

August 26, 2016

**BY EMAIL**

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and

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Dear Sirs/Mesdames:

**Re: Proposed new MFDA Policy No. 8 Proficiency Standard for Approved Persons Selling Exchange Traded Funds (“ETFs”) (the “Proposed Policy”)**

The Canadian Advocacy Council<sup>1</sup> for Canadian CFA Institute<sup>2</sup> Societies (the CAC) appreciates the opportunity to comment on the Proposed Policy.

We are broadly supportive of the initiative of the MFDA to establish minimum standards for Approved Persons trading in ETFs as we believe strongly in higher investment education standards. Of particular interest to us is the proposed requirement for Approved Persons to receive ETF product specific training through courses offered through independent providers or through the Member, and we agree that in either case the training must meet the specified minimum product training requirements set out in Appendix A to the Proposed Policy.

As noted in the Proposed Policy, as many MFDA Members do not have the technology to directly trade ETFs, they understandably do not emphasize or provide training on topics such as exchange trading and trading on secondary markets, which is very relevant to thoroughly understanding an ETF product and to help satisfy KYP obligations. In certain circumstances, a particular ETF

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<sup>1</sup>The CAC represents more than 15,000 Canadian members of the CFA Institute and its 12 Member Societies across Canada. The CAC membership includes portfolio managers, analysts and other investment professionals in Canada who review regulatory, legislative, and standard setting developments affecting investors, investment professionals, and the capital markets in Canada. See the CAC's website at <http://www.cfainstitute.org/cac>. Our Code of Ethics and Standards of Professional Conduct can be found at <http://www.cfainstitute.org/ethics/codes/ethics/Pages/index.aspx>.

<sup>2</sup> CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behavior in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 135,000 members in 151 countries and territories, including 128,000 CFA charterholders, and 145 member societies. For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org).

product that meets the securities definition of a “mutual fund” may be comparable to other existing “traditional” mutual fund products and could be recommended as a similarly suitable, lower-cost product. However, the mechanisms of purchase and sale are substantially different from that of a mutual fund, and training should fully address this discrepancy. In addition to potential liquidity issues relating to the ETF itself, the training should also emphasize the important of understanding the structure of the ETF and its underlying securities, such as whether they are physical securities or synthetic instruments, and the associated risks thereof. It is also important for representatives to understand the various causes and risks of divergence between the net asset value and the market price of an ETF security, such as, for example, trading ETF securities where the underlying assets’ markets are closed during US/Canadian trading hours, in order for advisors to mitigate such risks for their clients.

As a general comment, we wish to stress the importance of the CSA implementing, and the MFDA supporting, a regulatory best interest standard on all persons providing investment advice, including with respect to ETFs and mutual funds. Such a standard would help ensure that an investment or allocation of financial resources is in fact in a client’s best interests, and would help mitigate concerns relating to potential conflicts of interest, particularly as it relates to decoupling financial or planning advice from sales commissions. The end users of these services and the investment industry would benefit if all professionals offering investment advice were held to this high standard.

### **Concluding Remarks**

We thank you for the opportunity to provide these comments. We would be happy to address any questions you may have or to meet with you to discuss these and related issues in greater detail. We appreciate the time you are taking to consider our points of view. Please feel free to contact us at [chair@cfaadvocacy.ca](mailto:chair@cfaadvocacy.ca) on this or any other issue in future.

(Signed) “*Michael Thom*”

**Michael Thom, CFA**  
**Chair, Canadian Advocacy Council**