



June 14, 2013

To: British Columbia Securities Commission  
Alberta Securities Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Nova Scotia Securities Commission

John Stevenson, Secretary, Ontario Securities Commission  
Email: [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin, Directrice du secrétariat, Autorité des marchés financiers  
Email: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Mr. Stevenson and Me Beaudoin,

The Canadian Securities Institute (CSI) welcomes the opportunity to submit the following remarks in response to the CSA's April 18, 2013 request for comments on Consultation Paper 91-407 – Derivatives: Registration.

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 focus on leading educational and ethical standards means that our graduates and designation holders have met the highest level of proficiency and certification.

We will focus our comments on proficiency requirements and specifically questions:

11. Is it appropriate to impose category or class specific proficiency requirements?
12. Is the proposed approach to establishing proficiency requirements appropriate?

**Question 11 It is appropriate to impose category or class specific proficiency requirements?**

It is our position that there should be one robust proficiency standard that covers all competencies required for the trading of derivatives and all of the products that fall under the general category of “derivatives”. Our rationale being that evaluating the appropriateness of a particular derivatives solution that is being offered to a client requires a breadth of knowledge of all available derivative products, in order to evaluate the best recommendation. For example both swap and option based solutions could be used towards a risk management solution for a client, but unless the representative providing advice and/or trading services relating to derivatives understands the features and pros and cons of each they may not be sufficiently well-informed to recommend the structure that is most appropriate for the client.

As well, having a common proficiency standard that is inclusive of all derivative products and is thus applicable to all individuals dealing and/or advising in derivatives (institutional or retail), allows for a base proficiency that is efficient, not costly and can be recognized by all regulators (providing mobility of registrants) not only in Canada, but also internationally through possible future reciprocity agreements



with other jurisdictions with similar proficiency regimes. For example, in the retail space both FINRA in the United States and the FCA in the United Kingdom currently provide registrants with advance standing for examination purposes in recognition of completion of CSI's Derivatives and/or Options Licensing courses. Ensuring that Canadian proficiency requirements meet international standards is particularly important when it comes to OTC derivatives particularly in light of the G-20 effort to ensure a common structure and processes for OTC derivatives activity.

In the case of derivatives trading, we recommend that a proficiency licensing course requirement similar to that of the standard currently set by IIROC for futures and options trading registrants (the CSI Derivatives Fundamentals Course - DFC) would be appropriate. The DFC is a course that includes coverage of all different types of derivative products including those that trade on an exchange and those that trade over-the-counter. OTC derivatives are covered so that retail advisors could, if appropriate, recommend that the client (corporate in this case) deal with the dealer's institutional derivatives desk for an OTC derivatives solution. CSI is currently making plans to revise the DFC such that it reflects recent developments, related to the G-20 OTC derivatives reform initiative.

## **12. Is the proposed approach to establishing proficiency requirements appropriate?**

The derivatives trading market is a dynamic one with complex products. The systemic risk associated with the lack of understanding of these products (and new emerging ones) suggests that a more prescriptive proficiency requirement be implemented. The regulators have however suggested that the proficiency requirements be principle based.

Recent regulatory initiatives have generally been principles based with the exception of the inclusion of prescriptive proficiency requirements. For example, NI 31-103 is principled based regulation that includes specific proficiency requirements outlined for each registration category. IIROC also follows this approach for proficiency. This prescribed approach towards proficiency has served the Canadian securities industry well over the years and is also used by FINRA in the United States. If we were to introduce a more principled based approach, it would likely be seen as a weaker standard than that taken for other registration requirements.

If the firms are not given a specific standard to be met it will be difficult for the firms and the regulators to certify that all registrants are meeting the required proficiency standard and possess the knowledge and competency level to assess and recommend the full range of suitable solutions. As part of our role as an educator charged with the development of proficiency courses for derivatives, CSI worked with IIROC to determine the base competencies as well as the product knowledge required for derivative sales for IIROC registered representatives. These form the base of our Derivatives Fundamentals Course and we believe that this base standard would be relevant for the purpose of the proposed proficiency requirements set out in this consultation. As it does with IIROC, CSI is certainly open to working with the CSA to assist with setting the standard for this category of registration.

The CSA has also recommended proficiency requirements for supervisors, Chief Compliance Officers, Ultimate Designated Persons and a new category of Chief Risk Officer. For these registrants we recommend that principles set out in NI 31-103 and IIROC's rule 2900 should be taken into consideration



where all those with supervisory oversight for registered persons should also meet a proficiency requirement based on the type of product sales being overseen and should therefore meet minimum proficiency standards for a registered person as well as a supervisor. An example of how this could be implemented is set out below.

Category	Proficiency Requirement
Representative providing advice and/or trading services related to Derivatives	Base Minimum similar to DFC
Supervisors	Base Minimum plus Branch Managers Course
Ultimate Designated Person	Base Minimum plus Partners, Directors and Officers Course
Chief Compliance Officer	Base Minimum plus Chief Compliance Officer Course
Chief Risk Officer	Base Minimum similar to DFC

### CLOSING COMMENTS

In closing we reiterate the importance of introducing a proficiency requirement that meets the requirements of a professional dealing in derivatives. To meet this goal the regulator must consider not only product knowledge but also the proficiencies to enable the registrant to appropriately assess and determine suitability of a product. This requires not just knowledge of one or two product options, but a breadth of product knowledge and competency that can be applied in each client situation appropriately. In addition, the regulator should also consider the mobility of registrants within Canadian firms and also internationally.

We would welcome the opportunity to provide further insight into proficiency requirements. Please contact me if you have any questions.

Regards,

A handwritten signature in black ink, appearing to read 'Marc Flynn'.

Marc Flynn  
Sr. Director, Regulatory Relations and Certification  
Canadian Securities Institute  
Moody's Analytics  
Certification and Training Division

Cc: Debbie Bell, Associate Director, Regulatory & Credentialing Policy