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## **Policies**

### **Part I of Policy No. 6 Proficiency Requirements**

The Board of Directors of the Association has approved the attached Part I of Policy No. 6 Proficiency Requirements to be effective immediately.

Policy No. 6 consists of two additional parts. Part II Course and Examination Exemptions and Part III The Continuing Education Program. Part II was brought into force on December 13, 1999 as set out in Bulletin #2664 and Part III was brought into force on January 1, 2000 as set out in Bulletin #2663.

Part I of Policy No. 6, Proficiency Requirements (“Part I”) consolidates into one policy document the various proficiency requirements currently found throughout the Association’s Regulations and By-laws (the “rules”). The goal of Part I is to consolidate and update these proficiency requirements which consist of both entrance thresholds and on-going requirements for individuals seeking approval in a category of registration and those individuals wishing to remain approved in that category. The Association recognizes that the establishment of proficiency requirements is a fundamental element of regulation of the securities industry.

Part I is a result of many changes of a simply organizational basis to allow for the proficiency requirements to be pulled from the Regulations and By-laws and placed in one policy. However, as a result of a detailed analysis of the proficiency requirements, many provisions were identified as out-of-date, no longer required or no longer representative of current industry practices. Revisions of a more substantive nature are outlined below:

#### Branch Managers and Sales Managers

Currently, By-law 4.9(d) states that if a person seeking approval has experience for a period of less than two years, the Member shall “inform the applicable District Council of the circumstances.” The Association determined that this clause was not only vague regarding instructions for the District Councils as to what action they should take as a result of being “informed”, but also difficult for Members to identify the specific actions expected of them. Consequently, it was determined that this provision be revised to clearly set out a requirement of at least two years of experience as a securities dealer, working in the office of a broker-dealer or any equivalent experience acceptable to the District Council.

A further amendment to By-law 4.9 is the inclusion of a new Options Supervisors Course, developed by the Canadian Securities Institute (the “CSI”). From time to time, the CSI revises its educational programs. The Association proposes to modify the proficiency requirements for

branch managers. The effect of this modification would be to separate out of the Branch Managers Course (the “BMC”), the options portion of the course. The new options course will only be required where the branch manager’s firm trades options with the public.

The recommendation for dividing the BMC into two distinct courses was a recommendation of the Association’s Education and Training Sub-Committee and the Retail Sales Committee. This split reflects the split between the general supervisory knowledge required of all branch managers, and the specialized knowledge of options required by branch managers who work at firms that deal in options. The new Options Supervisors Course will replace the options portion of the BMC as well as the Registered Options Principal Examination.

The rationale for this proposed change is due to a shift that occurred in the industry resulting in many firms no longer dealing with options. Consequently, many industry participants have expressed concern that too much time and emphasis has been devoted to the study of options in the BMC, to the detriment of acquiring the general knowledge needed to become effective managers. In addition, a number of mutual fund dealers have begun to take the BMC in order to meet British Columbia’s licensing requirements, and have been exempted from the options portion of the BMC as a result. Splitting the two-part examination into two distinct courses satisfies the concerns of firms that do not trade in options and eliminates the need to clarify the exemption status in B.C. It also provides regulators with better tracking whether a manager has received training in options supervision. As the options portion of the BMC is now currently written separately from the remainder of the examination, the introduction of the Options Supervisors Course is not a substantive change in approach, but a simplification in administration.

#### Partners, Directors and Officers

By-law 7.1, which sets out the composition of a Member’s board of directors or partnership, and the qualification requirements of industry directors, has been revised slightly to provide for more drafting clarity. In addition, By-law 7.1(a)(3) requires that industry directors have experience in the securities or commodities industry and suggests a minimum of five years’ experience. A requirement of securities industry experience is inconsistent with By-law 7.1(a)(2), as this clause permits that officers or directors of a related financial institution may be directors. Requiring these individuals to have five years experience in the *securities* industry would be difficult to satisfy. Consequently, the Association proposes that By-law 7.1(a)(3) be amended to refer to five years of experience in the “financial services industry” to address this inconsistency.

By-law 7.3 provides that an alternative proficiency requirement to completion of the Canadian Securities Course or the New Entrants Course is the acquisition of five years of experience in the investment business. However, as Part II of Policy No. 6 Course and Examination Exemptions sets out that industry experience may provide an exemption from course and examination completion, the five years’ experience provision has been removed for the proficiency requirements for trading partners, officers and directors.

#### By-law 17.17 Exemption from Proficiency Requirements

This By-law currently permits the Board of Directors to exempt any person or class of persons from the proficiency requirements contained in any By-law, Regulation, Ruling or Policy on such terms and conditions, if any, as the Board may see fit.

As all proficiency requirements have been moved to Part I, this exemptive provision has been included as Part B of Part I. However, rather than this exemptive power being granted to the Board of Directors, it has been transferred to the District Councils. This transfer is due to the fact that regulatory decisions are taken locally and provincially through the District Councils. Under the Association’s rules, it is the District Councils who have the authority over

registrations and the power to grant or revoke any registration approvals. The Association's rules have been amended to reflect this, and it would be inconsistent for exemptions from proficiency requirements to be granted by the Board of Directors. It was simply a drafting oversight in By-law 17.17 that continued to provide the Board of Directors with this ability. Consequently, it is proposed that revising the provision to refer to the District Councils will appropriately reflect the intentions of the Association and the authority of the District Councils.

#### Registered Representatives and Investment Representatives

Currently, both By-law 18 and Regulation 500 deal with registered representatives and investment representatives, although Regulation 500 specifically deals with proficiency requirements. Due to the fact that many provisions of Regulation 500 have been transferred to Part I and that By-law 18 and Regulation 500 contained cross-references to the other, the Association determined that for ease of reference, a consolidation of By-law 18 and Regulation 500 would be advantageous.

A significant revision to the proficiency requirements is one which reduces the current requirement for investment representatives from completing a three-month training programme to a one-month training programme. The revision, contained in section 3 of Part I A, will recognize that the training requirements for an IR, who is permitted to trade but not advise on trades, varies significantly from an RR, who both trades and advises on trades. Further details on the new 30-day training programme for IRs is contained in the accompanying Member Regulation Notice No. MR-021.

#### Traders

A new Regulation 500 and corresponding proficiency requirements in Part I are proposed to deal with the approval of floor traders, Computer Assisted Trading System ("CATS") traders, Competitive Options Traders ("COT") and Commodity Floor Traders ("CFT"). Previously, the Toronto Stock Exchange handled the approval of these individuals. When the Association took over the Member Regulation activities of the TSE, the Association assumed the function of approving these individuals. However, the Association's rules were never amended to indicate these new responsibilities in this area.

The proficiency requirements for these traders are based on previous rules of the TSE.

#### Portfolio Managers

The most significant amendment in Regulation 1300 is the proposed division of Regulation 1300.9C into 1300.9C and 1300.9D. Regulation 1300.9D clearly sets out the proficiency requirements for an associate portfolio manager seeking approval to exercise discretionary authority with respect to futures contracts managed accounts only.

In addition, a revision has been included in subclause 6.1(a)(i) of Part I in order to clarify that only those individuals currently *enrolled* in the Professional Financial Planning Course may apply this course towards enrollment in the Portfolio Management Techniques Course (previously the Canadian Investment Management Program, Part II). In all other circumstances, individuals must first complete the Investment Management Techniques.

#### Futures and Options

The proficiency requirements for futures and options now includes reference to the Derivatives Fundamentals Course, the Futures Licensing Course and the Options Licensing Course. These courses were previously approved by the Board of the Association on January 14, 1998.

Please be advised that by-law references in Part I to the Investment Management Techniques Course and the Portfolio Management Techniques Course have been approved by the relevant Commissions subject to subsequent approval of the actual courses by certain Commissions at a

later date.

As a result of the removal of provisions addressing proficiency requirements from the rules into Part I, amendments were required to certain By-laws and Regulations in order to delete current references to proficiency requirements, include references to Part I and to make general housekeeping amendments to ensure that Part I operates in conjunction with the Association's rules. Amendments to the By-laws and Regulations have been included with this submission.

Suzanne M. Barrett  
*Association Secretary*