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**SMARTEN UP INSTITUTE**  
**COMMENTS ON FINRA REGULATORY NOTICE 15-20**  
**QUALIFICATION EXAMINATIONS RESTRUCTURING**

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## Introduction

Smarten Up Institute Inc. (SUI) appreciates this opportunity provided by FINRA to comment on qualification examinations restructuring in the U.S. SUI is a Canadian employee-owned company that delivers both online and classroom training to members of the Canadian financial community at large, IIROC and MFDA member firms, as well as to those members of the public who aspire to greater literacy in matters related to investments and finance in general.

The success of the integration and regulatory harmonization of financial services and products at a global level, progressing under the auspices of IOSCO and other regulatory bodies operating under the oversight of the Financial Stability Board (FSB), will rely heavily on the level of proficiency of those who serve the retail and institutional markets in participating countries.

In addition, the proximity and general similarities between the US and Canadian financial marketplaces makes it essential that our respective jurisdictions follow parallel paths in the training and education of those who serve the investing public.

With this in mind we appreciate the opportunity to provide our input on the training and proficiency standards for those charged with helping both issuers and investors meet their financial goals.

If anything, the events that led to the financial crisis in 2008 highlighted the need for greater transparency and proficiency within the industry. Furthermore, the rapid pace and advance of technology, the establishment of new products and new trading processes have created an explosion of information that may be necessary or simply helpful to investment professionals, requiring a re-examination of how future participants entering the industry need to be trained.

The views expressed herein are entirely our own and do not reflect any other party's interests. Also as a supplier of educational services we acknowledge that our views may be interpreted as self-serving but are submitted on the basis that we believe there are certain basic requirements for those who intend to serve as the industry's frontline to the investing public.

## **SUI Responses to Request for Comments Regulatory Notice 15-20**

**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?**

We endorse the view in the proposal that there should be one fundamental examination that all those entering the industry who will deal with the public. For example we support the concept of a Securities Industry Essentials Examination (SIE) that will serve as a basic platform upon which further qualifications can be built as required by product or role.

Because of the increased complexity of product and market structure, we support the recommendation that individuals servicing certain specialized areas need to attain additional levels of proficiency in these specialized areas over and above the base line. Eliminating content duplication in examinations for those requiring additional certification is essential and will make it easier as well as less costly and time consuming for those taking these additional certifications.

The development of specialist qualifications building on a base line of knowledge, combined with rigorous efforts to eliminate duplication, will enable both the general and specialist courses to cover their material in greater depth. Trying to cover material on a variety of different product and processes in one general course of a reasonable length pushes both the general and the specialized content towards superficiality.

**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?**

With reference to retiring the Options Representatives Series 42 registration category we question whether the knowledge requirements set out in Appendix A, Section 2, Products: Options are in sufficient depth to deal with the increasing proliferation and complexity of an ever expanding options market. Perhaps the intent is to provide more depth in the specialized exams. We suggest that it would be better, as in the Canadian model, to maintain a separate exam for those wishing to advise the public on options trading and keep only a minimal description of options characteristics and uses in the SIE. Under that model, the SIE alone would not qualify an individual to trade in or advise on options.

We also note that “derivatives in general”, except for options, is not covered in the examinations.

While ETF’s are included, the Appendix is silent on ETN’s.

Another topic that we have found of particular interest to our audience, and one of the more successful courses, is “Understanding Investment Returns”, particularly now that performance reporting will be required on client financial statements in the near future here in Canada.

**3. FINRA is proposing to allow any individual, including an individual who is not associated with any 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?**

Opening the examinations to the public at large is commended and is in line with the current Canadian practice which has served the industry well. It benefits both firms and individuals as outlined in your proposal.

The current Canadian requirement in National Instrument 33-103 is that a course must be completed no more than two years before an initial application in any registration category for which the course is a pre-requisite. We believe this to be too short. There are many career paths in the industry in which a course like the SIE will be useful, but which do not take the individual into functions requiring registration. Furthermore, even those not employed in the industry who take the course will in general have some reason for doing so, even if it is only to assist them in managing their own investments. The idea that such persons will have lost all contact with the industry and the knowledge gained from a fundamental course within two years is, in our opinion, unreasonable.

That has to be balanced against changes in the industry and the general tendency for knowledge that is not used to degrade. For that reason we think that four years is a reasonable length of time, with five as the absolute maximum for that kind of rule.

**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 the examinations? If so, why? Should FINRA consider retiring any other representative-level registration categories that it is considering retaining under the proposal?**

See our comments regarding Options Representative in 2 above.

**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 determines 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?**

From a Canadian perspective the current process for the delivery of courses and examinations and related content is presently under review. As an educational entity we have commented to IIROC our views on both the current curriculum and delivery and examination mechanism. We await the outcome of this review. We assume that IIROC will take into account FINRA's current proposal in order to ensure reasonable parity in knowledge requirements as part of the overall Global initiatives towards more uniform rules, processes and proficiency standards. This will impact FINRA's decision regarding its considerations with reference to Series 37 and 38.

As a point of courtesy, we attach our response to Request for Comment on IIROC Proficiency Assurance Model 14-0181 in Appendix B.

Pending the outcome of those reviews, we suggest that there are a number of significant differences in the products, markets, laws and regulations between these jurisdictions, even if there are many similarities. We suggest that it is important not only that representatives understand not only the products and services they are providing, but also the legal framework within they are operating. For that reason we would respectfully disagree with the retirement of the Series 37 and 38.

Under the proposals, individuals holding existing registration through the Series 37 and 38 exams would be allowed to continue without having to write the SEI, but would have to write it after a lapse in registration of two years. We agree with grandfathering existing qualifications. For the same reasons as given in our response to Question 3 above, we suggest that 2 years is too short. We see no reason to believe that investment professionals will lose their understanding of both industry fundamentals and U.S. requirements in that time. We would suggest that a period of four or five years is more reasonable and in line with the recommendation regarding those who that the SEI without obtaining registration.

**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?**

Under the new requirements FINRA proposes to develop specialized knowledge examinations for 8 categories that include the existing non sales related activities

- Investment Company and Variable Contracts Products Representative
- General Securities Representative
- Direct Participation Programs Representative
- Equity Trader
- Investment Banking Representative
- Private Securities Offerings Representative
- Research Analyst
- Operations Professional

We support the retirement of categories that no longer serve a useful purpose in light of the changes that have taken place in the industry.

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

No comment.

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

Eliminating the need to answer questions on subject matter already covered by the SIE examinations will greatly improve the overall efficiency of the qualifying structure as well as allow more focus to be placed on the specific knowledge requirements for the different representative categories.

**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?**

No comment.

**Conclusion.** We commend FINRA for proposing this overhaul of registration categories and examination requirements given the industry's evolution over the past decade.

Canada's single-vendor model no longer serves the industry well and lacks all the key features and benefits that are best served in the US model, and also addressed in our response to the IIROC Proficiency Assurance Model 14-0181.

In addition, the Canadian securities industry and investors will benefit from the development of a comprehensive license program along the lines of the US model that will provide Investment Advisors with the requisite knowledge of all the relevant products that are integrated into today's portfolios.

We thank you for the opportunity to comment on your proposal and trust that our comments will serve a useful purpose in finalizing your initiative of transforming current proficiency requirements.

## Appendix A

### Smarten Up Institute Inc.

Launched in 2010, [Smarten Up Institute](#) is the independent Canadian provider of financial services training. SUI's clients include regulators, banks, credit unions, correspondent firms and small dealers. The company is owned by its employees, a model that has provided an incentive for experienced industry practitioners and training specialists to write courses, teach and provide advice. Some trainers and authors view this involvement as "a give back" to an industry that has provided them so many opportunities and that they love.

**Smart Direct®** is SUI's proprietary online learning management system. Using the Internet, the system delivers courses and examinations to students and provides SUI client firms with administrative tools and reports. A distinguishing feature of Smart Direct® is the ease with which changes to course materials and examinations can be uploaded in real time. On successful completion of industry accredited courses, students receive an electronically issued certificate that is used to obtain continuing education (CE) credits.

**Smart Talk®** is an SUI virtual classroom in which subjects of topical interest are presented and debated, for example High Frequency Trading. Another innovation has been the **Smart Mentor Program®** providing an avenue for "up and coming" stars to obtain advice from the industry's senior players. A recent example has been SUI's sponsorship of the Investment Industry Association of Canada's "**Top Under 40**" program and the donation of a Smart Mentor Program® to the winner of this year's competition.

**Classroom courses** provide a major portion of the company's revenue. Client firms select courses from the published syllabus or request hybrid courses constructed from modules taken from several courses to meet specific requirements. Classroom courses are held in all the major Canadian cities using facilities at either colleges or conference spaces. A recent growth area for SUI has been delivering seminar programs for larger firms to assist them in effectively assimilating complex regulatory change and highlighting the attendant implications to their business. Whether delivered in a classroom or seminar format, the company uses innovative training techniques to make dry subjects interesting and engaging for participants. These techniques include role playing, gamification and dramatization.

**People:** Laurie Clark founded SUI in the wake of the 2008 financial crisis with the thesis that the Canadian investment industry should have better educational resources available to it. Small dealers and correspondent firms were especially having difficulty accessing expertise. Laurie's background includes senior

management roles at Penson Financial, Dataphile Software (now Broadridge), IBM Global Services (US), RBC Dominion Securities and Wood Gundy. The employee owned model opened the way for many industry professionals to become involved including a past president of CDS, several Chief Financial Officers, Traders, Retail Trainers, Academics and IT Specialists.



## List of Smarten Up's Courses:

Course Title	Type of course
A Guide to Understanding the Derivatives Market	on-line
Accounting for P3's	Seminar
Advanced Company Evaluation	Seminar
Advanced Exchange Traded Funds	on-line
Anti-Money Laundering	on-line
BASEL III	Class
BASEL III	on-line
Branch Manager - Regulation, Governance, Duties and Responsibilities	Class
Canadian Securities Professionals Course	class - advanced course for licensing
Carrier and Correspondent Business and Relationships	Class
Communication Seminar	Seminar
Compliance for the Financial and Securities Industry (Levels 1, 2 and 3)	Class
▪ Introductory Level I	Class
▪ Intermediate Level II	Class
▪ Advanced Level III	Class
Compliance and Audit	Class
Corporate Actions and Entitlements	Online
Corporate Finance	Class
Corporate Investment Decision Making	Class
CRM II	Class
CRM II	on-line
Crowd-funding	Seminar
Data Structures and Technology Fundamentals for the Financial and Securities Industry	Class
Debt Instruments	on-line
Derivatives	Class
Dodd – Frank Act	Class
Dodd – Frank Act	on-line
Ethics for Representatives of Investment Dealers	on-line
Ethics - Acting with Integrity	on-line
Ethics - Best Practices	on-line
Ethics - Borrowing Money from Clients	on-line
Ethics - Conflicts of Interest	on-line
Ethics - Control or Authority over Financial Affairs of Clients	on-line
FATCA Lite	on-line
Finance and Financial Reporting	Seminar
Financial Literacy	Seminar

Financing a Securities Firm - Asset and Risk Exposure, Cash Management, Risk and Controls	Seminar
Forex	on-line
Full Fat FATCA	Class
Full Fat FATCA	on-line
Global Securities: Custody	Class
Global Securities: Trading & Settlement	Class
▪ Introductory Level I	Class
▪ Advanced Level II	Class
Hedge Funds	Class
Investment Advisor Assistant - Regulation, Governance, Duties, Surveillance	Class
Inside Canada's Mutual Fund Industry	Class
Inside Canada's Securities Industry	Class
▪ Introductory Level I	Class
▪ Advanced Level II	Class
International Clearing and Settlement	Class
Introduction to Exchange Traded Funds	on-line
Introduction to Hedge Funds	on-line
Introduction to Options	on-line
Introduction to Pensions and Infrastructure	Class
Introduction to Private Public Partnerships	Class
Investment Analysis	Class
Leadership - Professional Development	Seminar
Life of a Trade	Class
Mutual Funds and Structured Products	Seminar
Mutual Fund Regulation & Governance	Class
Mutual Fund Regulation and Governance	Online
Overview of ETFs	Class
Overview of Global Securities Services	Class
P3 Practice Guidelines	Class
Options based Portfolio Strategies - Advanced Level	on-line
Prime Brokerage	Class
Regulatory Development - Law, Disclosure, Client Management, Documentation, Communication	Class
Repos and Reverse Repos	on-line
Science of ETFs	Class
Securities Lending - National and International	Class
Seniors - Aging and Long Term Care Planning	on-line
Social Media: Regulation and Governance for the Financial Professional	on-line
The Art of Communication for the Financial Professional	Class
The Evolution of Money - A History Lesson	on-line
The US and European Regulatory Framework	on-line

Project Management: Psychology and Emotional Intelligence	Class
Trade Supervision - Regulation, Governance, Supervisory Duties, Surveillance	Class
Trading Equities	on-line
Trading Strategies and Compliance Procedures for Leveraged ETFs	Online
Treasury	Class
Trusts, Trust Officers, Trust Agencies, Regulation and Governance, Compliance	Class
UMIR RULES	Seminar
Understanding Investment Returns	on-line
Understanding Investment Returns	Class
Venture Capital Finance	Class
Workplace Violence and Harassment - Bill 168	Seminar and Executive Workshop
Year End Tax	Class

**Licensing Courses:** Immediate areas of interest where Smarten Up would contribute expertise and resources to the delivery of licensing courses are:

1. Institutional Sales Training;
2. Advisor Assistant Training;
3. Advisor 30 and 90 Day Training Programs;
4. The Conduct and Practices Course;
5. Regulatory Compliance;
6. Chief Compliance Officer;
7. Chief Financial Officer;
8. Operations Essentials (i.e. CDN equivalent to US Series 99).

## Appendix B

### SMARTEN UP INSTITUTE

### COMMENTS ON IIROC NOTICE 14-0181

### PROFICIENCY ASSURANCE CONSULTATION

You may view the submission in detail on the IIROC website at:

[http://www.iroc.ca/Documents/2014/4e355627-7ba6-4db5-b1e5-a37112905f1\\_en.pdf](http://www.iroc.ca/Documents/2014/4e355627-7ba6-4db5-b1e5-a37112905f1_en.pdf)