

Proposed Proficiency Model

Executive Summary

The Financial Planning Association of Canada (FPAC) fundamentally agrees with the approach taken by the Canadian Investment Regulatory Organization (CIRO) concerning the determination of proficiency among Approved Persons. We believe an open process focusing on competency, assessed by well-designed and well-administered exams, will make the Canadian securities sector more efficient and fairer to its consumers.

In this paper, we will encourage CIRO to adopt rigorous and transparent processes at several steps along the way, while simultaneously allowing substantial latitude to prospective Approved Persons.

Specific Requests for Feedback

General Exam Requirement

We agree that a general exam requirement is the appropriate outcome.

We believe that the exam should be based on a competency profile developed based on best practices. The competency profile should be widely available. It should be updated at least triennially.

The competency profile should be rigorous. It should discriminate between those who will likely do the best thing for their clients and those who likely won't. It should assure a level of knowledge roughly equivalent to the securities-specific knowledge that a graduate of a four-year undergraduate degree in finance would demonstrate.

The exam should be based on psychometric best practices. There should be substantial transparency about the exam and its outcomes.

As an example of substantial transparency, exam writers, especially those who have failed an exam, should be able to identify subject matter where their competency was lacking. This subject matter should make a clear connection to a competency profile and body of knowledge.

In addition, service providers supporting students should have access to substantial transparency. As an example, CIRO could release a block of 10 questions each year, removing those questions from exam use, and making them available to service providers. Those questions should include:

- Explanations for why each answer was correct or incorrect.
- How students responded to each possible solution.
- Any concerns about the question raised by psychometricians in CIRO's employment.

The exam should also be widely available. Ideally, CIRO chooses an exam service provider who can support many exams at a range of times and geographic locations. Firms like Prometric or Meazure have likely already expressed interest, and are generally capable of supporting CIRO's needs.

Sponsorship

We wonder about the appropriateness of sponsorship letters for Approved Persons before writing an exam. As CIRO is likely aware, this is a requirement to write licensing exams under some provinces' insurance licensing requirements. We believe Approved Persons should be able to exercise mobility between firms. By requiring sponsorship letters, we fear that Approved Persons, especially those early in their careers, may feel that their mobility is restricted. Employers should not be able to restrict an employee's career potential.

Baseline Education

The goal of a baseline education is an admirable one.

We have some concerns here with respect to remote areas and Indigenous communities. There is some evidence to suggest that Indigenous Canadians are underrepresented among post-secondary graduates:

- https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1530293
- <https://srdc.org/wp-content/uploads/2023/02/bcpi-report-final-feb2023.pdf>

The Truth and Reconciliation Commission's Final Report (https://ehprnh2mwo3.exactdn.com/wp-content/uploads/2021/01/Executive_Summary_English_Web.pdf) includes, at 92ii (page 337), this specific recommendation:

“Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects.”

We believe that CIRO intends to follow the spirit of Truth and Reconciliation. We hope that you will not implement policies that are contrary to this. Perhaps CIRO could allow those who can demonstrate First Nations heritage an exemption to any education requirements.

Mandatory Courses

If the exam is truly a valid test of competency, there should be no mandatory courses. There is nothing an IR or RR does in their practice that isn't described somewhere in a public forum. In theory, a person who has educated themselves deeply about the securities business in Canada should be able to pass this exam based only on publicly available information. Making that person enroll in a mandatory course is inefficient.

It's possible that CIRO consider some sort of self-study threshold knowledge test for those who may wish to challenge exams. This exam could be delivered as a resource on the CIRO website, for example.

Consolidated Derivatives Exam

The derivatives exam relates to some of the riskiest instruments available. Not just for this exam, but for any CIRO exam, we hope the difficulty is directly correlated to the harm that can be done to

a client. Before any Approved Person can engage in any derivatives business, we believe that person should demonstrate the highest possible level of competency with derivatives and leverage.

Further Comments

In this section, we will address points raised by CIRO, beyond the Specific Requests for Feedback, in its consultation paper and indicate our support or concerns around those points.

3.1 Research and Review

CIRO mentions several reputable organizations here. We hope that CIRO uses tools available from these organizations and, wherever possible, consults with these organizations to assess validity of CIRO's process. We believe that the adoption and maintenance of a formal credentialing standard, such as those available through ISO, is necessary.

We also strongly support the proficiency model allowing prospective Approved Persons and firms to select from the widest possible range of possible paths to learn the requisite material, with CIRO's focus being on the delivery of valid exams.

4.1 Framework Overview

4.2.3.1 RRs and IRs

We support the categories identified by CIRO and agree that separate paths are appropriate for retail and institutional Approved Persons.

4.2.3.2 APMs and PMs

We have some concerns here. In these categories, CIRO is delegating at least some authority to the CFA Institute (with regards to the CFA Charter) and to CSI (with regards to the CIM® designation). We believe this is only appropriate to the extent that those entities demonstrate that they are meeting similar standards to the standards adopted by CIRO as part of this overall process.

4.2.3.5 No mandatory courses tied to exams

We strongly support this measure. We believe any exam writer should have access to choice in the market. There are numerous private and non-profit entities in Canada today capable of delivering education based on a widely understood proficiency model and some degree of transparency about exam processes. This model has worked in other markets, including the United States.

We encourage CIRO to consider some specific steps here:

- Conduct an annual conference or similar activity for entities supporting prospective Approved Persons. At that conference, communicate clearly about trends and patterns for exam writers. In the absence of plainly available information, bad practices will fill in. You'll

find exam preparation companies seeking a competitive edge via unscrupulous means, for example.

- For the exams that are likely to see so few writers that the private sector might not consider course development worthwhile, find a way to subsidize course development costs. CIRO is a regulator. It doesn't likely make sense from an efficiency perspective for CIRO to develop the competencies associated with course design and delivery.

4.3.1 Mandatory professional conduct training

We strongly support the use of case-based learning here. For these cases to be valuable, they should be based on real-life cases. The cases should present ethical grey areas to Approved Persons and have the opportunity for learning, and not just be an exercise in memorizing a code of ethics or similar device.

4.3.2 Continuing Education (CE)

CIRO indicates that CE priorities will shift and be identified by CIRO each year. This is an admirable goal. We hope that CIRO will consider the schedule, cost, and availability of an appropriate CE regime. Approved Persons need to have access to the CE regime early in the cycle to be able to plan their activities accordingly. If the CE regime is going to be updated each year, it's in everybody's best interests to have expectations, schedules, and other materials available as early as possible in the CE cycle.

Summary

We thank CIRO for the opportunity to provide feedback. We believe the Proposed Proficiency Model is fundamentally the best thing for the securities sector. Any recommendations or suggestions we have made here are not meant to detract from our overall support for this project.

From the Financial Planning Association of Canada Regulatory Advocacy Committee.