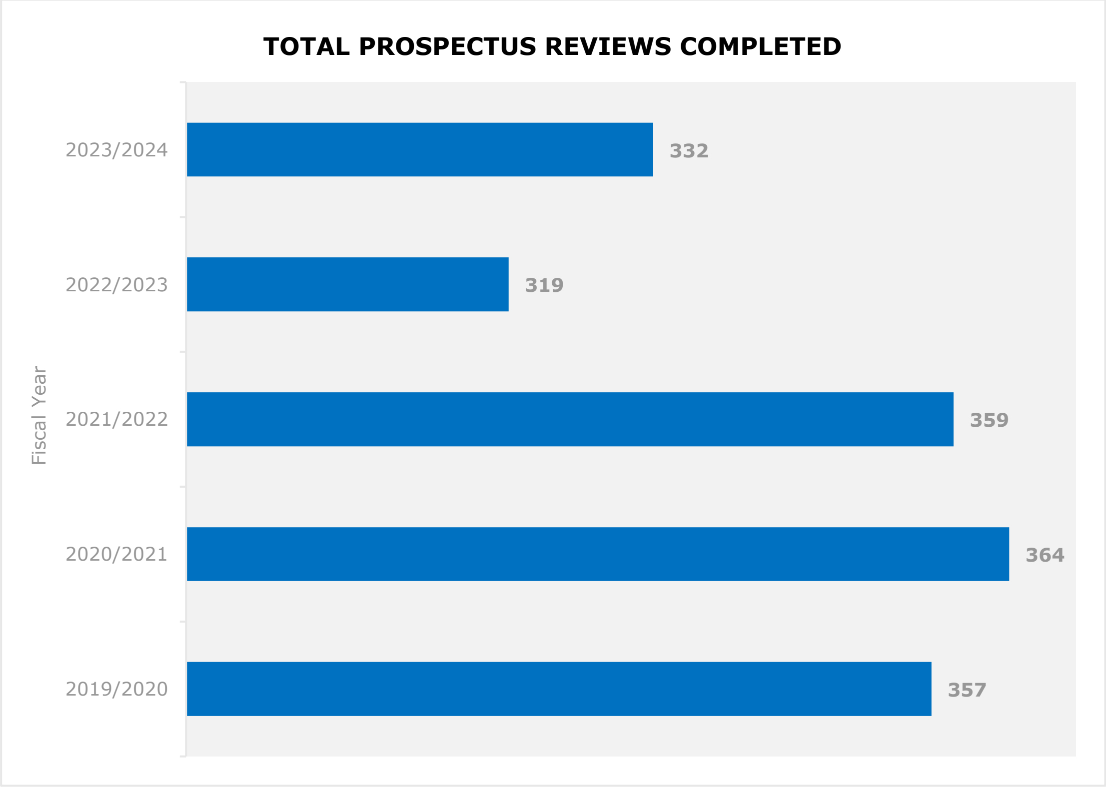
Staff remind IFMs that substantive changes to prospectus disclosure made after a preliminary or *pro forma* prospectus has been filed or cleared for final may cause delays in receiving a receipt for the final prospectus. Delays may occur as staff need to conduct a new review of those changes, and depending on the outcome of that review, may need to reverse the "clear for final" status and issue additional comments. Situations like this may potentially cause lapse date-related issues.

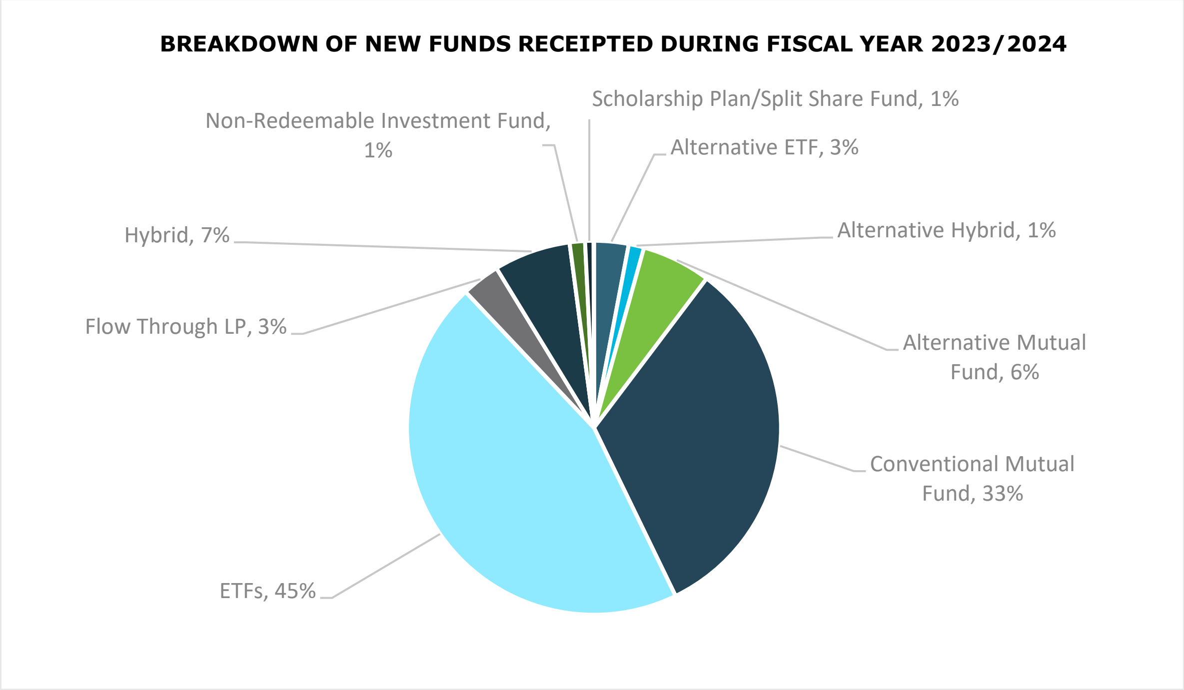
For preliminary prospectuses, consideration will also be given to whether an amended and restated preliminary prospectus will need to be filed. Staff note that such substantive changes to prospectus disclosure will be subject to the same level of review as the disclosure included in the filed preliminary or *pro forma* prospectus. For example, during the fiscal year, staff observed a number of prospectuses in which material ESG related disclosure was added after a preliminary or *pro forma* prospectus was filed or cleared for final. In each case, the additional disclosure was not prompted by comments raised by staff and required additional review time since the additions/revisions were substantive.

Staff encourage IFMs to file their prospectus amendments and preliminary and *pro forma* prospectuses as early as possible and, if applicable, in advance of their filing deadlines, in order to avoid delays in the prospectus review process.

Data on Prospectus Reviews

The total volume of prospectus filings received this fiscal year compared to the prior year is not significantly different, with a slight increase of 4%. However, for the first time in history, ETFs exceeded conventional mutual funds in new fund creations at 48% vs 39%, respectively, compared to 26% and 64% in the prior year. Hybrid fund creations were comparable year over year and represent simplified prospectus qualified mutual funds with mutual fund series together with ETF series. The majority of the filings (80%) were in the category of standard review for conventional mutual fund and ETF offerings.





Prospectus Reviews of ESG-Related Funds

During the past fiscal year, staff continued to review the prospectuses and related documents of funds with investment objectives that reference ESG factors and other funds that use ESG strategies (**ESG-Related Funds**). The reviews were performed in accordance with the guidance provided in CSA Staff Notice 81-334 *ESG-Related Investment Fund Disclosure* (the **2022 ESG Staff Notice**), which was published on January 19, 2022 to assist IFMs in improving the disclosure of ESG-Related Funds.

These prospectus reviews generally focused on, but were not limited to, the fund's:

- investment objectives and name
- investment strategies
- proxy voting policies and procedures
- risk disclosure
- suitability disclosure

Most of the issues raised by staff during these reviews related to investment strategies disclosure. In particular, most comments sought to clarify:

- which types of ESG strategies were being used;
- which specific ESG factors were relevant to the portfolio manager's analysis; and
- how such factors were being evaluated and monitored by the portfolio manager.

Staff also encountered issues relating to the investment strategies disclosure of funds that do not have ESG-related investment objectives but that consider ESG factors in a more limited way in the investment process. Often, IFMs included disclosure relating to these funds without being clear about the limited role that the consideration of ESG factors and/or the use of ESG strategies plays in the investment process of such funds. In these cases, staff raised comments aimed at ensuring that this disclosure clearly explains the limited role that the consideration of ESG factors and/or use of ESG strategies plays in the fund's investment process, including the specific parts of the investment process during which ESG factors are considered, the weight given to ESG factors, the impact that ESG factors will generally have on the portfolio selection process, and whether this approach is specific to the fund in question or whether it is part of the IFM's general process that is applied across all or a segment of its funds.

Staff also raised and resolved issues relating to fund names, investment objectives, ESG risk disclosure, and ESG-related disclosure in the summary of proxy voting policies and procedures.

As part of these reviews, staff also requested and reviewed copies of recent sales communications relating to the funds. A discussion of staff's ESG-focused sales communication reviews is included later in this document under the "Reviews of Continuous Disclosure, Sales Communications, and Portfolio Holdings of ESG-Related Funds" heading.

The findings from staff's prospectus reviews of ESG-Related Funds helped to inform the updated guidance published on March 7, 2024 in CSA Staff Notice 81-334 (Revised) *ESG-Related Investment Fund Disclosure* (the **Updated ESG Staff Notice**). Staff will continue to monitor the prospectus disclosure of ESG-Related Funds in accordance with the guidance in the Updated ESG Staff Notice.

Noteworthy Prospectus Filings

Some of the noteworthy prospectus filings that were receipted during the fiscal period are summarized below, along with details on any related exemptive relief.

Ether Funds Adopt Staking

During the period, an IFM was granted a receipt for a prospectus amendment to announce that its Ether closed-end fund and its Ether ETF were going to commence "staking" of Ether held by the funds. Staking is the activity under which transactions on the Ethereum blockchain are validated and those validating the transactions are rewarded with newly created ether. This announcement came after several months of discussion with IM Division staff and with the CSA to ensure that staking activity would be conducted within the scope of National Instrument 81-102 *Investment Funds* (**NI 81-102**) and managed in such a way that minimizes the risk of loss to the funds.

Target Date Bond ETFs

We noted a resurgence in the launch of Target Date Bond ETFs. These types of funds, which first appeared a decade ago, generally aim to provide regular income and preserve capital by investing in a portfolio of bonds with similar maturity dates. The maturity dates of the bonds align with the investment fund's pre-determined lifespan, which is sometimes as short as two years. The funds terminate once the bonds in the portfolio reach maturity and the final net assets of the fund are distributed *pro rata* among the unitholders based on the NAV per unit. The lifespan of the fund is reflected in the fund name (which sets out the year in which the fund will terminate) and is also specified in the fund's investment objectives. These funds essentially aim to be a bond in 'fund' form which provides investors with some of the benefits of bond ownership, but with liquidity to sell at any time. The resurgence of these funds at this time is likely an attempt by IFMs to compete with the recent popularity of GICs to which investors have gravitated in the current elevated interest rate environment.

Artificial Intelligence Fund

During the year, we receipted a prospectus for a new actively managed fund that seeks to provide exposure to securities of publicly traded issuers that are expected to benefit from increased adoption of artificial intelligence. To achieve this investment objective, the portfolio manager of the fund will primarily consult and use a proprietary large language model (the **LLM**). The LLM has the ability to search and read through financial documents (such as news articles, public company filings, earnings reports and market analyses), analyze vast datasets and learn from new data, meaning that its ability to identify relevant issuers may evolve over time. The LLM is expected to identify public issuers from developed markets that are expected to be positively impacted by increasing global adoption of AI through increased direct product sales and/or improved cost efficiency. Initially, the fund was proposed to be an index fund that would passively track an AI index where investment decisions are made by AI. However, staff raised concerns with this approach and insisted on the portfolio manager taking ownership of, and having full discretion over, the investment decisions for the fund to ensure "human oversight" of the investment decisions. This resulted in the IFM restructuring the fund as an actively managed fund and the final prospectus discloses that the database generated by the LLM will be utilized by the portfolio manager as "a data source", rather than be the only data considered by the portfolio manager in constructing the fund's portfolio.

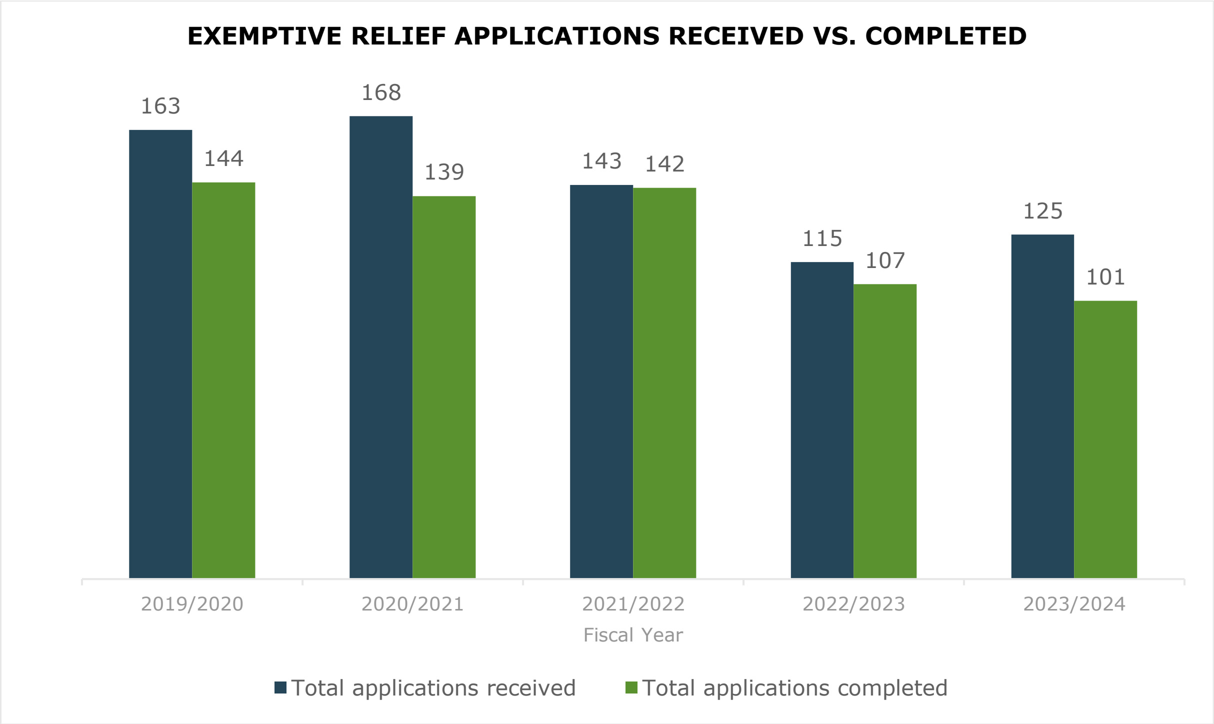
II. Exemptive Relief Applications

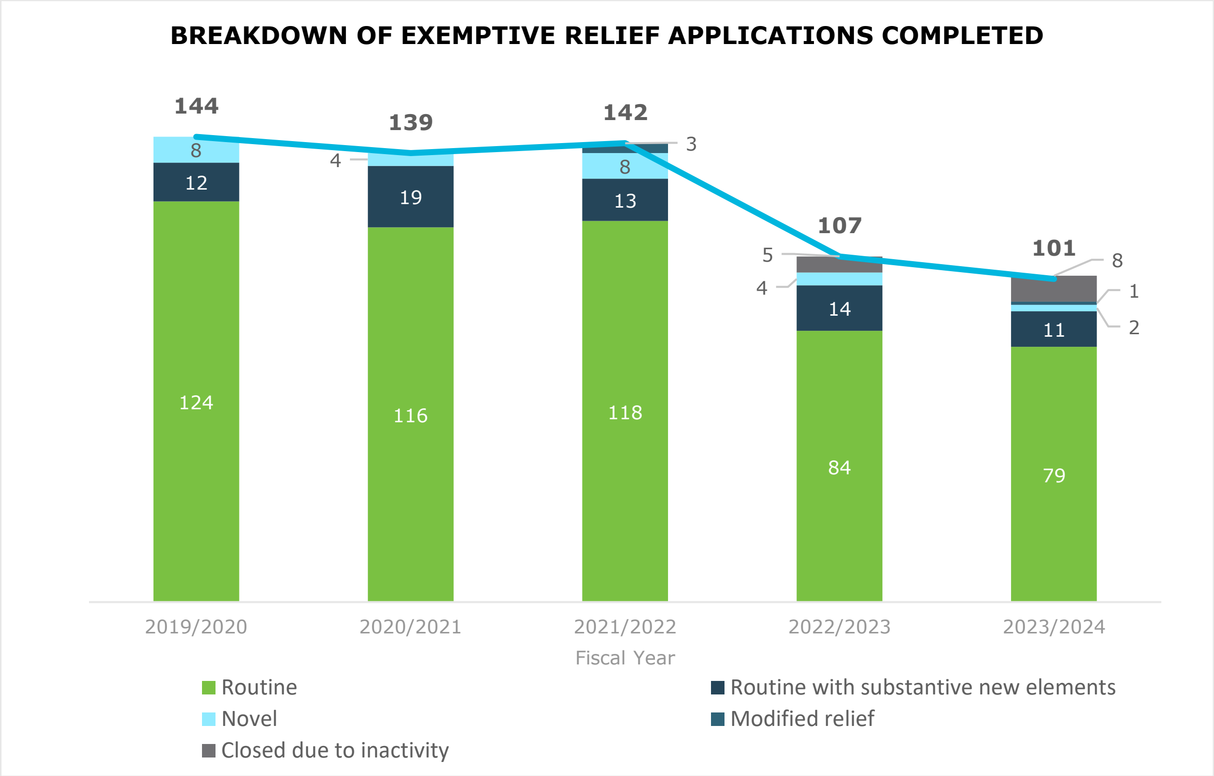
The IM Division reviews applications for exemptive relief to determine whether granting the requested relief would not be prejudicial to the public interest and makes a recommendation on that basis. We receive exemptive relief filings that are considered either routine or novel in nature. Routine applications generally mirror a prior decision and contain similar representations and conditions in the decision document as a previous decision. In some cases, routine applications contain changes that would be considered substantive new elements, and these are considered based on the fact patterns of the application to determine whether the same or modified conditions of the relief would be appropriate.

Novel applications generally consist of requests for relief that have not previously been granted or that deviate substantially from the fact patterns underlying any prior decisions. These applications generally take longer to review because of their nature and complexity, and we consult with the CSA on all novel applications.

The difference in the total volume of exemptive relief applications received and completed is insignificant over the past two periods. Exemptive relief applications received in Fiscal 2024 increased slightly by 9% while those completed dropped by 6% compared to the previous fiscal year. The sustained decline in applications is because of amendments that came into force in January 2022 as part of our efforts to reduce regulatory burden for investment funds. These amendments included codifying frequently granted exemptions from certain requirements such that IFMs no longer must apply for exemptive relief in these cases. Consistent with prior years, most of the exemptive relief applications completed were routine in nature, while novel relief applications made up 2% of the applications completed in Fiscal 2024, as compared to 4% in the prior year.

Data on Exemptive Relief Applications





Noteworthy Exemptive Relief Applications

Financial Statement Filing

During the period, a mutual fund that is not a reporting issuer and only distributes its units to accredited investors was granted 30-day extensions of the annual financial statement filing and delivery deadlines and the interim financial statement filing and delivery deadlines under National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**). NI 81-106 requires investment funds to file and deliver annual financial statements within 90 days of its most recently completed financial year end and to file and deliver interim financial statements within 60 days of its most recently completed interim period. The relief was necessary for the fund given its December 31st year-end as it was primarily invested in a diversified portfolio of underlying funds, the majority of which have December 31st year-ends and are domiciled in Canada, and accordingly, as the underlying funds have the same deadline for delivery of their annual financial statements, the fund would not be able to receive such financial statements in time for its auditors to review them before the annual financial statement filing deadline.

Normally, extensions of the financial statement filing deadlines are only granted to top funds that are not reporting issuers and which invest in underlying funds that are domiciled in foreign jurisdictions that have financial statement delivery deadlines exceeding 90 days. In addition to being notified of this change in financial statement delivery timelines, investors were offered the right, within 2 business days, to redeem their units of the fund at the greater of the current NAV or the original purchase price of their units, with the filer to reimburse the fund in any case where an investor redeems their units and the original purchase price exceeds the current NAV.

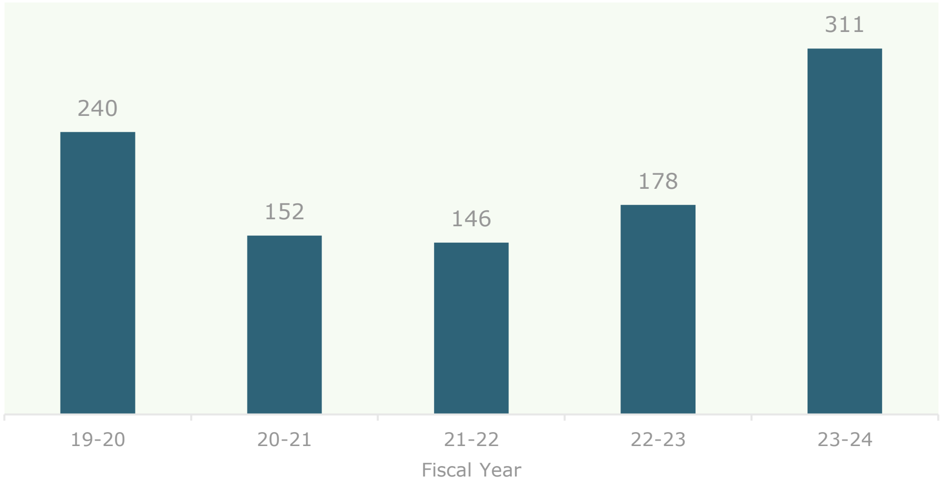
Staff is of the view that financial statement filing extensions will be considered on a case-by-case basis. Exempt market issuers who request financial statement filing extensions will be granted relief for existing top funds and relief will not be eligible for future oriented funds.

III. Continuous Disclosure Reviews

The IM Division regularly conducts reviews of the prospectus and continuous disclosure filings of Ontario-based investment funds. Risk-based criteria are used to select investment funds for reviews of their disclosure documents. We may also choose to conduct targeted reviews of a particular segment, on a particular issue or based on complaints received.

The IM Division analyzes data sources to identify investment fund outliers in key risk areas to conduct focused reviews. A major contributor to this information is the data gathered as part of the annual IFS discussed in Part C of this Report.

CONTINUOUS DISCLOSURE REVIEWS COMPLETED FOR INVESTMENT FUNDS



For the second consecutive year, there was an increase in the number of continuous disclosure reviews completed, with a significant jump of 75% from the prior year. Most of this increase is represented by standard continuous disclosure reviews as dedicated staff resources for these reviews have been stable as compared to prior years where there was a decline due to staffing changes. In addition, as the volume of exemptive relief applications and prospectus reviews have remained stable, resources have shifted to performing continuous disclosure reviews of emerging issues and compliance with regulatory guidance, such as the 2022 ESG Staff Notice.

Summary of Completed Reviews

Outlined below are the major reviews completed by the IM Division during the fiscal period:

Reviews of Continuous Disclosure, Sales Communications, and Portfolio Holdings of ESG-Related Funds

During the past fiscal year, in addition to the prospectus reviews described under the "Prospectus Reviews of ESG-Related Funds" heading of this document, staff also continued to conduct reviews of the continuous disclosure, sales communications, and portfolio holdings of ESG-Related Funds in accordance with the guidance in the 2022 ESG Staff Notice. These reviews focused on:

- assessing the quality of ESG-related periodic reporting in the funds' management reports of fund performance (**MRFPs**) and on their websites, particularly with regard to changes in the composition of the fund's portfolio in relation to its ESG-related investment objectives and/or use of ESG strategies, the fund's progress or status with regard to meeting its ESG-related investment objectives, and the outcomes of the fund's ESG-related proxy voting and shareholder engagement activities;
- identifying whether the funds were holding, or had held, investments that should have been excluded from their portfolios due to the negative screening criteria set out in their investment strategies disclosure or that may be considered by investors to be inconsistent with the ESG focus of the fund (e.g. a green fund that has exposure to fossil fuel companies);
- identifying whether the IFM of the funds had policies and procedures in relation to: (a) assessing, measuring and monitoring the ESG-related performance and outcomes of the funds that they manage; and (b) addressing portfolio holdings that are inconsistent with the ESG-related investment objectives and/or ESG strategies of the fund;
- identifying whether the funds have voted against ESG-related shareholder proposals, and if so, whether such votes were consistent with the proxy voting guidelines of the funds; and
- reviewing sales communications of the funds, including websites, to ensure that the sales communications did not include statements that conflicted with information contained in the fund's regulatory offering documents or that were untrue or misleading.

During the course of these reviews, issues were raised and addressed in relation to all of the above-noted areas.

Where issues were identified in relation to website disclosure or other sales communications that were misleading or in conflict with the regulatory offering documents of a fund: (i) the sales communication was removed or revised as needed; and/or (ii) the prospectus disclosure was updated to resolve the conflicting information in the sales communication. In certain cases where corrections to an IFM's website were made at the request of staff in the course of these reviews, staff applied the process set out in OSC Staff Notice (Revised) 51-*711 Refilings and*

Corrections of Errors. In particular, staff requested the issuance of a news release by the IFM in relation to such corrections and added the applicable investment fund issuers to the OSC's Refilings and Errors List.

The findings from these reviews helped to inform the guidance published in the Updated ESG Staff Notice on March 7, 2024. Staff will continue to monitor the continuous disclosure, sales communications, and portfolio holdings of ESG-Related Funds in accordance with the guidance in the Updated ESG Staff Notice.

Liquidity Risk Management Review

There has been increasing global regulatory scrutiny of liquidity risk management (**LRM**) practices at open-ended investment funds given the integral part that effective LRM plays in reducing systemic risk in global markets. As a result, staff completed a continuous disclosure review of IFMs of various size to better understand LRM assumptions, and policies and procedures at IFMs for managing their liquidity under stressed conditions, for example, how stress testing is applied and used to address liquidity risks and how LRM tools are used to address such risks. Generally, all IFMs had LRM processes and procedures, however, these practices varied greatly between firms, and IFMs noted that they have been able to adequately manage their fund liquidity during normal and stressed market conditions based on existing tools available within the current regulatory framework. The results of this review will be used to inform any future rule-making initiatives relating to LRM.

Marketing Review of Decumulation Fund

In recent years, several investment funds have been introduced which are designed for investors who are at, or approaching, retirement. These products aim to help investors find ways to live off their savings and have sufficient income in the later years of their life. We performed a review of a sample of marketing materials to ensure that they are careful in their comparison of the decumulation fund to pension plans so that investors are not confused as to the nature of the product. We also ensured that the fund clearly discloses the risks and features of the fund to investors. Based on our review, several enhancements were made to the marketing materials to provide a more neutral and cautious approach by the fund when drawing comparisons to defined benefit pension plans.

Yield Disclosure

On November 28, 2023, IM Division staff published eNews article outlining staff's concerns around high yield figures (including yield figures as high as 15%) being prominently displayed and emphasized over all other aspects of a fund's sales communication and marketing materials. Staff reminded IFMs that even where factually accurate, the inclusion of attention-grabbing high yield information in a sales communication without complying with the performance data requirements outlined in NI 81-102 may be misleading. Accordingly, staff have begun conducting issue-oriented CD reviews focused on sales communications that include attention-grabbing high yield figures and/or distribution rates. During these issue-oriented CD reviews, staff have been asking IFMs to remove misleading statements from their sales communications, including websites and other marketing materials. Staff have also conducted issue-oriented reviews of prospectuses for funds that include disclosure about targeted yields or targeted distribution rates. During these reviews, staff have been asking IFMs to remove such disclosure where it constitutes hypothetical performance data or performance data for a period of less than one year.

High Interest Savings Account ETFs

On October 31, 2023, OSFI announced that it was raising liquidity requirements for deposit taking institutions HISA ETFs as these are considered unsecured wholesale funding and require a 100% run-off, compared to the previous rate of 40%. Banks that hold deposits for HISA funds will have to hold sufficient high-quality liquid assets, such as government bonds, to support all HISA ETF balances that can be withdrawn within 30 days. With the new stricter rules effective January 31, 2024, yields are expected to drop by 0.5% and HISA ETFs have begun to diversify portfolio investments beyond HISA deposits where permitted in the investment strategies.

Staff commenced a review of HISA ETFs to monitor their activities as part of the OSFI announcement, and to ensure the policy impact is managed.

Fund Risk Rating

Since September 1, 2017, the CSA has mandated the use of the CSA risk classification methodology by IFMs to determine the investment risk level of conventional mutual funds and exchange-traded mutual funds for use in the Fund Facts document and in the ETF Facts document, respectively. Under the CSA methodology, a mutual fund must calculate its standard deviation for the most recent 10 years to determine its investment risk level on the 5-category risk scale in the Fund Facts or ETF Facts, as applicable. The CSA Methodology allows the use of discretion by an IFM to classify a mutual fund at a higher investment risk level than that indicated by the standard deviation calculation if it is reasonable to do so in the circumstances.

In a report to the Joint Regulators Committee, the Ombudsman for Banking Services and Investments (**OBSI**) identified the potential systemic under-representation of risk in some mutual fund risk ratings in recent years. OBSI reported that they observed many funds reducing risk ratings on the basis of the ten-year standard deviation and relatively few IFMs increasing or maintaining risk ratings by using upward discretion. Further to OBSI’s report, the OSC undertook a review of mutual fund risk ratings and did not have the same observations as OBSI. OBSI also reported seeing an increasing number of exempt market issuers using standard deviation as the sole approach in risk rating their exempt market funds. However, the CSA risk classification methodology was not developed with exempt products in mind and exempt market issuers are not required to use the CSA methodology. For exempt market products that use leverage or have access to asset classes that are not permitted under the regulatory framework in place for publicly offered mutual funds, the distribution of returns might involve more tail events and it would not be appropriate to use the CSA methodology to provide risk ratings.

The IM Division has launched a CD review of IFMs' use of discretion in determining mutual fund risk ratings. A sample number of IFMs have been asked about policies and procedures in place to determine the circumstances under which it would be reasonable to increase the risk rating of a mutual fund, and how discretion has been or has not been exercised in recent risk ratings. The CD review is expected to be completed in the next fiscal year.

Emerge Canada Inc.

A failure-to-file cease trade order (**FFCTO**) was issued on April 6, 2023, against the 11 ETFs managed by Emerge Canada Inc. (**Emerge**). The ETFs failed to file their audited financial statements and management report of fund performance by the filing deadline of March 31st. Under the FFCTO, secondary market trading of ETF units was halted, and the ETFs were required to stop creating and redeeming units.

A decision in respect of Emerge's capital deficiency was issued on May 10, 2023. The Director of the Compliance and Registrant Regulation concluded that Emerge was capital deficient, and required that Emerge wind-up its business, permitting Emerge to decide whether to transfer the management of the ETFs to another fund manager or whether the ETFs should be wound-up. Emerge decided to wind-up the ETFs and a monitor was appointed to oversee this process and provided regular reporting to CRR staff on the wind-up. The ETFs were subsequently terminated at the end of December 2023 and are no longer reporting issuers.

Monitoring of Crypto Asset Funds

In addition to the continuous disclosure reviews described above, the IM Division also reviews crypto asset fund activity each quarter. In Ontario, crypto asset funds are offered by six IFMs and the crypto asset figures and activity for Fiscal 2024 as compared to the prior fiscal years are shown below:

Year	# of Public Crypto Asset Funds in Ontario	AUM of Crypto Asset Funds	# Crypto Asset Funds Receipted	# Crypto Asset Funds Terminated or Fund Changed Investment Objective
Fiscal 2024	21	$7.45 billion	0	3
Fiscal 2023	24	$2.85 billion	2	1
Fiscal 2022	23	$6.89 billion	17	0

While there were significant fund inflows in November 2023, the increase in AUM is primarily driven by the higher value of cryptocurrencies which has more than doubled since the previous fiscal year. Net sales totaled $599 million in Fiscal 2024 compared to net redemptions of $866 million in fiscal 2023.

The launch of crypto asset ETFs tied to spot Bitcoin in the U.S. at the beginning of 2024 had a negative impact on the Canadian Bitcoin spot ETFs, resulting in almost $450 million in net redemptions. Of the five Canadian Bitcoin ETFs, four experienced net outflows in January 2024 which ranged from 11% to 25% of their respective NAVs, compared to December 2023 figures. As the price of Bitcoin generally traded higher in January 2024 than in December 2023 the decline in NAV for the Canadian ETFs during this period can be attributed primarily to these outflows. The only Canadian ETF to have net inflows during the period reduced its fees from 0.95% to 0.39% which may have been a partial driver of the inflows.

Standard Continuous Disclosure Reviews

IM Division staff conduct standard continuous disclosure reviews of a sample of filings including annual and interim financial statements, annual reports and annual and interim MRFPs filed on SEDAR+. The objective of these reviews is to determine whether issuers are complying with their disclosure obligations under NI 81-106 and that the filings are made in a timely manner. The samples are randomly selected based on risk areas which are comprised of material changes, change of auditor, new reporting issuers and issuers with a previous continuous disclosure review issue. During Fiscal 2024, 247 funds across 72 IFMs were selected for review and there were no significant findings.

Part B: Regulatory Policy

In addition to ongoing policy initiatives that focused on modernization of the investment funds' regulatory regime and burden reduction, the IM Division's policy initiatives are evolving along with the OSC's new strategic plan which will include right-size regulation for investment funds which is informed by changing needs, risks and practices in Ontario and globally. As always, feedback from stakeholders, including investors, is a critical part of rule making. Unless an exception to the notice requirement applies, the OSC is required to publish proposed rules for public comment which is generally a 90-day period.

This section details the major policy initiatives that were completed or were ongoing during Fiscal 2024:

Access Based Model for Investment Fund Reporting Issuers

On September 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.* The proposed amendments will modernize existing delivery practices for investment fund continuous disclosure documents by increasing online availability and accessibility, which recognizes increased investor preference for accessing information electronically. This means investors will have access to information in a timely and environmentally friendly manner while also retaining the option to request documents in the form, paper or electronic, to best suit their needs. Investment funds will benefit from reduced long-term costs and regulatory burden without impacting investor protection. The proposed amendments only apply to investment funds that are reporting issuers and will result in amendments to NI 81-106 and NI 81-101 to replace the current delivery requirements for investment fund financial statements and management reports of fund performance with an "access-based model".

Comments on the proposed amendments were due December 26, 2022. We received 23 comments which are still being considered by the CSA, in conjunction with further industry input.

Investment Fund Settlement Cycle

On December 15, 2022, the CSA published CSA Staff Notice 81-335 *Investment Fund Settlement Cycles*. This notice advises that the CSA is not proposing amendments to sections 9.4 and 10.4 of NI 81-102 to mandate a shorter settlement cycle one day after the date of the trade (**T+1**) for mutual funds. This allows investment funds to have flexibility to determine whether a shorter settlement cycle is appropriate for the fund.

Concurrently, the CSA published for comment proposed amendments to National Instrument 24-101 *Institutional Trade Matching and Settlements* (**NI 24-101**). Among other things, these amendments focus on facilitating the shortening of the standard settlement cycle for equity and long-term debt market trades in Canada from two days after the date of a trade to T+1. Where practicable, mutual funds should settle primary distributions and redemptions of their securities on T+1 voluntarily. In March 2023, in connection with the publication for comment of NI 24-101, we received public comments about the guidance in the CSA Staff Notice 81-335 *Investment Fund Settlement Cycles*. We are in the process of considering those comments.

On October 19, 2023, the CSA published for comment amendments to NI 81-102 that would help mutual funds that voluntarily shorten their trade settlement cycle to T+1. The proposals are intended to complement the anticipated shift to T+1 in Canada by accommodating a range of settlement cycles for mutual funds, including those that make this change. The amendments clarify payment dates for transactions and the timeframe for forced redemption of securities for non-payment. In particular, for funds moving to T+1, the timeframe for forced redemption of securities for non-payment has changed from three days to two days after the pricing date. The 90-day comment period closed on January 17, 2024 and two comment letters were received. The final amendments were published on May 23, 2024 and came into effect on August 31, 2024.

OSC Rule 81-509 Extension to Ontario Instrument 81-508

On August 31, 2023, the OSC published the Notice of Board Approval of OSC Rule 81-509 *Extension to Ontario Instrument 81-508 Temporary Exemptions from the OEO Trailer Ban to Facilitate Dealer Rebates of Trailing Commissions and Client Transfers* (**OSC Rule 81-509**). OSC Rule 81-509 extends the blanket relief issued on March 18, 2022, by Ontario Instrument 81-508 *Temporary Exemptions from the OEO Trailer Ban to Facilitate Dealer Rebates of Trailing Commissions and Client Transfers* (**Ontario Instrument 81-508**) by 18 months. Under the Order Execution Only (**OEO**) trailer ban, IFMs are prohibited from paying trailing commissions where the dealer is not required to make a suitability determination in connection with a client's purchase and ongoing ownership of prospectus qualified mutual fund securities, and dealers are prohibited from soliciting or accepting trailing commissions from an IFM, in connection with securities of the mutual fund held in an account of a client of the dealer if the dealer is not required to make a suitability determination, including, among others, OEO dealers. Ontario Instrument 81-508 provides temporary exemptions from the OEO trailer ban for OEO dealers and IFMs to facilitate dealer rebates of trailing commissions to clients holding mutual funds in OEO dealer accounts and process client transfers. Ontario Instrument 81-508 came into effect on June 1, 2022 and ceased to be effective on November 30, 2023. OSC Rule 81-509 extends relief provided in the Ontario Instrument 81-508 to for an additional 18-month period from December 1, 2023 to May 31, 2025. We continue to have discussions with stakeholders to find a long-term solution to address the small number of accounts which may continue to require relief.

Repeal of National Instrument 81-104 *Alternative Mutual Funds*

On August 31, 2023, the CSA, except for the AMF, published Multilateral CSA Notice – Repeal of National Instrument 81-104 *Alternative Mutual Funds*. As a result of prior rule amendments that migrated most operational aspects of National

Instrument 81-104 *Alternative Mutual Funds* (**NI 81-104**) to NI 81-102*,* the only remaining operational aspect of NI 81-104 was Part 4, which was focused on proficiency requirements for mutual fund restricted individuals for the distribution of alternative mutual funds (the **Proficiency Requirements**). As the course options prescribed by the Proficiency Requirements pre-dated the introduction of the alternative mutual funds regime and did not address the differences between conventional mutual funds and alternative mutual funds, CSA members issued harmonized blanket orders to provide additional proficiency course options on January 28, 2021. The MFDA, now known as CIRO, later codified these blanket orders with Policy No. 11 *Proficiency Standards for the Sale of Alternative Mutual Funds* (**Policy No. 11**), which took effect on July 21, 2022. As of January 1, 2023, Policy No. 11 is now known as *Interim Mutual Fund Dealer Rule 1000 Proficiency Standards for the Sale of Alternative Mutual Funds* (**Rule 1000**) of CIRO. Given the overlap between Rule 1000 and the Proficiency Requirements, NI 81-104 was no longer necessary. The repeal of NI 81-104 came into force on January 29, 2024 in all CSA jurisdictions except Québec. At this time, the AMF is not proposing to repeal NI 81-104 and will continue to rely on its local blanket order. The AMF will consider repealing NI 81-104 and revoking its local blanket order after mutual fund dealers registered in Québec are transitioned to the equivalent requirements under CIRO rules.

Proposed Modernization of the Prospectus Filing Model for Investment Funds

On January 27, 2022, the CSA published for comment a proposal to modernize the prospectus filing model for investment funds for a 90 day comment period. The proposed amendments will allow investment funds in continuous distribution to file a new prospectus every two years instead of on an annual basis as they currently do. The requirement to file a final prospectus no more than 90 days after the issuance of a receipt for a preliminary prospectus for all investment funds would also be repealed.

The Fund Facts and ETF Facts will continue to be filed annually and will trigger an activity fee under OSC Rule 13-502 *Fees.* The fee trigger for ETF Facts replaces that of the long form prospectus, while the Fund Facts activity fee will replace the activity fee for the simplified prospectus. In Ontario, the fee trigger change will also harmonize the fees between conventional mutual funds and ETFs. However, certain jurisdictions will maintain the prospectus as the fee trigger in certain scenarios.

This policy project is ongoing and is expected to be finalized in the next fiscal period with the publication of final rule amendments and SEDAR+ changes to support the implementation of these amendments.

Modernization of Continuous Disclosure Documents

The CSA is currently reviewing investment fund continuous disclosure requirements for opportunities to modernize key elements of the regime, such that they are more effective for investors to review and less burdensome for investment funds to produce. A significant focus area is the MRFP. The CSA contracted with a behavioural insight consulting firm to incorporate best practices for investor comprehension of financial disclosures into a proposed redesign of the MRFP, a key investor communication document.

Other areas of focus for the CSA are simplifying conflict of interest reporting requirements, and simplifying certain financial statement disclosure elements that are not required under International Financial Reporting Standards. The Project Working Group is currently preparing proposed amendments and proposed changes for publication.

Review of Principal Distributor Practices

The CSA is reviewing the practices of mutual funds that have principal distributor relationships with registrants to distribute their securities. The CSA's review included surveying IFMs and principal distributors about the scope of their arrangements. The findings of the review will provide a better understanding of mutual fund sales practices and distribution structures. The CSA will assess whether regulatory amendments to National Instrument 81-105 *Mutual Fund Sales Practices* or other instruments are needed in light of the CSA's recent work in developing its client focused reforms.

Review of Use of Chargeback Model

On June 1, 2023, the CSA announced the launch of a review of the use of chargebacks in the mutual fund industry due to concerns about potential conflicts of interest associated with this practice. Chargebacks involve a compensation practice where a dealer or dealing representative is paid upfront commissions and/or fees when their client purchases securities. Chargebacks occur when investors redeem their securities before a fixed schedule as determined by the dealer firm, and the dealing representative is required to pay back all or part of the upfront commission/fees.

On September 8, 2022, the Canadian Council of Insurance Regulators (**CCIR**) and the Canadian Insurance Services Regulatory Organizations (**CISRO**) released for public consultation a discussion paper on upfront compensation paid for the sale and servicing of segregated funds and individual variable insurance contracts, which identified chargebacks as possible conflicts of interest. On May 15, 2023, the CCIR and CISRO published a news release indicating that there is a risk of customer harm with the use of chargebacks and that they will develop guidance on the controls that need to be in place. While the use of chargebacks is not as common for the distribution of mutual funds relative to the distribution of segregated funds, chargebacks raise the same conflict of interest concerns for mutual fund distribution.

Investment Funds Investing in Crypto Assets

On January 18, 2024, the CSA proposed amendments to NI 81-102 to provide greater regulatory clarity on certain key operational matters relating to public investment funds investing in crypto assets. This represents a continuation of the CSA's efforts to enhance the regulatory framework for public crypto asset funds, following the publication of CSA Staff Notice 81-336 *Guidance on Crypto Asset*

Investment Funds that are Reporting Issuers (**SN 81-336**) that was published July 6, 2023.

The proposed amendments tailor requirements for public investment funds investing in crypto assets to better protect investors and reduce risk. Requirements include crypto asset investment restrictions and custodial obligations. The CSA reminds Canadians that investing in crypto assets, even through public investment funds, is higher risk and may not be suitable for most retail investors. Generally speaking, investing in crypto assets is a speculative activity, and the value and liquidity of crypto assets are highly volatile. While regulatory oversight of public investment funds plays an important role in investor protection, these measures cannot eliminate all risks associated with investing in crypto assets.

The proposed amendments are the second phase of a project to implement a Canadian regulatory framework for public investment funds holding crypto assets. In the project's third phase, the CSA will consult publicly on a broader framework.

The 90-day comment period ended April 17, 2024.

Review of ETFs

In August 2023, the CSA commenced a review of ETFs. The review assesses whether the current regulations applicable to ETFs remain appropriate, focusing on the unique features of ETFs, i.e., secondary market trading, creation and redemption of ETF units by authorized dealers, and the arbitrage mechanism that acts to keep the market price of an ETF close to the underlying value of its portfolio. The review: (a) analyzes the ETF market, including assessing secondary market activity and factors that may affect their liquidity and trading; and (b) considers whether the Good Practices Relating to the Implementation of the IOSCO Principles for Exchange Traded Funds published by IOSCO in 2023 are appropriate for the Canadian market. We expect to complete our review by Fall 2024. This research will be used to inform our analysis of potential gaps and enhancements to the regulatory regime for ETFs. We expect to publish a consultation paper in 2025 to consult stakeholders on potential issues and provide them with the opportunity to comment on our review and any preliminary policy proposals before rule changes are proposed.

Part C: Emerging Issues and Initiatives

There were several initiatives ongoing during the year which will affect investment funds on a go forward basis, as described below.

Transition to SEDAR+

SEDAR+ went live on July 25, 2023. The CSA adopted National Instrument 13-103 *System for Electronic Data Analysis and Retrieval* + which requires that filers transmit electronically through SEDAR+ each document required or permitted to be filed with or delivered to a securities regulatory authority under securities legislation. Accordingly, SEDAR+ will be used by all market participants to file, disclose and search for public issuer information in Canada's capital markets.

SEDAR+ brings changes for IFMs who are now required to have a profile in SEDAR+, against which investment fund documents are filed. Each investment fund also has its own independent profile on SEDAR+. The process is ongoing as we continue to make enhancements to SEDAR+ and we would like to thank reporting issuers and other users of SEDAR+ for their patience during this transition period.

Additional Information:

SEDAR+ Landing Page: https://www.sedarplus.ca/landingpage/

FAQs about continuous disclosure filings:
https://www.sedarplus.ca/onlinehelp/filings/continuous-disclosure-filings/

Cessation of Canadian Dollar Offered Rate

The publication of the Canadian Dollar Offered Rate (**CDOR**) ceased following a final publication on June 28, 2024. The CSA has been encouraging market participants to prepare for the cessation of CDOR and published CSA Staff Notice 25-309 *Matters Relating to the Cessation of CDOR and Expected Cessation of Bankers' Acceptances* on February 28, 2023 to assist with transition issues and encourage market participants, including money market funds, to prepare for the changes that the cessation of CDOR will cause, specifically that the lending model responsible for creating the short-term promissory notes known as Bankers' Acceptances (**BAs**) is discontinued.

Investors in short-term money market assets typically invested in BAs due to their relatively attractive yield over other short-term assets, while still being liquid and well-rated. They were the second largest money market instrument after Government of Canada treasury bills and accounted for most of the product availability in the one-month maturity bucket[6].

---

[6] Source – CARR's review of CDOR: Analysis and Recommendations (white paper) dated December 16, 2021.

The importance of BAs as a short-term money market asset was echoed in the white paper published on January 16, 2023, by the Canadian Fixed Income Forum (**CFIF**)[7], a senior-level industry committee established by the Bank of Canada. CFIF is of the view that no single instrument will emerge to replace BAs in the short-term debt market. Rather, CFIF believes that a basket of alternatives is needed to fill the significant gap in the short-term money market space in Canada created by the discontinuation of BAs.

In May 2024, the Government of Canada introduced a 1-month treasury bill as a new tenor for the domestic debt program to support the Canadian money market's transition from BAs following the cessation of CDOR in June 2024. This is considered a temporary funding tool to support the Canadian money market during the transition.

Also, the Canadian Derivatives Clearing Corporation launched the Secured General Collateral (**SGC**) program on May 17, 2024. The program is intended to offer an investment alternative to BAs in light of the cessation of CDOR and the related cessation of the issuance of BAs. SGC Notes are short-term debt instruments secured by a basket of securities which meet eligibility criteria, concentration limits and haircut rules. The SGC Notes are sold pursuant to an offering memorandum and will only be offered to persons (other than individuals) that are both:

- accredited investors pursuant to the prospectus exemption for "accredited investors" in section 2.3 of National Instrument 45-106 *Prospectus Exemptions* and subsection 73.3(2) of the *Securities Act* (Ontario), and
- "permitted clients" under National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*.

We have been in discussions with stakeholders to support the transition process.

Investment Fund Survey

The Investment Fund Survey (**IFS**) was initially launched on April 26, 2021, to seek key information about investment funds with at least $10 million in net assets managed by IFMs registered in Ontario. The objective of the IFS is to collect comprehensive fund-level data that will enable us to generate new insights into the Canadian investment fund industry. The data gathered is also shared, at a consolidated level, with both domestic and international regulatory partners.

During Fiscal 2023, the OSC initially published survey results from previous IFSs which collected data for the years ended 2020, 2021 and 2022. In September 2023, the OSC began sharing the historic survey results of the IFS via a Tableau public dashboard which can be found on the OSC Investment Fund Survey data landing page. The IFS results will be updated annually as new data is collected from IFMs. In publishing the data in this manner, our intent is to promote greater transparency in a way that protects IFM confidentiality and greater usability of the

[7] BAs comprised 20% of overall money market, or approximately $80-90 billion as per the CFIF white paper

aggregated data by stakeholders, while delivering on the OSC's mandate of contributing to financial stability.

On January 17, 2024, the OSC launched the 2024 IFS, which like prior years, seeks data points including, but not limited to, type of holdings (by geography and asset class), leverage, ownership, liquidity profiles and asset class exposure of investment funds. The IFS applies to all IFMs, regardless of fund size. The deadline to submit this information was April 30, 2024, and the OSC received data on approximately 5,700 prospectus-qualified and exempt investment funds managed by more than 400 IFMs as part of this exercise For the first time, the January 2024 version was launched on the OSC's Electronic Filing Portal (**OSC1**), which now supports authentication with sign-in functionality for market participants. Going forward, IFMs registered in Ontario will submit their annual IFS through OSC1, rather than using Microsoft Forms and email as done in prior years.

Staff is consistently looking to streamline the IFS with other regulatory filings, such as the Risk Assessment Questionnaire, to reduce regulatory burden while maintaining comprehensive oversight of the Canadian investment fund industry and to perform key regulatory functions within the OSC's mandate.

Accordingly, for the 2024 version of the IFS, staff amended the IFS as follows:

- IFMs registered in Ontario will be required to complete the IFS for all investment funds for which they act as the IFM, including labour-sponsored investment funds and scholarship plans as well as those funds with net assets under $10 million;

- require that IFMs report the following for each investment fund:
    - the annual net performance returns;
    - the management expense ratio;
    - the fund Risk Rating.

Part D: Stakeholder Outreach and Resources

The IM Division supports and encourages regular engagement and communication with our stakeholders to provide education and make improvements on our regulatory processes. The following are key IM Division outreach initiatives for our stakeholders:

Landing Page on OSC Website

The IM Division landing page of the OSC website contains information relevant for investment fund issuers and their respective IFMs. This is a good resource to obtain information on the following areas:

- Types of investment funds
- Prospectus offerings for investment funds in Ontario
- Operating an investment fund in Ontario
- Ongoing disclosure requirements for investment funds in Ontario
- Marketing and sales of investment funds
- eNews publications
- Applying for discretionary relief
- Investment fund survey
- Investment fund survey data
- Refiling and Errors List
- Latest policy developments affecting investment funds
- Latest orders, rulings and decisions involving investment funds

eNews

The eNews is a web-based publication which aims to provide timely information about regulatory news and issues to investment fund and structured product issuers and their advisors in the form of articles published on a timely, as-needed basis. The IM Division eNews articles are posted on a dedicated page on the OSC website, while IM Division email list subscribers also receive each eNews article via an e-mail blast. Registration for email subscription can be done here.

During the fiscal year, we published several eNews articles:

April 14, 2023: ESG-related disclosure for funds that consider ESG to a limited extent

August 31, 2023: Repeal of National Instrument 81-104 *Alternative Mutual Funds*

September 6, 2023: Updates to the Investment Fund Survey for 2024 and launch of IFS Data Dashboard

November 28, 2023: Inclusion of yield or distribution rates in sales communications

Publication of Staff Notices

Previous Years' Summary Reports

The information contained in previous years' branch summary reports include many topics that remain relevant to investment funds. The most recently published ones are attached below:

2022 Report: OSC Staff Notice 81-733 *Summary Report for Investment Fund and Structured Product Issuers*

2023 Report: OSC Staff Notice 81-734 *Summary Report for Investment Fund and Structured Product Issuers*

CSA Crypto Staff Notice

On July 6, 2023, we published CSA Staff Notice 81-336 *Guidance on Crypto Asset Investment Funds that are Reporting Issuers*. The purpose of SN 81-336 is to provide information and guidance to stakeholders concerning public investment funds that invest in crypto assets. It provides a market overview of funds that invest in crypto assets, along with key findings from reviews of these funds conducted by staff. It also outlines staff expectations concerning public crypto asset funds fulfilling their obligations under NI 81-102*,* in areas such as liquidity, custody, certain yield generating activities such as staking, as well as reminders concerning know-your-client, know-your-product and suitability obligations for dealers acting in this fund space.

CSA Staff Notice 81-334 (Revised) ESG-Related Investment Fund Disclosure

On March 7, 2024 the CSA published CSA Staff Notice 81-334 (Revised) *ESG-Related Investment Fund Disclosure* which provides updated guidance on the disclosure and sales communication practices of investment funds as they relate to ESG matters.

The revised notice does not change the guidance that was published in the 2022 ESG Staff Notice. It addresses matters that were not covered in the original notice and reflects developments and issues that have arisen since. The update also includes guidance addressing different levels of disclosure expectations for funds whose investment objectives do not reference ESG factors but that use ESG strategies. Generally, the guidance sets out different levels of disclosure expectations depending on the extent to which ESG factors are considered in a fund's investment process.

The guidance remains based on existing regulatory requirements and addresses various areas of disclosure, including investment objectives, fund names, investment strategies, risk disclosure, continuous disclosure and sales communications. The guidance also covers the types of investment funds that may market themselves as focusing on ESG or as considering ESG factors as part of their investment process. The revised notice also summarizes the results from the ESG-focused reviews of prospectuses, sales communications, and continuous disclosure that have been conducted by CSA staff since the 2022 ESG Staff Notice was published.

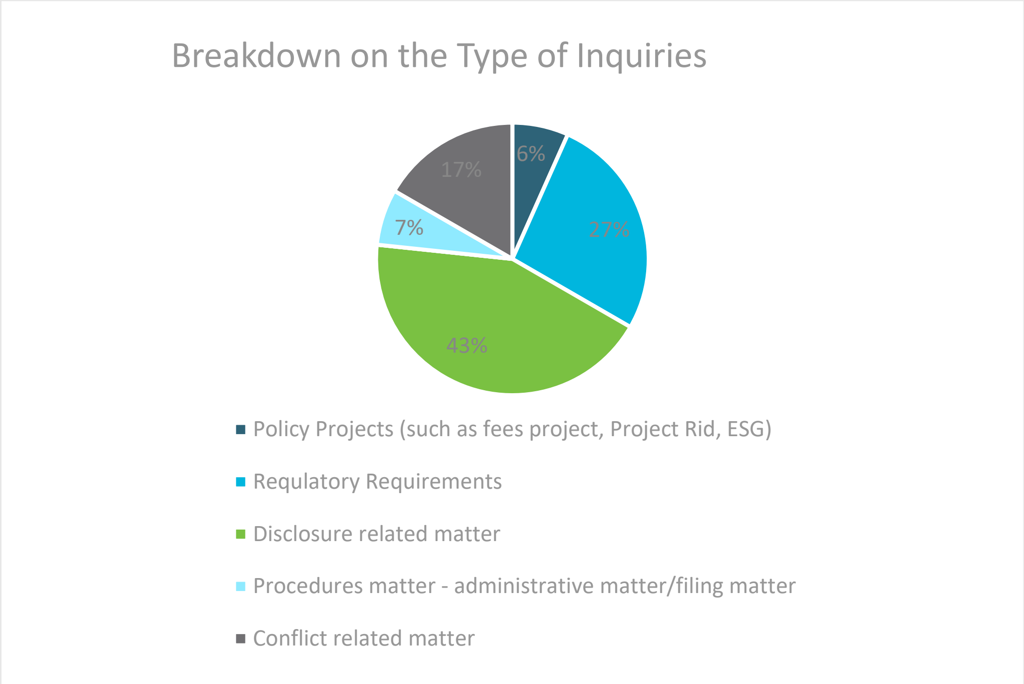
Guidance for Independent Review Committees

On March 21, 2024, the CSA published CSA Multilateral Staff Notice 81-337 *Targeted Continuous Disclosure Review and Guidance for Independent Review Committees for Investment Funds* which provides guidance to IFMs and Independent Review Committees (**IRCs**) to enhance and support their roles under National Instrument 81-107 *Independent Review Committee for Investment Funds* (**NI 81-107**). In the previous fiscal year, IM Division staff performed a targeted continuous disclosure review focused on NI 81-107 and the AMF also conducted a similar review which together, covered investment funds managed by 24 IFMs. The review included conventional mutual funds, ETFs, scholarship plans and alternative funds to reflect a fair representation of fund types and sizes. Staff reviewed fund prospectuses, Annual Information Forms where available, IRC Reports to Securityholders and the website of the IFM or funds as applicable. The review addressed several themes including, the scope of IRC oversight, term limits of IRC members, IRC diversity, inclusion and size, skills and competencies of IRC members and compensation of IRC members.

The review noted that several IRCs have members with terms longer than six years. IRCs are encouraged to strive for ongoing turnover and fresh perspectives on conflicts of interest by limiting IRC terms to a maximum of six years, except in limited circumstances. IFMs are encouraged to take a broad view of what constitutes a 'conflict of interest matter' and to err on the side of caution to refer an actual or perceived conflict of interest to the IRC. Diversity in IRC membership beyond 'skill-set' may lead to better decision making and good governance. These and other findings from the review are outlined in the staff notice.

Dealing with Inquiries and Complaints

Inquiries and complaints related to investment fund products are directed to the IM Division for follow up and resolution.



The majority of the inquiries were on disclosure related matters such as performance ratings and yield in sales communications, portfolio turnover and MER in the MRFP, performance data, NAV and proxy voting. Additional themes that were noted related to reporting requirements under NI 81-106 and inquiries on whether an issuer is an investment fund. Guidance on the latter was provided in the 2023 Report. Conflict related matters include those associated with inter-fund trading and the use of a related broker. Staff did not identify any areas of concern based on the inquiries or the complaints received.

Investment Funds Technical Advisory Committee

The Investment Funds Technical Advisory Committee (**IFTAC**) provides an opportunity for stakeholders to engage with the OSC to further effective regulation in the investment funds and structured products space. The IFTAC advises OSC staff on technical compliance challenges in the investment funds product regulatory regime and highlights opportunities for improving alignment between investor, industry, and regulatory goals.

IFTAC meets four times a year with members participating for two-year terms.

Topics discussed by IFTAC over the past year included:

- Impact of CDOR cessation and transition from bankers' acceptances on investment funds
- Liquidity Risk Management
- ETFs
- Access-Based Model for Investment Fund Reporting Issuers
- Investment Fund Continuous Disclosure Modernization

Staff Contact Information

Contact Area	Staff Contact Information
Management Team	Raymond Chan, Senior Vice President rchan@osc.gov.on.ca 416-593-8128 Darren McKall, Manager, Product Offerings dmckall@osc.gov.on.ca 416-593-8118 Stephen Paglia, Manager, Regulatory Policy spaglia@osc.gov.on.ca 416-593-2393 Elizabeth Topp, Manager, Portfolio Adviser etopp@osc.gov.on.ca 416-593-2377 Neeti Varma, Manager, Risk and Analytics nvarma@osc.gov.on.ca 416-593-8067
Preliminary Prospectus Receipts	Joan De Leon, Lead Review Officer jdeleon@osc.gov.on.ca 416-593-8246 Rosni Alamsjah, Review Officer ralamsjah@osc.gov.on.ca 416-204-8978
Administrative Matters	Silvia Do Vale, Branch Administrator sdovale@osc.gov.on.ca 416-204-8964

Contact Information

Ontario Securities Commission

Inquiries and Contact Centre

1-877-785-1555 (Toll-free)

416-593-8314 (Local)

inquiries@osc.gov.on.ca

The OSC Inquiries & Contact Centre operates from 8:30 a.m. to 5:00 p.m. Eastern Time, Monday to Friday, and can also be reached on the Contact Us page on the OSC website.

You may also refer to the OSC Phone Directory on the OSC website to contact staff members from other branches and offices at the OSC.

If you have questions or comments about this Report, please contact:

Raymond Chan
Senior Vice President
Investment Management Division
rchan@osc.gov.on.ca
416-593-8128

Neeti Varma
Manager
Investment Management Division
nvarma@osc.gov.on.ca
416-593-8067

Noulla Antoniou
Senior Accountant
Investment Management Division
nantoniou@osc.gov.on.ca
416-595-8920