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Canadian Investment Regulatory Organization (CIRO)
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Re: Proposed Proficiency Model – Approved Persons under the Investment Dealer and Partially Consolidated Rules

FAIR Canada is pleased to provide comments in response to the above-referenced Consultation.

FAIR Canada is a national, independent, non-profit organization dedicated to being a catalyst for the advancement of the rights of investors and financial consumers in Canada. We advance our mission through outreach and education, public policy submissions to governments and regulators, and proactive identification of emerging issues. As part of our commitment to be a trusted, independent voice on issues that affect retail investors, we conduct research to hear directly from investors about their experiences and concerns. FAIR Canada has a reputation for independence, thoughtful public policy commentary, and repeatedly advancing the interests of retail investors and financial consumers.¹

A. General Comments

FAIR Canada commends CIRO for its efforts to enhance the proficiency regime for approved persons. We firmly believe that investor protection begins with proficiency, not with enforcement.

Good investment advice has always been vital to promoting Canadians' well-being and long-term financial security. This is particularly true today with the decline in employer-sponsored pension plans, and the increased responsibility on Canadians to save and invest

¹ Visit www.faircanada.ca for more information.

for their retirement. People are also living longer and therefore need their investments to last longer. This means registered individuals are playing an increasingly prominent role in helping Canadians achieve their retirement and financial goals. As such, this proposal is of critical importance to Canadian investors.

1. Investors Place Their Trust in Their Registered Individuals

Most retail investors assume they are dealing with someone who can and will provide sound advice, not a salesperson. They place their trust in registered individuals and seek their advice to enhance their financial well-being. Most investors also assume registered individuals have a high degree of education, training, and competency.

Research has shown that investors rely heavily on the advice they receive in making investment decisions. For example, FAIR Canada's survey of 1,000 individual investors found that almost 80% of respondents use an advisor.² The vast majority (95%) stated they use the advice they receive, and 58% said they rely on it a great deal.³

Further, based on insights from preliminary FAIR Canada focus group research, the degree of reliance investors place on registered individuals could, in some instances, be described as blind trust. Given this degree of reliance, it is vital that those advising Canadians about their investments are indeed proficient at giving such advice.

From this perspective, we fully support CIRO's goal "to create, maintain and promote high proficiency standards and a robust proficiency regime in the investment industry." Achieving this goal will better align with investor expectations, help support the high degree of reliance investors place on registered individuals, and help professionalize the investment industry.

2. The Proposal Must Result in Enhanced Proficiency

Given the stakes, it is imperative that CIRO craft a more robust proficiency regime that better serves investors and meets their expectations. We are pleased to see that the Consultation proposes the following net-new improvements to the current approach:

- Registered representatives (RRs) will be required to have a relevant degree or diploma, or financial industry work experience;
- All approved persons will be required to take professional conduct training;
- A mandatory code of conduct will apply to all approved persons; and
- All approved persons will have to take continuing education on topics that CIRO considers of "utmost importance in a given year."

² FAIR Canada [Investor Survey](#), December 2022, at p. 8.

³ Ibid.

FAIR Canada fully supports these proposed new requirements. We also suggest that the new improvements apply to all registered individuals, regardless of whether CIRO or the Canadian Securities Administrators (CSA) is responsible for registering them.

While generally supportive of the thrust of CIRO's proposed proficiency model, some elements lack sufficient detail to express a definitive view on them at this time. It will be incumbent to ensure these elements, in aggregate, do produce improved proficiency outcomes. For example:

- a) **Baseline education or experience.** It is unclear what would satisfy the relevant degree or diploma requirement for RRs, or what would constitute relevant experience working in the financial industry. We have set out more detailed comments on this matter in the Specific Requests for Feedback section below.
- b) **Professional conduct training.** The content, structure, and frequency of the professional conduct training are yet to be finalized. Accordingly, it is unclear whether the training would be periodic or a one-time exercise. It is also unclear whether the training would be accompanied by an exam to help ensure approved persons adequately assimilated the information.
- c) **Exam design and delivery.** We support a competency-based approach to proficiency because it focuses on the knowledge and skills an investor would reasonably expect from a registered individual. It may also align Canada with best practices in other jurisdictions.

In an assessment-based model, however, exam design and delivery become paramount. We recommend that CIRO structure the examinations to ensure only the most capable and competent individuals become registered. As such, the structure of the exams, how they will be administered, and the passing grade will be critical to the proposal's success.

- d) **Learning outcome statements.** CIRO could improve the proposal by developing a clear set of learning outcome statements (LOS). LOS outline the specified knowledge, skills, and abilities students are expected to attain by the end of a learning experience or program of study. In addition to helping students learn, they assist exam writers in setting the questions.

LOS can help bolster the assessment-based approach. For example, after the CFA Institute introduced LOS for Chartered Financial Analysts in 1996, it observed they significantly strengthened the effectiveness of the CFA Program. They found that LOS helped "candidates prepare for the exacting standards of the investment management profession."⁴

⁴ CFA Institute, [The CFA Program – Where Theory Meets Practice](#), at p. 6.

- e) **Training programs.** Further details about how CIRO plans to update the criteria in the guidelines for the RR and IR training programs would also be helpful in assessing whether the new approach will achieve its intended goal. These programs are important in helping to impart the practical knowledge and skills registered individuals need to perform their duties effectively and ethically.

3. A Governance Framework Should be Established

The Consultation does not address the important issue of governance and oversight of the proficiency regime after it is established. A robust governance framework will be essential to ensure the new regime increases proficiency and better serves investors.

The framework should include the following key elements:

- a) **Regular review and updates to core aspects of the regime.** It will be important to regularly review and update the competencies, exams, LOS, professional conduct training, and the training programs for RRs and IRs so they remain relevant and appropriate. In this respect, CIRO should consider establishing a governing committee or group within CIRO to oversee the proficiency program.

CIRO should also consider establishing standing committees of practitioners and educators to periodically review the content of exams. Similar to committees established by the Financial Industry Regulatory Authority (FINRA), these committees could meet regularly and advise CIRO regarding any need to update the content of the qualification exams.

- b) **Stakeholder input.** CIRO should periodically gather and consider input from various stakeholders, such as approved persons, investment dealers, and investor groups, on the proficiency regime. This feedback would help CIRO understand how the regime is perceived and is functioning from different viewpoints. It would also give CIRO valuable information to further improve the regime over time.
- c) **Empirical research.** We encourage CIRO to conduct empirical research, whether quantitative, qualitative or both, to periodically assess whether the new regime is functioning effectively.

4. A Common Approach to Proficiency Would Better Serve Investors

We appreciate the significant amount of work required to establish an improved proficiency regime. It is important that CIRO continue this critical work and complete it in a timely manner.

The proposal, however, only deals with a portion of the investment industry; it does not impact mutual fund dealing representatives or other registrants that the CSA directly oversees.

Ultimately, a common proficiency model for all registered individuals will better serve investors and the industry. We recommend, therefore, as a second phase of work, that CIRO and the CSA collaborate to enhance their respective proficiency frameworks in a unified manner.

B. Specific Requests for Feedback

Below are our comments on the issues in the Consultation on which CIRO sought specific feedback.

1. The Need and/or Utility of a General Exam Requirement

The proposal includes, like the FINRA model, a general industry exam based on the competencies common across all approved person categories. We support this requirement.

A general exam would help ensure that all approved persons have the same baseline knowledge. Given that protecting investors should be the paramount consideration with any proficiency regime, it would also serve an important gatekeeping function: those who are unable to pass the general exam would not be able to proceed to an approved person exam.

2. Requiring Firm Sponsorship Prior to Enrolling in an Approved Person Exam

We see merit in CIRO's proposal to require firms to sponsor individuals at an earlier stage: before they write the specific approved person exams.

This approach could encourage sponsors to take a more active role in helping candidates develop their competencies and prepare for the exams. It could also prompt firms to take more ownership and accountability for who they sponsor. In short, it may reinforce the role firms play as important gatekeepers when it comes to investor protection.

3. Requiring a Baseline Education or Relevant Experience for RRs

FAIR Canada supports the requirement for a relevant degree or diploma or relevant experience working in the financial industry as a necessary first step before being

approved as an RR. Anyone who advises investors, irrespective of the financial product or their registration category, should have to fulfill this requirement.

A minimum level of education or experience is an essential element in investor protection. Registered individuals play a critical role in helping Canadian investors achieve their financial goals. Clients rely heavily on registered individuals and assume they are trained and competent at providing advice. An education or experience prerequisite would safeguard investors and align with their assumption that registered individuals possess a high level of education.

The Consultation, however, does not specify what CIRO would consider a relevant degree or diploma, or relevant financial industry experience. We believe it should. For example, in Quebec, financial planners must have completed a university-level training program in personal financial planning approved by the Institut québécois de planification financière. Alternatively, they must have an equivalent combination of university education, professional titles, and experience.⁵

The Australian Securities & Investments Commission (ASIC) requires financial advisers⁶ to have completed a bachelor's or higher degree, or equivalent, approved by the Minister responsible for administering the Corporations Act.⁷ Most of the approved degrees encompass subjects that are relevant for financial advisers, such as accounting, business, finance, commerce, or financial planning. ASIC goes further, however, and requires the individual to have completed specific units of study during the relevant degree or diploma on topics that are pertinent to the work of a financial adviser.⁸

ASIC's approach helps to ensure that financial advisers have a solid, relevant educational foundation for the important work they do with clients. For the baseline education requirement, we recommend that CIRO adopt a robust requirement similar to ASIC's.

The alternative to a relevant degree or diploma is two years of relevant experience working in the financial industry. We support a minimum experience requirement but require more information about what would be considered relevant financial industry experience. Further, depending on the nature of the experience, it may not be a suitable substitute for the requirement to take a relevant degree or diploma.

Lastly, we encourage CIRO to develop a method for evaluating and determining the equivalency of relevant degrees or work experience obtained in countries with a significant

⁵ Institut québécois de planification financière, [FAQ](#), Q2.

⁶ In Australia, financial advisers are authorized to provide advice regarding certain financial products to retail clients. Their work is akin to the work of some categories of registered individuals in Canada.

⁷ ASIC, [Qualification, Exam and Professional Development](#).

⁸ [Corporations \(Relevant Providers Degrees, Qualifications and Courses Standard\) Determination 2021](#) made under the Corporations Act 2001, July 7, 2023.

portion of immigrants to Canada. This would help to reduce possible barriers for new Canadians seeking to become registered individuals.

4. Elimination of Mandatory Courses and Views as to Leaving This Primarily to the Competitive Market

The key goal of the proposed new model is to increase proficiency and help ensure approved persons are competent to advise their clients. As such, it makes sense for CIRO to focus on the competency profiles and on testing those competencies, rather than preserving the current course-based approach.

However, as alluded to in the proposal, it will be important that exam candidates have access to courses to help them prepare and acquire the expected competencies. Ensuring high quality courses are available will be crucial to the proposed model's success, as an exam cannot comprehensively test all competencies, or all key elements of a given competency. If the goal is to promote competency, courses are essential.

A fundamental question is whether Canada can support an active and competitive course provider market. If not, CIRO should be prepared to assume that responsibility.

Even if Canada can support such a market, we recommend that CIRO oversee the courses at some level. Our concern is that without mandated, CIRO-approved courses, some course providers will focus on teaching the minimum needed to pass the exams rather than providing a comprehensive education and learning opportunities. In short, they will teach candidates how to pass the exam, not how to be a competent registered individual.

To guard against this, CIRO should establish an accreditation mechanism for courses and providers. At a minimum, CIRO should conduct thorough due diligence on the courses to ensure they reflect the competencies, and on the providers to ensure they are reputable.

5. A Consolidated Derivatives Exam

Currently, there are separate derivatives exams focused on either options or futures, each of which has a different set of course requirements. Whether a consolidated derivatives exam makes sense depends on whether it is likely to enhance proficiency. This comes down to the design and implementation of the exam, the details of which are yet to be developed. As with the other exams, it will be important for the derivatives exam to properly test the desired competencies.

Thank you for considering our comments on this important issue. We welcome any further opportunities to advance efforts that improve outcomes for investors. We intend to post our submission on the FAIR Canada website and have no concerns with CIRO publishing it

on its website. We would be pleased to discuss our submission with you. Please contact Jean-Paul Bureaud, Executive Director, at jp.bureaud@faircanada.ca or Tasmin Waley, Policy Counsel, at tasmin.waley@faircanada.ca.

Sincerely,



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FAIR Canada | Canadian Foundation for Advancement of Investor Rights