

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

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Operations
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Retail
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17-0095
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Continuing Education – Consultation on PLR Proposals and Ongoing Review

1. Introduction and Overview

Proficiency is a cornerstone of the IIROC regulatory scheme. 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.

A predecessor of IIROC, the Investment Dealers Association of Canada, introduced the Continuing Education (“CE”) program, with the first cycle beginning on January 1, 2000, “to ensure that securities industry professionals remain current and knowledgeable about legal and compliance issues, new products and emerging industry trends.”¹

¹ See IDA News Release, IDA Announces Accreditation Process for CE courses, October 12, 2004.



IIROC is engaged in a regulatory review of its CE program. This review is being conducted in phases that coordinate with phases of the Plain Language Rule rewrite (“PLR”) project.

IIROC published the entire proposed PLR rule book for comment on March 9, 2017 (the “PLR Notice”).² The comment period for the PLR Notice closes on May 12, 2017.

The CE-related PLR proposals (the “PLR Proposals”) are set out in draft PLR Rules 2651–2663. These proposals are informed by the following policy objectives:

- our commitment to high standards of proficiency, professionalism and ethics
- reinforcement of the Conduct and Practices Handbook (“CPH”) as the cornerstone of our proficiency platform
- our desire to encourage ethics training
- modernization and simplification of the CE program.

In formulating the PLR Proposals, we considered, among other things:

- recommendations previously made by the Education and Proficiency Committee
- comments raised in the consultations, roundtables and comment letters relating to the proficiency assurance model regulatory review conducted by IIROC in 2014 and 2015
- comments raised in consultation with the CE Subcommittee
- approaches taken by certain other comparable regulators.³

IIROC continues to target January 1, 2018 for implementation of the CE-related provisions of PLR. As noted in the PLR Notice, the next CE cycle will begin on January 1, 2018. Subsequent phases of the CE review will occur after this date.

² IIROC Notice 17-0054 – Rules Notice – Request for Comments – Dealer Member Rules - Re-publication of Proposed IIROC Dealer Member Plain Language Rule Book.

³ We reviewed the existing and proposed CE requirements of a number of regulatory organizations, including the following: the Mutual Fund Dealers Association of Canada (“MFDA”), the Financial Industry Regulatory Authority (“FINRA”), the Australian Securities and Investments Commission (“ASIC”), the Law Society of Upper Canada (“LSUC”) and the Chartered Professional Accountants of Ontario (“CPAO”).



IIROC believes that an effective CE program follows three guiding principles:

- CE is meant to build on and enhance baseline proficiencies
- CE should be relevant, with its parameters determined using a broad and principles-based approach
- CE should be timely and ongoing, which includes having some CE in each cycle.

In this consultation paper, we use these principles to assess the current program and frame certain proposals and consultation points.

2. Comments We Are Seeking

This paper discusses certain CE-related PLR Proposals, within the context of broader CE review considerations, to assist stakeholders in commenting on these CE-related PLR Proposals. We have identified these matters with text in boxes. The comment period for the PLR republication, including the PLR Proposals, closes on May 12, 2017. Commenters should submit their comments on the PLR Proposals by May 12, 2017, in the manner outlined in the PLR Notice.

This paper also raises additional matters to consider, in some cases to inform future guidance, and in some cases for consideration in subsequent phases of the CE review following PLR implementation. We have identified these matters in italic text. Comments relating to these other matters may be included with comments on the PLR Proposals submitted by May 12, or may be provided separately by June 30, 2017.

3. Goal and Scope of CE

There are two types of IIROC CE courses:

- Professional Development (“PD”) courses can deal with product groups, services and investment and financial strategies that may be offered to clients or managerial skill for individuals.⁴
- Compliance courses focus on four major topic areas: review of critical regulations and application, regulatory changes, rules relating to new products offered by the dealer member, and ethics.⁵

⁴ Rule 2900, Part III – Guidelines for the Continuing Education Program, The Professional Development Course, C.1.

⁵ Rule 2900, Part III – Guidelines for the Continuing Education Program, The Compliance Course, C.1.



The PLR Proposals state that the goal of CE is enhancement and further development of baseline licensing proficiencies of Approved Persons.⁶ The PLR Proposals provide that Compliance training covers ethical issues, regulatory developments and rules governing investment dealer conduct.⁷ The PLR Proposals provide that PD training is to foster learning and development in areas relevant to investment dealer business.⁸

The PLR Proposals signal a broadening of IIROC’s perspective on what should qualify as CE and implementation of a principles-based approach to determine what topics qualify.

Current Rule 2900 limits PD training to courses relevant to the Approved Person’s role in the investment industry.⁹ Further, PD training is limited to product groups, services and investment and financial strategies that the individual may offer to clients, and managerial skills for individuals.¹⁰

In contrast, the PLR Proposals promote all training relevant to investment dealer business (i.e., the business of dealing and advising in securities). This means that an individual could take courses in preparation for professional growth and development in future roles. In addition, qualifying topics would extend beyond those in Rule 2900 and would include a broad range of skills and knowledge training. As a result, Approved Persons subject to CE requirements (“CE Participants”) will have greater choice and flexibility and will be able to receive credit for a broader range of training suited to their interests, development plans and aspirations.

IIROC seeks comment as to the goal of CE, and the broader scope of what qualifies as CE, under the PLR Proposals.

a. Recognition of CE Requirements of Other Regulated Platforms

The broad scope for PD training set out in the PLR Proposals invites recognition of CE requirements of other regulated platforms, such as training qualifying for financial planning or insurance CE requirements. The PLR Proposals could permit this for training that is also relevant to the business of dealing and advising in securities.

IIROC seeks comment on the recognition of relevant CE accredited by other regulators. .Comment is also welcome regarding the desirability and benefit of extending recognition to CE completed to

⁶ PLR 2651(1).

⁷ PLR 2653(1)(i).

⁸ PLR 2653(1)(ii).

⁹ Rule 2900, Part III K.2.

¹⁰ Rule 2900, Part III – Guidelines for the Continuing Education Program, The Professional Development Course, C.1.



fulfill requirements of other regulated platforms where the course may not be directly relevant to the business of dealing and advising in securities. Comments will inform guidance to be issued by IIROC and future rule amendments, as appropriate.

b. Compliance Manual Training

There is a broad spectrum of approaches taken by Dealer Members to training to fulfill Compliance CE requirements. Many Dealer Members deliver in-house compliance seminars and webcasts so that the training will be customized to the firm's business, the employee conduct desired by the firm and issues and developments the Dealer Member wishes to focus on. Clearly this is valuable CE training. In contrast, some dealers have questioned whether simple review of the firm's compliance manual should qualify for Compliance CE credit.

If continuing education is by definition a continuation of the knowledge one should have before conducting registerable activities, can review of the Dealer Member's compliance manual be considered CE? Should an Approved Person already know the requirements and information set out in the compliance manual? Should review of subsequent updates to the compliance manual qualify for CE credit?

The PLR Proposals would recognize compliance manual training delivered by the Dealer Member through in-person seminars or webinars that are accompanied by a method of evaluation.¹¹

IIROC seeks comment on the PLR Proposal relating to compliance manual training. Comments will also inform guidance to be issued by IIROC on this subject.

c. Emphasis on Ethics

Normally, CE Participants may not repeat CE courses for credit. The PLR Proposals permit CE Participants to repeat and receive credit for the same approved ethics courses, in two cycles.¹²

The PLR Proposals seek to encourage development of ethics training resources by education providers and Dealer Members, and to encourage CE Participants to take ethics training.

IIROC invites comment on the PLR Proposal permitting CE Participants to repeat ethics courses.

IIROC will issue guidance outlining the process for education providers seeking approval for such courses. Qualifying course content would:

¹¹ PLR 2651(2).

¹² PLR 2655(5).



- relate principally to ethics, ethical conduct, professionalism and professional responsibility
- be relevant to the business of dealing and advising in securities
- be updated and refreshed each cycle.

4. Two-Year CE Cycle

The CE program currently runs on three-year cycles, with Cycle 1 having begun on January 1, 2000. During each cycle, CE Participants may be required to complete some combination of 12 hours of Compliance CE and 30 hours of PD training, depending on their Approval Categories.

Based on analysis and recommendations from the IIROC Education and Proficiency Committee in 2010, and IIROC's desire to make CE more current and ongoing, the PLR Proposals would reduce the three-year cycle to a two-year cycle beginning on January 1, 2018.¹³ We believe that a shorter cycle allows for greater retention of training, and more immediate application of learning and acquired skills within the industry.

The reduction in the length of the cycle is accompanied by a change in Compliance credit hours from 12 to 10¹⁴, and PD credit hours from 30 to 20 per cycle.¹⁵

In addition, the PLR Proposals remove the three-year grace period for entry into the CE program. An Approved Person will enter the current two-year cycle upon approval, unless he or she is approved within the last six months of a cycle.¹⁶ This simplifies the system and ensures timely entry into the system for newly-Approved Persons.

There is a range of approaches to CE cycle length among the other regulators:

- the MFDA has proposed a two-year continuing education cycle (beginning on December 1 of any odd numbered year)¹⁷
- FINRA maintains an annual cycle for the firm element, and a three-year cycle for the regulatory element¹⁸

¹³ PLR 2653(2).

¹⁴ PLR 2654(2).

¹⁵ PLR 2654(3).

¹⁶ PLR 2658(2).

¹⁷ See <http://mfda.ca/bulletin/0711-p>., proposed MFDA Rule 1.2(c).



- ASIC has an annual cycle¹⁹
- the LSUC has an annual cycle²⁰
- the CPAO has a three-year cycle, with minimum annual requirements.²¹

IIROC invites comments regarding the reduction of the CE cycle to two years and related amendments in the PLR Proposals.

5. Accreditation (Continuing Education Course Accreditation Program)

Continuing education program providers may seek IIROC accreditation of their courses. IIROC accreditation is optional, but continuing education providers may not hold out programming as being eligible for a specific number of IIROC CE credits, or provide misleading information about accreditation, if the specific course has not been accredited by IIROC.

The Continuing Education Course Accreditation Program (“CECAP”) was launched in 2004 and provides accreditation services to course providers. Providers related to IIROC, such as IIROC advisory committees, may seek accreditation directly from IIROC without using the CECAP service. All accreditations, whether via CECAP or directly by IIROC, are based on the substantive criteria set out in Rule 2900.

The CECAP assets were purchased by CSI Global Education Inc. (now Moody’s Analytics Global Education (Canada) Inc.) (“CSI”) from a third party in 2006. CSI entered into a services agreement with the IDA (now IIROC) that same year to continue the program. CSI is a provider of continuing education courses and submits its courses for accreditation via CECAP. CSI and IIROC have certain procedures in place to address this conflict of interest.

¹⁸ See Consolidated FINRA Rulebook, Rule 1250 Continuing Education Requirements [finra.complinet.com/en/display_main.html?rbid=2403&element_id.=10204. Note that initially the Regulatory Element is required to be completed within 120 days after the second registration anniversary date, and every three years thereafter.

¹⁹ See ASIC Market Integrity Rules, (ASX Market) 2010, as in force on 27 October 2015, s.1.4.3 Definitions, focus on “Responsible Executive”. Note that requirements are prorated based on number of months as Responsible Executive. Further, there are requirements of “Accredited Advisors” as determined by ASIC [https://www.legislation.gov.au/Details/F2016C00249].

²⁰ For the LSUC, see <http://www.lsuc.on.ca/with.aspx?id=905>. Note that requirements are prorated based on number of months in a full fee category or otherwise providing professional legal services.

²¹ See <https://www.cpaontario.ca/cpa-members/obligations/continuing-professional-development>.



Through an arm's length arrangement with contractors, CSI administers the application intake, processing and accreditation process. CSI conducts two separate reviews of each course submitted for accreditation and makes a recommendation to IIROC. IIROC reviews each course and makes a final determination as to whether a course should be accredited, and the number of credits merited.

CSI collects fees for the services, charged directly to the applicant.²² IIROC does not pay for these services and receives no fees for these reviews.

CSI processes a high volume of applications. CSI processed 582 initial applications in 2016 for courses that ranged from one half hour to multiple days in duration.

IIROC wishes to address the conflict of interest presented by CSI's involvement in CECAP. IIROC has considered various alternatives. These alternatives range from implementation of additional conflict procedures and changes to the CECAP program, to conducting an RFP to identify a new provider of accreditation services, to assuming the accreditation function.

IIROC proposes to bring the substantive CE course review function in-house and conduct the accreditation reviews itself. IIROC proposes to outsource administration of the application process if possible. IIROC further proposes to establish fees based on a cost recovery model.

Assumption of the substantive review functions by IIROC would facilitate gains in efficiency and strategic alignment of regulatory activities.

IIROC invites comment with respect to this proposal to bring the substantive review of CE courses in-house and implement a cost recovery model. This proposal is separate from the PLR Proposals and does not impact IIROC Dealer Member rules.

6. Voluntary Participation Program

The voluntary participation program ("VPP") was introduced in order to allow formerly Approved Persons, and persons who have not yet been approved on the IIROC platform, to extend the validity period of the Canadian Securities Course ("CSC") and the CPH beyond set time limits for the purposes of applying or re-applying for registration.

Voluntary participation in CE keeps the CSC and CPH valid until the end of the first year of the next CE cycle. In other words, an individual can avoid rewriting a lapsed CSC and CPH by

²² See <http://www.cecac.ca/cy4//en/index.php?mod=fees> for current Pricing Schedule.



taking courses on the VPP list.²³ The VPP may be used to extend the validity of these courses indefinitely.²⁴

Under the PLR Proposals, only the CSC would be revalidated through the VPP.²⁵ IIROC is of the view that individuals should rewrite the CPH if the proficiency has lapsed pursuant to IIROC rules. The CPH is a cornerstone of the IIROC proficiency regime. The foundational content of the CPH deals with ethics and conduct on the IIROC platform. IIROC rarely grants exemptions from the requirement to write or rewrite this course because of its importance and because it is difficult to demonstrate equivalent knowledge through experience or other courses.

IIROC seeks comment on the PLR Proposal to restrict the VPP to the CSC. IIROC also invites input for subsequent phases of the CE review as to whether the VPP for the CSC continues to be of value or whether the program should be curtailed. Should there be a limit on how many years or CE cycles an individual may rely on the VPP? Are the criteria for approval of VPP appropriate? Should courses be evaluated on criteria of substantial equivalency, more advanced learning or some other factors? This input may inform guidance and future rule amendments.

7. Who should be subject to CE requirements?

a. Grandfathering

When the IIROC CE program was introduced, individuals registered in a trading capacity for more than ten years as of January 1, 2000 were grandfathered, or relieved, from the requirement to complete the new PD training requirements. They are required to complete Compliance CE.²⁶

Individuals previously grandfathered from the PD requirement under Rule 2900, Part III, C.2, who become re-approved after a gap of more than three years, are not exempted from the PD requirement unless they participated in the VPP during the gap. These individuals are not required to rewrite the CSC and the CPH, and maintain the grandfathering from the PD requirement when they become re-approved.²⁷

²³ See

http://www.iiroc.ca/industry/continuingeducationmember/Documents/CoursesRecognizedVoluntaryParticipation_en.pdf

²⁴ Rule 2900, Part III, G.

²⁵ Note: On implementation of the PLR Proposals, IIROC will make changes to the eligible course list and course review policies.

²⁶ Rule 2900, Part III, C.2.

²⁷ Rule 2900, Part III, E.3.



The PLR Proposals eliminate the existing provision in Rule 2900²⁸ permitting former Approved Persons to use the VPP to regain their grandfathered status on reapproval after a gap in registration.²⁹ The PLR Proposals maintain the grandfathering treatment for individuals who maintain continuous registration.

IIROC has noted that other regulators that provide grandfathering relief from CE requirements do so only on a temporary basis. IIROC recognizes that elimination of grandfathering treatment in the CE context would impose a new burden on a group of Approved Persons. IIROC also believes that continuous learning and development and keeping abreast of industry and regulatory changes are critical.

IIROC seeks input as to whether we should maintain grandfathering relief in the PLR Proposals or subsequent amendments.

b. Extension of CE requirements to other approval categories

Partners, Directors and Officers approved in non-trading and non-supervisory categories of registration are exempt from CE requirements.³⁰ Ultimate Designated Persons and Chief Compliance Officers are subject to Compliance CE requirements. Institutional representatives and traders are exempt from PD CE requirements. Institutional Supervisors are not subject to any CE requirements.

The PLR Proposals introduce certain proficiencies for the institutional segment of the market. This dovetails with work that has been done to improve institutional training based on industry feedback³¹ and views that institutional registrants should not be excused from proficiency requirements because of the sophistication of certain clients. IIROC also recognizes that there are significant differences between the retail and institutional segments of the market.

In considering comparator organizations, IIROC notes that CE is generally required of individuals who are providing regulated or professional services directly to clients (either retail or institutional). However, there is an argument to be made that all registered persons should be required to complete some form of CE, irrespective of their approval category.³²

²⁸ Ibid.

²⁹ PLR 2660(2).

³⁰ Rule 2900, Part III, C.1.

³¹ See IIROC Notice 15-0036 – IIROC Institutional Proficiencies Project.

³² The MFDA has proposed that CCOs and UDPs not registered as dealing representatives under Canadian Securities Legislation, or designated as a Branch Manager or Alternate Branch Manager under MFDA Rules must complete MFDA compliance credits every cycle (see http://mfda.ca/bulletin/0711-p_proposed_MFDA_Rule)



To inform subsequent phases of our regulatory review of the CE program, IIROC invites input as to whether additional categories of Approved Persons, such as institutional registrants, should be subject to different CE requirements.

8. Completion of CE in each cycle

a. Exam Rewrites – CSC and CPH

Individuals who are required to rewrite the CSC and the CPH in order to re-qualify for IIROC approval may apply these two courses towards the CE requirements for the cycle in which they were rewritten.³³ These individuals would have been out of the industry or not conducting registerable activity requiring the courses for a period of time.

IIROC is of the view that CE Participants should complete some CE in each cycle to continue learning and development beyond baseline licensing proficiencies. IIROC does not support a lengthy postponement of CE.

The PLR Proposals reduce by half the amount of credit that former Approved Persons may receive for rewriting the CSC and CPH. Under the PLR Proposals, former Approved Persons rewriting the CSC and CPH may receive half of the required PD credits (10 hours), and half of the required Compliance credits (5 hours) to be applied to the current cycle when written.³⁴

IIROC seeks input on the PLR Proposals regarding credit for rewriting the CSC and CPH.
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b. Carry-Forwards

In some instances, PD courses taken in one cycle may be used to satisfy the PD requirement in the following cycle, or “carried forward”. Compliance courses may not be carried forward.³⁵

Utilizing existing carry forward provisions in Rule 2900 can result in lengthy gaps in CE. IIROC also wishes to permit CE Participants to receive some credit for comprehensive and compelling training that is only available at the end of a cycle and may not be offered regularly. The PLR Proposals reduce carry forward of PD credit hours to half, permitting ten

1.2.6). Further, FINRA has proposed to clarify that all registered persons are required to satisfy the regulatory element. This is based on a belief that “all registered persons, regardless of their activities, should be subject to the regulatory element of the CE requirements so that they can keep their knowledge of the securities industry current” (see <http://www.finra.org/sites/default/files/SR-FINRA-2017-007.pdf>, p.30 of 623).

³³ Rule 2900, Part III, E.2.

³⁴ PLR 2660(1).

³⁵ Rule 2900, Part III, L.



hours to be carried forward,³⁶ with a relieving provision for the first two-year cycle beginning on January 1, 2018.³⁷

IIROC seeks comment regarding the carry forward reductions in the PLR Proposals and input as to whether they should be further curtailed to simplify the system and encourage frequency of CE.

9. Administration

Dealer Members are responsible for administering, tracking and reporting CE compliance, with penalties imposed on Dealer Members for non-compliance. Dealer Members must update IIROC:

- within 10 days after the end of the month the Dealer Member is aware of names of participants who have satisfied all CE requirements for a completed cycle
- 10 business days maximum after the end of cycle with information of individuals who have not completed Compliance course and placed under supervision.³⁸

When an individual has not completed his or her required course by December 31st of the third year of a cycle, the individual must be placed under mandatory supervision and the sponsoring firm is assessed a \$500 fine. For every subsequent month of non-completion, the sponsoring firm is fined \$500.³⁹

If non-completion continues for six months, the fine ceases to accumulate and the individual's approval is suspended until he or she has completed the required courses.⁴⁰

The PLR Proposals would reduce the regulatory burden by discontinuing the monthly reporting requirement by Dealer Members.⁴¹ However, the onus remains on Dealer Members to ensure compliance with CE requirements by sponsored individuals.

In addition, the PLR Proposals replace the monthly fee system with a one-time fee of \$2500, along with an automatic suspension.⁴²

³⁶ PLR 2656(2)(ii).

³⁷ PLR 2653(3).

³⁸ Rule 2900, Part III, I.

³⁹ Rule 2900, Part III, M.

⁴⁰ Ibid.

⁴¹ PLR 2657(2).



Generally speaking, regulatory organizations have some kind of fee system in place in order to deal with member non-compliance. Normally fees are levied on member firms, with a corresponding suspension of registration or provision of services on the delinquent individual. Differences lie in the amount of the fee for non-compliance, as well as how non-compliance is established.

IIROC seeks comment on the PLR Proposals relating to Dealer Member reporting and the consequences for non-compliance.

10. Comments

The comment period for the PLR republication, including the PLR Proposals, closes on May 12, 2017. Commenters should submit their comments on the PLR Proposals in the manner outlined in the PLR Notice by May 12, 2017.

Comments relating to the other matters set out in this Notice, which we will consider in future phases of our CE review, may be included with comments on the PLR Proposals submitted by May 12, or may be provided separately in writing and delivered by mail or email to:

Sonia Keshwar
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Commenters should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiloc.ca.

If you provide separate comments for future phases of the CE review, we ask that you submit them by June 30, 2017.

You may also contact Sonia Keshwar with any questions you may have about this Notice, the PLR Proposals or the CE Review.

⁴² PLR 2663.