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Sonia Keshwar
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Investment Industry Regulatory Organization of Canada
121 King Street West, Suite 2000
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VIA COURIER AND EMAIL: skeshwar@iiroc.ca

Dear Ms. Keshwar:

**Re: Administrative Notice 14-0181
IIROC Proficiency Assurance Model**

On behalf of Advocis, The Financial Advisors Association of Canada, we are pleased to provide our comments in response to IIROC Administrative Notice 14-0181 (the "Notice"), in regards to the next phase of IIROC's proficiency assurance model.

About Advocis

Advocis is the largest and oldest professional membership association of financial advisors and planners in Canada. Through its predecessor associations, Advocis proudly continues over a century of uninterrupted history serving Canadian financial advisors and their clients. Our 11,000 members, organized in 40 chapters across the country, are licensed to sell life and health insurance, mutual funds and other securities, and are primarily owners and operators of their own small businesses who create thousands of jobs across Canada. Advocis members provide comprehensive financial planning and investment advice, retirement and estate planning, risk management, employee benefit plans, disability coverage, long-term care and critical illness insurance to millions of Canadian households and businesses.

As a voluntary organization, Advocis is committed to professionalism among financial advisors. Advocis members adhere to an established professional Code of Conduct, uphold standards of best practice, participate in ongoing continuing education programs, maintain professional liability insurance, and put their clients' interests first. Across Canada, no organization's members spend more time working one-on-one on financial matters with individual Canadians than do ours. Advocis advisors are committed to educating clients about financial issues that are directly relevant to them, their families and their future.

Discussion

(i) The existing IIROC proficiency assurance model

The need for IIROC to open up the market for its proficiency assurance services and end the monopoly granted to CSI Global Education Inc. (“CSI”) is long overdue. Perhaps granting CSI the exclusivity it enjoys was justifiable back in 2006 when IIROC, as a nascent self-regulator, felt it was in its interest to promote the viability of CSI, which had been created as a wholly-owned subsidiary of IIROC’s predecessor specifically to provide education services and which had recently been sold to a Canadian private equity fund.

However, much has changed in the decade since that monopoly was granted. IIROC is now firmly entrenched as the securities sector’s self-regulatory organization. CSI has had more than enough time to establish itself, as it has been the only accreditation choice for thousands of would-be entrants to the securities sector. CSI itself is no longer a Canadian company, but one owned by U.S.-based Moody’s Corporation. And today, there is a robust market of third-party financial education providers who can compete with CSI on the quality and cost of proficiency assurance services - if they were only allowed to do so.

The simple fact is that sustaining CSI’s monopoly harms consumers of proficiency assurance services – namely, the students who wish to enter the securities industry and require accreditation by IIROC. By restricting competition, the monopoly artificially raises prices and reduces choice. It harms innovation, such as in new course and exam delivery methods that would better reflect the needs of today’s students.

It also disincentivizes the monopolist from reinvesting in the product, as evidenced in that the course materials are in need of a major overhaul: the materials need a more rigorous discussion of the KYC and KYP process, the role of the dealer and advisor, modern file and record keeping requirements and the forthcoming unprecedented wave of seniors and the deaccumulation phase. Meanwhile, product-related information, once the strong suit of the course, is now often outdated. And, in our opinion, the materials demonstrate a clear bias towards depicting bank-based dealers as more secure and desirable places to work, which is an unfair characterization of the diverse and robust independent channel.

We understand that IIROC has attempted to reign in CSI’s monopoly power and enforce “market-like” discipline by building certain safeguards related to pricing, quality and service standards into its agreement. As stated in the Notice, in regards to pricing during the first five-year term of the agreement, increases were limited to 4% per annum for the basket of CSI courses, 10% per annum for any single course and 50% over the five years. But IIROC’s data shows the average annual increases during those first five years ranged from 2.3% to 4.3%:

2006	2007	2008	2009	2010
4.3%	3.8%	3.6%	2.7%	2.3

This is roughly double the 1.7% yearly average rate of inflation in that time period, according to the Bank of Canada.¹ In fact, IIROC's own 2010 benchmarking study suggested that CSI's pricing had escalated beyond an acceptable range, resulting in a reduction of the allowable price increases for the second five-year term of the agreement and a two-year price freeze for IIROC members on registered representative courses.

While safeguards and benchmarking studies are helpful, they cannot exert a level of discipline on a market actor that is comparable to open market competition. Price is simply one factor to consider in reviewing CSI's performance – there are other equally as important factors, such as content quality, delivery methods and student engagement that are not easily mandated in an agreement, but are best judged by consumers selecting the provider that can respond to their needs. It is worth noting that none of the comparative jurisdictions studied in the Notice, or other common law jurisdictions such as Australia or Hong Kong, grant a monopolistic position that is anything like that enjoyed by CSI here in Canada.²

Therefore, IIROC's proficiency assurance model must be fundamentally overhauled, and the exclusivity granted to CSI must not be extended beyond its January 2016 termination date. Instead, IIROC must open the market for its proficiency assurance services to a variety of qualified providers who can compete based on their ability to serve consumers.

(ii) Which proficiency assurance model is right for Canada?

For the reasons outlined in the Notice, we agree that neither the proficiency assurance models used in Australia nor the United States would serve as suitable models for use in Canada. We simply do not have the economies of scale that those jurisdictions enjoy, and to implement similar models here would result in very high regulatory costs and would require a dramatic increase in IIROC's resources.

Instead, we recommend that IIROC adopt a model that is similar to what is used in the Canadian life and accident and sickness licensing process: the Life License Qualification Program ("LLQP"). To that end, we recommend that there should be a strict separation between the education program and the exam, with the stipulation that an organization that is responsible for the setting and administration of the exam is not eligible to also be a course provider. Separating the two roles improves the integrity of the qualification process, since there is an inherent conflict of interest for course providers to promote the efficacy of their courses to prospective students by boosting the pass rates of their matriculants.

Education program. In regards to the education program, IIROC would set overarching education provider standards and administer an application process, through which IIROC would establish a list of approved course providers that could be revisited every few years – by way of comparison,

¹ Calculated using the Bank of Canada's inflation calculator for the same period at <http://www.bankofcanada.ca/rates/related/inflation-calculator>.

² Norton Rose Fulbright, LLP. "The principal Canadian securities self-regulatory organization initiates consultation regarding proficiency services" at <http://www.regulationtomorrow.com/ca/the-principal-canadian-securities-self-regulatory-organization-initiates-consultation-regarding-proficiency-services-3/>.

the Financial Services Commission of Ontario (“FSCO”) recognizes 10 associations/institutions and four insurance companies as course providers of the LLQP.³

The course providers would each develop their own program to serve the needs of a diverse student body – both in learning styles (e.g., traditional classroom-based settings, electronic self-study, etc.) and in industry roles (e.g. courses targeted to independent financial advisors, bank-based employees, and so on). The course providers would be responsible for confirming to IIROC that the candidate has obtained a satisfactory level of understanding to sit the exam.

Exam. For the exam, IIROC could either administer the exam itself, or, as FSCO does for the insurance exam, retain a third party to administer it on its behalf. In regards to the content, IIROC could leverage the knowledge and experience of the course providers and require them to submit potential exam content to IIROC, with IIROC reviewing, editing and compiling their input and retaining control of the master database of questions. If one course provider’s students fare consistently poorly on the exam, relative to those of other providers, this would provide an objective metric to IIROC that the provider is not successfully completing its education mandate and its accreditation may need to be revisited.

While this proposal would create a two-stage process for new entrants to become licensed, there are many positives that it would bring about. It would open the market to fair competition, allowing the course providers to compete to the benefit of the students. By separating the course provider and examiner roles, it would improve the integrity of the qualification process and hold course providers to account. And the proposal would also create an opportunity to modularize the curriculum in a way that would allow for harmonization with mutual fund registrations, similar to how the full LLQP (four modules) and accident & sickness LLQP (two modules) are structured.

The insurance sector’s proficiency assurance model represents a “Made in Canada” solution that balances the need to foster a competitive environment for proficiency services while recognizing the limited scale available in a country of our size. This model has been reliably proven to work in Canada, to the benefit of all stakeholders, and we see no reason to “reinvent the wheel” when such a prime example already exists. Given our years of experience as a recognized LLQP course provider, we would be pleased to share our insights with IIROC in regards to adapting this model for use in the securities sector.

(iii) Service provider evaluation criteria

Overall, we are in agreement with IIROC’s service provider evaluation criteria, but we propose the following for your consideration:

Regulatory sensitivity should run both ways. While it is important that course providers and students understand IIROC’s regulatory imperatives and concerns, it is equally important that IIROC be aware of the regulatory concerns of students and new licensees to the securities sector, such as the heavy compliance burden facing entrants and the challenge of establishing one’s practice in the

³ <https://www.fSCO.gov.on.ca/en/insurance/Licensing-Registration/Pages/llqp.aspx>.

early years. This way, IIROC can fully consider whether anything can or should be done within the regulatory framework to assist licensees. Service providers should be able to express these concerns in an articulate and coherent manner at IIROC advisory committees; therefore, IIROC should look for service providers who have a demonstrated ability to advocate on behalf of licensee matters.

Educational/pedagogical expertise, through the involvement of regulatory subject matter experts, is critically important. This expertise is greatly enriched when the service provider can integrate the insights of actual practitioners for practical, “boots on the ground” information, giving true application to theoretical concepts in course materials. A service provider’s ability to obtain this information and integrate it into the course materials in a way that animates the course content enhances student understanding and engagement of the material, which consequently better achieves IIROC’s regulatory intentions. The ability of a provider to engage with and integrate the knowledge of practitioners into course materials should be a significant factor in IIROC’s selection process.

Another aspect of regulatory subject matter expertise is the service provider’s ability to adapt to a rapidly-changing industry and incorporate updates into the materials in a timely manner. Recent years have seen a massive growth in derivatives, structured products, hedge funds and ETFs, and the educational materials should reflect this as new licensees will be confronted with these concepts from the start. A course provider that has access to industry experts is likely to be able to understand and integrate changes more quickly than a course provider that does not have a direct industry connection and is therefore less aware of such developments.

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We look forward to working with IIROC as it modernizes its proficiency assurance services for the next phase that will commence in January 2016. Should you have any questions, please do not hesitate to contact the undersigned, or Ed Skwarek, Vice President, Regulatory and Public Affairs at 416-342-9837 or eskwarek@advocis.ca.

Sincerely,



Greg Pollock, M.Ed., LL.M., C.Dir., CFP
President and CEO



David Juvet, CFP, CLU, CH.F.C., CHS, FLMI, AMTC
Chair, National Board of Directors