

The Financial Planning Association of Canada

Official Commentary Submitted to

The Canadian Investment Regulatory Organization

Regarding

**Proposed Proficiency Model
Approved Persons under the Investment
Dealer and Partially Consolidated Rule**

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About this Submission

This commentary is submitted to the Canadian Investment Regulatory Organization in response to their request for commentary on the Proposed Proficiency Model - Approved Persons under the Investment Dealer and Partially Consolidated Rule.

We at the Financial Planning Association of Canada welcome the opportunity to participate in this process and lend our perspective on this important change within the Canadian financial industry regulatory landscape.

About the Financial Planning Association of Canada

The Financial Planning Association of Canada (FPAC) is a new industry association founded in 2019, dedicated to the professionalization of the Financial Planning industry. Our goal is to make financial planning a profession with the highest standards of fiduciary responsibility, competency, and practice standards possible. It is our core belief that Financial Planners are uniquely positioned to help improve the lives of Canadians through comprehensive financial planning.

FPAC is expressly prohibited, in its founding charter, from issuing any credentials and as such we are participating in this commentary, not for the direct monetary benefit that would come from revenue generated by issuing approved credentials, but solely from the perspective of consumer protection and industry professionalization. It is our belief that only by being held to the highest standards, which would in turn lead to greater consumer confidence and trust, will FPAC be able to fully achieve its mission of professionalization of the financial planning industry.

Our Position on the proposed Proficiency Model

In principle we are in support of the move from a single outsourced education exam provider to centralized exam and open market education model. We feel this is a positive step for many reasons but primarily as it will allow CIRO to control the level of proficiency tested, which we feel can be better managed for the public interest than the current for profit provider. As well, the proposed open market approach to education will encourage the development of different educational offerings that in turn can cater to diverse learning style preferences of potential licencees.

The key to the effective implementation of this framework will be the development, maintenance, and implementation of the exam development and administration process. We highly encourage CIRO to collaborate with and follow the proven models of other organizations such as the CFA Institute, FP Canada, CPA Canada, and FINRA.

Areas of Requested Feedback & Commentary

The following are our comments regarding the specific questions posed in this consultation.

The need and/or utility of a general exam requirement.

We know of no other effective methodology to demonstrate that one has obtained the level of proficiency that would deem them to have obtained the level of knowledge required.

We have two principal concerns with this proposal: the exam development and administration process and the level of proficiency that will be tested for.

In regards to the development and administration of the exam, as stated we encourage CIRO to replicate processes in place with other institutions in the financial industry certification, education, and licensing space.

By way of example several of the institutions names follow a framework that can operate as follows:

1. Development of a body of knowledge which is a list of topic areas to be covered (ex: options).
2. The expansion of the body of knowledge into learning outcome statements detailing exactly what about said topic area it is expected the exam writers should know (e.g., How options can be used to reduce potential long position).
3. The development of exam questions that test the writer's knowledge of both the principles and practical application. Many institutions develop these questions by way of industry volunteers working in multi day workshops which in which:
 - a. The learning outcome statements where questions are required are identified as well as the degree of difficulty of the questions to be developed (ie: foundational, advanced, expert).
 - b. Volunteers then individually develop questions and the answer. If the question is multiple choice then the incorrect answers are also developed but must be plausible mistakes that the writer could make (i.e., there should be no easily eliminated options).
 - c. The questions would then be peer reviewed by a group of the other volunteers to assess for accuracy, relevance, feasibility of incorrect answers, and degree of difficulty. They would then either accept the question as is or send it back with commentary to the writer for improvement.
 - d. The finalized questions would be added to the question bank.
4. The exam would then be created by pulling from the question bank and selecting sufficient questions to cover the desired scope of topics and at the desired degree of difficulty.
 - a. The proposed exam should be reviewed in order to ensure recent changes to legislation, regulations, or markets have not deemed any of the questions invalid.

- b. Once used in an exam, the questions would be removed from the bank and could not be used again. Previous exams should be made public for future study purposes.
 - c. All questions remaining in the bank should be reviewed periodically in order to ensure continued relevance.
5. The exam is then administered at regular intervals on predetermined exam dates, ensuring all applicants write the same exam. Some provide the exam at centralized locations in specific cities. Others outsource the test delivery and monitoring to outsource provider like Prometric.

We believe that such a process, if implemented by CIRO, would be an effective framework of ensuring that quality tests are created and administered effectively.

Our second concern is the question of what level of proficiency that is being tested for. This is of paramount importance to the entire initiative and to the public interest. We have publicly commented in the past that we feel the current level of proficiency tested for by the current sole source provider is both insufficient and in many cases based on heuristics vs facts and errors that call into question the knowledge of the writer, editor, and publisher of said course work. Some examples of this include:

- The Derivative Fundamentals and Options Licensing Course fails to include the commonly accepted model for options pricing (Black Scholes Merton), and the derivatives of said model known collectively as “the Greeks,” both of which are importantly and foundational concepts in the understanding of how options pricing and hedging strategies can be effectively executed.
- The Wealth Management essentials course makes use of “The 4% rule” to estimate required retirement savings. This is a heuristic that is not supported by any academic or experts in the space. Worse yet, it fails to thoroughly explain said “rule” and then proceeds to state that it is the equivalent of 20 times your required retirement income from your portfolio, when basic grade school mathematics tells us that the number is actually 25 times given $100 \div 4 = 25$.

We have stated previously in other regulatory commentary that we feel that someone with a license to trade in a type of security should be expected to know more about said type of security than someone who passed an undergraduate course in said topic given that one should hope that a professional knows at least as much as a student. Unfortunately when it comes to the current regime, this is simply not the case.

We would urge CIRO to create an exam development committee that brings in stakeholders not just from industry but also from academia to ensure that the level of proficiency tested for is one that will help not only provide potential licensees with the knowledge they will need, but also ensures that Canadian consumers are being advised by people with sufficient knowledge of said topic.

We also question if given the consolidated number of courses and therefore broadened scope of each exam, if the current three hour exam testing time is sufficient. The allotted time to write the exam should be a function of the breadth of topics to be covered. As such we hope CIRO will look to implement six hour exams for all exams where the breadth dictates it.

The feasibility and implications of requiring firm sponsorship prior to enrolling in an Approved Person exam.

We understand and appreciate CIROs position that it is a not-for-profit and cannot become a provider of exams to the public at large and must first and foremost do so on behalf of the industry that it regulates.

However, we see this proposal as detrimentally career limiting to industry participants. The requirement to have firm sponsorship would limit people career trajectory in two ways:

- It would prevent people between jobs or looking to gain employment in a certain role from obtaining a license that would improve their employability.
- In the case where explicit sponsorship is required and not just employment at a member firm, it would limit current employees' ability to further their careers unless they could convince their employer to support them.

We do not believe that this policy is being proposed in order to do either of the above, but it will have the unfortunate consequences of creating a situation where that is the reality.

We understand that CIRO is concerned that people with no intention of entering the industry will take these courses and jeopardize CIROs status. However we would encourage you to consider that this problem may not exist in the first place. CIROs concerns may be rooted in what we see as the current for profit test providers general “read one book and take one not so hard exam” but we do not believe it has yet been proven that non-industry participants would choose to challenge a undergraduate level, six hour examination of expanded scope – just for the sake of it – to a sufficient volume that it would be cause for concern.

There are also other ways to limit this from happening, including but not limited to, limiting access to the exam to only people who have passed a recognized and approved exam preparation course.

In the end we have serious concerns of the negative implications of this policy and encourage CIRO to either drop this proposal or consider other means of accomplishing the same desired outcome.

The value, impact and utility of requiring a baseline education or relevant experience for RRs in both retail and institutional.

We support this proposal for various reasons. First and foremost we believe that education is a foundational element in ensuring consumers are served by qualified professionals. We feel the current framework falls short of this in that the education provided to obtain a license is too narrow in scope and overly focused on the distribution of products. We see the proposed change to require a degree from a recognized educational program as a positive step. We would however emphasize that the curriculum of said program must be relevant to the industry. We know that this is already mentioned in the proposal, but we would like to see an expansion of this concept to include topic areas that would be considered either required and the number of hours that would have to be spent on relevant topics in order to deem the degree as relevant.

In regards to the two year work experience proposal, we recognize that one's degree, or lack thereof, should not be a permanently limiting factor in one's career. Therefore we accept the need for a relevant work experience path to licensing. However it does raise several questions including:

- Is two years sufficient?
- How is the concept of relevance to be determined?
- Should a four year degree be considered equivalent to two years work experience, given that work experience could technically mean almost anything?

We would ask that CIRO consider the above to design baseline requirements around the concept of relevance and reconsider if 2 years is sufficient.

We would also like to state that the concepts of relevance in both degree and work experience are likely to be imperfect definitions, which in our opinion, reinforces our position that the best means of ensuring licencees carry a desired level of proficiency is to ensure the exam tests to a high degree of proficiency.

The elimination of mandatory courses tied to exams and views as to leaving this primarily to the competitive market and/or relying on study guides provided by CIRO. We are interested to know if dealers will take an active role in training their new hires to prepare for the exams.

We are in support of the elimination of mandatory courses tied to the exam and opening it up to the free market. As previously stated we question the current quality of the courses provided by the sole source provider. Furthermore, we feel the current system fails to account for differences in individual learning styles and that a free market approach could better educate more people more effectively.

For example, a US based exam prep and education provider sells packages and stand alone products for several industry certifications, licenses, and designations. These products include:

- Books
- Audiobooks

- Consolidated summaries
- Recorded classes
- Live classes
- In person workshops and retreats
- A question bank of over 1,000 test questions
- Sample exams
- Mock exam testing

Students are then free to pick and choose what works best for them in order to accommodate their schedules, learning styles, and means.

We believe that the creation of a free market will lead to multiple vendors developing some of all of the above and provide consumers with optionality in the marketplace.

This change will also incentivize post secondary institutions to build into their curriculum the content required by the body of knowledge and learning outcome statements in order to attract and deliver greater value to their students.

Lastly, we have no doubt that various dealers will develop their own educational offerings. We do feel this is a potential reason for concern as the incentive would be for these institutions to develop curriculum around their needs and point of view which could be at odds with the public interest and potentially incorrect. This again reinforces the need to ensure the exam itself is not biased and is robust to ensure that only those who understand sound principles are able to pass it.

A consolidated derivatives exam, based on published competencies, to ensure all Approved Persons who trade or supervise derivatives understand trading and risks associated with trading in all derivatives products.

We have concerns that a single derivatives licensing exam is being proposed as opposed to the current framework. Our concern is rooted in the size of and inherent leverage in futures contracts. We worry that futures represent a greater possibility of catastrophic loss than other financial instruments.

That said, if the course is composed at a suitable level of proficiency as described above, we are not in opposition to a combined exam.

We will however note two concerns:

- While not mentioned in the consultation paper, we hope that those who currently hold an options license would not be grandfathered into a new licensing category, granting them the ability to trade futures, without taking the new exam.

- We believe this will lead to a greater number of licencees being able to trade futures. We would recommend that CIRO review its requirements and enforcement of dealer internal controls over their licensees in order to ensure they will be sufficient for the potential increase.

Closing Summary

In closing, we at the Financial Planning Association of Canada thank you for the opportunity to provide commentary regarding this important issue. We hope that you have found our submission to be in keeping with the intended spirit of consumer protection and in keeping with our goal of the professionalization of the financial planning industry. It is our hope that you will see fit to implement our recommendations as outlined. We will also continue to make ourselves available for further input and support this initiative and look forward to reviewing the final framework for implementation.