

Summary of Public Comments on Proposed New Policy No. 8 (Proficiency Standards for Approved Persons Selling Exchange Traded Funds)

On June 30, 2016, the British Columbia Securities Commission (“BCSC”) published, for a 90-day public comment period, proposed new MFDA Policy No. 8 (Proficiency Standard for Approved Persons Selling Exchange Traded Funds).

The public comment period expired on September 28, 2016.

The following six submissions were received during the public comment period:

1. The Canadian ETF Association;
2. The Federation of Mutual Fund Dealers;
3. The IFSE Institute;
4. The Investment Funds Institute of Canada;
5. The Smarten Up Institute;
6. The Canadian Advocacy Council for Canadian CFA Societies.

Below is a summary of the comments received, together with MFDA staff’s responses.

Support for Proposed Policy

All commenters expressed general support for, and were in agreement with, the minimum standards adopted under the Policy. Support was also expressed for the process undertaken by the MFDA during the development of the proposed Policy, including the solicitation of input during the related pre-consultation period. It was noted that proposed Policy No. 8 will elevate the proficiency standards of Approved Persons and strengthen investor protection.

MFDA Response

We acknowledge comments expressing support for the proposed Policy and the policy development process.

Course Preparation

Comments received from the education service providers noted that they have prepared, and are ready to deliver, specific courses that meet the minimum proficiency standards set out under the proposed Policy. It was suggested that the MFDA develop course content and delivery guidelines so that all providers have a clearer idea of the minimum standards that their courses must meet. It was also suggested that the MFDA conduct periodic reviews of the courses.

One commenter recommended that the MFDA website provide a full listing of educational courses and designations that meet the Policy 8 requirements.

MFDA Response

The intention of the proposed Policy is to set out minimum requirements that Members and Approved Persons must meet to ensure that advice and transactions in respect of the sale of Exchange Trade Funds (ETFs) by Approved Persons satisfy the proficiency, experience, and related requirements under MFDA Rule 1.2.3. MFDA staff is of the view that the proposed Policy, as currently drafted, achieves this objective in a manner that provides sufficient guidance for the development of appropriate educational materials. MFDA staff will assess for compliance with proposed Policy 8 requirements in the normal course.

All approved courses will be identified in proposed Policy No. 8.

Specific Proficiency Comments

One commenter expressed the view that the minimum standards set out under the Policy should be revised to include information relating to compliance, trading and how ETF product strategies can differ from those of mutual funds.

One commenter commented that the proficiency standard should:

- fully address the different mechanisms for trading in ETFs;
- emphasize the importance of understanding the structure of the ETF and its underlying securities; and
- address the various causes and risks of divergence between the net asset value and the market price of an ETF, including instances where the underlying assets' markets are closed during normal US/CAN trading hours, in order for advisors to mitigate such risks for their clients.

MFDA Response

In the view of MFDA staff, the matters noted by the commenters have been addressed adequately in proposed Policy No. 8. The Policy notes, as set out under Appendix "A", that more detailed explanations would be required for items identified as "new information". The Policy also states that Approved Persons must receive specific training on the Member's policies and procedures that deal with advising and transacting in ETFs. Training regarding these operational matters has to be tailored to each Member's operations.

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