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VIA EMAIL

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Re: Consultation Paper (Phase III)— *Competency Profiles for Supervisors, Traders, Associate Portfolio Managers and Portfolio Managers* (the “Consultation”)

The Canadian Advocacy Council of CFA Societies Canada¹ (the “CAC”) appreciates the opportunity to provide the following general comments on the Consultation.

We are supportive of the current review being undertaken by IIROC on proficiency standards as a whole, and in particular the competency profiles for Supervisors, Traders, Associate Portfolio Managers (“APMs”), and Portfolio Managers (“PMs”). We understand from the notice introducing the Consultation that in developing the competency profiles, IIROC considered the existing requirements for each Approved Person category, as well as existing securities laws and IIROC rules that Approved Persons should understand and other information of which they should be aware, alongside approaches to proficiency in other comparable international jurisdictions. We particularly appreciate the style of construction and presentation of the competency profiles such that skill identification and measurement is straightforward. As noted in our response letters to the first two phases of this project, we continue to review these consultations with a view to supporting a progressive proficiency framework that focuses on improving minimum standards that are responsive to innovation, build professionalism and a focus on ethical conduct, and ensure adequate skills development.

We note that the competency profile framework begins “at the top” by considering each individual registration category, and then sets out expectations in a progressively granular manner to support those registration categories. While this framework is understandable, we have recently made a number of comments responding to various

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 19,000 Canadian CFA Charterholders. The council includes investment professionals across Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. Visit www.cfacanada.org to access the advocacy work of the CAC.

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Our aim is to create an environment where investors’ interests come first, markets function at their best, and economies grow. There are more than 190,000 CFA Charterholders worldwide in 160 markets. CFA Institute has nine offices worldwide and there are 160 local societies. For more information, visit www.cfainstitute.org or follow us on [LinkedIn](https://www.linkedin.com/company/cfa-institute) and Twitter at [@CFAInstitute](https://twitter.com/CFAInstitute).

client-focused regulatory initiatives, including the need for the financial industry, but particularly registrant firms and their individual registrants (particularly those tasked with leadership, PMs and APMs) to be educated and proficient on themes of increasing secular importance, such as consideration of sustainability and ESG (environmental, social, and governance) reporting by issuers and approaches in investing, Indigenous reconciliation, rights and title, DEI (diversity, equity and inclusion) and vulnerable clients. While certain clients, such as those that are vulnerable, are mentioned in a broad sense in the Consultation, we suggest reviewing the competencies against requirements for the types of investors who are serviced by these registration categories, from the bottom up. Such a review would in part help to ensure that Supervisors, Traders, APMs and PMs can consistently identify these types of investors, and have adequate skills and competencies to be responsive to their specialized needs. This would accord with the general focus of securities regulators with respect to their investor protection mandate. As a broader comment, we believe that both a retrospective and regularized review of related programs that survey for and analyze emerging topics and professional competency needs, such as the results of the CFA Institute Practice Analysis Annual Review² would lead to an improved and increasingly forward-looking competency analysis process for IIROC's competency profiles.

With respect to the proposed competency profiles for Supervisors, we are of the view that the draft competency expectations as set out in Appendix 4 to the Consultation are expressed well and capture the appropriate level of knowledge that should be expected from individuals holding these important roles. We would recommend a small addition to the knowledge requirements under the first sub-competency (*general regulatory framework - role of securities regulators, self-regulatory organizations and applicable laws*), as it is important for Supervisors to understand pension legislation and related investment restrictions at a high level (for example, as set out in the *Pension Benefits Standards Act, 1985*) – as this will be foundational to the effective supervision of client relationships with these specialized types of clients. References to derivatives legislation and a high-level understanding of documents typically utilized in derivatives trading such as ISDA and credit support annexes should also be included. Under sub-competency IV (*general regulatory framework - ethics, conflicts of interest and confidentiality*), knowledge of the issues related to initial public offerings and related party trading should also be listed. With respect to the list of security types currently found under the first sub-competency for the third proposed competency (*supervisory structure: specific supervision responsibilities - business and operations*), we would include a reference to mortgage loans, given the prevalence today of utilizing same in various collective investment vehicles and the current interest rate environment. We are also of the view that the competency profile could have a greater general emphasis on the importance of appropriate behavioural 'tone from the top' in imbuing ethical norms and ensuring effective training and oversight relating to client-focused conduct (particularly through key processes such as KYC and KYP) for junior and supervised employees/registrants.

In connection with the proposed behaviours and skills set out in the sub-competencies for Supervisors, we believe there are gaps in connection with required soft skills that

² Practice Analysis Annual Review, 2022, Online: CFA Institute <<https://www.cfainstitute.org/-/media/documents/survey/practice-analysis-annual-review-2022.pdf>>

should be added. We had made this comment in our previous letters on Phases I and II as well. CFA Institute has developed its own competency framework used to inform ongoing professional development of its members, which includes items such as collaboration, communication, curiosity and leadership³. All of these could be considered for inclusion in the competency profiles.

Moving to the Trader Competency Profiles as expressed in Appendix 5 to the Consultation, the combined set of expected knowledge, behaviours and skills is fairly comprehensive in our view, though could be improved through more specificity relating to a few key concepts. While it may be implied through other categories, we believe the third stated competency (*trading rules, orders and activities*) should include a specific reference to fair and allowable trade allocation practices, both in a sell- and buy-side context. In addition, while the knowledge expected for trade execution requirements (*trading in capital markets – trade execution*) includes that of high-frequency trading through the use of algorithms, there is no express requirement to have knowledge of the proper understanding and use of key modern trading tools such as trading algorithms and smart order routers, both of which have been prevalent for some time across most types of trading desks and most addressed asset classes in Canada. In connection with other knowledge expected of Traders relating to venues and the cost of accessing venues (*marketplace structure and regulation – marketplaces*), there is already a reference to understanding various fee models, but we would suggest adding a reference to the different methodologies and benchmarks used for calculating not just explicit but implicit trading costs. For just one example, trade prices may be compared against benchmarks such as the interval volume-weighted average price over the time taken to complete the trade to compute implicit transaction costs. As a broader comment, we believe the competency profile could benefit from more developed and nuanced competency expectations relating to the understanding of sources of liquidity and related dynamics, including (as one example) the complexities of effectively trading interlisted securities, or (as another example) the pros/cons and trade-offs implicit in the use of different execution venues or order types. We believe this critical over-arching Trader competency focus (that of understanding, sourcing, and navigating liquidity effectively) could be best informed through focused and ongoing consultation with the relevant specialized advisory committees within the Canadian regulatory environment (including IIROC's), and/or with relevant professional associations' memberships.

Specifically with respect to the categories of APMs and PMs, we believe this is the most robust and well thought out of the proposed competency profiles. We agree with the proposed six categories of high-level competencies associated with their relationship skills, regulatory skills and technical skills, being:

- Regulatory environment and ethics;
- Investment policy;
- Research and analysis;
- Portfolio construction and strategies;
- Portfolio monitoring, evaluation and client reporting; and
- Servicing institutions.

³ Welcome to the CFA Institute Competency Framework, online: CFA Institute
<<https://interactive.cfainstitute.org/competency-framework> >

Under the first competency (*regulatory environment and ethics*), we appreciate that the sub-competency related to the fiduciary duty of a PM and APM has been broken out and highlighted in its own category. We believe that the competency profile could be incrementally improved through requiring competencies relating to an understanding of specialized legislation and regulation applicable to certain clients types such as pensions (as mentioned in comments relating to the Supervisor competency profile above). It could also be improved through additional competency requirements relating to the understanding and application of various asset allocation frameworks applicable to both institutional and retail clients, understanding and evaluation of risk-adjusted performance, and the assessment and understanding of investment and investment manager performance through widely utilized performance evaluation methodologies and metrics. All of these topics are extensively addressed in the CFA Program's learning objectives and curriculum, and we would be happy to engage directly for a more detailed discussion of appropriate competency expectations of APMs and PMs relating to these critical competency areas.

We also support the specific reference to knowledge required for collateralized debt obligations (*portfolio construction and strategies – other bond portfolio construction techniques*), as it is the PM who would typically determine what underlying collateral to accept from the CDO manager, allow a portion of the assets they hold to be used as underlying collateral; and, in such case, the transfer price of these assets from the CDO manager balance sheet to the securitization vehicle.

Similar to our comment above with respect to the competencies for Traders, we believe the references to transaction costs (*investment policy – transaction costs, taxation, and inflation*) and trade cost measurements (*investment policy – trade strategy and execution*) should explicitly include a reference to understanding the different methodologies and benchmarks used for estimating/calculating implicit in addition to explicit trading costs.

In general, we support the expectations as set out for APMs and PMs and believe some of those competencies should also be considered for the Supervisor category to help enable their effective oversight of APMs and PMs.

Concluding Remarks

We strongly support initiatives to examine and improve registrant proficiency requirements, especially for categories of registration that involve dealing directly with clients. The proposed competency profiles set out in the Consultation are generally comprehensive, although as stated above we have noted a few potential gaps for further consideration and development. We also think it might be helpful, when finalizing the competencies for all registration categories, to review the expectations against the requirements of the end-clients served by those registrants, and to set in place processes that regularize the review of the final competency profiles to be responsive to changing markets, client demands, and the resulting emerging competency needs.

We thank you for the opportunity to provide these comments and would be happy to address any questions you may have. Please feel free to contact us at cac@cfacanada.org on this or any other issue in future.



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