



November 1, 2019

Darren McKall
Manager,
Investment Funds and Structured Products Branch
Ontario Securities Commission
20 Queen St West, 22nd Floor
Toronto, ON, M5H 3S8

Re: Alternative Mutual Fund Proficiency Proposal

Dear Mr. McKall:

We appreciate the opportunity to submit to the CSA Members our proposal to align proficiency requirements with the new mutual fund category, *Alternative Mutual Fund*, introduced in National Instrument (NI) 81-102: Investment Funds.

The current proficiency requirements for Alternative Mutual Funds (“Alt Funds”), outlined in NI 81-104: *Alternative Investment Funds*, are legacy requirements from NI 81-104: *Commodity Pools*. As they apply to Alternative Mutual Funds, these proficiency requirements are onerous, and in some cases, are either redundant or not applicable.

We have developed an outline for a proficiency course, Alt Funds Course (AFC), specifically for Alternative Mutual Funds, as defined by NI 81-102: Investment Funds. The course is intended to satisfy the proficiency requirements where an **individual** is licensed as:

- A Mutual Fund Dealer – Dealing Representative (MFDA)¹,

Unless that individual has successfully completed the Canadian Securities Course (CSC), Derivatives Fundamentals Course (DFC) or the Chartered Financial Analyst Program (CFA).

The proposed Course is also intended to satisfy the supervisory proficiency requirements, where the **supervisor** is licensed as:

¹ National Instrument 31-103: Registration Requirements, Exemptions and Ongoing Registrant Obligations, Page 13
https://www.bccsc.bc.ca/Securities_Law/Policies/Policy3/PDF/31-103_NI_June_12_2019/

- A Supervisor of Registered Representatives or Investment Representatives (other than supervising options or futures contracts and futures contract options) (IIROC)^{2,3}, or
- A Mutual fund dealer – Branch Manager (MFDA)⁴,

Unless that individual has successfully completed the Derivatives Fundamentals Course (DFC) or completed the Chartered Financial Analyst Program (CFA).

Alt Funds Course (AFC) Outline

To help develop the course curriculum and identify proficiency gaps, we considered the following questions, as it relates to Alternative Mutual Funds:

1. What learning outcomes are applicable to mutual fund restricted individuals, that are not already covered within mutual fund licensing courses?
2. What learning outcomes are applicable to supervisors, that are NOT applicable to mutual fund restricted individuals?

Using these questions as guidelines to build our framework we identified proficiency gaps, which are the fundamental components of our proposed outline.

When we considered the learning outcomes for the supervisor, and whether an additional supervisor training component was required, we determined that the proficiency requirements are sufficiently covered by the proposed Course and the licensing requirements of the Supervisor (IIROC) or Branch Manager (MFDA).

Learnedly Alt Funds Course (AFC)

If approved, Learnedly would develop a proficiency course using the curriculum outline in Appendix A. The course would be video-based, approximately two hours in length, and include a final test with 30 multiple choice questions. In order to successfully complete the course, the learner would need to review all course content and score a minimum of 60% on the final test.

Learnedly provides access to a growing library of industry training courses to subscribers for \$20 a month. The AFC would be included in the course library and available to all subscribers.

Additional Considerations: Fund Distribution by Fundserv

From a distribution perspective, we also note that Fundserv's next update, Version 30, scheduled for release on June 30th, 2020, will include a new Product Type (Liquid

² IIROC Rule Book, effective June 1, 2020

³ IIROC Rule Book, Page 87 https://www.iiroc.ca/Rulebook/PPLRuleBook/IIROC_Rule_Book_clean_en.pdf

⁴ MFDA Rule Book, 2.5.5 <https://mfda.ca/policy-and-regulation/rules/mfda-rules/>

Alternative Mutual Fund) to identify liquid alternative mutual funds in Fund Setup (FD) and Product Update (MD) files, making it easier to track these funds and ensuring participating dealers understand and satisfy the necessary compliance requirements, in order to offer these investments to investors.

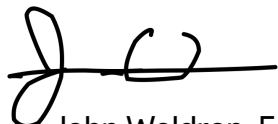
Thanks and Appreciation

We would like to acknowledge the following participants for their input and contribution to this proposal:

- Demi Mehta, Ryan Lamb and Nicole Jensen – CI Funds
- James Burron – CAASA
- Aidan Coulter, Stephane Obadia - Fundserv
- Christina Ashmore – IFSE Institute

If we can offer additional information or context on our proposed proficiency course, please do not hesitate to contact me.

Sincerely,



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Appendix A: Alternative Mutual Fund Proficiency Course (AFC) Outline

Introduction

(Course introduction, context for offering this course, what it will allow mutual fund restricted individuals to offer to clients)

Background ([CSA](#) pg 1-2)

(Explain the regulatory process of getting Alts introduced into the market, why regulators felt this was necessary, and why this matters to investors)

The Modernization Project (understanding the context of alt funds) ([CSA](#) pg 1-2)

Phase 1 ([CSA](#) pg 1-2)

Phase 2 ([CSA](#) pg 1-2)

Understanding Alternative Investments ([CSA](#) Pg 3)

(Explain the key features of Alts starting by recapping the relevant features of conventional funds and hedge funds in order to set the context for Alts)

Conventional Mutual Funds: A brief overview

Hedge Funds: A brief overview

Alternative Mutual Funds – A comparison to conventional and hedge funds

Investment Restrictions ([CSA](#) pg 3-6)

Concentration Restrictions

Investments in Physical Commodities

Illiquid Assets

Fund-of-Fund Investing

Cash Borrowing

Short Selling

Combined Limit on Cash Borrowing and Short Selling

Aggregate Exposure to Borrowing, Short Selling and Specified Derivatives

Codification of Cleared Swap Exemptive Relief

Other Derivatives Provisions

Disclosure Requirements and Documents ([CSA](#) pg 7)

Unlisted funds (NI 81-101)

Simplified Prospectus

Annual Information Form

Fund Facts

Exchange-listed funds (NI 41-101)

Long form prospectus

ETF Facts

Additional Disclosure Requirements (for Alts and Non-redeemable funds)

Alternative Mutual Funds

Prescribed textbox how it differs from conventional funds

Disclosure of lender and use of leverage (if the fund borrows cash)

Non-redeemable investment funds

Disclosure of lender and use of leverage (if the fund borrows cash)

Financial Statement Disclosure / Continuous Disclosure (NI [81-106](#), [CSA](#) pg 7)

Interim financial reports

Annual financial statements

Fund management report

Disclosure of Use of Leverage ([81-106](#) Pg 18)

Understanding Fees

(Introduce “Incentive Fees” (Performance Fees) a feature not permitted with conventional funds; and a review of fees used in conventional funds)

Incentive Fees ([CSA](#) pg 109-110, [81-102](#) pg 55) (Performance fees)

Permitted rules

Advantages and disadvantages

High water mark

Hurdle Rate

Conventional fund fees

Management fees

Operating expenses

Short-term trading / early redemption fees

Purchase and redemption fees (FE, low-load, DSC)

Purchase and Redemption Options

Derivatives: Tools and Strategies

Derivatives overview

Futures

Options

Using derivatives to hedge

Using derivatives to speculate

Futures

Options

Evaluating Risk and Performance

Risk and Return

Relative risk/return

Absolute risk / return

Investment Risks

- Borrowing risk
- Capital depreciation risk
- Changes in legislation risk
- Class risk
- Collateral risk
- Concentration risk
- Counterparty default risk
- Credit risk
- Currency risk
- Derivatives risk
- Foreign investment risk
- Interest rate risk
- Large redemption risk
- Leverage risk
- Liquidity risk
- Market risk
- Operational risk
- Securities lending risk
- Short settling risk
- Sub-advisor risk
- Tax risk
- Underlying fund risk

Investment Risk Classification Methodology ([CSA](#) pg 12, 67, 129, 143-146) ([81-102](#)
Appendix F)

Standard Deviation + Categories ([CSA](#) pg. 143-146)

How fund risk is measured ([CSA](#) pg. 143-146)

For funds with less than 10 years of history ([CSA](#) pg. 144-145)

Using a Reference Index ([CSA](#) pg. 145-146)

Evaluating Alt Funds: Performance, Strategies and Suitability

Evaluating Funds

Understanding the Investment objectives and strategies

How the risks impact a client's overall investment strategy

How do Alt Funds fit within a client's overall portfolio?

Measuring performance

Risk-adjusted performance

Benchmark

Product Due Diligence ([IIROC 09-0087](#) pg 4-6)

Suitability for your client



Know Your Client (KYC)
Know Your Product (KYP)

Alternative Fund Categories and Strategies ([CIFSC](#) pg 6-7)

(Explain the major Alt categories, based on [CIFSC](#) alt fund categories. Describe their unique features, advantages and disadvantages. Identify one fund from each category to use as an example.)

- Alternative Equity Focused
- Alternative Credit Focused
- Alternative Multi-Strategy
- Alternative Market Neutral
- Alternative Other

Glossary ([CSA](#) pg 58-59, 71-78) ([UMIR](#) 1.11 – 34)

(New terms introduced to securities regulations, and other terms uncommon to MFDA Approved Persons)

([CSA](#))

- Alternative mutual fund
- Cleared specified derivative
- Fixed portfolio investment fund
- Non-redeemable investment fund
- Permitted precious metal
- Permitted precious metal certificate
- Precious metals fund
- Regulated clearing agency

([UMIR](#))

- Arbitrage account
- Basis Order
- Dark Order
- Derivatives market maker
- Derivative-related cross
- Restricted period
- Universal Market Integrity Rules (UMIR)

Understanding Key Changes to Regulatory Documents

(Explain key changes to relevant National Instruments and introduce national instruments that may not have applied to MFDA Approved Persons. Most (all?) key changes should be summarized in CSA's Notice of Amendments ([CSA](#)))

NI 41-101 – General Prospectus Requirements ([CSA](#) pg 150)

- NI 81-101 – Mutual Fund Prospectus Disclosure ([CSA](#) pg 153-155)
- NI 81-104 – Commodity Pools (*now “Alternative Mutual Funds”*) ([CSA](#) pg 148, 149)
- NI 81-102 – Investment Funds ([CSA](#) pg 58-148)
- NI 81-106 – Investment Fund Continuous Disclosure ([CSA](#) pg 156)
- NI 81-107 – Independent Review Committee for Investment Funds ([CSA](#) pg 157-158)
- NI 94-101 – Mandatory Central Counterparty Clearing of Derivatives

Additional Topics

Where Alts fit in client portfolios (*provide two or three case scenarios that show proper exposure and an appropriate mix within a portfolio*)

Client Focused Reforms (*Provide overview of new rules, with an emphasis on suitability, KYC and KYP*)

Rehypothecation of Collateral ([CSA](#), Pg. 28)