

## December 12, 2016

To: British Columbia Securities Commission

Alberta Securities Commission

Financial and Consumer Affairs Authority of Saskatchewan

Manitoba Securities Commission Ontario Securities Commission Autorité des marchés financiers

Financial & Consumer Services Commission New Brunswick

Superintendent of Securities, Department of Justice and Public Safety Prince Edward Island

Nova Scotia Securities Commission

Securities Commission of Newfoundland and Labrador

Superintendent of Securities, Northwest Territories

Superintendent of Securities, Yukon Superintendent of Securities, Nunavut

The Secretary Ontario Securities Commission: Email: comments@osc.gov.on.ca

Me Anne-Marie Beaudoin

Directrice du secrétariat, Autorité des marchés financiers

Email: consultation-en-cours@lautorite.qc.ca

## Re: Amendments to NI81-102 and NI81-104

The Canadian Securities Institute (CSI) welcomes the opportunity to submit the following remarks in response to the CSA's September 22, 2016 request for comments on the Modernization of Investment Fund Product Regulation – Alternative Funds.

CSI is the leading provider of accredited financial services proficiency learning solutions in Canada. We are IIROC's primary proficiency partner and in collaboration with IIROC offer the courses and examinations that comprise the most extensive and robust proficiency regime for financial services advisors in Canada. Our financial services courses are the most popular educational routes chosen by candidates seeking certification, licensing and professional designations in financial services.

We will focus our comments on proficiency standards for representatives dealing in alternative funds.

We agree with the proposal to remove the proficiency requirements from the regulations dealing specifically with alternative funds. We also agree that the proficiency requirements for alternative funds should be incorporated within National Instrument 31-102 and the "know your product rules" of the appropriate SROs, such as the MFDA.

Due to the complex nature of alternative investments, we recommend that mutual fund dealing representatives be subject to a proficiency requirement for trading in these products. Furthermore, this requirement should sit as a top-up rather than it being included in the base mutual fund licencing examination. The introduction of an additional proficiency level is the most appropriate solution given many financial institutions have restrictions on the types of investments that representatives can offer to clients. For example, a mutual fund sales representative in a bank branch is not likely to have the authority to offer alternative investments given the general sophistication level of clients they deal with on a daily basis. Given



Alternative Funds – December 12 2016 Canadian Securities Institute Page 2

the complexity of alternative funds adding this content to the base licensing exam could significantly divert focus and examination weighting away from the more relevant areas of proficiency.

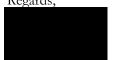
As their client base changes, advisors will be provided with the opportunity to upgrade their proficiency from the base requirements - similar to the requirements likely to be implemented by the MFDA for advising on Exchange Traded Funds. To provide the regulator with more insight into the possible content required for a top-up course on alternative investments, we have prepared an outline and included it as Appendix 1 to this comment letter.

However, should the regulator decide to raise the base proficiency level to include Alternative Investments, it would be appropriate for all individuals currently registered as a dealing representative to be subject to a topup course on alternative funds to ensure all representatives are operating at the same level of proficiency when dealing with the public. The exception to the rule will be those dealing representatives who met their minimum proficiency licensing requirements through completion of the Canadian Securities Course (CSC), where alternative funds are well covered. For this reason IIROC representatives, would not be subject to this additional proficiency requirement.

To ensure that all dealing representatives looking to sell Alternative Funds have the same level of proficiency we suggest that the required course and examination content for proficiency in alternative funds be developed and validated by the industry in collaboration with the SROs, the CSA and proficiency providers. As a result of this effort, courses that currently meet the proficiency requirements, would be reviewed to ensure they cover all of the required concepts sufficiently. CSI would be pleased to participate in such a project.

Please contact me if you have any questions.

Regards,



Marc Flynn Sr. Director Regulatory Relations and Credentialing Canadian Securities Institute Moody's Analytics

cc: Debbie Bell, Associate Director, Regulatory & Credentialing



Alternative Funds – December 12 2016 Canadian Securities Institute Page 3

## Appendix 1 Possible Curriculum Content for Alternative Funds

Chapter #	Chapter Heading	Details
1.	Overview of Alternative	What is an alternative investment fund?
	Funds	Size of the Market
		Alternative Fund Strategies
		Capacity constraints
		Regulatory landscape
		Reduced disclosure
		Tax implications
		Alternative Features
		Historical Performance
		Business risk
2.	Overview of Derivatives	Introduction
		What Is a Derivative?
		Features Common to All Derivatives
		Derivative Markets
		Key Differences between Exchange-traded and OTC
		Derivatives
		Types of Derivatives
		Forward Agreements
		Futures Contracts
		Swaps
		Option-Based Derivatives
		Option Premiums
		Offset, Exercise, Assignment, and Being "In-the-
		Money"
		Exotic Options
		Key Differences between Forward-Based and Option-
		Based Derivatives
		Underlying Assets
		Financials
		Interest Rates
		Other Underlying Assets
3.	Alternative Fund Strategies	Relative Value
		Event Driven
		Directional
4.	Risk Drivers	Three kinds of risk drivers
		First order risks
		Second order risks
		Operational risks
5.	Funds of Funds	The role of the fund of funds manager
		Diversification
		Advantages and Disadvantages



Alternative Funds – December 12 2016 Canadian Securities Institute

Page 4

Chapter #	Chapter Heading	Details
6.	Principal Protected Notes	What are Hedge Fund linked notes
		Zero Coupon + Call option structure
		CPPI Structure
		Costs
		PPN Risks
		Choosing a PPN
7.	How Alternative Funds and	Regulatory Restrictions on the use of derivatives may
	Mutual Funds Use	mutual funds NI81-102
	Derivatives Within	Hedging techniques
	Regulatory Bounds	Non-hedging strategies
		How Hedge Funds can use derivatives
8.	Incorporating Alternative	Investor Suitability
	Funds into a Portfolio	Asset Allocation and Hedge Funds
		Using Mean-variance optimization with hedge funds
		Hedge Funds as a separate asset class or integrated
		with other asset classes
9.	Due Diligence When	Who performs due diligence
	Investing in Alternative	Key due diligence areas
	Funds	A comprehensive due diligence process
10.	Performance Appraisal	Performance Measures
		Return Measures
		Risk Measures
		Risk Adjusted Returns
		Value at Risk
		Limitations of Quantatative Risks
11.	Regulatory Issues Pertaining	Prospectus Requirements and Prospectus-Exempt
	to Investing in Alternative	Distributions Applicable to Hedge Funds
	Funds	Legal Structures for Hedge Funds in Canada
		Securities Regulations Applicable to Hedge Funds
12.	Alternative Fund Service	Prime Broker
	Providers	Custodian
		Fund Administrator
		Accounting Firm
		Legal Advisor
		Tracing the Flow of Money