



**Mutual Fund Dealers Association of Canada**  
Association canadienne des courtiers de fonds mutuels

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**BULLETIN #0911 – P**  
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# **MFDA Bulletin**

## **Policy**

**For Distribution to Relevant Parties within your Firm**

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### **Approval of New MFDA Policy No. 11 *Proficiency Standards for the Sale of Alternative Mutual Funds* and Summary of Comments**

On July 21, 2022, the MFDA's Recognizing Regulators advised that they have approved/not objected to new MFDA Policy No. 11 *Proficiency Standards for the Sale of Alternative Mutual Funds*.

The new Policy, which is attached as Appendix "A", enables the MFDA to adopt requirements that are consistent with the regulatory policy rationale underlying the exemption orders published by the CSA members. The Policy also ensures that alternative mutual funds are subject to appropriate proficiency standards, whether they are sold pursuant to a prospectus or on a prospectus-exempt basis.

The new Policy was issued for public comment in November 2021 (see Bulletin #0885-P.) Four submissions were received in response: two from industry associations, one from an industry education provider, and one from an investment fund manager. Attached as Appendix "B" is the summary of comments, along with the responses of MFDA staff.

The new MFDA Policy No. 11 has received all the requisite approvals and is now in effect.

To view the Recognizing Regulators' Notice of Approval/Non-Objection, please go to:  
<https://www.bcsc.bc.ca/industry/marketplaces-sros-clearing-agencies/self-regulatory-organizations/mutual-fund-dealers-association/request-for-comment-proposed-mfda-policy-no-11-proficiency-standards-for-the-sale-of-alternative-mutual-funds>

## Appendix “A”

### MFDA POLICY NO. 11

## PROFICIENCY STANDARDS FOR THE SALE OF ALTERNATIVE MUTUAL FUNDS

### Purpose

The purpose of this Policy is to set out minimum requirements that Members and Approved Persons must meet to ensure that advice and transactions in respect of alternative mutual funds satisfy the proficiency, experience, and related requirements under Rule 1.2.3, and Member responsibilities under Rule 2.5.1.

Alternative mutual funds are allowed to invest in alternative assets and employ strategies that are not generally permitted by conventional mutual funds. Alternative mutual funds may be sold under a prospectus, or on a prospectus exempt basis.

Alternative mutual funds sold on a prospectus exempt basis (i.e. hedge funds), have no investment restrictions, are less transparent than alternative mutual funds sold under a prospectus, and can only be sold to investors who meet certain criteria.

Alternative mutual funds sold pursuant to a prospectus (i.e. “liquid alts”) have investment restrictions, provide a greater degree of transparency and liquidity than prospectus exempt alternative funds and can be sold to the general public.

The requirements of this Policy apply to both alternative mutual funds sold under a prospectus (i.e. liquid alts), and alternative mutual funds sold pursuant to a prospectus exemption (i.e. hedge funds).

**Definitions** For the purposes of this Policy:

“**alternative mutual fund**” has the same meaning as the definition in National Instrument 81-102 (NI 81-102). An alternative mutual fund is a mutual fund, other than a precious metals fund, that has adopted fundamental investment objectives that permit it to invest in physical commodities or specified derivatives, to borrow cash or engage in short selling in a manner not permitted for other mutual funds under NI 81-102.

“**bridge course**” means either the Investing in Alternative Mutual Funds and Hedge Funds Course administered by the IFSE Institute, or the Alternative Strategies: Hedge Funds & Liquid Alts for Mutual Fund Representatives Course Exam administered by CSI Global Education Inc.

## **Proficiency Requirements**

An Approved Person trading or advising in alternative mutual funds, and an individual designated by the Member to supervise trading in alternative mutual funds, as required by MFDA Policy No. 2, must have:

- a) passed a bridge course exam;
- b) passed the Derivatives Fundamentals Course Exam administered by CSI Global Education Inc.;
- c) passed the Canadian Securities Course Exam administered by the CSI Global Education Inc.; or
- d) passed the courses required to be registered as a Portfolio Manager – Advising Representative pursuant to section 3.11 of National Instrument 31-103.

## **Appendix “B” Summary of Comments**

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.*