

Summary of Public Comments Respecting Proposed New MFDA Policy No. 11 *Proficiency Standards for the Sale of Alternative Mutual Funds*

All commenters expressed support for the regulatory policy rationale underlying proposed new Policy No. 11.

The Policy Should Accommodate More Education Providers and Designations

The proficiency requirements set out under proposed new Policy No. 11 currently identify courses offered by two industry education providers: the IFSE Institute, and CSI Global Education Inc.

The industry association commenters, and the industry education course provider noted that the Policy should accommodate additional education providers, and designations.

One of these commenters, noted that the proficiency specified in the proposed new Policy would meet requirements as they now exist, and went on to recommend the adoption of the following courses/credentials under the Policy:

- The Chartered Alternative Investment Analyst Association (CAIA) designation;
- The CAIA Fundamentals Certificate Course; and
- The Chartered Financial Analyst (CFA) designation.

MFDA Response

The proposed new Policy adopts course requirements that are consistent with the CSA exemption orders. These orders currently refer to courses offered by the IFSE Institute, and CSI Global Education Inc.

We note that the CFA designation would meet proficiency requirements under Policy No. 11, as currently proposed, as the course of study associated with this designation is required to become registered under securities legislation as a Portfolio Manager-Advising Representative, pursuant to section 3.11 of National Instrument 31-103.

Extending the proposed Policy to additional course providers would require significant resources. It is our intention to review all proficiency requirements as part of the process of integrating the MFDA and IIROC Rulebooks. Accordingly, we propose to maintain the current standards by recognizing courses identified in the CSA exemption orders and will consider additional providers as part of the Rulebook integration process.

Adopt a Principles-based Approach for Proficiency Applicable to Prospectus Exempt Alternative Funds

The investment fund manager commenter expressed the view that alternative mutual funds sold under a prospectus, and those sold under a prospectus exemption require different approaches from a KYP/proficiency perspective.

The commenter noted that the proficiency requirements under proposed new Policy No. 11 would be appropriate for alternative mutual funds offered under a prospectus, but would give a false sense of security in respect of alternative mutual funds sold on a prospectus exempt basis, and that such funds require a more flexible approach, due to fewer investment restrictions, wider range of investment strategies, less transparency, and less liquidity. The commenter noted that alternative mutual funds sold on a prospectus exempt basis might require proficiencies not set out under the proposed new Policy. As a result, the commenter recommended the adoption of a principles-based approach, consistent with requirements under MFDA Rule 1.2.3, where the Member would be given flexibility to determine what combination of education, training, and experience would allow the Approved Person to perform the activity competently.

MFDA Response

The upgraded courses include content relating to both alternative funds sold pursuant to a prospectus, and prospectus-exempt funds as there can be similarities in such products.

*The purpose of proposed new Policy No. 11 is to establish **minimum** standards for trading and advising in alternative mutual funds. MFDA Rule 1.2.3 requires an Approved Person to have “education training and experience that a reasonable person would consider necessary to perform the activity competently”. Depending upon the type of prospectus-exempt alternative mutual fund, additional proficiency/experience (i.e. above and beyond the minimum standards set out under the Policy) might be needed to satisfy requirements under Rule 1.2.3.*