

IIROC NOTICE

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Proficiency Assurance: The Next Phase in Proficiency Regulation

I. Executive Summary

The Investment Industry Regulatory Organization of Canada (IIROC) retains the Canadian Securities Institute (CSI) to provide proficiency services with respect to the licensing of IIROC Approved Persons. CSI has for the past ten years provided licensing courses and examinations pursuant to a course agreement (the Exclusivity Agreement) that will expire in January 2016.

In advance of CSI's exclusivity period drawing to a close, IIROC undertook an in-depth review and consultation with respect to its proficiency assurance model. IIROC considered whether the existing model or another approach would best serve the public interest and meet IIROC's regulatory needs as well as the industry's needs going forward.

IIROC has completed its review and has determined that a competitive single provider model best serves the public interest at this time. IIROC is introducing a new proficiency assurance model where a single provider will be selected for a basket of regulatory courses for terms of five years and the contract will be awarded through a transparent and competitive procurement process to reap the benefits of competition within a single provider context.

IIROC has retained CSI to provide regulatory courses for an initial five year term. This contract includes high performance standards, robust oversight, improved pricing caps and facilitates a smooth transition through the competitive procurement process.

Under the new proficiency assurance model, IIROC will be setting and publishing competency standards. These standards will indicate the knowledge and competencies required to successfully complete IIROC licensing courses.

This paper will discuss the results of IIROC's review, the feedback received in the course of the consultation, the new direction of the proficiency assurance model and a number of key proficiency initiatives. The discussion is organized as follows:

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IIROC is of the view that high proficiency standards play a key role in investor protection and the integrity and efficiency of capital markets. IIROC, accordingly, maintains high proficiency standards and a robust proficiency regime.

As IIROC enters the next phase of the evolution of the IIROC proficiency assurance model, IIROC will continue to work cooperatively to optimize proficiency of license holders and ensure the highest levels of professionalism in the industry.

II. Background

CSI was created in 1970 by one of IIROC's predecessor organizations, the Investment Dealers Association (IDA), and the Canadian stock exchanges, to educate and test the proficiency of individuals entering the industry. In 2002, CSI converted to a for-profit corporation with the IDA as its sole shareholder. The IDA sold CSI to ONCAP II, LP (a private equity fund managed by ONCAP Management Partners) in 2005.

As part of the sale of CSI, IIROC and CSI entered into the Exclusivity Agreement engaging CSI as the exclusive course provider for IIROC regulatory courses. The Exclusivity Agreement was comprised of two five-year terms. CSI had an option to renew the agreement after the first five years, subject to certain conditions. CSI exercised the renewal option and IIROC negotiated new pricing terms and caps, and certain price freezes, for the renewal period.

The Exclusivity Agreement expires in January 2016.

III. Consultation

In conjunction with its review of the proficiency assurance model, IIROC embarked on a broad consultation.

IIROC issued a consultation paper regarding proficiency assurance in 2014¹ to engage the industry and other stakeholders and elicit input to inform IIROC's consideration of the existing system and possible alternative arrangements.

Fourteen commenters submitted letters representing a range of interests: Dealer Members, the Investment Industry Association of Canada, investor advocates, interested education providers, and financial services associations. The position of each commenter is summarized briefly in Appendix A of this discussion paper.

To supplement the written comment process and further engage the Membership, IIROC conducted a national consultation during the comment period with Members through a series of roundtable discussions in each of Toronto, Vancouver and Montreal.

IIROC Staff also consulted IIROC's advisory committees, IIROC District Council members, IIAC and other regulators.

¹ IIROC Notice 14-0181, *Proficiency Assurance: The Next Phase – Consultation Relating to Expiry of CSI Contract*, July 16, 2014.

Consultation Feedback

Consultation participants agreed that IIROC should set competency standards. Participants felt that IIROC should be responsible for setting these standards going forward whether IIROC maintained the same proficiency assurance system or adopted any other system.

Some consultation participants voiced concerns about the quality of the CSI courses. Some Members felt the course material should be more sophisticated and current.

Members fell into two broad camps regarding the preferred proficiency assurance model: i) some Members believed IIROC should maintain the existing exclusive provider system with some quality improvements, and ii) other Members were of the view that IIROC should adopt a multiple provider model under which IIROC approves and oversees multiple course providers and IIROC develops and administers a standardized exam.

Members supporting the current system were concerned about substantive quality and maintenance of high standards under any multiple provider model. Proponents of a multiple provider model valued competition and choice and argued that competition would result in superior quality and lower prices. A small number of Members wanted to have the option of offering their own in-house alternative.

IIROC also received feedback regarding Dealer Member Rule 1500. Rule 1500 requires Members to ensure that all representatives, partners, directors and officers have in their possession, and have read, the Conduct and Practices Handbook Course and the quarterly updates. To comply with this requirement, many Dealer Members purchase electronic CPH subscriptions from CSI, which critics argue is costly and unnecessary.

IV. Consideration of Alternative Models and Conclusions – A New Model

IIROC's analysis involved many factors, but it is the particular characteristics of the IIROC platform that fundamentally frame the conclusions.

- The IIROC platform supports a relatively small proficiency market. In 2013, CSI administered 7,200 IIROC course enrolments (compared to FINRA which administered 180,000 examinations during the same period).
- The IIROC proficiency regime is robust. It includes a number of approval categories necessitating delivery of 19 regulatory courses.²
- IIROC proficiency services must be delivered in French and English.
- IIROC courses and examinations must be geographically accessible.

² See Appendix B for a list of the current regulatory courses.

- The small enrolment numbers in several of the approval categories create a unique set of economic realities. In 2014, 1,487 Member employees enrolled in the CSC course and 1,772 Member employees enrolled in the CPH course. In contrast, only 20 Member employees enrolled in the CFO course, 34 Member employees enrolled in the New Entrants Course and 23 Member employees enrolled in the Canadian Commodity Supervisors Course.

Given the foregoing, it is uncertain that, in a multiple provider system, providers would offer low enrolment courses on a high quality, cost-efficient basis. IIROC could, alternatively, require all approved providers to provide all courses or bundles of courses, but IIROC questions the feasibility of multiple providers competing for 20 to 34 enrolments (with French and English versions of courses and examinations) in certain cases.

It is IIROC's view that the retainer of a single provider will best ensure quality, reliability, accessibility and efficiency in delivery of education services with respect to all 19 regulatory courses. It is also IIROC's view that a transparent and competitive procurement process is appropriate and beneficial.

IIROC has concluded that a competitive single provider model best serves the public interest and regulatory needs at this time. IIROC is operationalizing a new proficiency assurance model where a single provider will be selected for a basket of regulatory courses for terms of five years and the contract will be awarded through a transparent and competitive procurement process to reap the benefits of competition within a single provider context.

V. Service Provider Contract – CSI

IIROC has retained CSI as the single provider for the initial transitional term of January 1, 2016 to December 31, 2020. This service provider contract (the Education Services Contract) between IIROC and CSI builds on the proficiency work done by IIROC and CSI to date, but is very different in nature from the Exclusivity Agreement.

The Education Services Contract fundamentally redefines the relationship between IIROC and CSI. IIROC retains CSI to provide the IIROC regulatory courses adhering to high performance standards and subject to regulatory oversight.

The Education Services Contract:

- removes the exclusivity guarantees of the Exclusivity Agreement such as rights of first refusal for CSI to offer new courses, prohibitions on IIROC offering

educational programs or courses, prohibitions on IIROC recognizing equivalent proficiencies, etc.;

- imposes high performance standards, including more onerous update and revision obligations, contracted exam result turnaround times, obligations relating to technological innovation, etc.
- implements rigorous performance accountabilities such as timely remediation, price freezes and the ability of IIROC to retain another provider and/or revoke recognition of a CSI course in the event of a continuing quality failure;
- secures IIROC's right to use the CSI course material for any regulatory purpose;
- establishes a robust audit and oversight regime with respect to the courses and examinations; and
- requires extensive updating and quality improvements with respect to a number of courses in 2015 and 2016.

Operational Transition to a Competitive Model

To ensure an orderly transition should IIROC select a provider other than CSI for the next term upon completion of the competitive procurement process, CSI agrees to cease to accept enrolments for IIROC licensing purposes on December 31, 2020 but will continue to adhere to performance standards and provide all services (including examination services) in respect of those enrolments for an additional year. This will minimize any disruption to students.

In addition, CSI has agreed to information sharing and operational reporting to facilitate IIROC's procurement process and regulatory transparency initiatives.

Pricing

The Education Services Contract reduces the existing price caps. The agreement limits price increases for courses taken by IIROC Member employees to 1.75% per annum per course.

Recognizing that the price of the Canadian Securities Course can be perceived as a barrier to entering the industry, the Education Services Contract caps IIROC and non-IIROC price increases of the Canadian Securities Course at 1.75%. The Education Services Contract does not otherwise limit non-IIROC pricing.

VI. Promulgation of Competency Standards

Under the existing exclusive provider proficiency system, courses are custom designed for the IIROC platform. CSI prepares curriculum frameworks and examination

blueprints with IIROC oversight. CSI responds to IIROC's requests and requirements with respect to curricula and course content on an ongoing basis.

Going forward, IIROC will set and publish objective competency standards that will represent a proficiency benchmark for the course based licensing requirements. These standards will outline the knowledge and competencies a person should have or learn to successfully complete a given licensing course.

IIROC believes that transparent regulatory standards will bolster investor and industry confidence in the proficiency system and the qualifications of IIROC Approved Persons and strengthen IIROC's proficiency regime.

With published standards, Members and Approved Persons can better understand the proficiency expectations and potentially play a more active role in meeting those standards and in maintaining the competence of Approved Persons.

Publication of competency standards is also a fundamental step in facilitating competition and continuity in the proficiency services provider sector. Published standards will provide prospective education services providers with guidance with respect to course content development.

VII. Additional Proficiency Initiatives

Initiatives Underway

Modernization – Repeal of Rule 1500

In the course of the consultations, Dealer Members questioned Dealer Member Rule 1500. Rule 1500 requires Members to ensure that all representatives, partners, directors and officers have in their possession, and have read, the Conduct and Practices Handbook and the quarterly updates. Records indicate that this rule dates back to at least 1979, prior to accessibility of the IIROC Rulebook on the IIROC website, availability of email regulatory updates and promulgation of continuing education requirements. At that time, the CPH was considered, in part, a source for IIROC Rules.

This policy rationale is no longer relevant. IIROC Approved Persons now have immediate access to the IIROC Rulebook through the IIROC website and other services. Approved Persons and others can subscribe to IIROC's email alert service which provides real time notice of regulatory developments. Such notices are also available on the IIROC website. Updating of the ethics discussion and regulatory requirements are also addressed through IIROC continuing education requirements.

IIROC anticipates proposing the repeal of Rule 1500 as part of its upcoming registration reform rule amendment package.

Extension of Recognition of CFA Level 1

IIROC is currently reviewing and considering recognizing the CFA Level 1 as an alternative to the Canadian Securities Course component of the proficiency requirements for IIROC representatives.

IIROC is considering introduction of this proficiency option in recognition of the varying educational interests and professional backgrounds and career goals of licensing applicants seeking representative level approval. This review and analysis builds on and extends beyond the results of IIROC's Institutional Proficiencies Project³ review.

IIROC also believes that introduction of this proficiency option is consistent with IIROC's focus on setting the highest standards of professionalism in the industry and supporting industry participants in the achievement of those standards.

IIROC's detailed review and development of this initiative is ongoing. Any determination to recognize Level 1 of the CFA Program for qualification as an IIROC representative will be reflected in IIROC's upcoming registration reform rule amendment package. The rule amendment package will invite public comment on all aspects of the proposed amendments.

Upcoming Proficiency Initiatives

IIROC Education and Proficiency Committee

IIROC has in the past consulted the Education and Proficiency Committee on a range of proficiency initiatives.

IIROC's Education and Proficiency Committee will play a fundamental role in supporting IIROC's proficiency regulatory work in the next phase of the evolution of the proficiency assurance model. This advisory committee may, among other activities, assist in the development of competency standards and course oversight and audit functions. This committee will also be a valuable source of practical industry intelligence and input with respect to a broad portfolio of regulatory matters.

IIROC will in the coming months seek applications for committee membership and reconstitute the committee.

IIROC Staff looks forward to working with the committee with this new and important mandate.

Continuing Education

IIROC will, in future, conduct a review of the continuing education program. IIROC will also review the Continuing Education Course Accreditation Process (CECAP), the CSI unit tasked with administration of continuing education course review and accreditation recommendations.

³ Discussed in IIROC Notice 15-0036, *IIROC Institutional Proficiencies Project*, February 5, 2015.

Examination Audit

In connection with IIROC's licensing course oversight, IIROC will be undertaking a review of approaches for licensing examination oversight. IIROC currently oversees courses and exams on an integrated, subject matter basis.

IIROC is considering implementing more in-depth and technical examination audits. This could involve stress testing and validation of CSI psychometrics or it could involve independent analysis. The oversight could also involve substantive reviews. IIROC may consider retaining external experts to assist with these audit functions.

Operationalization of effective and efficient checks and balances, and safeguarding examination security will be paramount.

VIII. The Next Phase

CSI was created in order to meet the particular proficiency assurance needs of IIROC Dealer Members. The ten-year Exclusivity Agreement supported the successful operation of CSI following its sale to ONCAP by the IDA. This arrangement facilitated the growth and development of CSI's business and expertise, and its continued ability to meet IIROC's proficiency assurance service requirements. IIROC is now moving into a new phase of the evolution of this relationship and the evolution of the IIROC proficiency assurance model.

IIROC conducted an in-depth review and consultation with respect to its proficiency assurance model. IIROC has determined that a competitive single provider model best serves the public interest at this time. IIROC is operationalizing a new proficiency assurance model where a single provider will be selected for a basket of regulatory courses for terms of five years and the contract will be awarded through a transparent and competitive procurement process to reap the benefits of competition within a single provider context.

IIROC has retained CSI to provide regulatory courses for an initial five year term. This Education Services Contract includes high performance standards, robust oversight, improved pricing caps and facilitates a smooth transition through the competitive procurement process.

This next phase in the evolution of the IIROC proficiency assurance model will be characterized by enhanced quality, efficiency, accountability and transparency.

IIROC is of the view that high proficiency standards play a key role in investor protection and the integrity and efficiency of capital markets. IIROC maintains high proficiency standards and will continue to work to be at the fore of proficiency

regulation, recognizing and anticipating business and regulatory realities and imperatives.

IIROC currently has underway a number of initiatives that are advancing this public interest goal:

- introduction of a competitive procurement process to select a single provider,
- new retainer of CSI for an initial transitional term with enhanced course quality, service requirements and performance accountabilities,
- creation and publication of competency standards,
- extension of recognition of CFA, and
- modernization through repeal of Rule 1500.

As IIROC enters the next phase of the evolution of the IIROC proficiency assurance model, IIROC will continue to work cooperatively to optimize proficiency of license holders and ensure the highest levels of professionalism in the industry.

Appendix A

Comment Letters

1. RBC Dominion Securities Inc. and RBC Direct Investing Inc.

RBC participated in the IIAC working group considering this issue and endorses IIAC's comments. In addition, RBC notes that the cost of compliance with Rule 1500 is high. CSI course content must remain relevant for both the retail and institutional segments of the market and content of low enrolment courses must be reviewed regularly. Regardless of the model chosen, quality must be the focus.

IIROC should review the continuing education program.
2. Oliver Publishing

Oliver Publishing provides exam preparation courses for IIROC, insurance and mutual fund licensing exams and financial planning designations.

IIROC's existing proficiency assurance system is problematic in that a single vendor is responsible for program delivery and assessment of its own quality (through annual self-assessments and its internal psychometric testing). Psychometric assessment and program evaluation should be assigned to a third party.

Competency standards are not public.

Students must currently pay for the CSI course material even if they don't want to use it. Students should have other course options. Competing course providers can potentially meet the same standard for half the price of CSI.

Cross-subsidization should be managed transparently through cost recovery fees and not through CSI's internal management. IIROC should set a fee per registrant to fund development and maintenance of proficiency standards and oversight of education providers.
3. ITG Canada Corp.

ITG believes that the current system functions, but is not optimal. There are issues with cost, course material and examination questions. A better option is a multiple provider model where IIROC sets the exams and approves and oversees the providers. No US providers have said they would not offer the lower volume courses. If this is an issue, IIROC can require specific commitments for those courses. IIROC would have to hire a small department of staff to manage the system and exams. The cost of creating this department can be offset through exam enrolment fees charged by

- IIROC. Members who have issues with course and exam content should get involved [in exam development with IIROC].
4. *Investment Industry Association of Canada*

IIAC members do not feel that they receive sufficient value for the course prices charged by CSI. IIAC members find CSI course updates to be minimal and exam questions unclear compared to FINRA questions. IIAC members have had positive experiences with US exam preparation courses.

IIAC objects to Rule 1500.

IIAC advocates a multiple education provider model where IIROC approves and oversees providers and IIROC sets the exam. Courses, under the IIAC proposal, would be unbundled and IIROC may need to mandate creation and delivery of courses with limited demand. Members are interested in assisting with development of exam questions.

IIROC should set specific annual goals and milestones to measure provider performance.

IIROC should review the continuing education program.
 5. *Investment Funds Institute of Canada*

IFIC comments that CSI's course pricing is high and inflexible due to a lack of competition. IFIC believes that IIROC should approve only CSI and IFSE to provide proficiency courses and examination and endorses IFSE's submission.
 6. *IFSE Institute*

IFSE is owned by IFIC and provides certain mutual funds and exempt market products courses. IFSE believes that IIROC should approve only CSI and IFSE to provide proficiency courses and examinations.
 7. *Casgrain and Company Limited*

Casgrain is an IIROC Member operating exclusively in the institutional fixed income market. Casgrain supports IIROC's exclusive retainer of CSI. Casgrain would like IIROC and CSI to develop an institutional stream of proficiency courses and continuing education offerings.
 8. *The Canadian Institute of Financial Planning*

CIFP provides certain financial planning and insurance courses. CIFP states that the existing monopoly leads to lower quality and higher prices. CIFP suggests a model where a single provider works with IIROC to set proficiency standards and examinations while courses are developed and delivered under a competitive, multiple provider system. CIFP states that it has capabilities similar to those of CSI.

9. Canadian Foundation for Advancement of Investor Rights

FAIR believes that a public review of CSA, MFDA and IIROC proficiency standards must be conducted and proficiency requirements increased. IIROC should question whether it is appropriate to outsource standard-setting, course and examination services to a for-profit contractual service provider. There should be a distinction between gatekeeping proficiency functions and education. IIROC should shorten the continuing education three-year cycle.
10. Advocis

Advocis is a membership association for financial advisors and planners and provides courses in certain spheres such as insurance. Advocis states that IIROC must open the market for its proficiency assurance services to a variety of qualified providers who can compete based on their ability to serve customers. Providers of examination services should not be permitted to provide education services. IIROC should look for service providers who have a demonstrated ability to advocate on behalf of licensees. Advocis suggests that the LLQP (multiple education provider, standardized exam) model is appropriate for the IIROC platform.
11. Canadian ETF Association

CETFA believes that regulators should only control examination and licensing, not education. CETFA is interested in providing continuing education training to IIROC advisors but finds that the fee charged by CECAP for review of an accreditation application acts as a disincentive.
12. Smarten Up Institute

Smarten Up provides certain financial services courses to banks and others. Smarten Up advocates decoupling of education and examination functions and permitting different vendors to perform any or both of those functions. IIROC's preferred vendor system discourages innovation. Pricing is better controlled through competition than contractual pricing caps. Any additional funding required by IIROC to administer such a system should be obtained from licensing fees collected for IIROC from examination service providers.

IIROC should move to a comprehensive representative license as opposed to having separate licensing requirements for dealing and advising with respect to options and derivatives.

As regards Moody's ownership of CECAP, Smarten Up has not experienced any issues in its CE accreditations, but does not believe this is the ideal governance structure.

13. CFA Institute

CFAI submitted a comment letter advocating adoption of the FCA proficiency model by IIROC. The FCA has approved more than 300 qualifications and 54 education providers.

The CFA Institute seeks IIROC recognition of each of the CFA Level 1 program and the Claritas Investment Certificate as alternatives to the CSC.

14. Kenmar Associates

Ken Kivenko submits that IIROC representatives are not sufficiently competent and advocates a transparent, competitive proficiency assurance system where IIROC sets the exams. Mr. Kivenko also believes that IIROC should be the provider of any courses related to professional conduct and ethics to increase the rigour and reduce the cost. These should be classroom courses with victims sharing their experiences.

Any CSI involvement in CECAP is a conflict of interest.

Appendix B

IIROC Regulatory Courses

Canadian Securities Course (CSC)
Conduct & Practices Handbook Course (CPH)
New Entrants Course (NEC)
Derivatives Fundamentals Course (DFC)
Futures Licensing Course (FLC)
Options Licensing Course (OLC)
Derivatives Fundamentals and Options Licensing Course (DFOL)
Branch Managers Course (BMC)
Canadian Commodity Supervisors Exam (CCSE)
Chief Financial Officers Qualifying Exam (CFO)
Options Supervisors Course (OPSC)
Partners, Directors and Senior Officers Course (PDO)
Trader Trading Course (TTC)
Effective Management Seminar (EMS)
Wealth Management Essentials Course (WME)
Chief Compliance Officers Qualifying Exam (CCO)
Investment Management Techniques (IMT)
Portfolio Management Techniques (PMT)
Advanced Investment Strategies (AIS)