



September 30, 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 and Consumer Services (New Brunswick)  
Nova Scotia Securities Commission

Josée Turcott, Secretary, Ontario Securities Commission, [comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)  
Anne-Marie Beaudoin, Directrice du secrétariat, Autorité des marchés financiers,  
[consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Dear Ms. Turcott and Mme Beaudoin,

The Canadian Securities Institute (CSI) is pleased to submit the following remarks in response to the CSA's Consultation Paper 33-404 "Proposals to Enhance the Obligations of Advisers, Dealers, and Representatives Toward Their Clients."

CSI is the leading provider of accredited financial services proficiency learning solutions in Canada. We offer proficiency courses/exams for securities, mutual funds and insurance licensing purposes, and a broad range of specialized certificates and designations including the Chartered Investment Manager (CIM<sup>®</sup>), Certified International Wealth Manager (CIWM) and Personal Financial Planner (PFP<sup>®</sup>). We are IIROC's primary proficiency partner and provide the courses and examinations that comprise the most extensive and robust proficiency regime for financial services advisers 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 fully support the CSA's initiative to enhance investor protection and provide clarity to the investing public with regard to financial advisers' responsibilities to their clients. As an educator and credential provider, we will first share our view on the issue of a regulatory best interest standard and then focus our comments on the issues dealing with adviser proficiency, titles and designations.

### **Regulatory Best Interest Standard**

We are supportive of a robust standard for registrants when dealing with a client's finances; however we are not convinced that a regulatory best interest standard is the most appropriate solution. As such, we are in agreement with the position taken by the jurisdictions expressing reservations with introducing an overarching regulatory best interest standard over and above the Targeted Reforms aimed at strengthening the current standards of conduct and limiting conflicts of interest. We believe that the existing product-based regulatory framework and the wide array of business models (including sales of proprietary products) are not conducive to a best interest standard and that it could create a false sense of security for investors. Additional concerns with introducing a best interest standard are:

- Lack of harmonization across the financial sector

We suggest that if the CSA is truly focused on investor protection that it should make every effort to coordinate this extensive effort with regulators in other sectors such as insurance and consumer/mortgage lending. The best interest standard would be very difficult to implement in these sectors but a version of the Targeted Reforms may be achievable. A consumer's financial "life" generally begins with a consumer loan, life insurance or a mortgage prior to making investments. Therefore, addressing consumer protection in these sectors is crucial. While we realize this is challenging, given the various provincial and federal jurisdictions, if the CSA's intent is to move the relationship from product sales to holistic advice (which requires understanding of the consumer's full financial situation), leaving out other financial sectors will result in only a partial measure of consumer protection.

- Reducing access to services

If a regulatory best interest standard were introduced, it would result in raising the proficiency requirements to the level where all advisers would require equal knowledge of all types of investments, resulting in a need for all registrants to qualify for a full securities license. Such a rise in proficiency could also have the unintended result of limiting the number of advisers specializing in mutual funds or RESPs; thereby limiting consumer access to investing advice.

- Collaborative nature of adviser-investor relationship

Ideally, the ongoing non-discretionary relationship between the investor and the adviser is a collaborative one with the adviser providing solid advice to allow the client to make informed decisions. However the final decision is made by the client. This is not conducive to a best interest standard. Investor comments such as "my brother-in-law recommends this stock", and "I have play money in my discount brokerage account" in addition to fluctuating investor emotions and risk tolerance make it difficult to put the onus fully on the adviser unless there is a discretionary relationship. This differs from relationships with traditional professions such as lawyers, doctors and accountants. In these cases, the consumer does not generally suppose that they have the expertise to really question the advice. That said, we do believe the Targeted Reforms dealing with enhanced compliance, disclosure and removing conflicts of interest will improve investor protection and the adviser-investor relationship.

**Question 28 – To what extent should the CSA explicitly heighten the proficiency requirements set out under Canadian securities legislation?**

The proposed Targeted Reforms set out in this consultation (for example, increased Know Your Client and Know Your Product requirements), as well as client needs for more holistic advice will no doubt raise the proficiency requirements for Mutual Fund, Exempt Market and Registered Education Savings Plans dealing representatives. With the increase in required proficiency, these specialized advisers will need a wider breadth of knowledge of not only the products and services that they may or may not be registered to sell, but also the discovery process and ability to assess client life stage needs. In such a case the CSA should work with recognized industry educators to

agree upon content for enhanced courses and examinations. Furthermore, this will require an effective and diligent way of upgrading the knowledge of existing registrants. For example, The Financial Conduct Authority (FCA) in the United Kingdom introduced sweeping financial advice regulatory changes in 2012. As result all existing advisers were mandated to meet a “gap fill” requirement in order to maintain their registration.

IIROC has raised its proficiency requirements over the years to meet increasingly complex investor needs and regulations. This has resulted in a robust proficiency regime that continues to evolve with the needs of investors, advisers and firms as well as regulatory oversight needs. IIROC’s base proficiency requirements, as well as the post-licensing requirements, recognize that investment advisers should have strong competencies in many elements of financial advice (including both financial planning and investment management) and be able to integrate each into an appropriate level of advice for clients. As such, we believe the standard for IIROC registrants is currently at a sufficiently high level to meet the Targeted Reforms set out in this consultation paper.

We are in agreement that all representatives should be subject to ongoing professional development. Continuing education supports the upgrading of proficiency to a new standard, as well as the principle that consumers receive advice from advisers who are current on products available and compliance issues.

**Question 29 – Should any heightening of the proficiency requirements for representative be accompanied by a heightening of the proficiency requirements for CCOs and UDPs?**

Under Regulation 31-103 Chief Compliance Officers (CCO) firms are currently required to complete CSI’s “Officers, Partners and Directors Exam” or IFSE’s “Partners, Directors and Senior Officers Course Exam” in addition to meeting base licensing proficiency requirements for a dealing representative or portfolio manager (depending on the category of registration). We submit that the “PDO” courses are no longer directly relevant to the role of the CCO and the proficiency requirement should be updated to reflect the current role of, and issues facing, the CCO. CSI’s Chief Compliance Officers Qualifying Examination course is the required course for IIROC member firms for this category of registration. This CCO course delivers a broad knowledge of regulations and best practices concerning compliance issues and focuses on the role and challenges of creating a culture of compliance as well as implementing structure and processes. CSI would be pleased to discuss with the CSA how the existing CCO course could be adapted to address the needs of CSA registrants.

At this time, there are no proficiency requirements set for the Ultimate Designated Person (UDP). As these individuals have the ultimate responsibility for the conduct of the firm and the supervision of its employees, we submit that it would be appropriate to introduce a proficiency requirement for the UDP. CSI’s PDO course would be sufficient for this purpose, as it focuses on governance and the overall role of executives and provides an overview of risks and the financial industry environment.

**Question 30 – Will more strictly regulating titles raise any issues or challenges for registrants or clients?**

**Question 31 – Do you prefer any of the proposed alternatives or do you have another suggestion, other than the status quo to address the concern with client confusion around representatives' roles and responsibilities?**

We are concerned that setting out specific titles to be used by representatives may cause significant confusion for the consumer who may not distinguish the subtleties between the titling alternatives set out by the CSA. We suggest it is more appropriate for CSA to provide clear guidance related to representatives use of only those titles that reflect the product sales license and/or the advice specialty level being provided.

Individuals providing “financial product sales and advice” encompass a wide range of advisers from those selling proprietary products, to those providing private client services to high-net worth clients. The range of services and expertise consumers are seeking is broad, giving rise to a commensurate breadth of adviser specializations. It is therefore vital to find the right balance between reducing consumer confusion in titling while allowing advisers to specialize and hold themselves out with meaningful and appropriate titles.

**Question 33 – Should we regulate the use of specific designations to create a requirement for firms to review and validate the designations used by their representatives?**

The use of a professional designation by a dealing representative can be of value to both the adviser and the consumer as it can denote a specific expertise held by the adviser to meet client needs. This value is only substantiated if the designation is clear as to its purpose and granted based upon credible standards by a credible organization. To address the purpose and credibility issue, the CSA should consider either approving specific designations or providing guidance on the use of designations by its registrants.

In selecting appropriate designations from the current plethora of financial advice certifications, we propose that specific elements must be present prior to approval. International standards, such as ISO 17024, outline principles and requirements for a body certifying persons and includes the requirements for the development and maintenance of the designation. As such, the designation should be based upon a current and validated professional competency profile, significant mandatory education, a robust certification examination, relevant experience, on-going professional development and adherence to a code of ethics and disciplinary process. To meet consumer protection requirements, the designation holder must continue to be in “good standing” (as proof of meeting ongoing ethical and continuing education requirements), and the granting organization should monitor compliance on an on-going basis, promote and uphold the standards of the designation and deal with consumer complaints.

There are also other worthwhile training programs and credentials that provide specialized knowledge without the conferring a professional designation. While these educational opportunities do not generally allow for the “use of letters” or require the ongoing ethical and professional commitments of a professional designation, they do complement licensing requirements by allowing

specialization, keeping advisers current and offering meaningful professional development opportunities. For these reasons we recommend that the CSA address these types of credentials within any guidance documentation developed on the use of titles and designations.

To assess appropriate credentials, we suggest the CSA collaborate with organizations that confer credible designations and other credentials to identify worthy specializations, and identify the competencies and standards required to “hold out” as being “specialized” or being the holder of a professional designation. We also recommend that guidelines be harmonized with and strengthen the “holding out” and use of titles guidelines already introduced by both IIROC and the MFDA.

### **In Closing**

While we strongly support the regulator’s objective of investor protection we believe the introduction of a regulatory best interest standard would be impractical given industry dynamics and nature of the adviser-investor relationship. The implementation of reforms similar to the Targeted Reforms will be a very positive move for increased investor protection resulting in a change in the client adviser relationship that will be beneficial to consumers and ultimately the industry.

We would welcome the opportunity to provide further input into this project as it moves forward.

Regards,



Marc Flynn  
Sr. Director  
Regulatory Relations and Credentialing  
Canadian Securities Institute (CSI)

cc: M. Muldowney, Managing Director, CSI  
D. Bell, Associate Director, CSI