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VIA EMAIL

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Dear Madame:

Re: Consultation Paper – Competency Profiles for Registered Representatives and Investment Representatives, Retail and Institutional (the “Consultation Paper”)

The Canadian Advocacy Council of CFA Societies Canada¹ (the “CAC”) appreciates the opportunity to provide the following comments on the Consultation Paper. Please note that most of our comments below relate to the proposed *retail* registered representative (“RR”) and investment representative (“IR”) competencies.

We support the progressive proficiency framework, as we believe it focuses on minimum standards that are responsive to innovation, builds professionalism and ensures skills development while encouraging the delivery of high-quality and ethically centered investment advice, regardless of the registration category.

We understand that the Consultation Paper is the first phase of a multi-year project to develop competency profiles across IIROC’s registration categories, with this phase focusing on RRs and IRs. A “competency profile” has been described as a set of knowledge, behaviours and skills that an individual must have to perform effectively in their role. Some of IIROC’s stated purposes in publishing the profiles are to represent a benchmark to allow IIROC to evaluate course providers and allow Dealer Members to better understand proficiency expectations, and in particular those associated with relationship skills, regulatory skills and technical skills in a number of areas.

¹ The CAC is an advocacy council for CFA Societies Canada, representing the 12 CFA Institute Member Societies across Canada and over 18,000 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 177,600 CFA charterholders worldwide in 165 markets. CFA Institute has nine offices worldwide and there are 160 local member societies. For more information, visit www.cfainstitute.org.

We agree with a number of the stated knowledge and skills competencies for RRs and IRs and have made a few specific additional suggestions below. As a general comment, we note that in addition to regulatory, relationship and technical skills, there are also personal skills that are applicable (and indeed important in our view) to all registration categories. As an example, CFA Institute has its own competency framework, which is used to inform ongoing professional development². Some of the personal competencies include items such as collaboration, communication, curiosity and leadership, which could be considered for part of IIROC's relationship competency framework as well.

The proposed skills relating to suitability reference an expectation that a representative will evaluate how each product performs against benchmarks, indexes and other comparable products. The review and understanding of alternative products are large aspects of the changes being made to National Instrument 31-103 *Registration Requirements, Exemptions, and Ongoing Registrant Obligations* ("NI 31-103") as part of the client-focused reforms. In order to consider such products, representatives will need a specific knowledge competency relating to its competitors' products, at least at a high level. In general, the knowledge competencies required for RRs and IRs for both KYC and KYP should align prospectively with those expected of dealers under the client-focused reforms, and we believe additional updating of the profiles is necessary in these areas.

The knowledge required under suitability includes a sub-competency for developing comprehensive investment recommendations. It includes understanding processes to choose a portfolio for clients, based on needs, goals and risk tolerance. In order to do so, we believe that representatives will also need to understand general portfolio management concepts relating to how portfolios are constructed and an awareness of the suitability of a particular investment for an investor's broader portfolio. Further specific knowledge requirements relating to investment performance disclosure and measurement (i.e. interpreting portfolio performance and evaluating performance against more than just benchmarks) would help support the expected skill of comparing and contrasting products with similar objectives and risk levels in order to evaluate performance and to recommend other products.

In addition, while knowledge of risk management processes and the methods used to deal with risk are listed with respect to the skills for comprehensive investment recommendations, given the importance of risk management, additional specific knowledge competencies should be considered, as well as specific skills and behaviours relating to educating clients on the importance of portfolio diversification.

The behavior and skills relating to both KYC and suitability refer to recognizing capacity concerns related to vulnerable persons and acting accordingly. This skill set should be complemented by a knowledge sub-competency which ensures RRs and IRs

² *Welcome to the CFA Institute Competency Framework*, online: CFA Institute
<<https://interactive.cfainstitute.org/cpd-framework-feedback>>

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have information on not only how to recognize potential capacity concerns but also help them ask their clients targeted questions and provide useful examples of fraud or exploitation. On a larger scale, we believe IIROC should work with securities regulators to take a more holistic view to enhancing available resources and supports to effectively address potential abuse of vulnerable clients, while recognizing that registrants with investment expertise may not in isolation be best suited to identify psychological symptoms of cognitive impairment.

With respect to the technical skills relating to market and product impact, we think the sub-competencies of VII (Characteristics and information on managed products), VIII (Characteristics and information on mutual funds) and IX (Characteristics and information on other investments) should be combined and made relevant across the product spectrum, and not limited to the listed product categories. The legal structure of a product is less important than the drivers of risk and return inherent in an asset or portfolio of assets and their accompanying risks.

Under the proposed sub-competency relating to complaint handling under relationship skills, there is a knowledge requirement for RRs and IRs to understand the roles of IIROC, OBSI and provincial regulators. While we agree that such knowledge is required, we believe that the role of all these organizations should be understood in a broader, purpose-led and structural context and not limited to the complaint process.

The sub-competency relating to conflicts of interest and ethics primarily relates to identifying conflicts to determine if additional actions are required and appears to be more of a “check-the-box” requirement than what is likely intended, particularly in light of prospective requirements in the client-focused reforms. It is important for RRs and IRs to think critically about ethical conduct and practices when conflicts and other ethical dilemmas present themselves that require thoughtful consideration. Given the sweeping changes being made to NI 31-103 with respect to conflicts of interest, we believe that additional consideration and expansion of this category is necessary. With respect to conflicts, RRs and IRs should at a minimum be aware of their firms’ “conflict inventory” and mitigation or avoidance requirements for each such conflict.

There are common threads between acting ethically and acting in a client’s best interests. While ethical actions are in part a regulatory skill, its classification as such does not reflect the reality (and empirical evidence) that an individual’s ability to deal with an ethical dilemma is also a technical skill that can be fostered, leading to statistically fewer incidences of misconduct at the individual level³, and a more trustworthy investment industry in aggregate. There should also be a technical skill requirement involving conflicts and ethics that discusses considerations for vulnerable clients, ethical decision making, conflict management and critical evaluation.

³ Zachary T. Kowaleski, Andrew G. Sutherland and Felix W. Vetter, “Can Ethics be Taught? Evidence from Securities Exams and Investment Adviser Misconduct”, online: (2019) MIT Management Sloan School < <https://mitsloan.mit.edu/shared/ods/documents/?PublicationDocumentID=7565>>
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Finally, given the importance and attention given by investors and advisors to ESG matters, we believe there should be a specific knowledge requirement for familiarity with basic terminology, ESG-features of investment products, and the various types of sustainable investing strategies with particular application when assessing portfolio suitability to consider environmental, social and governance matters. The importance of ESG issues is illustrated by the anticipated CFA Institute Disclosure Standards for ESG related features of investment products⁴.

We understand that the competency profile framework must occur in stages but observe the overlap between investment recommendations and some functions of a Portfolio Manager and Associate Portfolio Manager which are to be considered in a future phase. We also note the potential for investor confusion that arises from discretionary portfolio management provided by an IIROC registrant and believe that regulatory expectations and application should be harmonized between the IIROC and CSA platforms in this area going forward as a separate project.

Concluding Remarks

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

(Signed) *The Canadian Advocacy Council of
CFA Societies Canada*

**The Canadian Advocacy Council of
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<https://www.cfainstitute.org/en/ethics-standards/codes/esg-standards>>

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