



May 29, 2008

To: British Columbia Securities Commission  
Alberta Securities Commission  
Saskatchewan Financial Services Commission  
Manitoba Securities Commission  
Ontario Securities Commission  
Autorité des marchés financiers  
New Brunswick Securities Commission  
Registrar of Securities, Prince Edward Island  
Nova Scotia Securities Commission  
Superintendent of Securities, Newfoundland and Labrador  
Registrar of Securities, Northwest Territories  
Registrar of Securities, Yukon Territory  
Registrar of Securities, Nunavut

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Anne-Marie Beaudoin  
Directrice du secrétariat  
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Dear Mr. Stevenson and Mme Beaudoin,

CSI Global Education, Inc is pleased to submit the following remarks in response to the CSA's February 29, 2008 request for comments on the proposed National Instrument 31-103 Registration Requirements and proposed Companion Policy 31-103 Registration Requirements.

CSI is the leading provider of accredited financial services proficiency learning solutions in Canada. We have been setting the standard for world-class, life-long education for financial professionals for more than 30 years. Our focus on leading educational and ethical standards means that our graduates and designation holders have met the highest level of proficiency and certification.

Generally, we support the CSA's intent to raise registration standards for all market participants and achieve harmonization across the provinces. We do, however, have very serious concerns with the proposed change to the current proven proficiency model and question the CSA's rationale for a move that would almost certainly lower proficiency standards and be detrimental to a harmonized proficiency regime across the country.



Specifically we will focus our comments on Part 4 “Fit and Proper Requirements”:

1. The move to an examination-based proficiency model from the current proven course-based model
2. Granting of equivalencies and exemptions
3. Definitions
4. Proficiency requirements for Chief Compliance Officers
5. Proficiency requirements for Portfolio Managers (Advising Representative and Associate Advising Representative)

### **EXAMINATION-BASED PROFICIENCY REQUIREMENTS**

In Part 4 of the Companion Policy, the CSA states that it “prescribes examination-based, rather than course-based, education requirements, where possible”. As an example, it states “that an applicant would not be required to complete the Canadian Securities Course but must pass the Canadian Securities Examination and that it will be up to the individual to determine what courses or other preparation, if any, is appropriate for him or her.”

### **Ramifications**

- This proposed approach shifts the focus of proficiency from learning to apply the competencies required of a registered person to “passing a test”.
- The United States FINRA exam-based model has resulted in the emergence of a multitude of exam-prep providers with no regulatory oversight. As a result, most providers simply offer tactics aimed at passing an exam; this doesn’t involve teaching professionals how to apply skills to achieve real competency.
- Other financial services regulators and associations in Canada have maintained or expanded the course-based model as have most major professions such as lawyers and accountants. Internationally, the CFA Institute has recently raised its concerns about the impact of exam prep on its profession.
- The Canadian proficiency model is recognized around the world as one of the most robust. We believe that replacing the current course-based model with an examination-only requirement will not “modernize”, or “harmonize” our country’s approach to proficiency, but will be a major step backwards and have the unintended consequence of lowering proficiency standards.

In essence, exam-based proficiency models do not encourage the application of learning to the workplace. Although the test is important, no test alone can deliver competency; and that is what both CSI and the CSA are trying to achieve as proficiency experts and regulators. We fail to see how an exam-based model will increase consumer protection or confidence in the regulatory requirements for advisors. To provide more context and background on our concerns, we have prepared a consultative document included as an Appendix to this letter.



## **GRANTING OF EQUIVALENCIES AND EXEMPTIONS**

In the response to comments received, the CSA states that it “will be setting up a sub-committee to look into alternative courses and course providers for proficiency requirements. Exemptions from proficiency requirements will be considered when the individual has equivalent or more appropriate education and experience.” The method of assessment to be undertaken by the committee has not been provided other than stating “The Canadian Securities Examination (CSE) represents baseline knowledge of the securities industry and provides regulators with a measurable benchmark to evaluate prior industry experience.” From this we assume that CSI courses and examinations are now and will continue to be the standard benchmark.

The CSA’s draft proposal does not provide a rationale for approving alternative course providers or an expanded exemption policy. Nonetheless, both initiatives could seriously impact proficiency levels.

### **Ramifications**

- Granting equivalencies to alternative courses is a complex process. It is not as simple as comparing tables of contents. The assessor needs to fully evaluate the coverage and appropriate depth of curriculum and content, assess the appropriateness and quality of the learning approach as well as the reliability and security of exam development and administration. If equivalencies are granted without applying a rigorous and systematic approach, this will certainly weaken the proficiency regime.
- From the comments provided, the CSA appears to be “encouraging” course providers to seek equivalent status for their courses, and individuals to seek exemptions from proficiency requirements based on experience and prior learning. There is no recognition that the process for granting equivalencies to alternative courses must be significantly different from the challenge of determining exemptions for individuals that are to be based on prior learning (from a variety of sources) in conjunction with relevant experience.
- If the proposed granting of equivalencies does encourage individuals to seek exemptions, we expect that the Commissions will have to deal with an avalanche of exemption requests from individuals who will consider themselves proficient based on academic credentials or experience. The criteria used by the committee will need to be objective, applied with consistency and rigour, and well documented. We are concerned that the various jurisdictions may apply different exemption criteria which will lead to an inconsistent competency level across the country and defeat the goal of harmonized proficiency requirements across the provincial jurisdictions and the SROs. Ultimately investors may not be able to count on a minimum standard of competency from all registrants.



Overall, we believe that the commissions have seriously underestimated the time commitment and level of expertise and scrutiny that is required for the development and implementation of an equivalency assessment process and exemption policy that would be sound and harmonized across all regulatory authorities.

## **DEFINITIONS**

### **Use of the term “Exam”**

As previously stated, CSI has an issue with the exam-based proficiency requirement. Additionally we note that the term “exam” is used throughout the definitions and proficiency requirements to refer to proficiency solutions that are currently in the form of courses. In each case this is accompanied by a clarifier “and so designated by that corporation (or Institute).” For example, “the Canadian Securities Exam (CSE)” has been used to refer to the proposed proficiency requirement. At this time the CSI trademarked name for our proficiency solutions includes “course” not “exam”; for example “Canadian Securities Course (CSC)”. The courses are also referenced in provincial regulation and also in the rules of the SROs. While we do not support the examination model, if it were to be applied, we submit that the names of the proficiency requirements be adjusted to include the word “course” prior to examination in order to be consistent with the trademarked and legal names of current proficiency requirements (for example “The Canadian Securities Course Examination”).

### **Partners, Directors and Senior Officers Exam**

The definition of “PDO Exam” has been adjusted in this latest proposed rule to mean:

“The Officers’, Partners’ and Directors’ exam prepared and administered by the Investment Funds Institute of Canada and so designated by that Institute, or

The Partners, Directors and Senior Officers Exam prepared and administered by the CSI Global Education Inc. and so designated by that corporation”

Under the current legislation and SRO rules, these two courses do not have equivalent status. We assume that a rigorous evaluation process was applied to assess and ultimately grant equivalent status to IFIC’s Officers’, Partners’ and Directors’ course. As we have noted previously, we have an interest in understanding the method of evaluation applied to grant equivalencies and ask that the CSA provide details on the process applied prior to formalizing equivalent status in regulation.



## **PROFICIENCY REQUIREMENTS FOR CHIEF COMPLIANCE OFFICERS**

The CSA is proposing new proficiency requirements for Chief Compliance Officers under the various firm categories of registration. Common components of the proficiency requirements for registration are the “Canadian Securities Exam” and “PDO Exam”.

CSI’s “Partners, Directors and Senior Officers Course” is certainly beneficial to CCOs. However, we submit that CSI’s Chief Compliance Officers Course is a more suitable proficiency standard. This course was created in collaboration with the IDA and has been designed specifically to meet regulators’ expectations of the Chief Compliance Officer which go beyond those of a partner, director or officer of a corporation. If the IDA required course is deemed to be too specific to IDA rules, CSI would be willing to work with the CSA to provide an adapted version of its CCO course for these registration categories.

It should be noted that the proficiency requirements for “Exempt Market Dealer – Chief Compliance Officer” provide solely for the completion of the “Canadian Securities Exam”. It may have been an unintentional oversight not to apply the same proficiency standard as all other CCO categories of registration. This category should be held to the same standard as other CCO categories.

## **PROFICIENCY REQUIREMENTS FOR PORTFOLIO MANAGER – ADVISING REPRESENTATIVE AND ASSOCIATE ADVISING REPRESENTATIVE**

- **Portfolio manager – advising representative**

The holding of a CFA or CIM designation plus relevant experience are the proposed requirements. To clarify this, we suggest that the CSA consider restating the rule to require:

- (a) the holding of either the CFA or CIM designations plus
- (b) 4 years of experience, 12 months of which was in the 36-month period before applying for registration.

This would clarify the requirement by separating the experiential component from educational requirement without changing the intent of the proficiency requirement.

- **Portfolio manager – associate advising representative**

The draft rule proposes the following proficiency requirement:

“An Associate advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless the representative

- (a) has completed Level 1 of the Chartered Financial Analyst Program and has 24 months of relevant investment management experience, or



- (b) has received the Canadian Investment Manager designation and has 24 months of relevant investment management experience.”

The role of the Associate Advising Representative requires a solid knowledge of the securities industry, client needs analysis, creation of an investment policy statement, asset allocation, investment strategy and investment analysis. Achievement of the CIM designation requires completion of the Canadian Securities Course (CSC), Investment Managements Techniques Course (IMT) and Portfolio Management Techniques Course (PMT). The PMT Course focuses on advanced portfolio management techniques as well as operational and compliance issues related to fund management, which goes beyond the role of the Associate Advising Representative.

Therefore, in reference to (b) above, we submit that the rule should be adjusted to read:

- (b) has completed the Canadian Securities Course and the Investment Management Techniques Course and has 24 months of relevant investment management experience.

## CLOSING COMMENTS

In closing, we re-iterate our concerns about the change to an exam-based model that also provides for an expanded exemption policy and its potential negative impact on competency and investor protection. It would be unfortunate if the significant effort in developing the overall positive 31-103 reform unintentionally results in a lower level of investor protection and seriously harms its harmonization goal due to the implementation of an inappropriate proficiency regime.

We would welcome the opportunity to provide further insight into proficiency requirements as this project moves forward.

Regards,

A handwritten signature in black ink, appearing to read 'M. Flynn'.

Marc Flynn  
Vice President  
Regulatory Relations and Academic Standards  
CSI Global Education Inc.

cc: Roberta Wilton, President and CEO, CSI



**Appendix**  
**Exam-based versus Course-based Proficiency Requirements**  
**Proposed National Instrument 31-103**  
**May 2008**

CSI has serious reservations pertaining to the focus on an examination as the proficiency requirement. We believe that replacing the current full course plus examination model with an examination-only requirement will have the unintended consequence of lowering proficiency standards. These concerns have been laid out in our comment letter. This document is intended to complement our comment letter by providing further detail on the differences between an examination-based proficiency requirement and a course-based proficiency requirement.

**1. Standardized Exam with No Educational Requirements Lower Proficiency Levels (The U.S. Model)**

The model in the United States by the FINRA (Series exams) uses national, standardized examinations but the completion of a course is not required to challenge the certifying exam. This model puts enormous focus on the exam. In most professions requiring certification, tests are simply one element in the spectrum of tools used to provide assurance of competence.

This examination-based model has resulted in the emergence of a multitude of exam-prep providers with no regulatory accreditation for oversight or quality control. As a result, most providers simply offer tactics aimed at passing an examination rather than understanding and application of knowledge and skills required of a professional.

Assessment of competency is a complex issue. Examinations, at best, can only sample a small set of the defined learning objectives. Arguably, since exam-takers do not know which sampling will be tested, they will have prepared to an equal level of depth on all learning objectives. Thus the exam, while perhaps only skimming the surface, can be an effective filter of overall competency.

Where the limits of testing become a concern is when diligent study is replaced by exam preparatory services. These services are quite familiar with the statistical aspects of exam preparation and use their knowledge to promote improved results for the students of their services, without students truly mastering the field of inquiry being tested. The exam prep industry has flourished in the US to help students challenge the FINRA exams without necessarily gaining competence.

The FINRA model cannot be held up as an example of an effective system for delivering competence. It was developed during the time when the securities industry was in its infancy and the retail investor much less of a factor. Furthermore, FINRA has not done a significant review of the relevance and fairness of its exams in over 10 years. The negative impact of



this poor competency building model is somewhat mitigated by the fact that individuals challenging the Series 7 exam (basic RR requirement) must be employed and sponsored by a FINRA member firm. Many firms have in-house programs to help employees prepare for the exams and some of these programs no doubt do build competency. In Canada, individuals wanting to enter the industry can enrol and complete courses and exams without being sponsored by a member firm. Given that the Canadian model requires more than simply passing an exam prior to licensing, this open approach does not entail additional risks.

In Canada, a course-based model for proof of proficiency is applied across the financial services industry in securities, financial planning and insurance. This model addresses the need for individuals to think, learn and perform – the keys to proficiency. We are concerned that the implementation of a US-style model will make a passing grade on an examination the goal – not true competency.

## **2. CFA Institute Voices Concerns with Examination Prep Approach**

An example of another organization expressing similar concerns with the issue of competency vs. examination preparation is the internationally recognized CFA Institute (grants the Chartered Financial Analyst designation). As of 2008, the CFA Institute now requires the purchase of the CFA Institute's course curriculum along with any exam enrolment. This decision was based on the following concerns as stated by the CFA:

*“The CFA Program curriculum is driven by a rigorous global practice analysis to determine the knowledge relevant to the profession. This body of knowledge drives the curriculum development process and the exam itself. The content in the curriculum is the sole source for exam questions.*

*Yet for many candidates, the focus has shifted from mastering a body of knowledge to merely passing an exam. The current practice of allowing candidates to register for an exam without purchasing the curriculum sends the wrong message that studying the curriculum is optional. Some candidates even confuse third-party materials with the curriculum. “*

While the CFA does not require completion of a formal course, the curriculum guides prepared by the CFA Institute have an extensive reading list, recommended textbooks, clear learning objectives and sample examinations that enable students to prepare to challenge the exam. While the CFA Institute cannot ban the exam-prep approach it clearly warns candidates of the dangers and limitations of relying on exam-prep services rather than actually studying the extensive reading materials.



### **3. The Current Model is Flexible and Responsive to Students of All Backgrounds**

In the past there were concerns with regard to the length of time to completion of the securities licensing courses. Individuals waited for study materials to arrive by mail, submitted assignments on a rigid schedule and had limited examination writing schedule.

Today proficiency courses are easily accessible and available on a 7- 24 basis. Examination sessions are held virtually daily and study materials are available immediately upon registration through online delivery or shipped for expedited delivery. Students can move as rapidly through the curriculum as they wish, given their own personal abilities and constraints. Assignments have been replaced with a variety of study aids designed to meet the different adult learning styles and are available in paper, on-line and through in-class seminars.

To further enhance the learning process and recognize the various levels of prior knowledge of individuals, CSI can and is willing to add diagnostic testing at the beginning of a course, should that be considered desirable by the CSA. Diagnostic testing provides an opportunity to assess a student's level of knowledge and application skills prior to course participation. This helps the individual with some background to focus on improving in areas of weak performance rather than spending valuable time studying topics where there is more familiarity. This approach combined with the provision of learning maps can significantly enhance learning and bears no similarity to the exam-prep approach that concentrates only on "passing the test".

### **4. Proficiency Courses Differ From Academic Studies**

One of the reasons for the CSA to propound the examination-based model appears to rest on the assumption that duplication exists between the education provided by universities/colleges and regulatory courses such as CSI's and that fast-tracking would make sense for people with such credentials. In fact, duplication is minimal and fast-tracking is seldom warranted.

Universities approach their curriculum theoretically. They have neither a need nor a requirement to address industry products and service basics, market structure and the roles of participants, client relationships, rules and ethics, or the practicalities of working competently in the capital markets.

Conversely CSI's courses do focus on the above in a pragmatic fashion. Furthermore, as a trusted provider of proficiency solutions, CSI is held to a high standard by SRO's and government regulators. Our programs must not just be up-to-date, they must address emerging products and challenges facing the industry because it is in these areas that investors and companies are most at risk. Academic institutions are less able and disinclined to adapt quickly to a changing business environment.



Consequently, while university students may have an advanced education, they are not usually prepared to challenge a proficiency examination that requires applying knowledge and skills to client situations.

In recognition of this distinction, many academic institutions have sought out expertise from industry proficiency course providers in order to provide career-oriented programs. CSI has partnered with over 50 colleges and universities across Canada and our courses are an integral part of their diplomas, degrees and continuing education offerings. Through these agreements, our academic partners can offer recognized professional credentials and career paths while maintaining focus on their broader academic mandate. Students who successfully complete such industry programs while at university have met requirements and don't need to be fast-tracked.

## **5. The Current Model Contributes to Confidence in the Canadian Marketplace**

We believe that removing the course requirement will not only weaken the rigour of our proficiency regime, it will also be **seen** to weaken it. Our capital markets depend on public confidence in and perception of their integrity to maintain their health. It is not helpful for us to take a step backward.

The model currently in force in Canada is internationally recognized as a robust proficiency requirement superior to the antiquated examination model that is applied in the United States. While the Canadian model must continue to evolve to meet changing industry needs, we submit that moving to an examination-based proficiency regime is not “modernizing” nor moving in the right direction.

We would remind the CSA that professions including lawyers and accountants require post-university qualifications that round out their academic foundation with practical and applied programs, examinations and internships. We strongly believe that removing the education requirement is a step backwards in the evolution of our industry to true professionalism.

## **6. Conclusion**

The current course-based model does build greater competency and as such provides for increased investor confidence and protection. At this time there would be no benefit to the industry or investors to implement a major overhaul of a proficiency model that is reliable and credible.