



September 16, 2015

Paige Ward
General Counsel, Corporate Secretary and Vice President, Policy
Mutual Fund Dealers Association of Canada
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Dear Ms. Ward:

RE: Request for Comment – Consultation Document (Proficiency Standard for Approved Persons Selling Exchange-Traded Funds (ETFs))

We are writing this letter on behalf of the Canadian Exchange-Traded Fund Association (“CETFA”). Based in Toronto, Canada, the CETFA is the only exchange-traded fund (“ETF”) association in Canada, and the first of its kind in the world. The CETFA represents 95% of the ETF Assets Under Management in Canada and believes it speaks with the authority of the industry.

One of CETFA’s primary goals is to deal with policy or regulatory issues that impact Canadian listed ETFs, our member firms and our end investors. We wish to provide the Mutual Fund Dealer Association with our comments on Consultation Document (Proficiency Standard for Approved Persons Selling Exchange-Traded Funds (ETFs)) released on July 22, 2015.

We believe that a section should be added for the Application of the Rule to ensure consistent usage. We would also like to see consistent use of terms; for example in the paper the terms Approved Persons (selling ETFs) and Dealing Representatives are used, it would be helpful if one term only was used, if referencing the same group of individuals.



In general we agree with the outline of the ETF Information Topics and Subtopics noted however we would also like to add the following:

General Topic	Sub-Topics	Comment
Introduction to ETFs	Registration/licencing requirements and limitations	How and why ETF distribution by MFDA advisors is restricted to Canadian listed ETFs.
	Description of ETFs that cannot be sold by Approved Persons	When discussing the exclusion of commodities, note that exposure to Gold is ok if not leveraged or inverse.
		Discussion of Index Participation Units and the different concentration rules for such products.
		When discussing derivatives, include; <ul style="list-style-type: none"> ▪ Total Return Swaps, and ▪ Rate swaps
Characteristics of ETFs	Creation and Redemption of units	Explain INAVs
		Operational cost benefits of in-kind transactions.
		Tax and cost efficiency of ETFs due to trading in larger share blocks (PNUs or Prescribed Number of Units).
	General Risks	Understand how ETFs are categorized by CIFSC and how the (interim) ETF Risk Rating system works.
		Explain the 10% limitation on Counterparty Risk and how it is measured.
		There should be discussion on volatility and where it may impact an investor.
Exchange Trading	Quotes System	Explain trading at a Premium vs trading at a Discount
Exchange Trading	Quotes System	Update on the removal of ETFs from the MOC (Market On Close) facility
		Splits and consolidations



		<p>In discussing Bid/Ask spread – identify the components that impact bid/ask spread, such as;</p> <ul style="list-style-type: none"> ▪ The # of market makers in the market, ▪ Market maker spread, ▪ Trading costs, ▪ Liquidity and bid/ask spread of underlying securities of the ETF, ▪ Time of day (if it is the same as the trading day of the underlying securities or is not)
	Market Depth and Liquidity	Needs extensive exposure to defining liquidity as not being reflected by the number of units traded (since liquidity comes primarily from the liquidity of the underlying securities) due to the role of the market maker.
Investing in ETFs	Review existing obligations	Expand on the suitability section to review ETFs from an internal compliance perspective of Risk Ratings as noted above

It is our hope that the industry as a whole, whether IROC or MFDA, continues to evaluate and improve the education requirements for their advisors – regardless of the product being offered - and endeavours to provide advisors with ready and affordable access to continuing education programming. This will ensure that all advisors have the tools they need to service their clients effectively, including the valuable product specific knowledge that the CEFTA has been able to provide in past and would be pleased to provide in future in the appropriate circumstances.

Thank you for this opportunity.

Pat Dunwoody
 Executive Director
 Canadian ETF Association