



ANDY MITCHELL

President and CEO *Président et chef de la direction*

amitchell@ific.ca 416 309 2300

September 17, 2024

Delivered By Email: proficiency@ciro.ca

Registration, Proficiency
Canadian Investment Regulatory Organization
Suite 2000
121 King Street West
Toronto, Ontario M5H 3T9

Dear Sirs and Mesdames:

RE: CIRO – Request for Comment - Proposed Proficiency Model – Approved Persons Under the Investment Dealer and Partially Consolidated Rules

The Investment Funds Institute of Canada (**IFIC**) is pleased to provide the Canadian Investment Regulatory Organization (**CIRO**) with our comments and responses relating to CIRO's [Proposed Proficiency Model – Approved Persons under the Investment Dealer and Partially Consolidated Rules \(Proficiency Proposal\)](#).

IFIC is the voice of Canada's investment funds industry. IFIC brings together approximately 150 organizations, including fund managers, distributors and industry service organizations to foster a strong, stable investment sector where investors can realize their financial goals. IFIC operates on a governance framework that gathers member input through working committees. The recommendations of the working committees are submitted to the IFIC Board or board-level committees for direction and approval. This process results in a submission that reflects the input and direction of a broad range of IFIC members.

IFIC supports the proposed Proficiency Proposal's objectives, including the enhancement of investor protection and strengthening the integrity and efficiency of capital markets by raising the proficiency bar. The Proficiency Proposal will also enhance baseline education requirements, implement mandatory conduct training, introduce CIRO-mandated continuing education content and improve program currency, relevancy and responsiveness to industry changes.

While the intended benefits of the Proficiency Proposal are clear, IFIC wishes to highlight the complexities involved for investment dealer firms to successfully implement the changes necessary from the proposed proficiency requirements that will apply to new Approved Persons (**AP**). To mitigate these challenges, IFIC urges CIRO to transparently communicate with the industry, providing timely, clear and fulsome information and guidance throughout the implementation and transition periods in order to (i) proactively identify and address policy and implementation challenges, and (ii) ensure that the policy, procedural, training and technology changes that the Proficiency Proposal will require are implemented as efficiently and effectively as possible.

IFIC also wishes to draw CIRO's attention to specific concerns we have relating to two important aspects of the Proficiency Proposal.

The first concern relates to the Proficiency Proposal's automatic suspension of APs if dealer members fail to notify CIRO of their completion of proficiency requirements within the stipulated timelines. IFIC believes that this requirement increases the regulatory burden on CIRO members and could result in the inappropriate suspension of qualified APs due to an administrative oversight by the firm. This could have a negative impact on the APs' clients including a negative client experience and, in more extreme circumstances, accounts not having an AP until the matter is resolved. To address these potential issues, IFIC suggests that CIRO consider implementing a reasonable "grace period" of at least 10 business days that would enable firms to address the reporting failure on a timely basis, thereby mitigating the potential negative impact on the firm's clients.

The second concern relates to the Proficiency Proposal's new requirement that the Ultimate Designated Person (**UDP**) and all Executives must have a minimum of two years of relevant experience acceptable to CIRO, found in proposed rule 2603(1)(ii)(e). IFIC notes that the Proficiency Proposal's regulatory expectation is that each Executive within an investment dealer, including the UDP, should have experience that is, at a minimum, the same in duration as the experience applicable to Supervisors in addition to the general experience requirement set out in IDPC Rule 2503 (i.e. a minimum two years of relevant experience, based on the category of approval, the responsibilities of the Executive, and the firm's type of business).

IFIC is concerned that while an Executive's experience, including a UDP, in one type of investment dealer business may be relevant for one business type, it may not be considered relevant for another investment dealer's business or even another Executive role within the same investment dealer. The potential impact of this requirement could be significant for investment dealers, particularly investment dealers that are affiliated with other securities registrants. If so, there is the possibility that individuals qualified to hold UDP, Executive or Director positions will become more difficult to identify, recruit or retain, which could negatively impact the pool of potential candidates for senior roles broadly and limit the diversity of senior management personnel within an investment dealer itself.

Similarly, IFIC is concerned that an Executive's experience, including a UDP, in a mutual fund dealer business may not be considered relevant for an investment dealer business.

IFIC recommends that CIRO consider the potential unintended consequences of this provision and how the provision may be revised to mitigate these risks.

Finally, IFIC acknowledges that the Proficiency Proposal applies solely to individuals at CIRO-regulated investment dealers. As such, IFIC's understanding is that potential changes to the proficiency regime governing mutual fund dealers that may occur in the future, if any, will be determined in collaboration with the Canadian Securities Administrators (**CSA**), which registers firms and individuals in the applicable mutual fund dealer registration categories. In that case, IFIC strongly urges the CSA and CIRO to proactively engage and consult with impacted mutual fund firms before formulating potential revisions to the proficiency regime for mutual fund dealers and their APs.

In Appendix A we provide answers to the four questions posed in the Request for Comment.

CONCLUSION

IFIC is pleased to have had this opportunity to provide our comments on the Consultation. Please feel free to contact me by email at amitchell@ific.ca. I would be pleased to provide further information or answer any questions you may have.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA



By: Andy Mitchell
President & CEO

cc: Trading and Markets
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West, Toronto, Ontario M5H 3S8
Email: marketregulation@osc.gov.on.ca

and

Capital Markets Regulation
B.C. Securities Commission
P.O. Box 10142, Pacific Centre
701 West Georgia Street, Vancouver, British Columbia, V7Y 1L2
Email: CMRdistributionofSROdocuments@bcsc.bc.ca

APPENDIX A

Question #1 – The practicality of Proposed Transition Provisions, in particular:

- a. The proposed grandfathering provision,
- b. The proposed transition for those who have enrolled in a Canadian Securities Institute (CSI) course and exams prior to January 1, 2026, and not yet completed the course and related exam
- c. The proposed transition provision for those who are required to complete the Wealth Management Essentials (WME) Course

IFIC Response:

- 1a. IFIC supports CIRO's proposed grandfathering provisions for APs continuing in the same role under the Proficiency Proposal and agree with the decision to apply different transitional proficiency standards to:

- APs who have not been unapproved for more than 90 days within the last three consecutive years.
- APs who have been approved for at least two years within the last three years.

This provision ensures that individuals who have been unapproved for a significant period within the past three years are fully qualified for their current approved role under the Proficiency Proposal.

- 1b. Under CIRO's current proficiency regime, individuals who pass CSI exams have three years to obtain a firm sponsor and apply to become an AP in the appropriate approval category before their CSI exam is no longer valid and they must requalify.

This proposed transition provision truncates this three-year period, however, by requiring individuals seeking to become an AP to:

- i. enroll in a CSI course no later than December 31, 2025
- ii. complete the required CSI exam by December 31, 2026
- iii. satisfy all proficiency requirements applicable to the Approval Category in force as of December 31, 2025, and
- iv. ensure that their application for approval is submitted by their sponsor firm no later than December 31, 2026.

As currently drafted, anyone who passed their CSI exam on or before December 31, 2023 will receive three years to complete requirements (iii) and (iv) above, however, anyone who passes their CSI exam on or after January 1, 2024 will receive less than three years to complete these requirements, creating an unlevel playing field. In some cases, individuals may be further disadvantaged by factors beyond their control. Health issues, childcare obligations, maternity leave or the lack of employment opportunities are a few examples of circumstances that could exacerbate the challenge created by having to complete the requirements within a reduced timeframe.

Given the potentially negative impact of this provision, IFIC urges CIRO to revise the transition provision so that no individuals are disadvantaged. One potential solution to this issue may be to amend the transition provision to require submission of an individual's application for approval by the earlier of three years after the completion date of the CSI exam and December 31, 2028.

- 1c. IFIC generally supports CIRO's proposed transition provision that would provide individuals, who have been approved as a Registered Representative (RR) retail but have not yet completed their post-approval proficiency requirement (i.e. the Wealth Management

Essentials (**WME**) course), with a choice of either: i) completing the WME by the earlier of the required date (i.e. within 30 months of receiving approval as an RR retail); or ii) completing the new RR retail exam by the “required due date”.

In order to ensure that individuals facing this choice are able to make an informed decision, however, individuals will need to understand what is meant by the term “required due date”, referred to in section 5.2 of CIRO’s Request for Comment (24-0206). Toward that end, IFIC urges CIRO to publish information that will clarify this term as soon as possible.

Question #2 – Amount of time dealers will need to update their RR and IR training programs, keeping in mind that the published competency profiles and related sub-competencies will be utilized for providing guidance on the training programs proposed to be completed within 90 days of approval.

IFIC Response:

We estimate that firms, on average, will require at least 12 months to update their respective retail training programs, following CIRO’s publication of the final rule amendments related to the Proficiency Proposal. Firms that, for the first time, have to develop and deliver an institutional training program will almost certainly require additional time beyond our 12 month estimate relating to the retail training program scenario.

IFIC’s estimates reflect our assessment of times required to complete critical implementation steps, including:

- review and integration of Competency Profiles requirements, which informs the creation and updating of training materials for the Investment Representative (**IR**) and RR training programs
- development of new and updated training content that is accurate and comprehensive
- internal review and approval processes that ensure the training materials reflect applicable regulatory requirements and align with the member firm’s standards
- translation of training materials
- implementation and delivery of training content to RRs and IRs, and
- tracking timely completion of mandatory training by RRs and IRs and reporting registrant completion data to CIRO.

Our estimates also reflect CIRO’s published statement that firms should utilize the published competency profiles and related sub-competencies as guidance for updating their Firm Training programs for RRs and IRs.

Our estimates do not, however, reflect the potential impact of:

- the *firm training modules* that have not yet been provided but that, according to CIRO in section 4.6.1 of the Request for Comment (24-0206), “...need to be considered by dealers, in alignment with the sub-competencies, prior to implementation of the proposed rules”, nor
- CIRO’s regulatory expectation that, when hiring new RRs and IRs, dealers will “need to consider whether additional training is required for them, in addition to any other

training that may have been provided by the previous sponsoring firm” and that “Dealers need to ensure that Approved Persons not only have the requisite education and experience, but also receive training appropriate for their role”.

In the absence of these additional materials and information, IFIC members will be challenged to provide more accurate estimates of the time they will require to update or develop new Firm Training content, including updates and/or development of new training delivery and reporting policies, procedures and technologies.

As a result, IFIC’s time estimates may materially change once this additional information is provided and considered by IFIC’s CIRO-regulated investment dealers.

Question #3 – Will dealers take an active role in training new hires to prepare for the proposed exams?

IFIC Response:

Whether IFIC members, impacted by the Proficiency Proposal, take an active role in the development and delivery of training for their new hires to prepare for the CIRE and RR (retail or institutional) exams will vary from firm to firm, based on a variety of factors, including, but not limited to:

- firms’ respective financial, technological and training resources
- the availability and cost of effective third-party course providers, and
- the expected delivery date of CIRO’s exam blueprints and sample exams.

IFIC’s impacted members believe that additional information and transparency is needed from CIRO relating to:

- the form and substance of the proposed exams
- CIRO’s timeline for providing exam blueprints and sample exams for each AP category
- the availability of third-party training providers, and
- whether CIRO will play a role in the evaluation of third-party course providers’ curricula.

By providing this information as soon as possible, CIRO will enable IFIC members impacted by these proposed proficiency requirements to make more informed decisions with respect to this and other questions.

Question #4 – Comments on the relevant experience proposed and the types of experiences that dealers find common and relevant

IFIC Response:

IFIC supports CIRO’s effort to enhance investor protection and strengthen market integrity, by raising the RR registration category’s proficiency bar, through the proposed adoption of a new, principles-based proficiency requirement that can be met through an RR applicant’s baseline education or relevant experience.

IFIC notes, and agrees with, CIRO’s comments within the Proficiency Proposal that highlight two fundamental principles. The principles are: (i) proficiency requirements should not, within reason, create barriers to entry; and (ii) the “core objective of mandating a baseline education is to ensure RRs have the maturity to service the investing public and apply the necessary analytical and communication skills to carry out their regulatory responsibilities”. In our view, the proposed RR baseline education rule, requiring RR applicants to possess “a degree or

diploma from an accredited post-secondary institution” is inconsistent with these principles and may unnecessarily exclude individuals who otherwise possess the required maturity and skills.

To better reflect these principles, and thereby mitigate the risk of unnecessarily creating barriers to entry, IFIC urges CIRO to take a more principles-based approach to the assessment of an RR applicant’s educational background. For instance, certain foreign educational qualifications or professional designations, based on clear, documented and rigorous curricula, may prove to be equally accurate indicators of RR applicants’ maturity, analytical and communication skills.

We also support CIRO’s decision to offer the alternative, experience-based proficiency requirement, but do not support increasing the experience requirement from two to four years. We are concerned that requiring four years of experience will negatively impact the size and quality of the RR candidate pool available to investment dealers, by unnecessarily eliminating potentially appropriate applicants. We therefore recommend that CIRO retain the original, two-year requirement.

IFIC strongly urges CIRO to similarly consider applying a principles-based approach to their assessment of RR applicants’ experience profiles. For example, an RR applicant’s English or French language skills may be more or less necessary, depending on the makeup of the client group the applicant intends to support. Other experiences should also be considered broadly to determine whether they provide or demonstrate maturity, analytical skills or communication skills.

To assist in the assessment of experience profiles, we suggest that CIRO consider expanding the use of its existing assessment framework model, which has been used by investment dealers to assess whether an Investment Advisor’s experience meets the baseline experience requirements of a Portfolio Manager. To assist CIRO on this point, we have attached (in Appendix B) the framework documents CIRO has provided to IFIC members for this purpose. IFIC believes that this framework, if appropriately modified, may provide a helpful analytical framework that can be used to assist investment dealers and CIRO staff assess experience profiles of RR applicants.

In certain cases, it may also be appropriate for CIRO to holistically assess the educational and experiential background of an RR applicant, with a view to determining their appropriateness for registration in the RR approval category.

While we acknowledge that CIRO’s existing exemption process may potentially mitigate some of the issues we’ve raised, the exemption process can be lengthy, complex and costly and as such, candidates and sponsoring investment dealers may be dissuaded from pursuing exemptions. To mitigate this risk, we encourage CIRO to publish all proficiency exemption decisions. The enhanced transparency of CIRO’s regulatory expectations, relating to proficiency matters, should enable applicants to more accurately assess the merits of their respective circumstances.

In addition to potentially expanding the defined baseline requirements to reflect a principles-based approach, we also strongly recommend that CIRO develop and publish clear and comprehensive guidance, relating to the assessment of both baseline education and relevant experience, as soon as possible. Providing clear guidance on these fundamental proficiency requirements will: (i) help achieve CIRO’s regulatory objectives, (ii) help investment dealers assess candidates’ education and experience more effectively, and (iii) enhance the efficiency and effectiveness of the overall proficiency assessment process, reducing the regulatory burden for investment dealers.

APPENDIX B

Rédaction de la demande d'enregistrement Informations recherchées par l'Organisme de réglementation

Business Model
<p>What is the applicant's business model?</p> <p>Does the applicant work as part of a team? If so, what is:</p> <ul style="list-style-type: none"> • the applicant's role on the team • the number of people on the team • the role of others on the team (to put into context the applicant's role on the team)
Investment Management Process
<p>What is the applicant's investment management process?</p> <ul style="list-style-type: none"> • from meeting a client and & creating an Investment Policy Statement (IPS) • to how the applicant determines which investments to recommend to a client • to implementing the asset allocation (portfolio construction) in a client account • to conducting portfolio maintenance & rebalancing in a client account
Portfolio Construction Skills (<i>not model portfolios</i>)
<p>The applicant must demonstrate his or her portfolio construction skills through the following:</p> <ul style="list-style-type: none"> • time spent discussing IPS with clients, • investment strategies, asset allocation, performance, • on-going monitoring & rebalancing of client portfolios, and • responding to client requests concerning their accounts
Security Selection Process
<p>The applicant must demonstrate individual security selection across a range of asset classes utilizing Relevant Investment Management Experience (RIME).</p> <p>Does the applicant use mutual funds and/or ETFs? If yes,</p> <ul style="list-style-type: none"> • based on what sources of research and/or analysis are these investments selected • what role do mutual funds and/or ETFs play in client accounts, and how the applicant's use of such securities has changed over time? • What is the process for selecting a mutual fund manager? Frequency of review? <p>If the applicant has more than 50% of client assets in ETFs and/or mutual funds, the applicant must demonstrate that he/she considers a "universe" of such products when selecting these securities.</p>
<p>Does the applicant select securities from a list provided by the Dealer Member? If yes,</p> <ul style="list-style-type: none"> • how does the applicant decide which securities from the list to recommend for each client, and based on what research and/or analysis? How many securities are on the list and what type of asset classes are they?

Model Portfolios
Does the applicant use model portfolios? If yes, <ul style="list-style-type: none"> • who designs and maintains them? How many model portfolios there are and how they differ? How does the applicant decide which model portfolio to use for each client?
Does the applicant customize model portfolios? If yes, to what extent, and based on what sources of research and/or analysis?
Does the applicant create model portfolios? If yes, <ul style="list-style-type: none"> • how many models are there? How do they differ? How does the applicant decide which model portfolio to use for each client? How often does the applicant rebalance them?
Research and/or Analysis
Applicant must demonstrate research & analysis in a broad range of types of securities. If relying on the firm's internal research, the applicant must demonstrate how s/he uses the research to conduct his/her own analyses to make recommendations.
What sources (e.g. prospectuses, issuer continuous disclosure, issuer financial statements, internal or external research reports, internal or external rating systems or review summaries) and tools or services does the applicant use?
To what extent does the applicant rely on fundamental, quantitative and/or technical analysis and investment principles based on asset allocation and diversification of securities?
Allocation of Time
What is an approximate percentage breakdown of the applicant's time spent over an average period, as among: <ul style="list-style-type: none"> • client relationship management • research and/or analysis • portfolio construction and maintenance?
48 months of RIME
The individual must confirm having at least 48 months of RIME; thus she or he has been using the demonstrated investment management approach for at least 48 months.
Firm Vetting Process/Program
If the firm has a Vetting Process/Program, provide the criteria, and confirm if the applicant was approved by having satisfied those criteria or was she or he approved based on other criteria; if the latter, provide the details.
AUA
Provide a AUA Chart.

APPENDIX B

Sample breakdown of assets under administration (AUA)

(complete below where applicable)

AUA not in Model Portfolios	\$	%
Cash & Cash Equivalents		
Including cash and money market instruments		
Fixed Income not in Model Portfolios		
Including government bonds, corporate bonds, guaranteed investment certificates, principal protected structure notes, principal at risk structured notes		
Equities not in Model Portfolios		
Including preferred shares, common shares, U.S. and other foreign equities, warrants		
Managed Products		
Including mutual funds, hedge funds, segregated funds, exchange-traded funds (ETFs), real estate investment trusts (REITs), private equity funds		
Subtotal Assets Under Administration	\$	%
Model Portfolios (Customized)		
(Please select the types of securities, along with the \$ amount and %, in use within the Model Portfolios customized by the applicant)		
	\$	%
Cash & Cash Equivalents		
Fixed Income		
Equities		
Managed Products		
Subtotal Assets Under Administration	\$	%
Model Portfolios (Static)		
(List the model portfolios in use and provide the dollar amount and % of AUA for each)		
	\$	%
Subtotal Assets Under Administration	\$	0%
Total Assets Under Administration	\$	100%