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Marcia E. Asquith  
Office of the Corporate Secretary  
1735 K Street, NW  
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27 July 2015

**Re: FINRA request for comment on a Concept Proposal to Restructure the Representative-Level Qualification Examination Program**

Dear Mr. Ketchum,

CFA Institute appreciates the opportunity to comment to the Financial Industry Regulatory Authority (“FINRA”) with regard to Regulatory Notice 15-20 (“the Notice”) pertaining to the restructuring of the representative-level qualification examinations. CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the integrity and accountability of global financial markets.

The Notice published on June 1, 2015 introduces a concept proposal whereby all potential representative-level registrants would take a general knowledge examination and an appropriate specialized knowledge examination to reflect their particular registered role. The Notice seeks input from member firms and other stakeholders, such as investment professionals, investors and professional associations.

CFA Institute believes this consultation is timely, relevant, and in the best interests of investors. At CFA Institute, we consider that high standards of proficiency can have a positive impact in helping ensure investor protection and the integrity and efficiency of capital markets. It is clear that the restructure of the qualification examinations further advances FINRA's already high proficiency standards. As a result, CFA Institute supports FINRA's concept proposal for representative-level registrants to continue to safeguard the highest levels of professionalism in the industry.

Currently FINRA believes that its representative level exam structure contains too many exams with too much content overlap. With this proposal on exam qualification restructuring FINRA is seeking to improve overall efficiency in its representative level exam structure primarily by creating one exam, the SIE exam, which would eliminate duplicative testing of general securities knowledge. In addition, FINRA is proposing to combine the SIE with a revised specialized examination for each of its representative categories. In this process FINRA is also proposing to eliminate a number of registration categories with low enrollment.

Overall, CFA Institute believes that the approach as described is certainly viable and represents an improvement over the current arrangement. Hence our supportive views on FINRA's proposal in its current form.

### **Background on CFA Institute and the CFA Charter**

CFA Institute is the leading global association of investment professionals with more than 133,000 members in more than 147 countries. Our mission is to lead the investment profession globally by promoting the highest standards of ethics, education, and professional excellence for the ultimate benefit of society. We aspire to serve all finance professionals seeking education, knowledge, and professional development. CFA Institute also seeks to lead the investment profession's thinking in the areas of ethics, capital market integrity, and excellence of practice.

As part of its portfolio of educational programs, CFA Institute offers the Chartered Financial Analyst® (CFA®) charter, which is the global investment industry's most challenging and most widely respected graduate-level investment credential. Earning the charter requires demonstrating four years of

professional investment experience, committing to uphold a comprehensive code of ethics, and passing three levels of rigorous exams that test an advanced curriculum of investment management and analysis skills. This achievement takes multiple years of persistent effort and hundreds of hours of study per exam level. Successfully doing so demonstrates a commitment to professional ethics as well as a mastery of a comprehensive range of advanced investment principles needed to successfully practice in the investment industry.

The CFA program curriculum is grounded in the practice of the investment profession. CFA Institute, through the oversight of the Educational Advisory Committee, regularly conducts a practice analysis survey of investment professionals around the world to determine the knowledge, skills, and abilities (competencies) that are relevant to the profession. The results of the practice analysis define the Global Body of Investment Knowledge and the CFA program Candidate Body of Knowledge. The topic areas covered by the CFA program range from ethical and professional standards, investment tools, all asset classes, and portfolio management.

In addition to the CFA charter, CFA Institute also offers the Claritas Investment Certificate and the Certificate in Investment Performance Measurement (CIPM). The Claritas Investment Certificate is intended for those working in support roles in the financial industry and who need to have a clear understanding of how the financial industry works. Finally the CIPM is focused on performance attribution and manager selection.

### **CFA Membership and Candidate Pool in the United States of America**

As stated previously, CFA Institute has more than 130,000 members, and approximately 220,000 candidates sit for the CFA exams each year. In the United States of America, CFA Institute has more than 56,000 CFA charterholders and about 40,000 candidates sat for the exams in the most recently completed exam cycle.

There are thirty-five CFA Societies in the United States that operate as not-for-profit organizations supporting the professional development and advancement of CFA charterholders. The societies provide member services including educational programs, sponsored events, employment postings, and

networking opportunities. Some of the largest CFA societies in the United States are amongst the top ten CFA Societies around the world and include the New York Society of Security Analysts (NYSSA) with more than 10,000 members, Boston Society of Securities Analysts with 5,000, CFA Chicago with 3,000 members and CFA San Francisco with 3,000.

### **CFA Program Recognition by Regulatory Agencies in the United States of America**

Regulators around the world recognize the rigor of the CFA program by granting waivers from their own requirements for those who successfully participate in the CFA program. In all, regulators from twenty-nine countries or territories formally recognize the CFA program. In the case of the United States of America, the CFA Program has been recognized by regulatory agencies for certain job roles within the investment profession, thus allowing our candidates and charterholders to waive some of the Series exams required by FINRA, the North American Securities Administrators Association (NASAA) and the New York Stock Exchange (NYSE).

- The NASAA has granted a waiver to the CFA Charter from the Uniform Investment Adviser Examination (Series 65) that is administered by FINRA and required for investment advisors managing up to US\$100 Million.
- The NYSE exempts those who have passed CFA Level I and Part I of the NYSE Supervisory Analysts Qualification Exam (Series 16) from Part II of this two part exam.
- The NYSE and FINRA grant a waiver from the Series 86 exam for successful CFA Level II candidates who function as research analysts;

### **The CFA Program benchmarked as Masters' degree equivalent**

The CFA Charter has been benchmarked by the National Academic Recognition Information Centre (NARIC) as comparable to a Master's Degree program or to the United Kingdom's Qualifications and Credit Framework (QCF) Level 7. Additionally, each level of the program has been benchmarked by NARIC as follows: (a) Level III of the CFA Program is benchmarked at Level 7; (b) Level II of the CFA Program is benchmarked at Level 6 and; (c) Level I of the CFA Program is benchmarked at Level 5.

*Question 1: FINRA is proposing to move to a general knowledge examination and specialized knowledge examinations for the representative-level qualification examinations. Does moving to this type of structure make sense? Would it help member firms better manage and develop individuals?*

FINRA is proposing to move to a core and top off approach for its representative level qualifications. This approach entails combining a general knowledge examination, the Securities Industry Essentials (SIE) examination, with specialized knowledge examinations, depending upon the particular representative category chosen by an individual.

CFA Institute believes FINRA's proposal makes sense, and we support it. We understand that the existing qualification structure has become overly complex and needs to be simplified. Within the past few years certain regulatory events and the introduction of new products in the industry has caused the need to create new exams and registration categories. As a consequence there are 16 representative level qualifications available as illustrated below:

#### **A. Current Structure**

The current FINRA representative-level examination program consists of 16 examinations, including 10 that have been introduced during the past 20 years. There are 11 FINRA representative-level examinations that qualify individuals to engage in sales activities with investors. These are the:

- ▶ Investment Company and Variable Contracts Products Representative Examination (Series 6);
- ▶ General Securities Representative Examination (Series 7);
- ▶ Order Processing Assistant Representative Examination (Series 11);
- ▶ United Kingdom (U.K.) Securities Representative Examination (Series 17);
- ▶ Direct Participation Programs Representative Examination (Series 22);
- ▶ Canadian Securities Representative Examinations (Series 37 and Series 38);
- ▶ Options Representative Examination (Series 42);
- ▶ Corporate Securities Representative Examination (Series 62);
- ▶ Government Securities Representative Examination (Series 72); and
- ▶ Private Securities Offerings Representative Examination (Series 82).

In light of the complexity of the current qualification structure, we support FINRA's efforts in trying to streamline the representative level qualifications. It is clear to us that the core-top off approach will eliminate redundancies in the content of the examinations and simplify the structure. Therefore we agree with FINRA that this change was overdue.

In addition to simplification, we feel the new approach will make FINRA a more effective regulator since some of the registration categories will be retired and duplicative testing reduced. All this, should allow FINRA to be a more focused and effective regulator. As to investors we consider that the new structure would also be beneficial because it would bring considerable clarity to the registration process requirements. Investors will be able to understand in much simpler terms the requirements to practice in the financial industry.



As to member firms, we have confidence the core top-off approach will help firms better develop and manage individuals and reduce costs. The Essentials Exam, which is required to all representative categories, will give all professionals a common understanding of the investment industry. This will make it easier for an individual to move from one representative category to another, thus increasing flexibility for member firms in developing and managing individuals. As to costs, FINRA expects that due to the fact that the specialized qualification exams will be shorter in length that exam fees will be reduced which is good news for the industry and professionals.

Finally, with this approach we also deem that professionals will benefit as it will likely increase career opportunities and make practicing in the industry more accessible, especially for those who are truly committed. For the reasons that the Essentials Exam does not require candidates to be associated with a member firm and has a validity of four years, we expect this will spur significant interest in the student community and allow for candidates to prepare and search for adequate opportunities in the industry over time.

Will all that said, and consistent with our responses to subsequent questions, CFA Institute would like to encourage FINRA to also consider granting waivers to individuals who are on the path of completing an appropriate professional qualification, such as the CFA Program. This would have the effect of providing choices to the industry in terms of education and recognizing the accomplishments of those who demonstrate interest in acquiring a professional body of knowledge. Furthermore, it need not have a negative effect on the economics of the new structure for FINRA. Examination fees could simply be adjusted to compensate.

*Question 2: FINRA is proposing to create the SIE covering fundamental securities industry knowledge. Do you consider the content listed in the sample content outline to be common knowledge? Is there other knowledge not listed that you believe should be included on the SIE? What is an appropriate level of depth?*

CFA Institute considers the content outline listed for the SIE Exam to be common knowledge. The draft outline contains four proposed major topic areas which fit the purpose of the SIE exam to provide a basic understanding of the industry. These topic areas are: (1) “Knowledge of Capital Markets,” that focuses on types of markets, offerings, broker-dealers and economic cycles; (2) “Understanding Products and Their Risks,” covering securities products at a high level as well as associated investment risks; (3) “Understanding Trading, Customer Accounts and Prohibited Activities,” that focuses on accounts, orders, settlement and prohibited activities; and (5) “Overview of the Regulatory Framework,” encompasses topics such as SROs, registration requirements and specified conduct rules.

We believe that the knowledge of these four major topic areas is central to gaining an understanding of the investment industry. Additionally we note that the content proposed is balanced in terms of breadth and depth of content and expect it will not be subject to significant changes over time.

As to content that could be added we believe that some coverage of “Quantitative Concepts” (i.e. Time Value of Money) is necessary. Knowledge of quantitative concepts is extremely important to understanding the world of finance and investing, because they play a key role in helping make financial decisions, such as saving and borrowing, and also form the foundation for valuing investment opportunities. Additionally we feel that coverage of how best to “Serve Client Needs” would be a plus.

Clients differ in terms of their financial resources, objectives, attitudes and financial expertise and so on. These differences affect their investment needs, what services they require, and what investments are appropriate for them. Thus the importance, to understand each of their specific circumstances in order to best support them in meeting their objectives.

Finally, we would recommend a section on “Risk Management Process”, to introduce the types of risks that financial firms in the investment industry and professionals face. Although risk managements is viewed as a specialist function, a good risk management process will encompass the entire company and filter down from senior management to employees, giving them advice in carrying out their roles. Any actions taken by employees may end up affecting the firm’s risk profile, even if these actions are regular daily activities. Thus, our view that the SIE should have some coverage of risk management.

We consider the suggested three additional topics to be common knowledge as well. Our recommendations are the result of our own experience in creating the Claritas Investment Certificate, which is a program that has a similar purpose as the Essentials Exam. Back in May 2014, CFA Institute launched the Claritas Investment Certificate with the objective to help professionals gain a basic understanding of how the financial industry works. The Claritas Program covers the essentials of finance, ethics, and investment roles. The topic areas are organized into seven modules titled: (1) Industry Overview; (2) Ethics and Regulation; (3) Inputs and Tools; (4) Investment Instruments; (5) Industry Structure; (6) Serving Client Needs and (7) Industry Controls.

If we compare the content outlines of the SIE exam with the Claritas program we can draw some parallels between the materials covered. Conducting a preliminary mapping analysis we see that the Claritas program covers a high level of content of the SIE exam, except for the FINRA “Associated Rules” (specific rules and regulations).

Based on the identified similarities, our conclusion from the mapping is that the proposed SIE exam outline resembles the Claritas Investment Certificate excluding the associated rules. This analysis supports our view that the SIE exam covers the essentials of finance and has an adequate content outline in its draft form saving for the three areas we suggested including. In the next page we provide a comparison table of the content outlines of the SIE versus Claritas.



**Comparison Table – SIE Exam and Claritas Investment Certificate**

<b>FINRA Essentials Exams Content Outline</b>	<b>Claritas Investment Certificate Coverage</b>
<i>Section 1 – Knowledge of Capital Markets</i>	
<ul style="list-style-type: none"> <li>Market Structure</li> </ul>	Chapter 1: The Investment Industry Chapter 15: The Functioning of Financial Markets
<ul style="list-style-type: none"> <li>Factors that affect the securities markets</li> </ul>	Chapter 5: Macroeconomics Chapter 6: Economics of International Trade
<ul style="list-style-type: none"> <li>Associated Rules</li> </ul>	
<i>Section 2 – Understanding products and their risks</i>	
<ul style="list-style-type: none"> <li>Products</li> </ul>	Chapter 9: Debt Securities
<ul style="list-style-type: none"> <li>Investment Risks</li> </ul>	Chapter 10: Equity Securities Chapter 11: Derivatives Chapter 12 Alternative Investments Chapter 14: Investment Vehicles
<ul style="list-style-type: none"> <li>Associated Rules</li> </ul>	
<i>Section 3 – Understanding Trading, Customer Accounts &amp; Prohibited Activities</i>	
<ul style="list-style-type: none"> <li>Trading, Settlement and Corporate Actions</li> </ul>	Chapter 15: The Functioning of Financial Markets Chapter 10: Equity Securities
<ul style="list-style-type: none"> <li>Customer Accounts &amp; Compliance Considerations</li> </ul>	Chapter 10: Equity Securities Chapter 20: Investment Industry Documentation
<ul style="list-style-type: none"> <li>Account Statements, Confirmations and Settlement</li> </ul>	Chapter 15: The Functioning of Financial Markets
<ul style="list-style-type: none"> <li>Prohibited Activities</li> </ul>	Chapter 2: Ethics and Investment Professionalism
<ul style="list-style-type: none"> <li>Associated Rules</li> </ul>	
<i>Section 4 – Overview of the regulatory framework</i>	
<ul style="list-style-type: none"> <li>Regulatory Entities</li> </ul>	Chapter 3: Regulation (general principles on regulation)
<ul style="list-style-type: none"> <li>SRO Regulatory Requirements Associated Persons</li> </ul>	
<ul style="list-style-type: none"> <li>Associated Rules</li> </ul>	

*Question 3: FINRA is proposing to allow any individual, including an individual who is not associated with a member firm, to take the SIE. Further, a passing result on the SIE would be valid for four years. Does this approach make sense? Is four years a reasonable length of time for a passing result on the SIE examination to be valid?*

CFA Institute supports FINRA's approach to allowing any individual, including an individual who is not associated with a member firm, to take the SIE exam. We expect this measure will benefit particularly those individuals who are not yet associated with a member firm and who wish to gain access to the industry in the not so distant future. The proposal clearly would clearly make the industry more accessible and permits future professionals to plan ahead their entry while building their knowledge over time. It is likely that this new measure will generate significant interest from the student community resulting in firms realizing savings from not having to sponsor candidates to sit for the SIE exam but just for the specialized exams. Over time it is likely that firms will only consider for their interview process those candidates who have passed the SIE exam.

With that said, we also think that the new proposed framework would flexibilize the current structure while at the same time take away some of the pressure that typically comes from having to earn your place at a member firm and pass a 6 hour exam within 3 or 4 months' time period. With the new proposed changes, having to sit just for a specialized exam, not only reduces the lead time for individuals to start producing for the firm but also allows professionals to focus their efforts in obtaining the necessary experience and practical expertise to practice in the industry. Thus, our conclusion that this is a more practical approach.

As to whether four years is a reasonable length of time for a passing result on the SIE examination to be valid, we believe that it is. We would agree with FINRA that the content of the SIE exam is fundamental in nature and therefore not subject to much change over time. Consequently, we feel that permitting four years as the validity period for passing the SIE exam is appropriate because it would allow individuals sufficient time to become associated with a member firm. Recent trends in employment have made it difficult to become associated and so four years we think is more than enough time to compensate for possible changes in the economic cycles.

*Question 4: FINRA is proposing retiring the Options Representative, the Corporate Securities Representative and the Government Securities Representative registration categories and the associated Series 42, Series 62 and Series 72 examinations. Do you believe that FINRA should retain any of these examinations? If so, why? Should FINRA consider retiring any other representative-level registration categories that it is considering retaining under the proposal?*

We support FINRA's intention to retire the Options Representative, the Corporate Securities Representative and the Government Securities Representative registration categories and their associated Series 42, Series 62 and Series 72 examinations. In our view these registration categories allow an individual to sell a subset of the products that is permitted to be sold by a General Securities Representative. Therefore retiring these registration categories and their respective exams will help streamline the qualification examinations and further consolidate these subsets of registrations into the General Securities Representative category.

Additionally, we also take note of FINRA's disclosure that these categories have seen recent low volumes in registrations probably because firms and individuals have opted to register under the General Securities Representative category which allows to sell a wide array of products including options, corporate and government securities. For these reasons we agree with FINRA that the value of these registrations has diminished and it seems right to retire them.

*Question 5: FINRA is considering retiring the U.K. Securities Representative and the Canadian Securities Representative registration categories and the associated Series 17, Series 37 and Series 38 examinations and instead determine foreign qualifications that would exempt an individual from taking the SIE. Do you believe that this approach makes sense or should FINRA create specialized knowledge examinations for the Series 17, Series 37 and Series 38 similar to the other specialized knowledge examinations described in the proposal?*

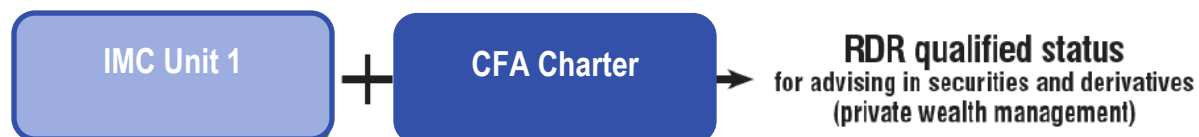
We agree with FINRA that the U.K Securities Representative and the Canadian Securities Representative categories and the associated Series 17, Series 37 and Series 38 examinations should be retired. CFA Institute believes that FINRA could instead determine foreign qualifications that would exempt an individual from taking the SIE or the specialized exams.

We consider that the qualification approach will result in additional efficiencies and improve the ability of professionals to passport their qualifications. In this regard we believe that CFA Institute programs can help as they already have considerable recognition in the U.K and Canada.

For example in the U.K., the FCA has approved CFA Level 1 plus the full Investment Management Certificate qualification as being Retail Distribution Review (RDR) compliant for those advising and dealing in securities and derivatives. The combination of these two qualifications is listed by the FCA (on the Appropriate Qualifications table) as fully meeting requirements of the RDR. Please note that this works in combination. That is, IMC or CFA Level I alone are not RDR compliant.



In the case of those who hold the CFA charter, the FCA approved the CFA Charter plus “IMC Unit 1: The investment environment”, as RDR compliant for those advising and dealing in securities and derivatives. The combination of these two qualifications is listed by the FCA (on the Appropriate Qualifications table) as fully meeting requirements of the Retail Distribution Review (RDR). Once again, this works in combination since neither IMC Unit 1 nor the CFA charter alone are RDR compliant.



As to the Claritas Investment Certificate, in the U.K. Claritas has been recognized by the Financial Conduct Authority as a “Key 4” for the following job roles under the Retail Distribution Requirements (RDR):

- Activity 15: Overseeing on a day to day basis operating a collective investment scheme or undertaking activities of a trustee or depositary of a collective investment scheme
- Activity 16: Overseeing on a day to day basis safeguarding and administering investments or holding client money
- Activity 17: Overseeing on a day to day basis administrative functions in relation to managing investments
- Activity 18: Overseeing on a day to day basis administrative functions in relation to effecting or carrying out contracts of insurance which are life policies
- Activity 19: Overseeing on a day to day basis administrative functions in relation to the operation of stakeholder pension schemes

The roles listed require a combination of Keys 4+5+6. The requirement can be fulfilled with the combination of the Claritas Investment Certificate with another paper(s), typically focused on local regulations (Key 5) and operations (Key 6).

Even in Canada, the requirements under the National Instrument 31-103 (Registration Requirements, Exemptions and Ongoing Registrant Obligations) follow a similar approach. In NI 31-103 the Canadian Securities Administrators prescribes the minimum level of proficiency necessary for registration as a portfolio manager associate advising representative or a portfolio manager advising representative.

For the portfolio manager associate advising representative CFA Level I is recognized as an acceptable standard but only the CFA Charter is recognized for the more experienced position such as the portfolio manager advising representatives. Per NI 31-103:

*Portfolio Manager – Associate Advising Representative:* “An associate advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply: (a) the individual has completed CFA Level I of the Chartered Financial Analyst program and has gained 24 months of relevant investment management experience; (b) the individual has

received the Canadian Investment Manager designation and has gained 24 months of relevant investment management experience.”[...]

*Portfolio Manager – Advising Representative:* “An advising representative of a portfolio manager must not act as an adviser on behalf of the portfolio manager unless any of the following apply: (a) the individual has earned a CFA Charter and has gained 12 months of relevant investment management experience in the 36-month period before applying for registration; (b) the individual has received the Canadian Investment Manager designation and has gained 48 months of relevant investment management experience, 12 months of which was gained in the 36-month period before applying for registration.”[...]

*Question 6: FINRA is considering retiring the Order Processing Assistant Representative registration category and the associated Series 11 examination. Do you believe that there is utility in continuing to maintain this registration category and examination?*

We believe there is no utility in continuing to maintain the registration category of Order Processing Assistant Representative. As FINRA states the volume of candidates sitting for the Series 11 examination has diminished considerably. This coupled with the recent technological advances and industry changes leads us to believe it may make sense to retire this category as well.

*Question 7: Are there any other potential economic impacts of the proposal that need to be identified?*

As FINRA notes in its consultation paper, the costs associated with revising the representative level examination structure falls most on FINRA itself. However, the extent that the proposed structure proves to be more efficient, costs should, over time, be reduced. At the same time, opening up the representative examination structure to the general public should lead to a greater number of test takers, which should also lead to an increase in net revenues. Unknown at this time is the extent to which any future change in the pricing of examination fees may affect this dynamic.

One possible factor that could affect the economics of the proposed change is the extent to which FINRA is willing to grant waivers to any portion of its new examination structure. For example, CFA Institute currently enjoys a waiver for successful CFA Level II candidates for the current Series 86 examination,

and we would welcome the opportunity to demonstrate that this remains a mutually beneficial arrangement once the content for the proposed specialized Series 86 examination has been developed.

But in addition to this, approximately one half of the content (generally speaking, Sections 2 and 3) of the proposed SIE exam could typically be covered in a variety of ways, such as college level investment courses or as part of the program of study in various professional designations. FINRA may wish to consider offering a waiver for the investment content portion of the SIE exam for those who have passed a college level investments course or have made sufficient progress towards earning an appropriate professional qualification. This would, of course, require structuring the SIE exam in two parts in which one part would cover the investment related content, and another would cover the industry laws, rules, and regulations. Done in this manner, this could have a modestly positive effect on the economics of this proposal. Specifically, FINRA could base its examination fee on taking the full SIE. But for individuals who could be eligible for a waiver, they need only take, and FINRA would only have to grade, half of the exam.

Related to this, FINRA may wish to consider the possibility of outsourcing to a third party the development and testing of the laws, rules, and regulations portion of the SIE exam. This could prove economically attractive to FINRA. If such an arrangement is structured in a way that FINRA were to collect a fee for each candidate from a third party provider, while the third party provider absorbs the costs of developing and administering the exam, FINRA could benefit economically.

*Question 8: Are there more effective ways to achieve the proposal's goals?*

CFA Institute believes that FINRA's approach to restructuring the representative-level qualification examinations is reasonable and will be effective. With that said, we would suggest that FINRA gives consideration to the granting of exemptions to CFA Institute's programs under the new representative qualification regime.

The reason behind our request is our belief that our programs would qualify under NASD rule 1070 for qualification examination waivers as an exceptional case, where good cause can be shown. In view of that, we would encourage FINRA to accept our standards as evidence of an applicant's qualifications for registration (as it already does for the Series 86 and other examinations). Ultimately our objective is to

help our members and candidates bridge the gap in meeting licensing requirements and avoid unnecessary duplicative testing. At CFA Institute we believe that FINRA maintains high proficiency standards and a robust proficiency regime which has helped ensure investor protection and integrity of capital markets. FINRA's exams play an essential role and are here to stay. However, we believe it would be beneficial for FINRA to consider recognizing our programs for several reasons.

The first reason is that recognizing CFA Institute's programs will allow FINRA to capitalize on our reputation and experience in training professionals. Another reason is that having our programs participate in the framework would provide choices to finance professionals. The ability to make choices in regards to training and the attainment of competence is most critical in our view, as it gives individuals not only a sense of ownership but also of empowerment. With that said, if some individuals feel that pursuing a qualification such as the CFA Charter is in their best interests that should be respected without requiring them to complete additional tests. Having CFA candidates be part of the financial ecosystem we believe is important because of the emphasis our programs place on ethical behavior and achieving excellence in professionalism.

Finally, recognizing our programs would allow individuals to "passport" their qualifications to other jurisdictions. The term passporting refers to the ability of individuals to use their investment qualifications across borders and qualify for licensure. CFA Institute's programs already enjoy broad acceptance by many regulators around the world which speaks to the value and trust that regulatory agencies have placed in our programs. If FINRA were to recognize our programs individuals who then decided to practice in other jurisdictions such as the UK, Canada, Singapore and many others would qualify without the need to complete additional exams.



*Request to FINRA to consider granting an exemption to the Claritas Investment Certificate plus gap-fill course for the SIE exam.*

Considering the similarities identified in question two between the Claritas Investment Certificate and the SIE exam (except for the coverage of local rules and regulations) we would like to request FINRA to consider the following proposal:



Our proposal for an exemption of the SIE exam would consist of combining the Claritas Investment Certificate (a core knowledge exam) with a gap-fill course that would cover all the associated rules. The gap-fill course would also have an assessment. At CFA Institute we understand the need for professionals to have both knowledge of business and associated rules and regulations, hence our proposal to combine Claritas (which is global in nature) with a gap-fill that would cover associated rules. In the next page we provide the content outline of both programs in combination.

Claritas Investment Certificate Outline	Claritas GAP-FILL Course Outline
<u>Module 1 - Industry Overview</u> Chapter 1 – The Investment Industry	<u>Associated Rules:</u> ⇒ FINRA By-Laws Article IV section 6 and Rules: 1000, 2010, 2020, 2040, 2060, 2090, 2150, 2210, 2213, 2260, 2266, 2330, 2342, 2360, 3220, 3240, 3270, 3310, 4200, 4311, 4330, 4512, 4513, 4530, 5130, 5210, 5220, 5230, 5240, 5250, 5270, 5280, 5290, 5310, 5320, 6438
<u>Module 2 - Ethics and Regulation</u> Chapter 2 – Ethics and Investment Professionalism Chapter 3 – Regulation and Supervision	
<u>Module 3 - Inputs and Tools</u> Chapter 4 – Microeconomics Chapter 5 – Macroeconomics Chapter 6 – Economics of International Trade Chapter 7 – Financial Statements Chapter 8 – Quantitative Concepts	⇒ NASD Rules 1000, 2510, 3040, 3050 ⇒ NYSE Rule 407, 401A ⇒ USA Patriot Act, Section 326 ⇒ Federal Reserve Board Regulation T
<u>Module 4 – Investment Securities</u> Chapter 9 – Debt Securities Chapter 10 – Equity Securities Chapter 11 – Derivatives Chapter 12 – Alternative Investments	⇒ Securities Exchange Act of 1934: Rule 15c3-1 ⇒ Securities Act of 1933: Sections 7, 8, 10; Schedules A & B; Regulation D, Rules 144, 144A, 145, 147, 164
<u>Module 5 – Industry Structure</u> Chapter 13 – Structure of the Investment Industry Chapter 14 – Investment Vehicles Chapter 15 – The Functioning of Financial Markets	⇒ MSRB Constitution and Rules: Rules G-1 through G-41, G37, D-8 through D-12 ⇒ Investment Company Act of 1940: Rule 12b-1, Sections 3(a), 4, 5
<u>Module 6 – Serving Client Needs</u> Chapter 16 – Investor and Their Needs Chapter 17 – Investment Management	⇒ SEA Rules 3a11-1, 10b-18, 10b-5, 10b5-1, Section 11d
<u>Module 7 – Industry Controls</u> Chapter 18 – Risk Management Chapter 19 – Performance Evaluation Chapter 20 – Investment Industry Documentation	⇒ SEC Regulation M, NMS, S-P ⇒ Securities Investor Protection Act 1970

***Request to FINRA to consider granting an exemption to the CFA Level I plus gap-fill course for the General Securities Representative registration category.***

For the General Securities Representative category we propose that passing the CFA Level I exam in combination with the gap-fill course that would cover the associated rules of both the SIE and Series 7 specialized exam should meet the requirements for licensure. The gap-fill course for the CFA Level I exam would be more extensive in content than the Claritas gap-fill course that would only cover rules in the SIE. In this case, the gap fill course would also come with an assessment.



We believe that the CFA Level I exam would more than cover the knowledge of business component required for general securities representatives. The CFA Level I exam requires approximately 300 hours of study and comprises topics in fixed income, equities, derivatives, portfolio management, ethics, economics, etc...

Besides the content overlap, we have seen that CFA Level tends to be the level that investment banks and dealer firms target on their graduate intake programs. Their rationale being as we understand it, that not all their staff are going to be portfolio managers or research analysts, so levels II and III are less useful. Additionally, we have also noticed that this approach has been approached by regulators overseeing dealer firms in other parts of the world.

As to the content of the gap-fill, since FINRA is in the process of working the content outline of the Series 7 specialized exam, we would wait until that release to detail the content of the gap-fill. In the appendix we provide the readings required for the CFA Level I exam.

***Request to FINRA to consider granting an exemption to the CFA Level II plus Specialized Series 87 for the Research Analyst registration category.***

Currently the CFA Level II exam is recognized as being equivalent to the Series 86. Considering this precedent we believe that an optimal structure for the Research Analyst category would be combining CFA Level II exam with the FINRA’s specialized Series 87. In this instance, we would not look to create our own gap-fill and take advantage of the proposed Series 87 specialized exam in regulatory administration and best practices to meet the gap.
















The CFA Level II digs in deeper than CFA Level I in terms of valuation of asset classes. Consequently we feel that CFA Level II is a better standard for those trying to meet the requirements to practice as research analysts.

**A note of the Principal Level Structure**

FINRA mentions that it is currently evaluating the structure on the principal level examination may propose to streamline the examinations at a later date. CFA Institute would like to propose that for the principal level examinations that the CFA Charter is considered. Clearly the CFA Level I develops foundational competencies appropriate for entry-level, but falls short a professional standard one would expect from more experienced professionals.

For that reason we would propose that the CFA Charter is the alternative standard for those acting as supervisors. We believe this a compelling approach that recognizes that developing a professional is something that happens over time.

**Summary of Requests**

FINRA Registration Category	General Knowledge Examination	Specialized Knowledge Examination
<b>FINRA</b> <b>General Securities Representative (GS)</b>	<div style="border: 2px dashed green; padding: 10px; margin-bottom: 10px;">  </div> <div style="display: flex; align-items: center; justify-content: center;">  <span style="margin: 0 10px;">+</span>  </div> <div style="border: 2px solid blue; padding: 10px; margin-top: 10px; text-align: center;">  </div>	<div style="border: 2px solid blue; padding: 10px; margin-bottom: 10px; text-align: center;">  </div> <div style="display: flex; align-items: center; justify-content: center; margin-bottom: 10px;"> <span style="font-size: 2em; margin-right: 10px;">+</span> </div> <div style="border: 2px solid blue; padding: 10px; margin-bottom: 10px; text-align: center;">  </div>
<b>CFA Institute Proposed Path</b>		
<b>FINRA Research Analyst (RS)</b>	<div style="border: 2px dashed green; padding: 10px; margin-bottom: 10px;">  </div> <div style="display: flex; align-items: center; justify-content: center;">  <span style="margin: 0 10px;">+</span>  </div> <div style="border: 2px solid blue; padding: 10px; margin-top: 10px; text-align: center;">  </div>	<div style="border: 2px solid blue; padding: 10px; margin-bottom: 10px; text-align: center;">  </div> <div style="display: flex; align-items: center; justify-content: center; margin-bottom: 10px;"> <span style="font-size: 2em; margin-right: 10px;">+</span> </div> <div style="border: 2px solid blue; padding: 10px; margin-bottom: 10px; text-align: center;">  </div> <div style="display: flex; align-items: center; justify-content: center; margin-bottom: 10px;"> <span style="font-size: 2em; margin-right: 10px;">+</span> </div> <div style="border: 2px solid blue; padding: 10px; margin-bottom: 10px; text-align: center;">  </div>
<b>CFA Institute Proposed Path</b>		

*Question 9: How much of the fees for representative-level examinations are currently paid by member firms versus individuals? Would the proposal change the payment responsibilities? If so, how?*

CFA Institute has no data on the extent to which fees for representative level examinations are currently paid for by member firms versus individuals. That said, it would seem logical that, under the new structure, there is no reason to believe that firms which currently pay for their employees' examination fees should have any reason to alter their behavior in this regard. But at the same time, since individuals may now take the SIE without being affiliated with member firms (and presumably paying their own examination fees), it would seem reasonable that the percentage of individuals paying their own fees should increase somewhat relative to the percentage of individuals whose fees are being paid by their employers as a result of this change in policy.

As we just noted, we see no reason why firms which already pay for their employees' examination fees should alter their behavior in this matter. However, allowing individuals unaffiliated with member firms to take and pass the SIE (at their expense) may have a subtle impact on the hiring process at member firms which typically pay their employees' examination fees. It would seem reasonable that such member firms may now give a slight hedge in the hiring decision (all other things equal) to job applicants who have taken and passed the SIE (at their own expense) relative to applicants who have not done so. CFA Institute has no way of estimating how large this effect may be, but it would seem reasonable that it should exist.

CFA Institute has no way of determining how dramatic the percentage shift between the categories of employer paid vs. individual paid examination fees would be as a result of these two effects. Furthermore, we are agnostic on whether or not any such percentage change would be a good thing or a bad thing. We simply wish to note that allowing individuals not affiliated with member firms to take the SIE would likely lead to some increase in the percentage of individuals paying their own fees relative to those whose employers are paying their fees. Beyond this observation, we have no view on this question.

We would be pleased to discuss our comments in greater detail, or to provide any other assistance that would be helpful. If you have any questions, please do not hesitate to contact us.

Yours sincerely,

**On behalf of CFA Institute:**



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