



June 27, 2013

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  
New Brunswick Securities Commission  
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](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin  
Directrice du secrétariat, Autorité des marchés financiers  
Email: [consultation-en-cours@lautorite.qc.ca](mailto: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 March 27, 2013 request for comments on proposed amendments to National Instrument 81-102 Mutual Funds and other matters concerning National Instrument 81-104 Commodity Pools.

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 40 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.

We will focus our comments on proficiency requirements and specifically question 12:

**Should additional proficiency requirements for all individual dealing representatives who sell securities or alternative funds be introduced? If yes, please provide specific examples of the courses or experience that they should apply. If no, please explain.**

Current proficiency requirements are differentiated for each category of registration for dealing representatives depending on the complexity and level of advice that is to be provided to the client with respect to the product(s) being sold. The major dealing representative registration categories (with the regulatory body responsible for their registration in brackets) being:

- Registered Representative (IIROC)
- Mutual Fund Representative (CSA)
- Exempt Market Dealer Representative (CSA)



NI 81-102 – NI 81-104  
Canadian Securities Institute  
Page 2

We submit that the category of registration should be key to determining whether or not additional proficiency requirements should be introduced for the sale of alternative funds. Specifically:

For IIROC Registered Representatives who have all completed the Canadian Securities Course (which sufficiently covers alternative investment funds) and who are also subject to continuing to update their product knowledge through the “Know Your Product” requirements, as well as on-going professional development, another level of proficiency would be redundant.

For Mutual Fund Representatives, it is our opinion that, with the exception of the Canadian Securities Course (CSC), the current proficiency examinations - Investment Funds in Canada (IFC) and Canadian Investment Funds Course (CIFIC) - do not sufficiently cover alternative funds. The solution to this should be either to add more breadth and depth of alternative fund content into these examinations to bring the coverage of this area up to the level of the CSC or require an additional proficiency examination focused on alternative funds.

As a key product that is sold by Exempt Market Dealers (EMD) is hedge funds, we feel all proficiency examinations for EMD representatives likely already have sufficient coverage of alternative funds as does the CSC.

We therefore submit that those who have not completed the CSC, but have completed either the IFC or CIFIC mutual funds proficiency examinations only should be subject to an additional requirement that would cover product knowledge in the alternative fund category (e.g. hedge funds, derivatives, PPNs) and also the suitability and strategies for using these types of investments within a client portfolio. To provide the regulator with more insight into such content, CSI has attached (Appendix 1) a potential course outline. Alternatively, this content could be incorporated into the mutual fund proficiency examination thus eliminating the need for an additional proficiency examination. However, as the content in Appendix 1 shows this additional content is significant, we believe that this would make the minimum mutual fund examinations less accessible and less relevant for the majority of Mutual Fund Representatives that do not sell alternative products.

CSI would welcome the opportunity to provide further insight into proficiency requirements. Please contact me if you have any questions.

Regards,

A handwritten signature in black ink, appearing to read 'M. Flynn', is written over a light blue horizontal line.

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

cc: Debbie Bell, Associate Director, Regulatory Policy



**Appendix 1**  
**Possible Curriculum Content for Alternative Funds**

<b>Chapter #</b>	<b>Chapter Heading</b>	<b>Details</b>
1.	Overview of Alternative Funds	What is an alternative investment fund?
		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



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 Mutual Funds Use Derivatives Within Regulatory Bounds	Regulatory Restrictions on the use of derivatives may mutual funds NI81-102
		Hedging techniques
		Non-hedging strategies
		How Hedge Funds can use derivatives
8.	Incorporating Alternative Funds into a Portfolio	Investor Suitability
		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 Investing in Alternative Funds	Who performs due diligence
		Key due diligence areas
		A comprehensive due diligence process
10.	Performance Appraisal	Performance Measures
		Return Measures
		Risk Measures
		Risk Adjusted Returns
		Value at Risk
		Limitations of Quantitative Risks
11.	Regulatory Issues Pertaining to Investing in Alternative Funds	Prospectus Requirements and Prospectus-Exempt Distributions Applicable to Hedge Funds
		Legal Structures for Hedge Funds in Canada
		Securities Regulations Applicable to Hedge Funds
12.	Alternative Fund Service Providers	Prime Broker
		Custodian
		Fund Administrator
		Accounting Firm
		Legal Advisor
		Tracing the Flow of Money