

1.1.3 CSA Staff Notice 31-332 – Relevant Investment Management Experience for Advising Representatives and Associate Advising Representatives of Portfolio Managers



Canadian Securities  
Administrators

Autorités canadiennes  
en valeurs mobilières

CSA Staff Notice 31-332  
*Relevant Investment Management Experience for Advising Representatives and Associate Advising Representatives of Portfolio Managers*

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**Introduction**

Since September 28, 2009, when National Instrument 31-103 – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (NI 31-103) came into effect, staff from the various provinces from the Canadian Securities Administrators (CSA staff or we) have reviewed over 2500 applications for registration as Advising Representatives (ARs) or Associate Advising Representatives (AARs).

**Substance and Purpose**

This notice provides applicants for AR and AAR registration with a summary of decisions about *relevant investment management experience*. We expect prospective applicants to consider the information in this notice when deciding whether to apply for AR or AAR registration, and when preparing an application.

Applicants need to meet both the educational and *relevant investment management experience* requirements in sections 3.11 and 3.12 of NI 31-103. Companion Policy 31-103CP – *Registration Requirements, Exemptions and Ongoing Registrant Obligations* (the CP) provides some guidance on relevant investment management experience.

**Scope**

In all cases in this notice, the applicant's educational qualifications met NI 31-103 requirements and the only question was whether the applicant had relevant investment management experience.

**Staff retains discretion to consider each application on its own facts**

This notice does not constrain staff's ability to assess each application on its facts. Nonetheless, staff strive to make consistent decisions.

**AAR registration does not automatically qualify an applicant for AR registration**

CSA staff consider whether experience gained while registered as an AAR is relevant investment management experience on a case-by-case basis. For example, many client relationship managers may not gain sufficient experience as an AAR to qualify as an AR.

**Client relationship management experience unlikely to qualify an applicant for AR registration**

We have often registered AR applicants who have client relationship management experience in a portfolio management context as AARs instead. Client relationship management experience, even when performed by AARs, may not provide sufficient experience performing securities research and analysis to qualify an individual for registration as an AR.

***Client Relationship Manager not approved as AR but approved as AAR***

The applicant possessed a number of years of industry experience, including 5 years assisting a registered AR at a registered Portfolio Manager (PM) firm. The applicant's experience assisting the AR in assessing suitability, creating investment policy statements, determining asset allocation, monitoring client portfolios and producing macroeconomic reports for the AR and for clients of the PM firm was considered valuable. However, the applicant had not demonstrated experience performing research or analysis of individual securities.

**Client relationship management may not trigger the registration requirement**

We recognize that many individuals who perform client relationship management services may not provide specific advice and therefore may not trigger the registration requirement.

For example, some client services representatives conduct activities such as marketing the services of the firm by providing general information about the registrant firm and its services that do not include a strategy tailored to any specific client. While some client service representatives may accompany an AR or AAR to meetings with clients and provide assistance with the completion of KYC forms, they might not themselves develop an investment policy statement for the client, provide specific

information such as recommending a particular model portfolio for the client or explain the implications of discretionary portfolio decisions that were made by the client's AR.

**Corporate finance experience may not qualify an applicant for AR registration**

We have declined to register a number of individuals who have corporate finance experience as ARs and instead registered them as AARs. While corporate finance experience may involve the valuation and analysis of companies and securities, the applicants' experience did not demonstrate an ability in, and understanding of, portfolio analysis or portfolio securities selection nor were the applicants able to demonstrate alternative experience managing investments on a discretionary basis.

***Investment Banker not approved as AR but approved as AAR***

The applicant possessed more than 4 years of experience working in the corporate finance division of a registered investment dealer. The applicant's experience valuing securities for initial public offerings, debt and equity financings, take-over bids and mergers and acquisitions was considered valuable. However, the applicant had not demonstrated any experience performing portfolio analysis or selecting securities for a portfolio of investments, such as KYC or suitability analysis or analysing correlation of securities. The applicant had also not demonstrated any experience managing investment portfolios on a discretionary basis.

**Experience at an IIROC dealer may not qualify an Applicant for AR registration**

For example, some registered representatives sell mostly or exclusively a limited number of model portfolios or "portfolio solutions" to clients based on their investment objectives, risk profile or other factors unique to the individual client. In these instances, we have generally registered the individual as an AAR.

***IIROC dealing representative not approved as AR but approved as AAR***

The applicant had been employed for more than 4 years with an IIROC member firm as a registered representative. The applicant met with clients to review and discuss KYC information and establish risk tolerance, objectives and time horizon. The applicant would make specific investment recommendations to achieve this asset mix recommendation and construct the portfolio by selecting the appropriate investment solutions and fixed income securities in accordance with the firm's model portfolios. The applicant discussed specific investment returns with the client and compared them to industry benchmarks and kept up-to-date on market and world events.

Other registered representatives may offer a much broader range of products involving significant security-specific research and analysis of their own. In some of these cases, depending on the specific facts provided, we registered the individuals as ARs.

***IIROC dealing representative approved as AR***

The applicant had been employed for more than 4 years with an IIROC member firm as a registered representative. The applicant met with clients to review and discuss KYC information and establish risk tolerance, objectives and time horizon. The applicant performed detailed research and analysis of investment funds, fixed income securities, structured investment products and single stocks. The applicant obtained data from various sources including issuer prospectuses, offering memorandums and other source documents. The application described the registered representative's process for performing detailed analysis with this data for different types of securities, the analysis of each individual security for the client and the analysis of the portfolio as a whole for the client.

**Consulting experience with portfolio manager selection and monitoring may not qualify an applicant for AR registration**

We have received applications from individuals who have experience as consultants, providing advice to individuals and corporations on asset allocation and the selection and ongoing performance of their investment portfolios or investment managers. We have found that the degree of specific advice and securities analysis, if any, performed by the individuals can vary extensively among firms and individuals and whether the individual has been approved as an AR, AAR or not approved at all is very case-specific.

**Consultant not approved as AR, AAR recommended based in part on other experience<sup>1</sup>**

The applicant carried on business providing general financial planning advice. The applicant did not specifically research individual securities in this capacity. The applicant would provide guidelines for investment policy and asset allocation. The applicant would perform research and analysis to review the performance of various registered portfolio managers and would refer clients for discretionary money management based on the research and analysis. The applicant also monitored the registered PMs based upon certain described criteria. While the applicant was not able to demonstrate any specific securities research and analysis or securities selection in this role, the applicant was able to demonstrate some experience analysing the merits of specific securities in a different role.

In some situations, the activities submitted as relevant investment management experience involve or may involve providing specific advice to clients and therefore may require registration. We also recognize that many individuals who provide portfolio manager selection and monitoring do not provide specific advice and therefore may not trigger the registration requirement. Among the factors we have taken into account are:

- whether the client contracts with the portfolio manager(s) or the consultant
- whether the consultant manages the hiring and evaluation of the portfolio managers
- the degree of reliance by the client on the consultant
- the client's expectations as set out in the contract with the consultant.

**Mutual fund sales experience unlikely to qualify applicant as AAR or AR**

We have received applications from individuals employed by IIROC firms or mutual fund dealer firms who have primarily or exclusively sold mutual funds to clients based on the investment objectives, risk profile and other factors unique to the individual client. We have not generally registered individuals whose experience has been limited to mutual fund sales as ARs or AARs because they were not able to demonstrate sufficient experience analysing individual securities or managing investments on a discretionary basis.

**Mutual Fund dealing representative not approved as AR or AAR**

The applicant possessed over 10 years of experience as a mutual fund dealing representative. The applicant met with clients to review and discuss KYC information and establish risk tolerance, objectives and time horizon and recommended a combination of proprietary mutual funds based on this assessment. The applicant possessed an additional year of experience taking orders for the purchase and sale of securities as a registered investment representative at a discount brokerage firm. The applicant was not able to demonstrate any significant experience performing individual securities analysis or selection or any experience working in a discretionary investment management environment.

**Questions**

Please refer your questions to any of the following:

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<sup>1</sup> The application was withdrawn.

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