

OSC

ONTARIO
SECURITIES
COMMISSION

OSC Staff Notice 81-734

Summary Report for Investment Fund and Structured Product Issuers

September 13, 2023



Ontario

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Director's Message

I am happy to share this Summary Report (**Report**) which provides an overview of the activities of the Investment Funds and Structured Products Branch (**IFSP**) of the Ontario Securities Commission (**OSC**) for the fiscal year ended March 31, 2023 (**Fiscal 2023**).

The capital markets have been impacted by a challenging economic environment during the year with market volatility, rising interest rates and inflation. There were high-profile collapses of several U.S. and foreign banks, as well as a large crypto asset firm. Investor confidence in the asset management industry is even more critical during economic uncertainty. As a regulator, we must be agile and proactive in responding to emerging issues to ensure investors are protected. Equally important, we work with industry professionals and leaders to facilitate solutions, provide guidance and to foster an environment for innovation and fair competition.

The asset management industry is very dynamic. Constant innovation is needed to compete, to break boundaries and to serve investors more effectively. We have continuously been working with the industry to bring new investment products and solutions to retail investors, with appropriate guardrails.

Our focus on communication, outreach and consultation has allowed staff to get better and more balanced insights in resolving regulatory issues and in setting policy direction and expectations. We leverage our Investor Office resources to understand investors' needs and behaviour. We also provide timely, relevant information with our eNews, an email subscription program.

With the completed launch of the third annual Investment Fund Survey (**IFS**), we are building an extensive database to enhance our risk-based oversight of investment fund issuers. IFS data is also critical to support global efforts to have better information and insight into various risks and leverage in the asset management industry globally. We appreciate the efforts of all IFMs in providing timely and complete responses to the survey requests.

While prospectus filings and new fund creations dipped as compared to the prior year, the number of continuous disclosure reviews rose significantly. We performed several issue-oriented reviews of funds that primarily hold crypto-assets. Our work around environmental, social and governance (**ESG**) funds also continued with a focus on the prospectus disclosure and sales communications of investment funds with an ESG focus. ESG offerings and popularity have evolved quickly, and we hope these reviews have brought greater clarity and consistency to disclosure so that investors can understand what ESG means and make more informed investment decisions about ESG products.

In the policy area, IFSP has continued to make progress on existing burden reduction policy initiatives, including an access-based model for investment fund reporting issuers, and the modernization of continuous disclosure documents. We are excited about this modernization initiative as we have invested significantly in

consumer testing to enhance investors' understanding and engagement in reviewing these important documents. For new initiatives, we have commenced the review of principal distributor practices as well as whether the investment funds settlement cycle must move to T+1. Most recently, the CSA announced that it is examining chargeback practices which will help determine whether rule modernization is needed in this area to enhance investor protection.

We hope you find this Report helpful and informative. 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
Director, IFSP
Ontario Securities Commission

Introduction

This Report provides an overview of the key operational and policy initiatives of the IFSP Branch that impact investment fund and structured product issuers during Fiscal 2023. Consistent with the prior fiscal year's [summary report](#), the Report can be used as a resource for 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 policy initiatives that are ongoing with detail on their status.

Part C – Emerging Issues and Initiatives Impacting Investment Funds

- Summarizes changes that affect the investment funds industry.

Part D – Stakeholder Outreach

- Describes some of the outreach undertaken by the IFSP branch.

Responsibilities of the IFSP Branch

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.

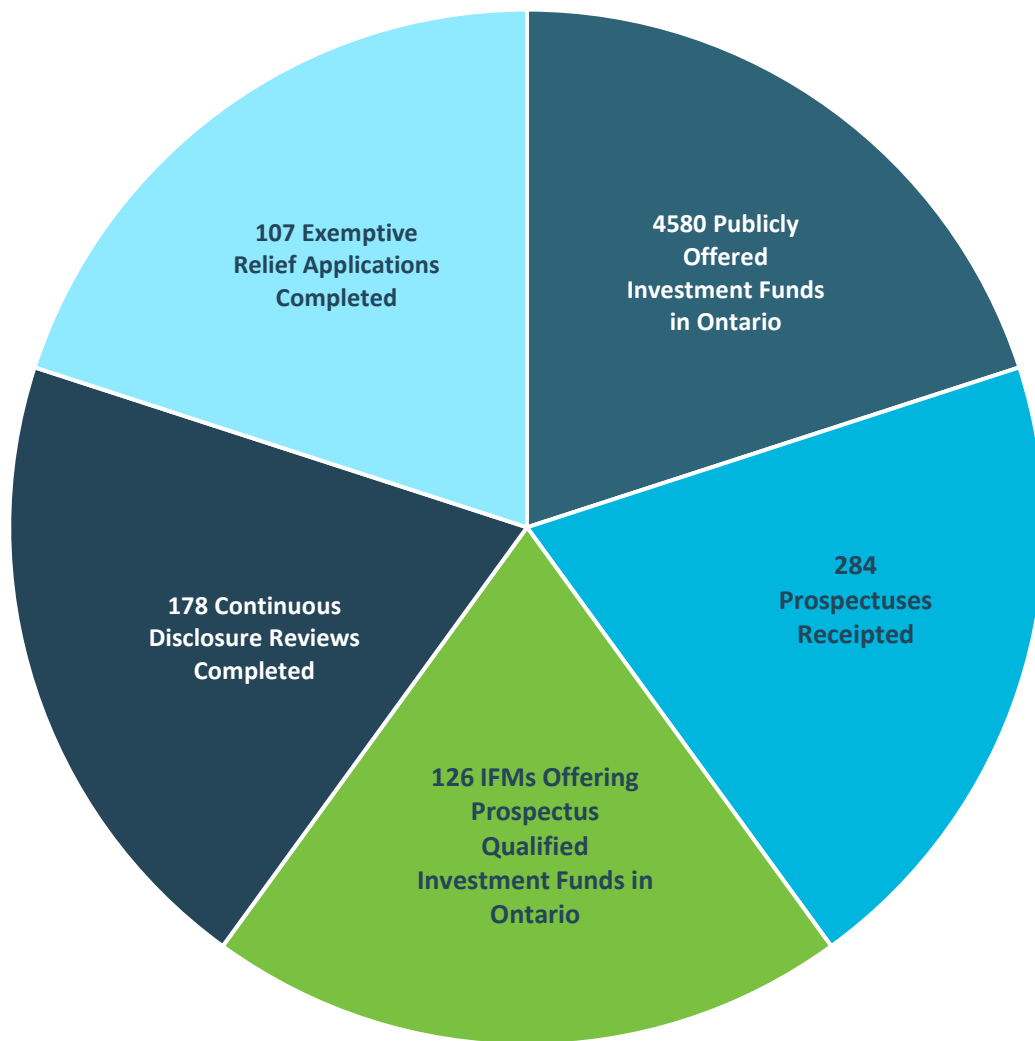
In support of the OSC's mandate, the IFSP Branch is responsible for administering the regulatory framework for investment funds and structured products, including linked notes and scholarship plans, that are sold to Ontario investors. Publicly offered investment fund assets in Canada are comprised broadly of mutual funds (conventional mutual funds, exchange traded funds or **ETFs** and alternative mutual funds) and non-redeemable investment funds (**NRIFs**).

Our key functions include:

- reviewing and assessing product disclosure for all types of publicly offered investment funds,
- considering applications for discretionary relief from securities legislation,
- policy making to adapt to changes in the investment funds industry,
- engagement with stakeholders, including on advisory committees, and through regulatory updates in IFSP 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 program, 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.

At a Glance - IFSP Activities and Landscape for Fiscal 2023



Structure of the IFSP Branch

The IFSP Branch is organized into three dedicated teams:

Product Offerings Team

Darren McKall, Manager

- responsible for reviewing all investment fund and structured note product filings, including prospectuses and exemptive relief applications

Regulatory Policy Team

Stephen Paglia, Manager

- responsible for rule proposals and amendments affecting investment funds, which often involves collaboration with CSA counterparts

Risk and Analytics Team

Neeti Varma, Manager

- responsible for oversight of investment funds, including monitoring risks and emerging issues, and performing continuous disclosure reviews

What is an Investment Fund

There are two main types of investment funds: mutual funds and NRIFs¹. Investors in mutual funds are generally able to purchase or redeem securities of mutual funds on demand for a price representing a proportionate interest of the fund's net assets. In contrast, NRIFs, also referred to as closed end funds, generally offer investors minimal, if any, right to redeem securities, and the price received may not necessarily represent a proportionate interest of the fund's net assets.

We get many inquiries from issuers on whether a product fits within the definition of an investment fund. As this topic is one of the most frequently asked questions of IFSP, we are outlining several criteria that may be considered when evaluating whether a product is an investment fund. These criteria are not exhaustive and are provided only as factors to consider. Satisfying or not satisfying any one criterion may not necessarily be indicative of whether an issuer is an investment fund or not. Issuers should collectively consider all the product features along with the criteria to determine whether, on balance, an issuer falls within the investment fund definition under securities law.

Ability to redeem and frequency of redemptions

An investment fund provides investors with an ability to redeem with reference to net asset value (**NAV**). If redemptions are allowed more frequently than annually, staff has interpreted this feature as being "upon demand" as is considered within the definition of a 'mutual fund'. If, however, redemptions are allowed annually only (or less frequently), the issuer may still be considered an investment fund under the 'non-redeemable investment fund' definition if it meets the other tests.

Calculation of NAV and investor entitlement

Upon redemption, consider what the investor receives and whether there is a NAV calculated in accordance with Part 14 of National Instrument 81-106 *Investment Fund Continuous Disclosure* (**NI 81-106**).

No active management of underlying assets

The definition of 'investment fund' typically contemplates an entity which takes a passive approach to its investee entities. Factors which may indicate active management of an investee company include:

- whether the issuer holds securities representing more than 10% of the outstanding equity or voting securities of the investee company;
- any right of the issuer to appoint board or board observer seats on the investee company or have representation on the board of directors;
- restrictions on the management, or approval or veto rights over decisions made by the management, of the investee company by the issuer;

¹ Refer to definitions in subsection 1(1) of the *Securities Act*, RSO 1990, c. S. 5 and section 1.2 of the Companion Policy to National Instrument 81-106 *Investment Fund Continuous Disclosure* for associated guidance on this issue.

- any right of the issuer to restrict the transfer of securities by other securityholders of the investee company;
- direct involvement in the appointment of managers; and
- a say in material management decisions.

No control of underlying issuers

Investment funds generally do not control or seek to control underlying issuers.

Operations and purpose of the issuer

The primary purpose of an investment fund is to invest monies provided by its security holders in portfolio assets. Accordingly, investment fund issuers do not conduct operating businesses.

Investor expectations

Consider whether there is a reasonable expectation from the investor that they will have their money professionally managed or invested as part of an investment strategy and how the issuer is being marketed to the public.

The above-mentioned criteria may be useful to consider along with the specific facts and features of the issuer. Issuers should also consult with their legal counsel for assistance as being an investment fund involves different continuous disclosure and reporting obligations than other types of issuers, and IFM registration will also be required in these instances.

Investment Funds Market Landscape

Canada’s public investment funds are a significant component of the asset portfolios of retail investors, representing over one-third of household financial wealth.² As at March 31, 2023, investment funds in Canada have about \$2.3 trillion in assets under management (**AUM**)³:

Investment Fund Product	AUM as of March 31, 2022	AUM as of March 31, 2023	% of Investment Fund AUM as at March 31, 2023
Conventional Mutual Funds	\$2.0 trillion	\$1.9 trillion	83%
ETFs	\$324.7 billion	\$337.1 billion	15%
Closed End Funds	\$36.8 billion	\$36.2 billion	2%
TOTAL	\$2.36 trillion	\$2.3 trillion	

² Source: Investor Economics | A Division of ISS Market Intelligence

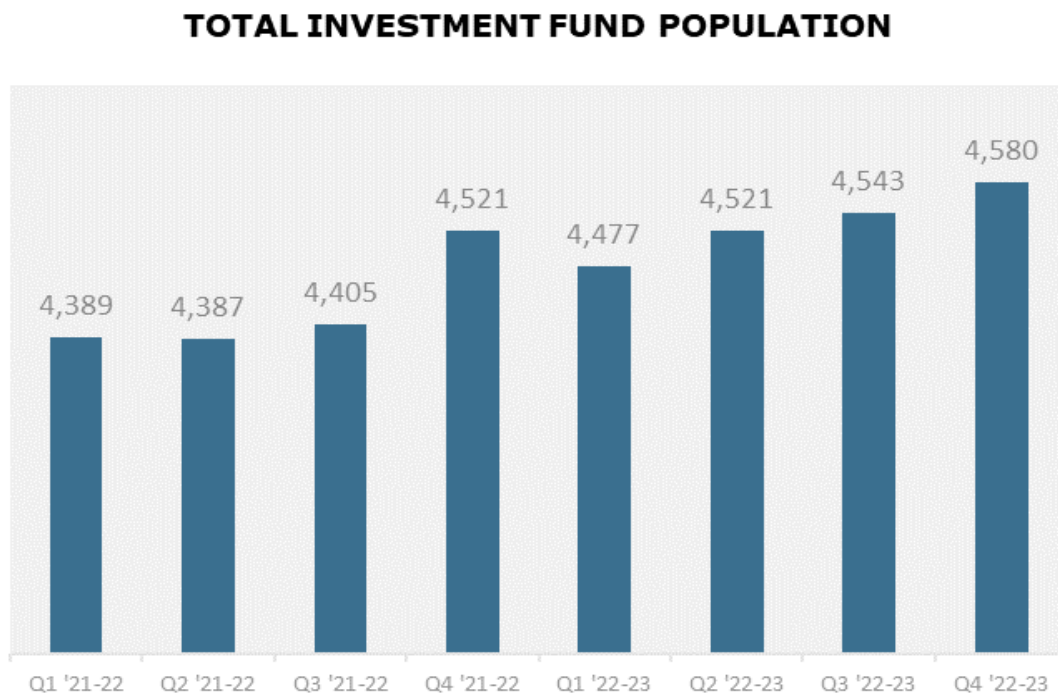
³ AUM of mutual funds and ETFs obtained from IFIC Monthly Investment Fund Statistics and closed end fund AUM from TSX

Structured notes outstanding as of March 31, 2023, were approximately \$30.4 billion⁴.

On a global scale, based on data compiled by IOSCO as part of its 2021 Investment Funds Statistics Survey from participating IOSCO members, Canada accounts for approximately 7% of the conventional mutual funds captured in that survey and approximately 5% of the total net asset value of these funds. Canada sits among the top five jurisdictions globally in both categories.⁵

Indicators of Competition

The total investment funds population has steadily increased over the past several years, but this trend slowed in Fiscal 2023 when the investment funds population in Ontario remained relatively flat. There was an increase of approximately 59 funds in Fiscal 2023 as compared to growth of 144 funds in the previous fiscal year as shown in the chart below:



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

As of December 31, 2022, there were 126 IFMs offering over 4,500 publicly offered investment funds as compared to 128 IFMs in the prior year.⁶ The three largest

⁴ Information provided by filers through OSC Linked Note e-Form

⁵ January 2023 IOSCO Investment Fund Statistics Report

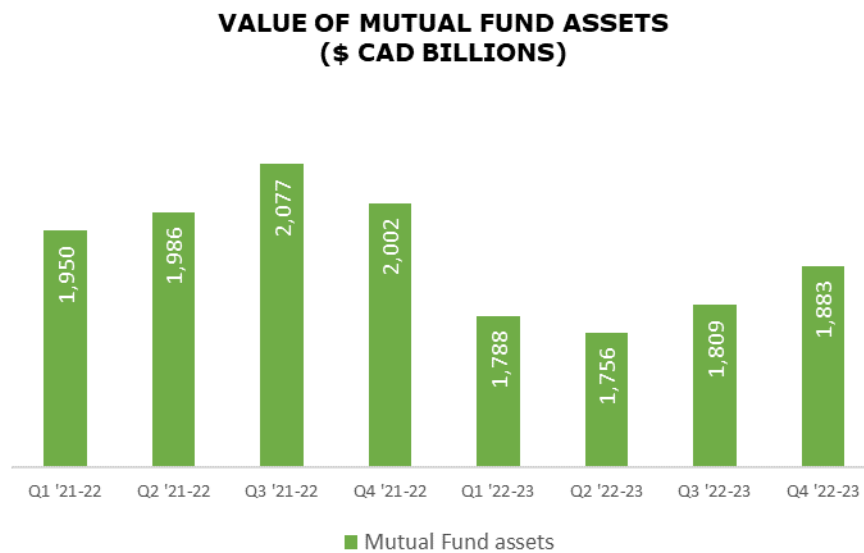
⁶ Source – 2021 and 2022 Investment Fund Surveys

IFMs had a combined market share of 31%⁷ of AUM for all prospectus qualified investment funds, including conventional mutual funds and ETFs. When conventional mutual funds and ETFs are looked at separately, the three largest IFMs who manage mutual funds had a combined market share of 36%⁸ of AUM whereas the ETF market appears to be more concentrated with the top three IFMs who manage ETFs accounting for approximately 67% of ETF AUM⁹. However, the ETF market has become more diversified in the past five years based on manufacturer market share.

After rising steadily in the early 2000s, the market share of bank affiliated IFMs has remained relatively flat in the past decade at approximately 45% of prospectus qualified funds¹⁰. Small to mid-size IFMs have remained competitive and have played a key role in the launch of several novel investment fund products in recent years.

Mutual Fund Assets and Net Redemptions

Total investment fund AUM fell slightly from \$2.36 trillion in the previous fiscal year to \$2.3 trillion at the end of Fiscal 2023, of which \$1.9 trillion is conventional mutual funds. After a strong bounce back in 2021 following the uncertainty of the COVID-19 pandemic, mutual fund AUM declined by 5% during Fiscal 2023 as mutual funds experienced net redemptions during this time. Net redemptions were primarily in the balanced asset class category, while money market mutual funds experienced positive sales, signalling that investors were being more cautious with their investments.



Source: IFIC Industry Statistics

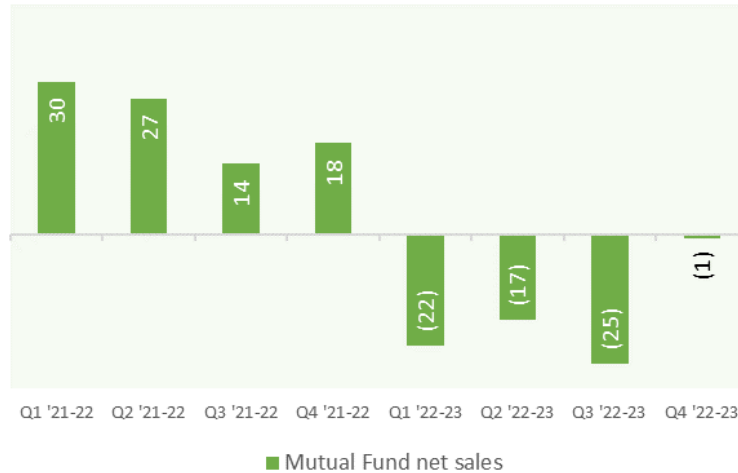
⁷ Source - 2022 Risk Assessment Questionnaire (RAQ)

⁸ Source - 2022 RAQ

⁹ Source - CETFA Monthly Report as of March 31, 2023

¹⁰ Source - 2014 and 2022 RAQs

**VALUE OF MUTUAL FUND NET SALES
(\$ CAD BILLIONS)**

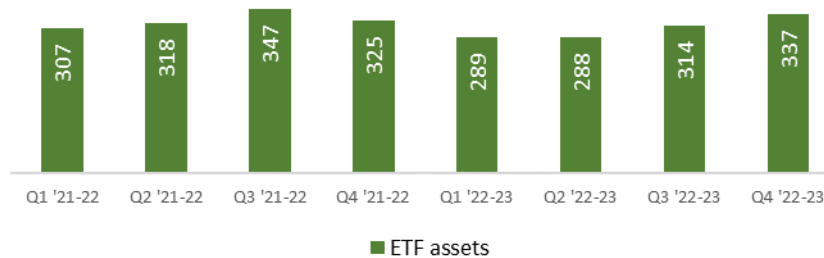


Source: IFIC Industry Statistics

ETF Assets and Net Sales

ETFs also experienced a decline in AUM through most of Fiscal 2023 but rising net sales near the end of the year resulted in a small increase in AUM of 4% from the previous fiscal year. ETF net sales were mostly in the equity asset category and similar to mutual funds, money market ETFs (primarily high interest savings funds) also saw strong inflows compared to previous years¹¹ as investors sought safety and capital preservation.

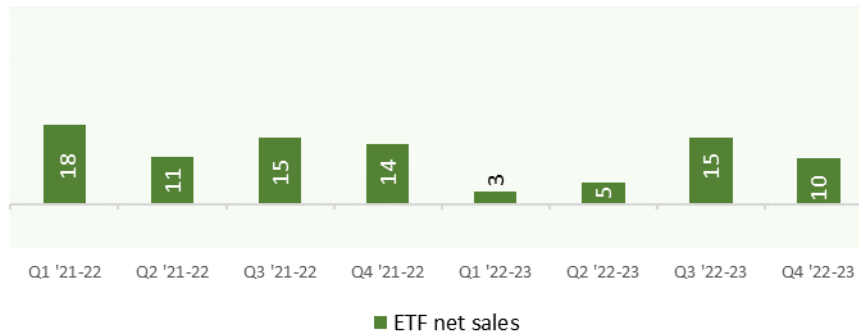
**VALUE OF ETF ASSETS
(\$ CAD BILLIONS)**



Source: IFIC Industry Statistics

¹¹ Source – IFIC Investment Fund Statistics

**VALUE OF ETF NET SALES
(\$ CAD BILLIONS)**



Source: IFIC Industry Statistics

Crypto Asset and ESG Funds

As these two areas have evolved quickly in the past couple of years in the investment funds landscape, IFSP staff continue to monitor crypto asset and ESG funds closely.

Crypto Asset Funds

In Ontario, crypto asset funds are offered by eight IFMs and the crypto asset figures and activity for Fiscal 2023 as compared to the prior fiscal year are shown below:

Year	# of Public Crypto Asset Funds in Ontario	AUM of Crypto Asset Funds	# Crypto Asset Funds Received	# Crypto Asset Funds Terminated
Fiscal 2023	24 ¹²	\$2.85 billion	2	1
Fiscal 2022	23	\$6.9 billion	17	0

While there was one fund termination, much of the decline in AUM is due to the declining value of cryptocurrencies, rather than significant fund outflows. Net redemptions totaled \$866 million in Fiscal 2023.

¹² After the end of Fiscal 2023, there were two fewer crypto asset funds. One crypto asset fund was terminated, and another changed its investment objectives and name to reflect it becoming a non-crypto asset fund.

ESG Funds

ESG funds continue to gain awareness and popularity, although like most investment fund products there was a slowdown in product launches in the latter part of the year. AUM of ESG funds totalled \$44.7 billion in 2022, up slightly from \$41.8 billion in 2021. Net sales totalled \$6.9 billion, down from a high of \$17.6 billion in 2021.¹³ The top 10 ESG providers account for 92% of the ESG assets in Canada.¹⁴

With the increased presence of ESG funds in the market, the Canadian Investment Funds Standards Committee (**CIFSC**) released its responsible investment identification framework in January 2023. The CIFSC categories are aimed at standardizing the classifications of Canadian-domiciled retail mutual funds. The framework includes 6 CIFSC categories, and investment funds can belong to more than one category.

ESG funds remained a focus of the IFSP branch's operational activities during Fiscal 2023, and these initiatives will be described in detail in the next section.

¹³ IFIC 2022 Investment Funds Report

¹⁴ Source – Morningstar Q42022 Report "Sustainable-Investing Landscape for Canadian Fund Investors"

Part A: Operational Highlights

The OSC has set service standards and timelines which stakeholders can rely on when interacting with the OSC. 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 IFSP Branch 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, including noteworthy files during Fiscal 2023. Issuer activity around novel prospectus filings and applications for exemptive relief were down this year, and accordingly oversight activities focused on conducting more continuous disclosure reviews.

I. Prospectus Filings

One of our key operational functions is the review of prospectuses and supplements in connection with the distribution of publicly offered investment funds and linked notes. 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.

Prospectus filings are categorized by IFSP 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 may also be accompanied by a related application for exemptive relief.

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.

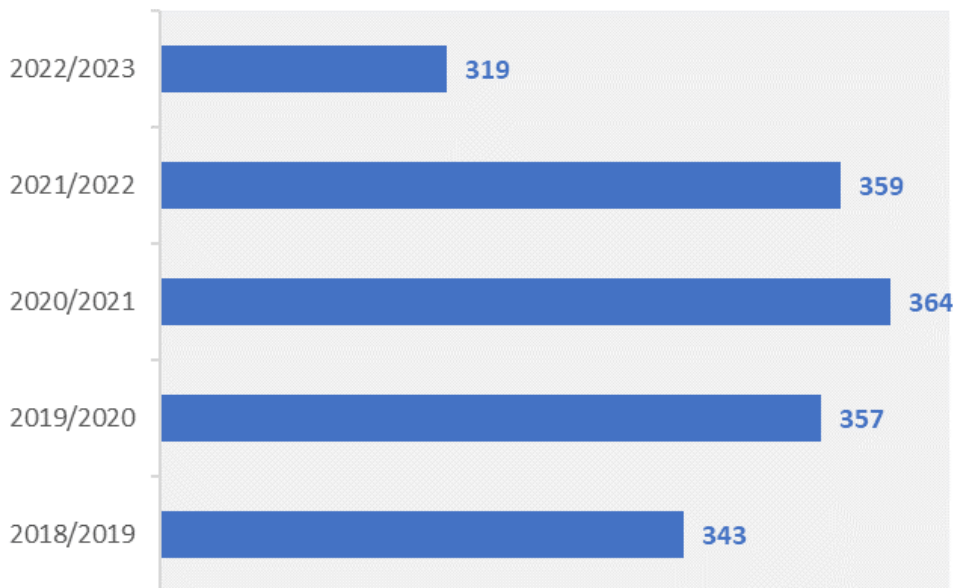
For preliminary prospectuses, consideration will also be given to whether an amended and restated preliminary prospectus will need to be filed. Staff note that such substantive changes to prospectus disclosure will be subject to the same level of review as the disclosure included in the filed preliminary 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.

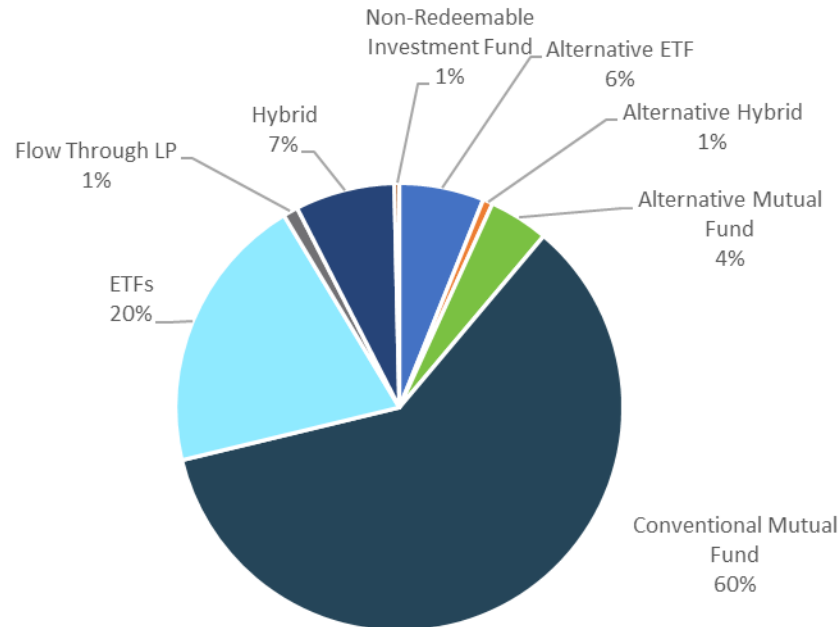
Data on Prospectus Reviews

Total prospectus filings declined 11% in Fiscal 2023 compared to the previous fiscal year and the total volume was at its lowest level over the last five years. As new fund creations were relatively flat and fund terminations also slowed during Fiscal 2023, the decline in prospectus filings is partly attributable to the continuing consolidation of prospectuses by IFMs. Most of the filings were in the category of standard review for conventional mutual fund and ETF offerings.

TOTAL PROSPECTUS REVIEWS COMPLETED



DEEP DIVE: BREAKDOWN OF NEW FUNDS RECEIPTED FY2022/2023



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Prospectus Reviews of ESG-Related Funds

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

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

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

¹⁵ Hybrids are simplified prospectus qualified mutual funds with mutual fund series together with ETF series.

To date, most of the issues raised by staff during these reviews have been in relation to investment strategies disclosure. In particular, most comments have sought to clarify:

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

Staff have also encountered issues relating to the investment strategies disclosure of funds that do not have ESG-related investment objectives but that consider ESG factors, where the consideration of ESG factors plays a more limited role in the investment process. In some cases, we have found that IFMs have included disclosure about how ESG considerations are incorporated into the investment process for their 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. For funds where the consideration of ESG factors plays a more limited role, where disclosure is included in their prospectuses about the incorporation of ESG considerations, staff have asked issuers to clarify the limited role that the consideration of ESG factors and/or use of ESG strategies plays in the fund's investment process, including the weight given to ESG factors and the impact that ESG factors will have on the portfolio selection process.

Staff have 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. Through these reviews, we have required issuers to improve the prospectus disclosure of ESG-Related Funds, in keeping with the stated purposes of the ESG Staff Notice and the ESG prospectus reviews.

As part of these reviews, staff have also requested and reviewed copies of recent sales communications relating to the funds being reviewed. 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.

Staff will continue to review the prospectus disclosure of ESG-Related Funds in accordance with the guidance in the ESG Staff Notice.

Noteworthy Prospectus Filings

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

Single Stock ETFs

During the year, IFSP issued final prospectus receipts on behalf of several ETFs that each invest in a single specified U.S. public issuer. The first ETFs were launched in

December 2022 and are based on five large-cap U.S. companies. The fundamental investment objective of each ETF is to link its return to a single specified U.S. issuer. Some of these funds are alternative mutual funds which use a limited amount of leverage through cash borrowing to purchase additional securities of that single issuer. The ETFs received [exemptive relief](#) from the concentration restrictions set out in subsections 2.1(1) and 2.1(1.1) of National Instrument 81-102 *Investment Funds (NI 81-102)* to permit each ETF to invest in only one single issuer in excess of the investment restrictions contained in those sections.

Decumulation Funds

After a confidential pre-file prospectus application process, two mutual funds were receipted that are targeted to investors in the decumulation phase of their life (i.e., retirement). The two funds have a set term of 20 years, terminating on December 31, 2042:

- i. a Decumulation Fund which aims to pay set distributions for the life of the fund and decumulate down to \$0 by the termination date; and
- ii. the Tontine Trust which aims to provide a tontine payout to surviving unitholders over the course of its last year of operation.

The Tontine Trust utilizes a *tontine feature* to mitigate longevity risk – the risk of outliving one’s savings. The Tontine Trust does this by pooling mortality risk across investors and is intended for purchase by investors who are at or nearing retirement. Investors can invest in either of the funds on a stand-alone basis or choose to make a combined investment in both funds, which will aim to provide them a stream of monthly distributions from the Decumulation Fund for 20 years, plus a “longevity hedge” from the Tontine Trust which will make a payout to remaining/surviving unitholders in the last year of operation.

The Tontine Trust is redeemable on demand or death. The fund obtained [relief](#) to enable it to pay a redemption price that is less than NAV, which allows the difference between the NAV and the redemption proceeds to be left in the fund for the remaining investors. This amount is eventually paid out when the trust terminates at the 20-year mark.

The decision also permits the fund facts document to include additional information intended to assist investors in understanding the features of the funds and assessing the appropriateness of the funds for their needs.

II. Exemptive Relief Applications

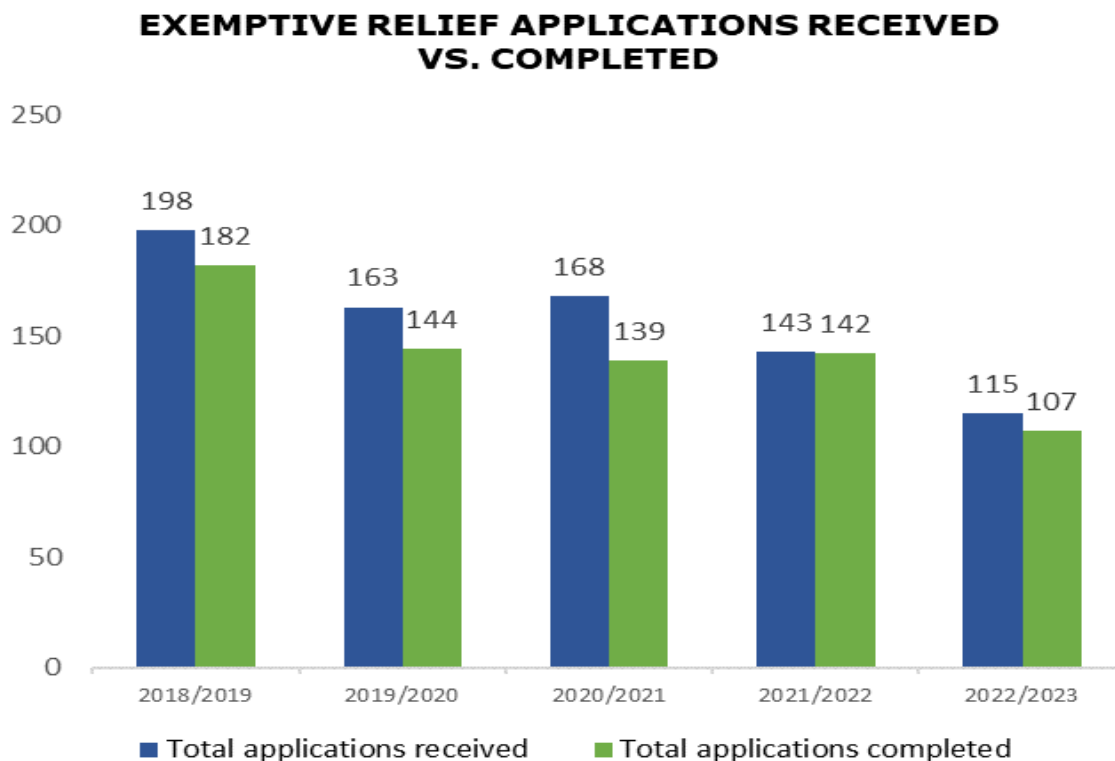
IFSP reviews applications for exemptive relief to determine whether granting the requested relief would not be prejudicial to the public interest and makes a recommendation on that basis. We receive exemptive relief filings that are considered either routine or novel in nature. Routine applications generally 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.

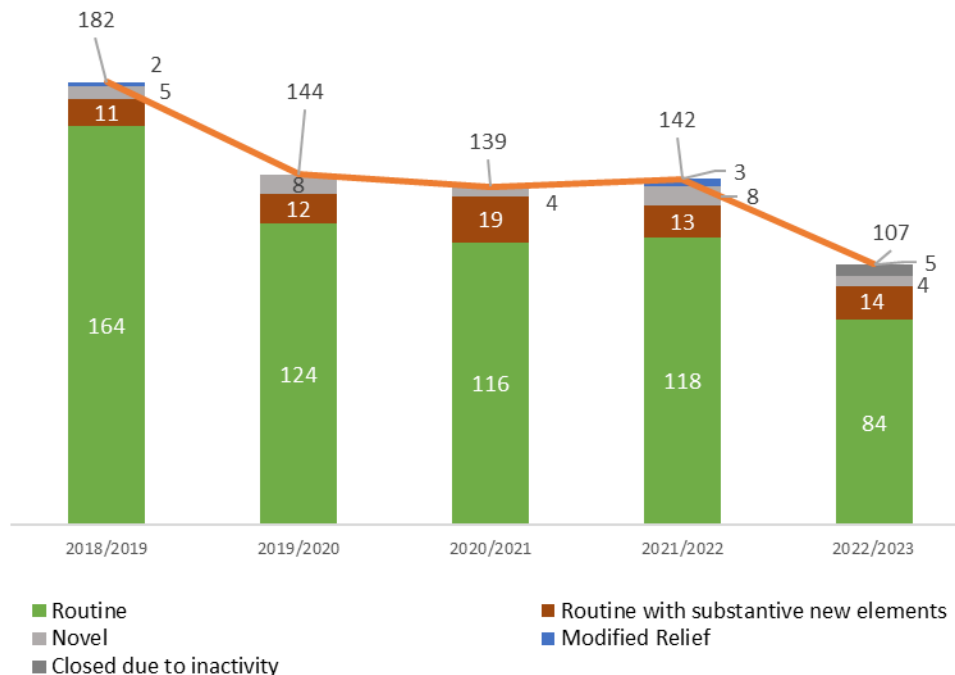
Novel applications generally consist of requests for relief that have not previously been granted or that deviate substantially from the fact patterns underlying any prior decisions. These applications generally take longer to review because of their nature and complexity, and we consult with the CSA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

Exemptive relief applications received and completed in Fiscal 2023 compared to the previous fiscal year decreased by 20% and 25%, respectively. This decline in applications was expected due to 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 have to 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 4% of the applications completed in Fiscal 2023, as compared to 6% in the prior year.

Data on Exemptive Relief Applications



BREAKDOWN OF EXEMPTIVE RELIEF APPLICATIONS COMPLETED



Noteworthy Exemptive Relief Applications

Custody of Physical Battery Metals

In addition to the exemptive relief that was granted in relation to the novel prospectus filings discussed earlier, we also granted [exemptive relief](#) from the custodian requirements in part 6 of NI 81-102 in a decision dated October 6, 2022, which permitted a fund to use specified warehouse providers to custody the fund’s physical battery metals.

VaR-based Leverage Exposure Limits

Although the OSC was not the principal regulator, staff was engaged on a decision dated February 23, 2023, granting [exemptive relief](#) to an alternative mutual fund from the total leverage exposure limits under section 2.9.1 of NI 81-102. The relief was subject to an extensive pre-file review process. The limits in question restrict a fund’s combined exposure to derivatives, cash borrowing and short selling to 300% of the fund’s NAV, as calculated on a “net notional” basis. The relief permits the fund to exceed this 300% limit, provided that the fund’s value-at-risk (**VaR**) exposure, does not exceed 20% of the fund’s NAV as measured on an “absolute VaR” basis. VaR is a leverage risk management tool that is commonly used in the alternative fund’s space, and both the Undertaking for Collective Investment in Transferable Securities rules in the EU as well as the Investment Company Act (**ICA**) in the U.S., permit funds to use this measure as a leverage risk management tool, particularly for derivatives heavy strategies, within certain parameters detailed

in those rules. The terms of the relief essentially follow the framework in the ICA, which is virtually identical to the EU requirements.

III. Continuous Disclosure Reviews

IFSP 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.

IFSP is analyzing 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.

Summary of Completed Reviews

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

Crypto Asset Funds – Review of Continuous Disclosure Documents

With many crypto asset funds having completed their first year of operations, staff conducted an issue-oriented continuous disclosure review on crypto funds which provide exposure exclusively to bitcoin and/or ether. Our review focused on the first set of continuous disclosure documents for the funds' year end of December 31, 2021, or March 31, 2022, as applicable, as well as their recent sales communications, to assess for regulatory compliance. Staff conducted a review of 16 crypto funds managed by the seven IFMs for which Ontario is principal regulator. We issued comment letters to the funds on areas such as valuation, liquidity risk management, crypto trading platforms, as well as other continuous disclosure obligations.

In June 2022, staff became aware of significant redemptions in two crypto ETFs holding bitcoin managed by two separate IFMs, resulting in an approximate reduction of 61% and 38%, respectively, in units outstanding from May 30, 2022. Staff expanded our review scope and made additional inquiries regarding these redemptions. Staff confirmed with the IFMs that the funds were able to meet the redemption requests as part of their normal operating processes, and no investor complaints regarding these large redemptions were received. All redeemed units were paid in cash with settlement on the next business day. The funds did not need to borrow to meet the redemption requests and were able to sell large quantities of crypto assets at the price that was used to value the fund per their respective valuation index.

We also noted that crypto markets relating to bitcoin and ether appear to be liquid, and the crypto funds have not experienced operational disruptions in light of recent volatility in the crypto market. We did not note any significant findings during the review.

Crypto Asset Funds – Custody of Assets

Prompted by the failure of FTX and consistent with the significant work being done on crypto-asset regulation and investor protection, we also commenced an issue-oriented review focused on custody for funds that primarily hold crypto assets. The reviews have focused primarily on the safety of the funds' crypto assets held at the custodian, in particular issues surrounding ownership, segregation of fund assets and the custodial/sub-custodial structure and the effects of the failure of FTX, if any. Furthermore, as part of the reviews, staff have reached out to the funds' auditors to get a better understanding of their audit processes and procedures concerning custody of the funds' assets. The foregoing work is being completed in collaboration with other branches of the OSC that have similar concerns in areas they oversee as it relates to crypto assets.

[CSA Staff Notice 81-336 Guidance on Crypto Asset Investment Funds that are Reporting Issuers](#) was published on July 6, 2023, to help IFMs understand and comply with securities law requirements for public investment funds holding crypto assets. The results of the custody review are also included therein.

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

Following the publication of the ESG Staff Notice in 2022, in addition to the prospectus reviews described previously under "Prospectus Reviews of ESG-Related Funds", staff also began conducting reviews of the continuous disclosure, sales communications, and portfolio holdings of ESG-Related Funds in accordance with the guidance in the ESG Staff Notice. These reviews have been focused on:

- evaluating ESG-related periodic reporting in management reports of fund performance (**MRFPs**) and on fund websites, particularly with regard to changes in investment portfolio composition, progress in meeting ESG-related investment objectives, and outcomes of ESG-related proxy voting and shareholder engagement activities;
- identifying whether the funds being reviewed are holding investments that should be excluded from their portfolios due to the negative screening criteria set out in their own investment strategies prospectus disclosure or that may be considered inconsistent with the ESG values of the fund (e.g., a green fund that has exposure to fossil fuel companies) and addressing such holdings, where necessary;
- identifying whether ESG-Related Funds have voted against ESG-related shareholder proposals, and if so, whether such votes were consistent with the IFM's proxy voting guidelines, and addressing such votes, where necessary;
- reviewing sales communications and websites of both the funds being reviewed and their respective IFMs to ensure they do not include statements that conflict with a fund's regulatory offering documents and are not untrue or misleading; and

- where IFMs indicate in their sales communications and/or regulatory offering documents that their funds incorporate ESG considerations into their investment process, identifying whether IFMs have policies and procedures relating to the incorporation of such considerations and addressing the absence of such policies and procedures, where necessary.

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

Where issues have been 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 have been made at the request of staff in the course of these reviews, staff have applied the process set out in [OSC Staff Notice \(Revised\) 51-711 Refilings and Corrections of Errors \(SN 51-711\)](#). In particular, staff have 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. As noted in the IFSP eNews publication entitled "Use of Refilings and Errors List for corrections to continuous disclosure filings, website and social media" dated January 27, 2023, IFMs are reminded that any deficiency for an investment fund issuer that is identified during a staff review and that leads to corrective disclosure to continuous disclosure filings, the investment fund's website or its social media may result in staff putting the investment fund issuer on the Refilings and Errors List in accordance with the process set out in the SN 51-711.

Staff will continue to review the continuous disclosure, sales communications, and portfolio holdings of ESG-Related Funds in accordance with the guidance in the ESG Staff Notice.

Burden Reduction: New Simplified Prospectus Page Length Reduction

On October 7, 2021 the CSA published final [amendments](#) that implement eight initiatives to reduce regulatory burden for investment funds. The changes eliminated duplicative requirements, streamlined regulatory approvals and processes, and codified frequently granted exemptions from certain requirements. These amendments completed the first stage of the CSA's initiative to reduce the regulatory burden on investment fund issuers.

One of these initiatives was the consolidation of the simplified prospectus (**SP**) and the annual information form (**AIF**) for mutual funds by way of a revised Form 81-101F1 Contents of Simplified Prospectus (**Form 81-101F1**). The Form 81-101F1 amendments came into force on January 6, 2022, resulting in investment funds in continuous distribution only needing to file a single streamlined document annually. While an exemption from the new requirements was available in certain circumstances for a limited period of time, that period has since passed.

Based on 50 of the first SP filings that used the revised Form 81-101F1 (30 pro forma, and 20 combined preliminary and pro forma), IFSP staff observed that the page length of SPs prepared using the revised form declined from the combined page length of the SP and AIF documents that were filed the year prior. Staff observed a 25% drop in average page length for the pro forma SP filings (from 158 to 119 pages), and a 19% drop in average page length for the combined preliminary and pro forma SP filings (from 242 to 195 pages). This was despite the average number of mutual funds in the pro forma SPs remaining consistent at about 19 over the two years of filings, and the average number of mutual funds in the combined preliminary and pro forma SPs increasing from 40 to 43. The results of this observation provide quantitative confirmation of the reduced regulatory burden arising from the amendments to consolidate the SP and AIF.

Independent Review Committee

IFSP staff performed a targeted continuous disclosure review focused on National Instrument 81-107 *Independent Review Committee for Investment Funds (NI 81-107)*. The review covered investment funds managed by 20 IFMs ranging in assets under management from \$200 million to over \$100 billion and was comprised of both a desk review of fund prospectuses, IRC Reports to Securityholders and IFM websites, as well as letters sent to IRC Chairs and IFMs. This 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. Staff are working with another CSA jurisdiction and are considering a potential publication of staff guidance and observations based on the review.

Change of Auditor Notifications

The auditor of an investment fund reporting issuer provides an independent opinion on whether the financial statements of the issuer are presented fairly, in all material respects, in accordance with accounting standards. Due to the significant role of the auditor in the financial statements, IFSP staff review change of auditor notifications for investment fund reporting issuers on a quarterly basis. The review includes the change of auditor notification provided by the IFM, the letter from the former auditor and the letter from the successor auditor which are filed on SEDAR in accordance with Part 13 of NI 81-106 and National Instrument 51-102 *Continuous Disclosure Obligations*. For the fiscal year, the review covered 611 investment funds managed by 10 IFMs that filed a change of auditor notification. IFMs generally complied with their reporting obligations, and we remind issuers of their obligations upon the termination or resignation of an auditor, including the requirement to prepare a change of auditor notice and include information on any reportable events.

Reports of Exempt Distributions

Many investment funds are sold to Ontario investors under a prospectus exemption, the most common being the accredited investor exemption under section 2.3 of National Instrument 45-106 *Prospectus Exemptions (NI 45-106)*. The Form 45-106FI Report of Exempt Distribution (**45-106FI**) is required to be filed with the

OSC under NI 45-106 and the most recent [Exempt Distribution Summary](#) can be found on the OSC website. For investment funds, the 45-106F1 is required to be filed no later than 30 days after the end of the calendar year in which the distribution took place.

Typically, most 45-106F1 submissions related to investment funds are received in the month of January. The 45-106F1 submissions are reviewed to ensure that the activity and late fees, if applicable, have been paid, and to ensure that the 45-106F1 information reconciles with the detailed information in the Schedule 1 contained therein. Any issues in the submissions are flagged for follow up.

A summary of the top six flags for the period January to March 2023 are shown below, along with the percentage of the total filings during this period that were flagged:

Nature of Flag	Incidence Rate
Activity fee owing ¹⁶	48.60%
Number of Ontario purchasers differs between 45-106F1 and Schedule 1	20.79%
Incorrect issuer information	9.87%
Late fee owing	6.83%
Purchaser information – Distribution amount differs between 45-106F1 and Schedule 1	5.43%
Distribution dates on 45-106F1 and Schedule 1 do not match	4.44%

Staff remind IFMs who offer exempt funds to ensure that the 45-106F1s are filed in a timely manner to avoid late fees, to include the appropriate activity fee payment and to ensure that the information contained on the 45-106F1 reconciles with the information reported in the detailed Schedule 1. Issuers have an obligation under securities law to meet their reporting obligations and IFMs must comply with these requirements on behalf of their funds.

Standard Continuous Disclosure Reviews

IFSP 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

¹⁶ These filings were flagged as being outstanding at the time of filing the 45-106F1. However, many filers prefer to pay for all their submissions together as one bulk payment by cheque and/or wire transfer after the submissions. These bulk payments were then manually reconciled to the individual submission to resolve most of the flags, and invoices were generated for the remainder to collect payment.

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 2023, 217 funds across 49 IFMs were selected for review and there were no significant findings.

Investment Fund Exposure to European Bank Contingent Convertible Bonds and U.S. Banking Sector

In light of recent events surrounding the Credit Suisse AT1 bond write downs and possible contagion effects to the European banking sector, staff have been engaged with the CSA Systemic Risk Working Group in monitoring developments and their impact to the Canadian financial system. IFSP staff have been analyzing European bank exposure to Canadian investment funds and based on preliminary assessments from holdings data, this exposure appears to be relatively immaterial in relation to the over \$2.3 trillion investment fund industry. Staff have also been actively engaged in monitoring developments in the U.S. banking sector, in particular, recent bank failures by Silicon Valley Bank and Signature Bank, and its exposure to Canadian investment funds as well.

Staff continues to actively monitor key global market developments and their effects on the Canadian investment fund market.

Marketing Materials

Consistent with the prior year, we have performed ad hoc reviews of marketing materials in response to complaints. In Fiscal 2023, most of the complaints dealt with insufficient disclosure on social media platforms like Facebook, Twitter, and LinkedIn. Content limitations with these types of media may prevent IFMs from providing clear, accurate and balanced messages which are necessary when these meet the definition of a sales communication under NI 81-102. Part 15 of NI 81-102 outlines the requirements related to sales communications and Part 5 of [OSC Staff Notice 81-720 Report on Staff's Continuous Disclosure Review of Sales Communications by Investment Funds](#) provides additional guidance when the sales communication is presented through alternative media. The guidance states that "Staff expect that all information, including disclaimers, should be easily comprehensible to the retail investor on their first viewing of the advertisement." The required warning language in section 15.4 of NI 81-102 should not be more than one click away when using alternative media. These principles should be applied to both the IFM's social media accounts, and those of its employees where they are using their personal platforms such as LinkedIn to market specific funds or performance. IFMs should review the use of personal social media with their employees who use their accounts to market investment funds to ensure that all information presented complies with Part 15 of NI 81-102, including the required warning language, appropriate performance data measurement periods and is not misleading. IFMs should also ensure that they have adequate policies and procedures related to the use and monitoring of social media, and that training is provided to employees where necessary.

Part B: Regulatory Policy

Modernization of the investment funds' regulatory regime and burden reduction continue to be at the forefront of IFSP's policy initiatives affecting investment funds. 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 2023:

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 National Instrument 81-101 *Mutual Fund Prospectus Disclosure* 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 currently being reviewed by the CSA.

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. We are in the process of considering those comments.

Proposed Modernization of the Prospectus Filing Model

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. This policy project is ongoing and is expected to be finalized in the next fiscal period.

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 has 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. The CSA also engaged the firm to carry out a survey to Canadian retail investors with respect to their continuous disclosure preferences, and to undertake rigorous investor testing to quantitatively assess the impact of any proposed modifications to the MRFP.

The investor testing work was completed in early 2023. The results of the testing are currently under review and will feed into the project working group's consideration of proposed changes.

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 first phase of the CSA's review included surveying IFMs and principal distributors about the scope of their arrangements. On September 8, 2022, the survey was sent to IFMs identified as using a principal distributor, with a due date of October 14. The CSA working group reviewed the IFM responses and met with certain IFMs in January 2023 with follow-up questions.

On November 10, 2022, a survey was also sent to principal distributors for the IFMs identified in the September survey, and the deadline for completion was December 15. The CSA working group is currently reviewing the survey responses which will provide a better understanding of current mutual fund sales practices and distribution structures. This will help guide the CSA to determine whether

regulatory amendments to National Instrument 81-105 *Mutual Fund Sales Practices* or other instruments are needed.

Part C: Emerging Issues and Initiatives Impacting Investment Funds

There were several initiatives ongoing during the year which will affect investment funds on a go forward basis, as many of these came into effect after the end of Fiscal 2023.

Changes to OSC Fees Rule

Amendments to OSC Rule 13-502 *Fees* (**Rule 13-502**) came into force on April 3, 2023. The following is a summary of the amendments that are relevant to investment fund issuers:

- Late Fees on Covered Documents (e.g., annual and interim financial statements, annual information forms)
 - Change in the method of calculating the late fee from business days to calendar days such that the late fee is assessed for every day in the year following the date a Covered Document was required to be filed until the date the form is filed, to a maximum of \$5,000 for the year.
 - The maximum late fee payable for each Covered Document is attributable to an affiliated entity and not just a single issuer, such that the maximum late fee paid, for a Covered Document, by an investment fund and attributable to a year is deemed to have been paid by one or more investment funds that have the same IFM or IFMs that are affiliates of each other and each of those investment funds has failed to file the same type of Covered Document due by the same date.

- Amendments relating to exempt distributions under NI 45-106
 - The filing fees for a 45-106F1 for a distribution of securities of an issuer under an exemption from the prospectus requirement, is reduced from \$500 to \$350.
 - Change in the method of calculating the late fee from business days to calendar days, such that the late fee is assessed for every day in the year following the date the form was required to be filed until the date the form is filed, to a maximum of \$5,000 for the year.
 - The maximum late fee payable is attributable to an affiliated entity and not just a single issuer, such that the maximum late fee paid for a 45-106F1 by an investment fund and attributable to a year is deemed to have been paid by one or more investment funds that have the same IFM or IFMs that are affiliates of each other and each of those investment funds has failed to file a 45-106F1 due by the same date.

Transition to SEDAR+

During Fiscal 2023, IFMs were busy preparing for the transition to SEDAR+ which 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 will also have its own independent profile on SEDAR+.

Cessation of Canadian Dollar Offered Rate

The CSA is encouraging market participants to prepare for the upcoming cessation of the Canadian Dollar Offered Rate (**CDOR**). CDOR is a domestically important interest rate benchmark that is used by market participants across a wide range of financial products and contracts, including derivatives, bonds and loans.

On May 16, 2022, Refinitiv Benchmark Services (UK) Limited (**RBSL**), the administrator of CDOR, announced that CDOR will cease publication after June 28, 2024. The OSC and the Autorité des marchés financiers, as co-lead authorities for RBSL and CDOR, authorized the cessation.

[CSA Staff Notice 25-309 Matters Relating to the Cessation of CDOR and Expected Cessation of Bankers' Acceptances](#) was published on February 28, 2023. The notice provides market participants with information about certain developments and transition issues regarding the upcoming cessation, including the expected related cessation of the issuance of Bankers' Acceptances (**BAs**) and its impact on money market funds. Due to the popularity of BAs as a short-term money market instrument, money market funds will need to find suitable alternatives to BAs.

Money market mutual funds seeking to use alternative short term investment products to BAs may need exemptive relief from certain provisions in NI 81-102. We remind IFMs that novel applications for exemptive relief take longer to process than routine applications and there is no assurance that exemptive relief will be granted. IFMs should start to consider the impact on their money market funds of this loss of BAs as a money market instrument and consider what action, if any, will be required.

Investment Fund Survey

On January 11, 2023, the OSC launched the 2023 IFS, which like prior years seeks data points including, but not limited to, fund size, type of holdings (by geography and asset class), leverage, ownership, liquidity profiles and asset class exposure of investment funds. The deadline to submit this information was April 28, 2023, 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.

The 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 with both domestic and international regulatory partners.

During Fiscal 2023, the OSC initially published survey results from the first two IFSs which collected data for the years ended 2020 and 2021. 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 aggregated data by stakeholders, while delivering on the OSC's mandate of contributing to financial stability.

Staff is consistently looking to streamline the IFS with other regulatory filings, such as the RAQ, 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 January 2024 version of the IFS, staff intend to amend 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 performance fees charged, if any;
 - the fund Risk Rating.

Cybersecurity Breaches

The increased dependency by IFMs on technology in their fund operations and the growing sophistication of cyber criminals has made cybersecurity threats a valid concern. IFMs generally include cybersecurity risk disclosure under the "What are the Risks of Investing in the Fund" section of the prospectus to alert investors of the potential threat of cybersecurity attacks. IFMs are also required to establish, maintain and apply policies and procedures that establish a system of controls and supervision sufficient to manage the risks associated with their business in accordance with prudent business practices as per paragraph 11.1(b) of National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (**NI 31-103**). Further, where certain functions are outsourced to

service providers, part 11 of the Companion Policy to NI 31-103 indicates that firms are responsible for all functions that they outsource to a service provider and must conduct adequate due diligence of such providers, including an assessment of their internal controls and where appropriate, disaster recovery capabilities. IFMs (and other registrants) may refer to [CSA Staff Notice 33-321 Cyber Security and Social Media](#) which provides guidance to firms on their cybersecurity policies and procedures.

We encourage IFMs to conduct periodic risk assessments to identify and strengthen vulnerabilities related to cybersecurity and evaluate the effectiveness of incident response and communication plans with impacted fund securityholders. While there is no requirement for IFMs to report cybersecurity breaches to the CSA, this should be considered based on the magnitude of the breach. There may also be other reporting obligations to privacy commissioners under federal or provincial laws. We encourage IFMs to take all reasonable steps to respond to a cybersecurity breach in a timely and diligent manner, including notifying impacted clients and applicable regulators such as the OSC, particularly where clients' information and assets are at risk, or where the breach could impact multiple funds or IFMs due to shared software or a common service provider.

Part D: Stakeholder Outreach

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

IFSP Landing Page on OSC Website

The [IFSP 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
- IFSP 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

IFSP eNews

IFSP 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. IFSP eNews articles are posted on a [dedicated page](#) on the OSC website, while IFSP branch email list subscribers also receive each eNews article via an e-mail blast. Registration for email subscription can be done [here](#). Articles that remain relevant from the discontinued Investment Funds Practitioner are now included in the list of IFSP eNews articles.

During the fiscal year, we published several eNews articles:

April 6, 2022: IFSP Branch calls for comments on IOSCO ETF good practices consultation report

May 19, 2022: Review process for substantive changes made subsequent to filing or “clear for final” of preliminary or pro forma prospectuses

May 27, 2022: Notice and reporting requirements for Ontario Instrument 81-508 Temporary Exemptions from the OEO Trailer Ban to Facilitate Dealer Rebates of Trailing Commissions and Client Transfers

September 9, 2022: Results of annual investment fund survey

October 18, 2022: IFSP Branch encourages stakeholders to respond to IOSCO survey on index provider conduct

January 27, 2023: Use of Refilings and Errors List for corrections to continuous disclosure filings, websites and social media

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:

- ESG
- Transition from T+2 to T+1 settlement in Canada and the U.S.
- Statutory liability for ETFs – consultation on the Capital Markets Act
- Investment restrictions, hedging and securities lending
- Blockchain technology and fund distribution

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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.

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