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SMARTEN UP INSTITUTE
COMMENTS ON IIROC NOTICE 14-0181
PROFICIENCY ASSURANCE CONSULTATION

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Appendix "A" Smarten Up Institute

Our View in Summary

Smarten Up Institute Inc. (SUI) appreciates this opportunity provided by IIROC to comment on proficiency assurance in Canada. SUI is a Canadian employee-owned company that delivers both online and classroom training to IIROC member firms. At the outset, it is important for us to point out that the current proficiency model precludes contribution from firms like SUI to the licensing of industry professionals.

Moody's Preferred Position. Moody's Analytics Global Education (Canada) Inc., which operates under the business name of the Canadian Securities Institute (CSI), enjoys a preferred position on educational training and other services related to licensing in the Canadian marketplace. The upcoming term of Moody's contract with IIROC that expires in January of 2016, provides the opportunity for the senior regulators of the Canadian securities industry to implement a new and improved framework in line with the practices of other countries that better serves all industry professionals and all members of the investing public.

The Historical Perspective. In the distant past, revenue was calculated from a standard commission table; there was one main stock exchange; and stocks and bonds formed the bulk of retail products. Then the CSI operated as a staid "not for profit" industry utility. The Canadian investment industry had confidence in the CSI and is appreciative of the historical role it has played in financial education, examinations and credential issuance. While SUI shares this view, we believe it is time to move on.

The Current Challenge. While the CSI (now Moody's) is still with us, everything else has changed including the rate of change itself – globalization and comprehensive regulations such as anti-spam, KYC, Basel III, FATCA and CRM2 proliferate. The number of markets has multiplied while derivatives and other sophisticated products have made their way into main stream portfolios. Brokerage firms and mutual fund dealers need superior training for many complex products.

The role of the advisor has transitioned from commissioned sales to fee-based advice and wealth management services. Today, the average advisor is over fifty years old and many advisors and investors are nearing retirement. How will their successors acquire the necessary skills and knowledge? Only a handful of firms continue to sponsor the "rookie training" that brings new advisor talent into the industry.

Canada Compared to Other Countries. The IIROC Notice provides a useful summary of the proficiency models employed in the US and the UK. We note that in both jurisdictions, there is a separation between: (1) the "gatekeeper" function provided by FINRA and the FCA respectively; and (2) the education function under which many vendors compete and contribute their services. This contrasts

sharply with the situation in Canada where both of these functions have been effectively outsourced to Moody's.

The IROC Notice draws attention to the economies of scale available in the US and UK and questions whether a similar free-market model would be functional for Canada. We would like to draw attention to the proficiency model in the smaller Australian securities industry that features choice and competition amongst multiple education vendors. Choice and competition result in lower costs. A Canadian advisor wishing to get a comprehensive licence pays 300% more than he or she would pay in Australia and 400% more than in the US.

An Updated Framework is Required. The objective is to create a system delivering high-quality training and one that is capable of quickly adapting to new regulations, complex products and changing demographics. Such a system would support different learning styles with choice between the alternatives of classroom, seminar, virtual classroom and purely electronic course formats.

The current preferred-vendor model acts as a strong disincentive for this to occur as there is little innovation and adaptation to change when revenues are guaranteed. Within a static system, necessary changes through course enhancements can be postponed if they increase costs. Price escalation provisions, dollar caps and other contractual commitments are not the best way to manage quality and control pricing. Choice and competition deliver better outcomes.

Often overlooked is the potential for competition on the "supply side" of the business. Industry experts are drawn in and encouraged to teach and write when encouraged by numerous vendors that recognize their value. The single-vendor model does not incentivize industry professionals to get involved.

Next Steps. While input and action from multiple stakeholders is required to allow the proficiency framework to evolve, we recommend that a successful strategy will have the following characteristics:

1. **Separation of Training and Examination Functions.** This will allow different vendors to provide either or both functions. Moody's could continue to provide both services, some vendors could provide education while other vendors might provide examination proctoring. As an example of the latter, Prometric is the provider of the "examination only – proctoring service" to FINRA in the US.
2. **A Focus on Outcomes.** IROC will continue to work in partnership with industry stakeholders to review and amend licensing requirements in light of the ongoing changes in products, regulations and standards of advice. The focus, however will be concentrated on describing the appropriate knowledge and skill sets required by the various categories of licence holders. IROC will determine the examination content and levels of difficulty for the candidates challenging the examinations. As in other

jurisdictions, the creation of educational programs to teach that knowledge and those skill sets is best left to the market to devise.

3. **Minimize Conflicts of Interest.** In the case where the functions of education and examination proctoring happen to be vested in a single vendor, procedures need to be in place to maintain an effective internal separation.
4. **Funding.** Any additional funding required by IIROC to manage the new framework will be obtained from licensing fees to be collected for IIROC by the examination service providers.

Conclusion. Canada's single-vendor model no longer serves the industry well and lacks all the key features and benefits that we have outlined above. In addition, the Canadian securities industry and investors will benefit from the development of a comprehensive licence program along the lines of the US model that will provide Investment Advisors with the requisite knowledge of all the relevant products that are integrated into today's portfolios.

On behalf of SUI and our clients, SUI will be pleased to expand upon these ideas or assist in any other way required to consult with the regulatory community on all matters related to the proficiency assurance model for the Canadian investment industry.

Proficiency Assurance in Canada

The flagship course for those wishing to enter the securities industry in Canada is the Canadian Securities Course which was first offered in 1964. The Investment Dealers Association, recognizing the need for uniform national education programs and standards, created the Canadian Securities Institute (CSI) in 1970. Since that time many new courses have been created and added to the CSI's inventory. CSI currently retains its role as the authorized gatekeeper for those seeking an investment career where a licence must first be acquired.

In 2003 the CSI converted to a "for profit" company and in 2006 it was sold by the Investment Dealers Association to ONEX Corporation for \$57 million. Four years later ONEX sold the CSI (now CSI Global Education Inc.) to Moody's Corporation of NY for \$155 million where it remains as Moody's Analytics Global Education (Canada) Inc, a reporting unit within its subsidiary Moody's Analytics. The final cash payment from this transaction, dependent upon the achievement of a performance milestone, is payable by Moody's Corporation in January 2016. Over the period of its existence the CSI has accumulated valuable intellectual property in course materials and systems.

In 2009 "National Instrument 31 – 103" was adopted by the various provincial securities regulators. This document sets out the Canadian requirements for the registration of investment firms, their representatives and certain other recognized positions (for example, Chief Compliance Officer). While silent on the topic of education vendors, NI 31 - 103 references Moody's (under its then existing name of CSI Global Education Inc.) in the definition of many qualifying examinations, thereby recognizing Moody's as the sole provider of these examinations within Canada.

While the investment industry has had a great deal of confidence in Moody's, our clients and others have commented that much more could be done to keep courses up to date with the evolution of the industry. Complaints from investors often stem from an error made by their advisor rather than from any malfeasance. Investment Advisors who do not completely understand a product may inadvertently select it for a client portfolio for which it is not suitable.

Over reliance on a single vendor also limits discussions and the flow of ideas around licensing and proficiency issues. For example, when discussion takes place within the confines of a single vendor market, that vendor naturally exerts great influence. At the same time if that vendor is motivated to make a profit, a fundamental conflict of interest arises between the maintenance of the status quo and against the introduction of new ideas and approaches if they result in increased costs. The IROC contract with Moody's seeks to overcome this conflict with the use of performance clauses but this is clearly not the solution.

While the IROC Notice pertains to the licensing of "approved persons", continuing education (CE) is of equal significance in providing necessary ongoing education to the industry. Currently SUI and other independent educators as well as in-house groups sponsor numerous CE courses. The issuance of CE credits is

managed by the “Continuing Education Course Approval Process” (CECAP), an organization also owned by Moody’s. In order for SUI to have its students receive CE credits, SUI must first submit these courses to Moody’s for approval. SUI has not had any issues in its dealings with CECAP and CE credits have been issued fairly and promptly, however this is an example of history and the status quo holding back advances towards a best-in-class organizational and governance structure.

Selected Cost Comparison Canada - US

Cost comparisons between Canada and other jurisdictions are difficult due to the different models used. The following comparison attempts to overcome this by comparing the cost of a bundle of Canadian certifications with the cost of obtaining the equivalent comprehensive certification in the United States.

Canadian Model – Single Vendor with Multi-Step Licensing

Canadian regulators have encouraged investment industry professionals to migrate from the traditional commission for service model to a value for service approach by means of the new CRM2 rules that focus on cost and performance. As well, the use of new derivative based products is becoming increasingly important to developing a well-balanced client portfolio. A broader exposure to products such as derivatives and ETF's, as a component of a primary licensing course will be very beneficial. Canadian IAs should not have to take multiple courses and write several exams in order to obtain the qualifications and skills necessary to manage their client's portfolios. These additional courses and their costs may act as a deterrent to IAs after they have received their initial licence.

To obtain a comprehensive knowledge and proficiency requires that an IA take the following courses from Moody's:

1. **CSC**. The basic course to become a licensed IA is the Canadian Securities Course with its attendant two exams, each of two hours duration.
2. **CPH**. The Conduct and Practices Handbook Course for which there is a three hour exam.
3. **WME**. To provide further services, the IA also needs to take the Wealth Management Essential course with two exams, each of three hour duration.
4. **DFOL**. Finally to obtain derivatives knowledge, the Derivatives Fundamentals and Options Licensing Course with a three hour exam.

The fees to complete all of these online courses and exams total \$3,915: \$985 for the CSC; \$675 for the CPH; \$1,160 for the WME; and \$1095 for DFOL. Moody's includes online self-study materials in these prices.

The IA must also complete the 90-day Investment Advisor Training course (IAT) that is only offered by a few of the largest securities firms.

US Model – Educational Choice with Comprehensive Exam

Series 7. To become a General Securities Representative (GSR) in the United States requires the applicant to complete the Series 7 exam. This requirement provides a broad exposure to investment products and enables those who qualify

to service a client's total needs including the use of options strategies. Included in the exam are Equity and Debt Securities; Options and Derivatives; Retirement Plans and Investment Companies; Regulations; and Taxation. FINRA charges US\$290 for the six hour long Series 7 exam.

Series 66. In addition, to the Series 7, the GSR must pass an additional test created by North American Securities Administrators Association (NASAA). This is the Series 66 which focuses on US state law, the registration of securities and advisors as well as ethics. The Series 66 is two and a half hours long and like the Series 7, is administered by FINRA which charges US\$145.

Education. In the US, courses are provided on a free market basis by many independent educational providers. Depending on their learning preferences, students have the opportunity to avail themselves of a range of different course formats ranging from basic self-study to both virtual and physical classroom courses. Online self-study courses, similar to the material provided by Moody's (CSI), for the Series 7 are available from US\$259 and for the Series 66 from US\$149.

Cost Comparison. The costs for an IA in the US to acquire a comprehensive licence are US\$435 for the exams plus US\$408 for courses, including online manuals, for a total cost of US\$843 or \$953 in Canadian currency.

The cost of the Canadian licence bundle is \$3,915 making it four times more expensive than the equivalent \$953 licence in the United States.

Australian Model

The IIROC Notice does not include any information about Australia. We believe it is instructive to include Australia in this discussion if for no other reason than it is a smaller market than the US, UK or Canadian markets. Like Canada, Australia is also reviewing options regarding advisor proficiency.

Australia has about 18,000 advisors compared to the 27,000 in Canada. The majority of advisors are employed by banks and AMP, a large financial services firm. The Australian Securities and Investments Commission (ASIC) is currently reviewing its proficiency model and there appears to be a general consensus that a more uniform and formalized approach would be beneficial. For example, one idea being studied is the introduction of a national proficiency test along the lines of those required of advisors in the US and UK. This review follows the issuance in 2011 by ASIC of a consultation paper (CP 153) titled "Licensing: Assessment and professional development framework for financial advisors" which was motivated by the losses investors sustained following the 2008 financial crisis as well as feedback on the quality of the advice being provided to investors.

The regulatory document that governs the proficiency program is Regulatory Guide 146 which requires all Australian Financial Services (AFS) licensees (i.e. securities firms) to ensure that their representatives are adequately trained and competent and sets out the minimum training standards for financial advisors. Generally this involves taking courses for which there are numerous commercial and college providers as well as training programs within the larger firms. ASIC approved courses and providers were maintained up to 2012 in an ASIC online register. While no longer maintaining the register, ASIC still requires courses to be accredited by assessors who are themselves approved by ASIC.

While Australia appears to be moving towards a proficiency model more similar to that in the US and UK, there is no indication that the Canadian model characterised by a single commercial proficiency provider is being considered. Leaving aside the question of whether Australia will adopt a national exam, the key points for this discussion are:

1. When considering economies of scale as the IIROC notice does, it is worth noting that the number of advisors in Australia is only two thirds the number of advisors in Canada.
2. There are over one hundred financial education and training providers listed on the ASIC register.
3. It is also instructive to review the cost of courses in Australia. One example is the Professional Stockbrokers Program which is delivered by a private firm under the mantle of the Australian Stockbrokers Association (ASA, the IIAC equivalent). The educational program for those seeking to qualify as financial advisors includes a core course covering the requirements of RG146 plus, amongst a choice of specialties, an Accredited Derivatives

Advisor Level 1 course. The cost of both these certifications that lead to a diploma from the ASA is AU\$790 and AU\$380 respectively or AU\$1,170 in total (CDN \$1,158).

The Canadian model is more than three times more expensive.

Recommendations

Below are our Ten Recommendations

1. **Differentiate Services.** The services provided by Moody's fall into three categories:
 - a. **Course Content.** The development of courses is influenced by IIROC's "Education and Proficiency Committee" which has representatives from IIROC, industry firms and Moody's.
 - b. **Course Delivery.** Moody's courses are now delivered almost exclusively online.
 - c. **Exam Administration.** Moody's designs and delivers online examinations. They are proctored in many locations across the country.

These functions should be evaluated separately with careful consideration of how they are best to be provided.
2. **An IIROC Focus on Licensing.** IIROC should continue to work in partnership with industry stakeholders to review and amend licensing requirements in light of the numerous and ongoing changes in products, regulations and standards of advice. An appropriate solution may be providing IIROC's Education and Proficiency Committee with a suitably enhanced mandate. The focus would be concentrated on describing the appropriate knowledge and skill sets required by the various categories of licence holders. Flowing from this process, would be the prescription of examination content. All exam questions would be approved by IIROC.
3. **Course Content Development.** With IIROC continuing to specify the expertise and skills it deems necessary for industry professionals, the content of licensing courses will follow naturally. Many commercial vendors, colleges and in-house training departments are capable of creating the requisite course content. Moody's Canada may continue to dominate this area given the vast collection of intellectual property acquired over the past forty years coupled with the strength of their US parent. Notwithstanding, the immediate introduction of other vendors will provide a mechanism for constant improvement in content and delivery along with competitive pricing.
4. **Course Delivery.** Multiple vendors will provide the learning alternatives available in other jurisdictions. Existing professionals may rely entirely on self-study programs sharpened by practicing with examination challenge

services. Busy executives may prefer classroom or weekend seminars while younger entrants may be completely satisfied with virtual classroom options.

5. **Examination Administration.** It is essential that the independence and integrity of the examination and certification process be maintained. IIROC will ensure this by either contracting with an independent examination provider such as Prometric, or by licensing selected education service vendors to also provide the examination setting and proctoring service. Care needs to be taken with the latter alternative so that a clear separation is created within any combined service vendor in order to avoid conflicts of interest between the education and examination functions. This could be achieved by contractual guarantees underpinned by a requirement for periodic third-party audits.
6. **Funding.** Any additional funding required by IIROC should be obtained from licensing fees and these could be collected for IIROC by the examination service providers.
7. **Minimize Conflict of Interest.** The status of the CECAP, the Continuing Education Course Approval Process, should be examined. CECAP should be a service independent from any education vendor. Alternatives to CECAP could be to have the process managed by IIROC or contracted by IIROC to an independent third party.
8. **Amend National Instrument 31 – 103.** This document adopted by the various provincial regulatory authorities prescribing Moody's as the sole provider of certain examinations (although not courses) needs to be amended. Providing that there was agreement at the Canadian Securities Administrators level on the desirability of amending the examination process, the amendment would be fairly mechanical, possibly replacing the wording "CSI Global Education Inc." with "an examiner approved by IIROC".
9. **Streamline Advisor Licensing.** The Canadian securities industry would be well served by the development of a comprehensive licence along the lines of the US General Securities Representative in order to provide Investment Advisors with a functional background in all relevant products and to ensure greater capability for the Investment Advisor to manage each client's overall portfolio mix.
10. **Back Office Licensing.** An omission in current Canadian course offerings is the lack of training for operational personnel. This is now required in the US (the Series 99) for senior operations personnel, not only for those working in the industry, but also outsourced service providers. The operations course previously sponsored by the CSI is no longer available.

Training in operational processes is becoming an increasingly important part of the risk management practice. Operational personnel are at the forefront of the risk management process as the type and quantity of new instruments proliferates. The banking industry has clear guidelines on best operational practices as part of the Basel III requirements. The Canadian lack of operational training should be remedied by requiring senior operational staff and outsourcing providers to complete an appropriate course and exam. This is already required of Chief Compliance and Chief Financial Officers.

Appendix A

Smarten Up Institute Inc.

Launched in 2010, [Smarten Up Institute](#) is the independent Canadian provider of financial services training. SUI's clients include regulators, banks, credit unions, correspondent firms and small dealers. The company is owned by its employees, a model that has provided an incentive for experienced industry practitioners and training specialists to write courses, teach and provide advice. Some trainers and authors view this involvement as "a give back" to an industry that has provided them so many opportunities and that they love.

Smart Direct® is SUI's proprietary online learning management system. Using the Internet, the system delivers courses and examinations to students and provides SUI client firms with administrative tools and reports. A distinguishing feature of Smart Direct® is the ease with which changes to course materials and examinations can be uploaded in real time. On successful completion of industry accredited courses, students receive an electronically issued certificate that is used to obtain continuing education (CE) credits.

Smart Talk® is an SUI virtual classroom in which subjects of topical interest are presented and debated, for example High Frequency Trading. Another innovation has been the **Smart Mentor Program®** providing an avenue for "up and coming" stars to obtain advice from the industry's senior players. A recent example has been SUI's sponsorship of the Investment Industry Association of Canada's "**Top Under 40**" program and the donation of a Smart Mentor Program® to the winner of this year's competition.

Classroom courses provide a major portion of the company's revenue. Client firms select courses from the published syllabus or request hybrid courses constructed from modules taken from several courses to meet specific requirements. Classroom courses are held in all the major Canadian cities using facilities at either colleges or conference spaces. A recent growth area for SUI has been delivering seminar programs for larger firms to assist them in effectively assimilating complex regulatory change and highlighting the attendant implications to their business. Whether delivered in a classroom or seminar format, the company uses innovative training techniques to make dry subjects interesting and engaging for participants. These techniques include role playing, gamification and dramatization.

People: Laurie Clark founded SUI in the wake of the 2008 financial crisis with the thesis that the Canadian investment industry should have better educational resources available to it. Small dealers and correspondent firms were especially having difficulty accessing expertise. Laurie's background includes senior management roles at Penson Financial, Dataphile Software (now Broadridge), IBM Global Services (US), RBC Dominion and Wood Gundy. The employee owned model opened the way for many industry professionals to become involved including a past president of CDS, several Chief Financial Officers, Traders, Retail Trainers, Academics and IT Specialists.

List of Smarten Up's Courses:

Course Title	Type of course
A Guide to Understanding the Derivatives Market	on-line
Accounting for P3's	Seminar
Advanced Company Evaluation	Seminar
Advanced Exchange Traded Funds	on-line
Anti-Money Laundering	on-line
BASEL III	Class
BASEL III	on-line
Branch Manager - Regulation, Governance, Duties and Responsibilities	Class
Canadian Securities Professionals Course	class - advanced course for licensing
Carrier and Correspondent Business and Relationships	Class
Communication Seminar	Seminar
Compliance for the Financial and Securities Industry (Levels 1, 2 and 3)	Class
▪ Introductory Level I	Class
▪ Intermediate Level II	Class
▪ Advanced Level III	Class
Compliance and Audit	Class
Corporate Actions and Entitlements	Online
Corporate Finance	Class
Corporate Investment Decision Making	Class
CRM II	Class
CRM II	on-line
Crowdfunding	Seminar
Data Structures and Technology Fundamentals for the Financial and Securities Industry	Class
Debt Instruments	on-line
Derivatives	Class
Dodd – Frank Act	Class
Dodd – Frank Act	on-line
Ethics for Representatives of Investment Dealers	on-line
Ethics_Acting with Integrity	on-line
Ethics_Best Practices	on-line
Ethics_Borrowing Money from Clients	on-line
Ethics_Conflicts of Interest	on-line
Ethics_Control or Authority over Financial Affairs of Clients	on-line
FATCA Lite	on-line
Finance and Financial Reporting	Seminar
Financial Literacy	Seminar

Financing a Securities Firm - Asset and Risk Exposure, Cash Management, Risk and Controls	Seminar
Forex	on-line
Full Fat FATCA	Class
Full Fat FATCA	on-line
Global Securities: Custody	Class
Global Securities: Trading & Settlement	Class
▪ Introductory Level I	Class
▪ Advanced Level II	Class
Hedge Funds	Class
Investment Advisor Assistant - Regulation, Governance, Duties, Surveillance	Class
Inside Canada's Mutual Fund Industry	Class
Inside Canada's Securities Industry	Class
▪ Introductory Level I	Class
▪ Advanced Level II	Class
International Clearing and Settlement	Class
Introduction to Exchange Traded Funds	on-line
Introduction to Hedge Funds	on-line
Introduction to Options	on-line
Introduction to Pensions and Infrastructure	Class
Introduction to Private Public Partnerships	Class
Investment Analysis	Class
Leadership - Professional Development	Seminar
Life of a Trade	Class
Mutual Funds and Structured Products	Seminar
Mutual Fund Regulation & Governance	Class
Mutual Fund Regulation and Governance	Online
Overview of ETFs	Class
Overview of Global Securities Services	Class
P3 Practice Guidelines	Class
Options based Portfolio Strategies - Advanced Level	on-line
Prime Brokerage	Class
Regulatory Development - Law, Disclosure, Client Management, Documentation, Communication	Class
Repos and Reverse Repos	on-line
Science of ETFs	Class
Securities Lending - National and International	Class
Seniors - Aging and Long Term Care Planning	on-line
Social Media: Regulation and Governance for the Financial Professional	on-line
The Art of Communication for the Financial Professional	Class
The Evolution of Money - A History Lesson	on-line
The US and European Regulatory Framework	on-line

Project Management: Psychology and Emotional Intelligence	Class
Trade Supervision - Regulation, Governance, Supervisory Duties, Surveillance	Class
Trading Equities	on-line
Trading Strategies and Compliance Procedures for Leveraged ETFs	Online
Treasury	Class
Trusts, Trust Officers, Trust Agencies, Regulation and Governance, Compliance	Class
UMIR RULES	Seminar
Understanding Investment Returns	on-line
Understanding Investment Returns	Class
Venture Capital Finance	Class
Workplace Violence and Harrassment - Bill 168	Seminar and Executive Workshop
Year End Tax	Class

Licensing Courses: Immediate areas of interest where Smarten Up would contribute expertise and resources to the delivery of licensing courses are:

1. Institutional Sales Training;
2. Advisor Assistant Training;
3. Advisor 30 and 90 Day Training Programs;
4. The Conduct and Practices Course;
5. Regulatory Compliance;
6. Chief Compliance Officer;
7. Chief Financial Officer;
8. Operations Essentials (i.e. CDN equivalent to US Series 99).