



ASSOCIATION FOR  
INVESTMENT MANAGEMENT  
AND RESEARCH®

CHARLOTTESVILLE • HONG KONG • LONDON

560 Ray C. Hunt Drive • P.O. Box 3668  
Charlottesville, VA 22903-0668 USA  
Tel: 434-951-5499 • Fax: 434-951-5262  
Email: [info@aimr.org](mailto:info@aimr.org) • Internet: [www.aimr.org](http://www.aimr.org)

12 March 2003

John Stevenson, Secretary  
Ontario Securities Commission  
20 Queen Street West  
19<sup>th</sup> Floor, Box 55  
Toronto, Ontario M5H 3S8

**Re: Proposed Amendments to Rule 31-502, Proficiency Requirements for Registrants  
and Rule 31-505, Conditions of Registration and Rule 35-502, Non-Resident Advisers**

Dear Mr. Stevenson:

The Canadian Advocacy Committee (CAC) of the Association for Investment Management and Research (AIMR)<sup>1</sup> is pleased to respond to the request for comments on the OSC's proposed amendments to *Rule 31-502 - Proficiency Requirements for Registrants; Rule 31-505 - Conditions of Registration and Rule 35-502 - Non-Resident Advisers*. The CAC represents members of AIMR and its 11 Member Societies and Chapters across Canada. The CAC membership includes portfolio managers and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. In addition, 17 of the 18 CAC members are CFA Charterholders.

**General Comments**

The CAC strongly supports the OSC's current proficiency requirements for registrants listed under Part 3 - PROFICIENCY REQUIREMENTS FOR ADVISERS of the Rule 31-502. It is important that the proposed amendments have not affected the requirement to complete Level I of the "Chartered Financial Analyst Program"<sup>2</sup>. AIMR continuously assesses the CFA program to ensure that the curriculum is updated and relevant, and thus, appropriately gauges candidates' proficiency and knowledge about portfolio management and valuation of investments (e.g., debt and equity securities). In addition, CFA candidates must pass the section of the exam that covers

<sup>1</sup>With headquarters in Charlottesville, VA, and regional offices in Hong Kong and London, the Association for Investment Management and Research® is a non-profit professional organization of over 62,000 financial analysts, portfolio managers, and other investment professionals in 115 countries of which 55,800 are holders of the Chartered Financial Analyst® (CFA®) designation. AIMR's membership also includes 122 affiliated societies and chapters in 41 countries. AIMR is internationally renowned for its rigorous CFA curriculum and examination program, which has more than 98,000 candidates from 148 nations enrolled for the June 2003 exam. Over 8,000 AIMR members live and work in Canada.

<sup>2</sup> Is defined as the program prepared and conducted by the Association for Investment Management and Research and so named on the effective date [of Rule 31-502], every predecessor to that program and every successor to that program that does not materially narrow the content of the significant subject matter of the program.

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AIMR's Code of Ethics and Standards of Professional Conduct before continuing to Level II and Level III of the CFA program and to finally obtain the CFA designation.

Because of the high-quality and rigor of the CFA program, national regulators and investment firms are recognizing and qualifying the CFA designation as the credential needed by investment professionals worldwide.

### **Specific Comments on Proposed Amendments to Rule 31-505**

We noticed that the amendments to Section 1.3 of Rule 31-505 do not include any reference to the following subsection 1.3(4) regarding the proposed reorganization of this Section.

*1.3(4) An applicant for registration or reinstatement of registration as a dealer or adviser shall deliver to the Commission, with the application, written notice of the name of person proposed to be designated under subsection (1).*

The proposed amendments identify subsections 1.3(1), 1.3(2), and 1.3(3), which will change to 1.3(a), 1.3(b), and 1.3(c), respectively, but without mention of subsection 1.3(4). Therefore, it is not clear whether this subsection will remain in the final amended Rule 31-505. We believe that the requirement is appropriate and should remain in the Rule.

*The following comments relate to changes to the current Rule 31-502 that we believe should be made to properly reflect AIMR's CFA program and to improve the registration requirements.*

### **Recommended Amendments to Part 1 of Rule 31-502**

#### **1.2 Time Limits on Completion of Courses and Previous Registrations**

We believe that the following subsection 1.2(1) should be amended:

*For purposes of satisfying Parts 2 and 3, except subsection 2.1(2), an applicant for registration or reinstatement of registration must have a specified course or examination not more than three years before the date of the applicant's application for registration or reinstatement of registration, or have been previously registered in the relevant category at any time during the three-year period immediately before the date of the applicant's application for registration or reinstatement of registration. [emphasis added]*

We believe that the requirement of "not more than three years" is a bright-line, or arbitrary measurement, having no particular relevancy to the registrant's work experience for the period (or three years) following the completion of a specified course or examination. Therefore, the work experience, responsibilities, and knowledge (rather than the amount of time following the

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completion of proficiency exams) should be reviewed as part of the registration process. Obtaining the appropriate credentials through examination as well as maintaining this level of professional knowledge and experience, should be a requirement for registrants. We believe such amendments will improve the proficiency requirements.

Currently, the CFA program requires that a candidate must have at least three years of acceptable professional experience working in the investment decision-making process *before* the Charter is awarded. Once the charter is issued, the CFA designation is permanent *unless* he or she *does not comply* with AIMR's required standards, policies, and procedures, including those set forth in AIMR's -

- Articles of Incorporation,
- Bylaws,
- Code of Ethics,
- Standards of Professional Conduct,
- Rules of Procedure for Proceedings Related to Professional Conduct, and
- Other conditions, requirements, policies, and procedures that may be established and amended from time to time, including the submission of an annual Professional Conduct Statement and the payment of AIMR membership dues.

Failure to comply with AIMR's conditions, requirements, policies, and procedures can result in disciplinary sanctions, including suspension or revocation of the right to use the CFA designation.

### **Recommended Amendments to Part 3 of Rule 31-502**

#### ***3.1 Securities Advisers and their Representatives, Partners, Officers, Branch Managers, and “Chief Compliance Officers and Ultimately Responsible Persons”***

The following subsection 3.1(1)(b)(i) does not properly reflect the CFA program requirement as defined previously in Rule 31-502 under **Part I DEFINITIONS AND INTERPRETATION** and the level of the CFA exam:

- (i) *completed the Canadian Investment Manager Program or the first year of the Canadian Financial Analyst Examination Program.*

We strongly recommend that the OSC change the wording “completed...first year of the Canadian Financial Analyst Examination Program” to the following:

- (i) *completed the Canadian Investment Manager Program or Level I of the Chartered Financial Analyst Program.*

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The current wording “first year” is not appropriate because it implies that an individual can achieve the proficiency requirement during the first year of the program. Often, candidates do not complete Level I in their first year of the program. For the 2002 exam, only 44% of Level I CFA candidates passed. (Some of candidates that passed this Level I had reregistered from previous sittings for that Level).

The other recommended amendment is to change “Canadian” to “Chartered” so that it is consistent with the definition under **Part I Section 1.1 Definitions – In this Rule**, which is as follows:

*“Chartered Financial Analyst Examination Program” means the program prepared and conducted by the Association for Investment Management and Research...*

Additionally, “Examination” should be deleted from subsection 3.1(1)(b)(i) and the above definition. All these changes are needed to accurately reflect the name of the program and, thus, avoid confusion.

## Closing Remarks

We appreciate the opportunity to comment on the OSC’s proposed amendments to rules affecting the proficiency requirements for registrants in Canada. If you have any questions or seek elaboration of our views, please do not hesitate to contact Georgene Palacky at 1.434.951.5334 or gbp@aimr.org.

Sincerely,

/s/ David L. Yu  
David L. Yu, CFA  
Canadian Advocacy Committee Co-Chair

/s/ Georgene B. Palacky  
Georgene B. Palacky  
Associate, Advocacy

Cc: Canadian Advocacy Committee  
Patricia D. Walters, Ph.D., CFA – Sr. Vice President,  
AIMR Professional Standards & Advocacy  
Rebecca T. McEnally, Ph.D., CFA – Vice President, AIMR Advocacy