



February 22, 2013

To: British Columbia Securities Commission; Alberta Securities Commission; Financial and Consumer Affairs Authority of Saskatchewan; Manitoba Securities Commission; Ontario Securities Commission; Autorité des marchés financiers; New Brunswick Securities Commission; Registrar of Securities, Prince Edward Island; Nova Scotia Securities Commission; Superintendent of Securities, Newfoundland and Labrador; Superintendent of Securities, Northwest Territories; Superintendent of Securities, Yukon; Superintendent of Securities, Nunavut.

John Stevenson, Secretary, Ontario Securities Commission, [jstevenson@osc.gov.on.ca](mailto:jstevenson@osc.gov.on.ca)  
Anne-Marie Beaudoin, Directrice du secrétariat, Autorité des marchés financiers, [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Mr. Stevenson and Me Beaudoin,

The Canadian Securities Institute (CSI) is pleased to submit the following remarks in response to the CSA's Consultation Paper 33-403 "The Standard of Conduct for Advisers and Dealers: Exploring the Appropriateness of Introducing a Statutory Best Interest Duty When Advice is Provided to Retail Clients".

CSI is the leading provider of accredited financial services proficiency learning solutions in Canada. We have been setting the standard for world-class, life-long education for financial professionals for more than 40 years. Our expertise extends from securities to mutual funds, from banking and trust to insurance, from portfolio management to financial planning and wealth management.

As a provider of proficiency solutions we will limit our comments specifically to the impact on proficiency requirements and the subsequent costs (questions 17 and 35) that would be associated with these changes if the regulators chose to impose a best interest (fiduciary) duty for advisors and dealers providing advice to retail clients.

### **Possible Changes in Proficiency Requirements for Categories of Representatives**

The principal focus of proficiency courses and examinations is to ensure that an individual becomes "competent" and thereby has knowledge and ability that goes beyond understanding of products and compliance rules. Changing to a fiduciary model would undoubtedly increase the competency requirements and would require adjustments within the licensing courses and examinations for base proficiency for IIROC Registered Representatives and more significantly for those registered through the securities commissions as Dealing Representatives for mutual fund, exempt market and scholarship plans, as well as the supervisors for all of the categories of registration.

The legal and regulatory aspects related to a fiduciary standard and how it would be applied by the regulators in the advisor/client situation would clearly have to be added to the proficiency courses and exams. However, we believe that it will be critical to ensure that representatives be able to draw upon a wider breadth of knowledge of the discovery process and ability to assess client life stage needs, as well as products and services that they may or may not be registered to sell if they are to be truly held to a statutory best interest duty and hence a more holistic approach to advice. This would certainly raise the proficiency requirements significantly.

The amount of new course and examination content that would be required for each type of representative's proficiency requirement would differ by registration category. For example, IIROC has a more robust approach to the proficiency regime for its Registered Representatives when compared to Dealing Representatives in other sectors.

- **The IIROC Proficiency Model**

IIROC uses a progressive approach to proficiency for its Registered Representatives by setting out four base level requirements. The first three of these requirements must all be completed prior to registration and receiving the license to sell securities: (i) Canadian Securities Course (products, capital markets), (ii) Conduct and Practices Handbook Course (ethics, regulation and compliance), and (iii) 90-day Training Requirement (in-house corporate application training). The fourth requirement is the Wealth Management Essentials Course (financial planning and investment management component) and must be completed within 30 months of the original registration date. Following completion of these base requirements, continuing education is mandated to ensure a current and further breadth of knowledge of products and regulatory compliance. For these base requirements, the current content on the standard of conduct imposed by the regulators would need to be modified and enhanced with content related to legal and regulatory aspects related to the "fiduciary role".

IIROC Registered Representatives undertaking discretionary investment or portfolio management activities are required to build on the base proficiency courses. They must complete two additional courses (Investment Management Techniques or Advanced Investment Strategies and Portfolio Management Techniques) or complete the three levels of the CFA program with the purpose of enhancing specialized investment product and portfolio knowledge and standard of care and ethics. They are also subject to IIROC continuing education requirements. As individuals registered in this category are essentially already held to a fiduciary standard when dealing with discretionary accounts, there would be minimal adjustment required to the courses and examinations.

- **Impact on other Proficiency Models**

In contrast to the IIROC requirements, the mutual fund, exempt market or scholarship plan Dealing Representative is required to complete one course examination for base proficiency, and is not subject to continuing education (except in Quebec). Mutual fund dealing representatives are also subject to a 90-day in-house training program under the MFDA rules. The courses currently offered cover the base products these representatives can offer to clients as well as ethical concepts and regulatory compliance information. If the level of advice requirement becomes broader to meet a

“best interest standard”, the proficiency requirements for these three categories of registration would require a full review to increase coverage on client needs assessment as well as additional products and their suitability. This is needed to provide these dealing representatives with a broader depth of knowledge to apply to each individual client situation. This increased depth of knowledge is required for competence to determine the “best interest” of the client which may or may not include a product in the category for which the representative is licensed. In some cases a referral may be in the best interest of the client.

On an on-going basis, it will also be essential to ensure the dealing representative builds upon the base level of competence through updating of knowledge on new and evolving products and legal and compliance changes. Without this, the ability to meet the “best interest” standard will be severely impeded as the dealing representative may not be aware of other products or services available that would better meet the client’s interests. As such, new continuing education requirements with appropriate oversight by the regulators and firms should be explored.

Those who fall under the provincial securities commissions’ portfolio management registration categories and compliance officer registration categories are required to complete programs very similar to IIROC requirements for comparable registration purposes and there would be minimal change required for the base proficiency. However, continuing education requirements should be explored for these categories as well.

The recommendations above focus on how base proficiency requirements could be impacted by a new best interest standard. While this addresses the competency on new entrants to the industry it does not deal with those representatives that are already registered. When proficiency requirements evolve, in most cases, registrants are grandfathered. If the regulators were to adopt a best interest standard, which would be a significant shift, it behoves the regulators and financial institutions and education providers to find an effective and diligent way of upgrading the knowledge of existing registrants.

### **Costs Associated with Increased Proficiency Requirements**

Clearly the costs of upgrading courses and examinations will be borne by the industry and will depend on the extent of the changes required. However, while updating of content, learning activities and examinations is costly, there will also be significant costs to be borne by (i) the regulators to appropriately define the new competency levels and associated proficiency requirements and oversee the implementation of these; and (ii) the financial services firms in financing training activities as well as tracking and supervision processes aimed at mitigating the risks associated with a fiduciary standard of care.

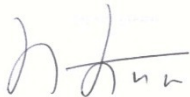
### **In Closing**

As the regulator has chosen this time to review the standard of care imposed upon financial advisors in Canada, ensuring that a robust proficiency regime is given full consideration during this process is an integral step in the review process. It is imperative for our regulators to confirm that Canada will continue to maintain its reputation for the high standards it is currently renowned for in the global

financial services environment. The challenge for the future is to ensure that the proficiency requirements continue to evolve with a global industry looking for transferability of competence and fair treatment of financial services consumers.

We are pleased to participate in this process as a review of the current proficiency requirements is a principal component when considering changes to the competencies expected from an advisor in Canada today. We would welcome the opportunity to provide further insight into proficiency requirements as this project moves forward.

Regards,

A handwritten signature in black ink, appearing to read 'M. Flynn', is positioned above the typed name.

Marc Flynn  
Sr. Director  
Regulatory Relations and Credentialing  
Canadian Securities Institute (CSI)

cc: S. Parmar, Managing Director, CSI  
D. Bell, Associate Director, CSI