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Dear Ms. Keshwar:

**Re: Proficiency Assurance: The Next Phase Consultation Relating to Expiry of CSI Contract, Notice 14-0181 (“Proficiency Model Consultation”)**

The Investment Industry Association of Canada (the “IIAC” or the “Association”) appreciates the opportunity to comment on the Proficiency Model Consultation. The IIAC and its members support IIROC’s focus on ensuring that high proficiency standards are maintained and improved. Members believe this consultation is an opportunity to strengthen the professionalism in the industry through improvements to the proficiency model.

As there appears to be overlap in several of the questions set out in the Proficiency Model Consultation, we have not responded to each question individually but have grouped questions together where appropriate.

**Current Model**

We have outlined below several of the drawbacks of the existing IIROC proficiency education and testing model, including member experiences with the Canadian Securities Institute (“CSI”).

**Pricing**

In general, IIAC members do not feel that they receive sufficient value for the prices paid by registrants for courses offered through the CSI. The primary courses required for employment of an individual registrant in an IIROC Dealer Member firm are the Canadian Securities Course (“CSC”) and the Conduct

and Practices Handbook Course (“CPH”). The entry level requirement for registrants in the U.S. is the successful completion of FINRA Series 7 exam. The price of the FINRA Series 7 exam is \$725USD (standard course price and exam cost) while the CSC costs \$1075 (non-IIROC member price) and the CPH costs \$740 for a total price of \$1815CDN. While there is a discount for IIROC members, most individuals taking these courses in Canada would not be currently employed in the industry and therefore would not receive the discount.

Members expressed the view that the CSI is charging unnecessary high rates especially as it relates to the perceived value received. Further, the increase in prices by CSI since 2001 appears unjustified when one considers the minimal updates to most course materials and the quality of the examination questions and inadequate exam format. Many members indicated that in their view the CSI appears to overcharge and under deliver when it comes to delivering true value to its students and to the industry.

### Examinations

IIAC members indicated that the CSI examination questions should be improved. The wording of the CSI examination questions can be unclear. Several members have stated that it is often the case of trying to choose the “best” wrong answer. This ambiguity in the CSI question format often distorts a proper assessment of the candidate’s knowledge and understanding. Comparisons were made to the FINRA exam question format where members do not generally have the same experience.

Several members noted that the CSI was out of step by requiring an additional \$50 fee to write CSI examinations utilizing CSI computers. This approach appears inconsistent with other educational providers who provide and promote online exams. Online examinations would further reduce CSI’s costs for delivery yet this is not reflected in the current CSI pricing.

### Course Material

Members indicated that they have at times found the CSI course materials to be incorrect. Errors were noted in the Chief Compliance Officers course material in addition to issues involving the relevancy of certain content. The CPH also had incorrect information regarding U.S. registration. Other members stated that the material dealing with margin accounts in the CSC is not correct.

The options courses (the Derivatives Fundamentals Course, the Options Licensing Course and the Options Supervisors Course) have significant content overlap.<sup>1</sup> This negates the value of offering three separate courses and raises questions regarding the value received by students compared to cost. Furthermore, members are of the view that there have been very few updates of the Derivatives Fundamentals Course to justify the historical price increases.

### Course Preparation

The U.S. has numerous providers that prepare individuals to write regulatory examinations. Some members were of the view that the U.S. based providers deliver more targeted and useful information

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<sup>1</sup> We recognize that the CSI now offers a combined course, the Derivatives Fundamentals and Options Licensing Course. We believe that a significant overlap remains between this course and the Options Supervisors Course.

in their courses. For example, these course providers are able to tailor how the material is delivered based upon the needs of each student. Some U.S. providers equip their students with flash cards, online “live” assistance and numerous other study aids not available through CSI. In Canada, members have had positive experience with the Foran Financial Institute, SmartenUp Institute and others, who provide training and licensing support programs for securities, mutual funds, insurance and financial planning exams. Course providers other than CSI often deploy custom learning guides with cues to reinforce a student’s grasp of certain concepts and to facilitate learning. Members have also taken additional CSC preparatory courses at institutions such as the University of Toronto, George Brown, Seneca College, and British Columbia Institute of Technology (“BCIT”).

### Selection of Courses and Course Quality

Some members believe that the primary focus of the CSI on costs negatively impacted proficiency education in Canada. For example, courses such as the Canadian Commodity Supervisors Course have had minimal updates and improvements over the years due to the small number of individuals who write this exam.

The IIAC also heard from industry participants that there is a need for the Canadian Operations Course to be re-introduced after it was discontinued a number of years ago. The CSI has not adapted their course offerings as required. For example, the Proficiency Model Consultation makes reference to an initiative to improve proficiency training around those working in designated institutional markets, notably the OTC derivative markets. These plans have been discussed for a number of years without any visible progress. Similarly, members stated that given the extensive requirements surrounding anti-money laundering legislation, the CSI has failed to adequately address this gap in their course offerings.

In addition, given that new IIROC registrants often enter the industry from other areas of the broader financial services industry (i.e. from a Mutual Fund Dealer or an Exempt Market Dealer), a new Entrants Course should be developed for (i) those currently licensed with other regulators, and (ii) those where the CSC/CPH accreditations for candidates have expired, but where these candidates have been continuously employed in the securities industry in certain non-licensed positions, such as operations and risk control functions (Compliance, Risk Management, Finance, etc.).

### Continuing Education (“CE”)

While not a part of the Proficiency Model Consultation, consideration should be given to the issue of CE in any discussion regarding proficiency assurance.

It appears timely to re-examine the CE Model and how it operates to offer more options and flexibility. Other jurisdictions, for example, have a firm CE requirement that must be satisfied once a year, and a regulatory CE requirement that has a two-year cycle. The firm requirement allows each firm to determine what is necessary to satisfy CE.

There also should be some ability to recognize and obtain credit for designated CE programs that currently exist for affiliated industry professionals such as those for investment counsel portfolio managers, lawyers, certified public accountants, insurance agents, etc.

Candidates seeking to transfer from an MFDA platform to an IIROC platform currently receive no recognition that they are not new to the industry. There should be some allowance and transferability for these prior accreditations and for relevant industry experience.

### Conduct and Practices Handbook

Under IIROC Rule 1500, members must ensure that registrants have in their possession the CPH and bring to their attention all CPH updates. While amendments were made in 2001 that clarified that electronic copies of the CPH were acceptable, the fact that CPH updates are mandated in the IIROC Rulebook, delivers an unintended benefit to CSI which seems unwarranted.

While there is no question that registrants should remain up-to-date on changes and additions to the CPH, the cost, especially to larger members, can be very significant to disseminate even a few pages at a time. Given CE requirements, there must be some method to ensure current knowledge without the burden placed upon members as a result of Rule 1500.

### The FINRA Model

As outlined above, members have numerous concerns regarding the current proficiency model. With respect to possible alternative models, members commented that aspects of the FINRA model could address many of the current deficiencies. A number of members believe that the FINRA model is an ideal model to adopt.<sup>2</sup> It will allow IIROC to take back control of the examination process and create competition among alternative course providers which will lead to improvements in the quality of the course materials and a far more competitive pricing regime.

The FINRA model will ensure high proficiency standards for IIROC members. IIROC would be positioned to set the standards and protocols for all providers. IIROC would mandate what courses are required and ensure that all exam content is accurate and relevant. This will also address members' concerns that functionally important industry courses with low enrollments are no longer being offered or are inadequately updated. Moreover, courses addressing new regulatory issues and requirements are not being introduced in a timely manner. Currently, members assist IIROC through industry committees with some aspects of course preparation. There is interest from members in becoming more involved with IIROC to further assist in the development of comprehensive exam content and enhanced delivery methods. In addition, IIROC is in a superior position to evaluate and monitor on an ongoing basis the effectiveness of these initiatives as they impact evolving industry proficiency requirements.

Competition among providers is expected to result in improved course content, examination preparation material and enhanced delivery methods. CSI has not been adaptive to different learning styles. Competing providers will be in a position to respond to their students' concerns regarding learning styles. While there are no express course requirements mandated in the U.S., there are numerous exam preparation companies. Our members have had positive experiences with these U.S.-based course providers. These U.S. providers have alternative course options that are more flexible to

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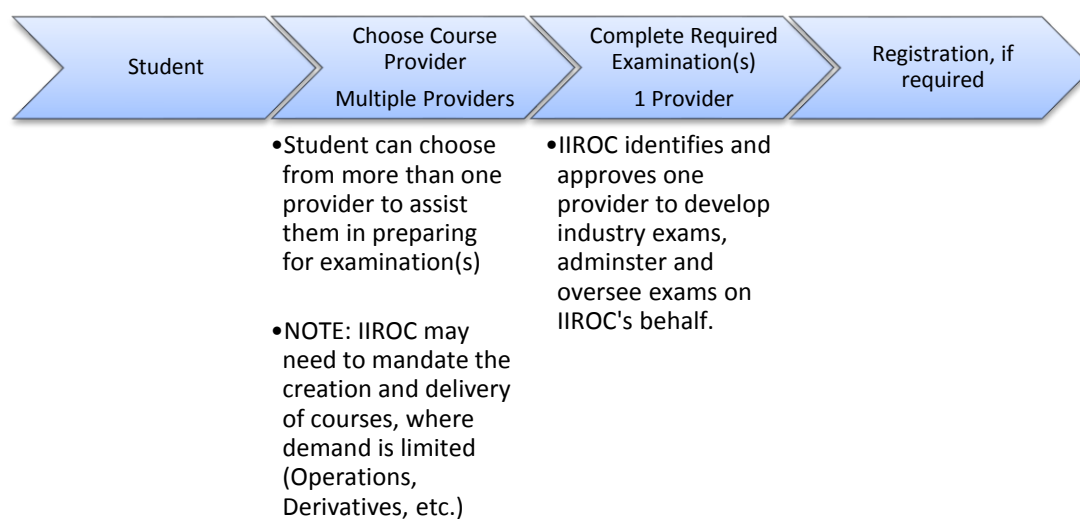
<sup>2</sup> We do however believe that courses and exams should be available to non-IIROC members. The CSC and CPH are often required in order to be hired at a dealer member and unlike the FINRA model, exam takers should not be required to be sponsored by a dealer member.

individual learning styles such as online classrooms, traditional classes, flash cards, exam test banks, and searchable FAQs. In Canada, members noted that Foran Financial Institute, the University of Toronto, George Brown, BCIT and other course providers are often used in addition to the required CSI courses to prepare for an exam.

It is expected that heightened competition will reduce the cost of the courses and increase the value received by members. Currently, the course preparation and exam administration costs are bundled. There is no transparency regarding what the actual costs are of providing either service. CSI courses, CPH updates and CE courses are significant expenditures for our member firms. In general, U.S. courses are less expensive than their equivalent courses in Canada. There are many qualified U.S. and Canadian providers that are interested in the opportunity to compete in this space. Several U.S. providers have been approached informally. These U.S. providers are prepared to provide the deliverables favoured by members at significant bulk discounts. We support IIROC's position that if the FINRA model (or the multiple education provider model) is selected, that there should be a request for proposal process with a formal RFP setting out clear criteria and timelines for the potential providers to address. This may be an opportunity to raise proficiency standards while also providing increased value and cost savings to members and their individual registrants.

### **An Alternative Model**

If the "full" FINRA model is not considered feasible at this time, members would like to suggest a modified FINRA model. This "hybrid" model will maintain the practice whereby an IIROC-approved provider sets and administers the examinations that are a requirement for IIROC registration. However, individuals need not complete the current CSI "sole provider" courses that accompany these examinations. Candidates could select alternative course providers in addition to CSI from a menu of unbundled courses offered by these alternative Canadian and U.S. providers in order to prepare candidates for examinations. As in the U.S., the proctoring of the exams under this hybrid model would be outsourced to third-party firms approved by IIROC and only IIROC would have access to the revolving question pool to be set by IIROC for each mandated course examination.



While this approach would reduce the number of amendments to securities regulation (if the CSI is chosen as exam administrator), it would not necessarily address the questions concerning the quality of courses or exam materials. Going forward, it will be necessary to ensure that all concerns are addressed in any new contractual arrangements with CSI or with the alternative providers. We believe that IIROC should be more instrumental in setting specific goals and milestones on an annual basis to ensure that meaningful progress can be measured and reported. The current self-assessment documents and weak protocols lack meaningful data points to monitor CSI's performance.

### **Conclusion**

Proficiency is an important regulatory initiative. Overall, members do not believe that CSI has been providing value relative to its cost nor offering the highest quality of education. Specifically, CSI has difficulty in keeping pace with content changes, continuing education changes, entrance requirements, individual learning requirements, new product offerings or technology enhancements. In short, as a matter of principle, we strongly believe that competition drives innovation and efficiency, which cannot be said for the current proficiency assurance model with its exclusive reliance on CSI. Given all of these issues, the IIAC is of the view that our members need the opportunity for greater choice and access with respect to education and proficiency requirements for their individual registrants. We look forward to the next phase of discussion in the Proficiency Model Consultation and thank you for your careful considerations of our initial recommendations.

Yours sincerely,

*M. Alexander*