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Consultation Paper - Competency Profiles for Registered Representatives and Investment Representatives, Retail and Institutional

Dear Ms. Keshwar,

Bourse de Montreal Inc. (the “Bourse” or “we”) welcomes the opportunity to comment on IIROC’s Consultation Paper on competency profiles for Investment Representatives (“IRs”) and Registered Representatives (“RRs”). The Bourse, Canada’s derivatives exchange, strongly supports IIROC’s efforts to strengthen the competency profile of all licensed representatives. Financial literacy is a core commitment of our organization and the Bourse has taken great strides over the last 20 years to foster education and knowledge of derivatives through the innovative design and development of educational videos and conferences, trading tools and simulators, guides and strategies. In addition, the Bourse has been an advocate for the development of the next generation to succeed in our industry with our Student Ambassador Program.

Our comments are based on the feedback gathered from market participants with whom we have discussed these issues over the years, as well as our own general observations and staff experiences within the industry. Feedback was also gathered from various educational content providers and facilitators involved in the options licensing process for representatives in Canada.

As IIROC and industry members have certainly observed, the percentage of options-licensed representatives has stagnated over the last decade, with only approximately 15-20% of RRs licensed to use options. Furthermore, of the ones who are licensed, we understand that very few are actively offering these products to clients.

The Bourse believes that options have a key role in today’s financial landscape in providing yield enhancement and risk management solutions to retail investors and that it would be in their best interest if full service brokers could more systematically include them as an added value in the full array of services they can offer.

In our survey of market participants, two common themes were presented as barriers to the financial community's involvement in listed derivatives: (1) education and training; and (2) course and licensing costs.

Education and Training

Canada is an outlier in that it is one of the only countries not to integrate an options-based curriculum within its core securities license course. Within the current framework, both RRs and IRs need to complete the Canadian Securities Course ("CSC") and the Conduct and Practice Handbook ("CPH") as minimum training, which do not include the training required to authorize RRs to advise their clients on the use of options.

If they wish to provide their customers with the possibility of using derivative products, including options, an RR must successfully complete the Derivatives Fundamentals and Options Licensing Course (the "DFOL") in addition to the mandatory CSC and CPH. Although the CSC does have a chapter on derivatives, it only broaches the subject cursorily and is insufficient towards developing knowledge in the field sufficient to advise clients.

In the U.S., the series 7 and 66 exams, the equivalent to the Canadian CSC and CPH, incorporate options-based material and their completion can lead to an RR being authorized to use Options to manage their clients' portfolios and investment objectives.

Although completion of the DFOL is mandatory for IRs employed by many discount brokers, very few of these IRs are provided the practical training that is required to proficiently answer client inquiries regarding options. This has a two-fold negative impact: first, it slows the development and ability of the IR to deliver quality service and, second, it limits the discount broker's ability to provide their clients with appropriate information regarding options trading. This is especially important considering the growth of online brokerage accounts due to the reduction in trading fees and the progressive trend toward self-managing our own investments.

In light of these concerns, the Bourse would like to make the following recommendations:

- 1) The Bourse has always been of the opinion that an advisor with no options license does not have access to important risk management tools and is missing opportunities to enhance clients' portfolio returns. It is in the best interest of clients to have access to more knowledgeable and sophisticated investment advisors. Our recommendation is to integrate the DFOL as part of the basic securities licensing course, thus making options knowledge mandatory for anyone who wishes to provide investment advice to the public.
- 2) Promote the benefits of continued education and training throughout the industry by issuing guidelines as to the material that must be covered in an options training course for newly licensed RRs and IRs.

- 3) Establish options-related continuing education criteria for RRs and IRs to maintain their licenses every 2 years. By way of example, RRs and IRs could be required to complete a CSI 30-credit course, such as the Futures Licensing Course or the Advanced Derivatives Market Strategies Course.
- 4) Push for all employees responsible for training options-licensed staff to have the necessary expertise to provide both theoretical and practical pedagogy by completing the CSI Certificate in Derivatives Market Strategies.

Course and Licensing Costs

Course and exam fees greatly vary between the U.S. and Canada and this is one of the major causes behind the low percentage of options-licensed RRs in Canada.

In the U.S., the path towards a securities license, which includes options training, will cost an approximate total of \$470 USD. This comprises the Securities Industry Essentials (a prerequisite), Series 7 and Series 66 exams. Conversely, in Canada, an options-licensed candidate must disburse approximately \$3840 CAD for course content and exam writing fees. This cost includes the CSC, CPH and DFOL courses.

The total investment in study time in Canada is negatively perceived in the industry as having a negative impact on an employee's productivity. A US-based licensed RR can invest up to 100 hours in preparing for their Series 7 and Series 66 exams,¹ whereas Canadian-based options licensed IRs and RRs can easily take up to 12 months to complete all courses and examinations.

In addition, each brokerage firm must register their licensed RRs and IRs in the National Registration Database. A licensed representative must be registered in each province in which they wish to serve clients, creating additional costs that are magnified when adding an options registration to the representative's folio.

In light of these concerns, the Bourse would like to make the following recommendations:

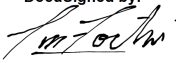
- 1) Eliminate the requirement for representatives to complete the DFOL and make the CSC the sole course required to obtain both equity and options licensing.
- 2) Move from an exclusive accredited educator-examiner model and to follow the example of other regulatory authorities by allowing multiple accredited educators, encouraging new entrants in the educational space which should result in a more affordable licensing process.
- 3) Identify mechanisms to reduce registration fees for persons wishing to do business in multiple provinces.

Increasing the number of RRs who are positioned to provide options advice to retail investors not only provides these investors access to prudent risk management tools, but also improves the liquidity of both the options and underlying equity markets, which is in the best interest of both the investor and their representatives' firms.

Strengthening the theoretical and practical knowledge IRs have of options through enhanced training modules and support will benefit the discount brokers' customer base by enabling IRs to provide them with better and more relevant information, thereby enabling those customers to better manage their own portfolios

The Bourse believes that by working together with IROC and participants, a balance can be reached that achieves the desired results for all parties and an improved competency model and standards.

We look forward to further dialogue.

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Luc Fortin

President and CEO, Montreal Exchange and Global Head of Trading, TMX Group

¹ <https://www.kaplanfinancial.com/securities/series-7-66/exam-details>