

Brent Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-0609

30 March 2017

**Re: Proposed Rule Change to Adopt Consolidated FINRA Registration Rules, Restructure the Representative-Level Qualification Examination Program and Amend Continuing Education Requirements.**

Dear Mr. Fields,

CFA Institute appreciates the opportunity to comment to the Securities and Exchange Commission (“the Commission”) with regards to the Financial Industry Regulatory Authority (“FINRA”) rule filing SR-2017-007 (“the rule filing”) pertaining amongst other things to the restructuring of the representative-level qualification examination program (the “Program”). 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.

*CFA Institute’s view on the Restructuring of the Examination Program*

The changes proposed by FINRA to the Program would require all potential representative-level registrants take a general knowledge examination (“the Securities Industry Essentials Exam”) and an appropriate specialized knowledge examination (the “Specialized Exam”) to reflect their particular registered role.

CFA Institute believes the restructuring of the Program is needed and will benefit not only the individuals seeking representative-level licensure, but also firms and investors alike. CFA Institute believes high standards of proficiency can positively enhance investor protection and the integrity and efficiency of capital markets. It is clear the restructure of the Program as proposed would not only allow FINRA to

continue to promote high proficiency standards so that persons associated with member firms attain and maintain high levels of competence, but also help to streamline the Program.

In light of the above, CFA Institute supports FINRA's proposal for change as a means to continue to promote high levels of professionalism in the industry. We believe the approach, as described, is certainly viable and represents an improvement over the current arrangement. Therefore, we support FINRA's proposed rule.

*CFA Institute's recommendation on incorporating additional certifications into the framework.*

Despite our full support for the changes proposed for the Program, CFA Institute also believes there is an important aspect that, if incorporated into the Program, would further enhance its objective. As it stands, the Program only allows for prospective registrants to use FINRA's qualification exams to demonstrate they have attained the necessary expertise to practice in the industry.

CFA Institute believes that allowing for other qualifications, such as the CFA charter, that objectively represent a high standard can and should play a role in the licensing of professionals, thereby making the Program even more robust. In our experience, providing educational choices and flexibility to prospective registrants is of utmost importance to the success of the framework itself in the long run.

Permitting prospective registrants to choose from a pre-approved list of examination programs those they believe will serve their longer-term career interests makes sense from a cost and quality-of-content perspective. Moreover, when the options available to prospective registrants recognize the varying educational interests, professional backgrounds and career goals of licensing applicants seeking representative level approval, we believe it will increase the understanding and applicability of the lessons examined.

Consequently, we respectfully ask the Commission to consider recognizing the CFA program and the CFA charter as one way of demonstrating knowledge and competence for FINRA's proposed licensing framework.

It is important to note that, specifically in the case of the CFA program, precedents exist in other developed markets for this type of recognition. For example, FINRA waives some of its Series exams for CFA

charterholders or individuals in the CFA program Other regulatory entities in the United States also allow CFA candidates and charterholders regulatory waivers, including the following current list:

- The North American Securities Administrators Association (NASAA) exempts CFA charterholders from the Uniform Investment Adviser Examination (Series 65), 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;

*Why would having a CFA pathway be beneficial for the qualification examination program?*

The Chartered Financial Analyst® (CFA®) charter is widely respected and considered one of the global investment industry's most challenging graduate investment credential. Earning the charter requires demonstrating four years of professional investment experience, committing to uphold our code of ethics and a comprehensive set of standards of professional conduct, 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. Success demonstrates a commitment to professional ethics as well as a mastery of a comprehensive range of advanced investment principles needed to competently 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 being rigorous and challenging, the CFA program also:

1. *Places a great deal of emphasis on best practices*

The CFA charter emphasizes the highest ethical and professional standards which, when applied, calls on charterholders and candidates to work in the best interests of their investors and financial markets.

2. *Practitioner Focus:*

The CFA program is developed by practitioners for practitioners.

3. *Serves as a “Passport” for knowledge:*

The CFA charter is recognized by regulators in some of the most important financial centers around the world as indicating a high degree of competency on the part of investment professionals. The charter, therefore, allows charterholders to effectively “passport” the qualification between and among markets.

4. *Employer recognition:*

The CFA charter has broad support from employers in the financial industry.

*How would a CFA pathway look like?*

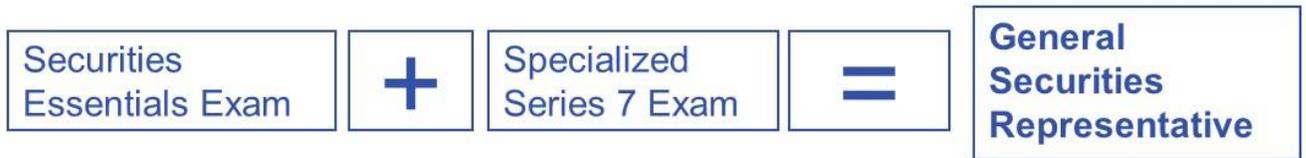
Incorporating the CFA program into the representative-level qualification Program could be done in a straight-forward manner, requiring the establishment of a partnership between FINRA and CFA Institute. The pathway for each representative function would essentially consist of combining an appropriate level of the CFA program (to cover for the knowledge of business requirements) with a module on rules and regulations developed and administered by FINRA.

The CFA program unfortunately only covers knowledge of business requirements and not local rules and regulations. This gap, therefore, would need to be plugged with an appropriate module to cover the latter. FINRA has enormous expertise in the regulatory arena and so combining the expertise of the CFA program in investment knowledge with a module developed by FINRA, the regulator would essentially allow individuals to meet the knowledge of business and regulation requirements.

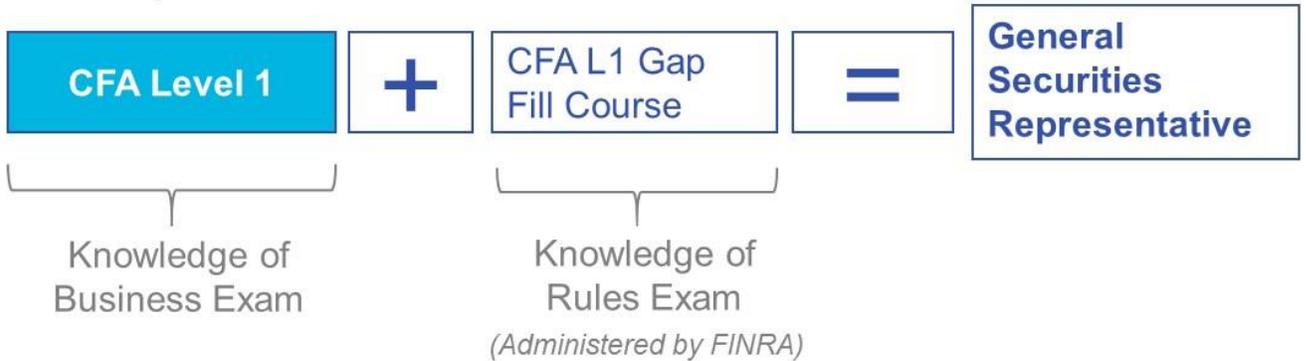
Ultimately our objective with this proposal is to help our members and candidates bridge the gap in meeting licensing requirements and avoid unnecessary duplicative testing. We also feel strongly that FINRA would benefit in that it would capitalize on our reputation and experience in training professionals.

To use the example of the General Securities Representative, CFA Institute proposes that CFA Level 1 plus a module on rules and regulations -- the gap-fill course -- be considered equivalent to the proposed general knowledge examination (“the Securities Industry Essentials Exam”) and the appropriate specialized knowledge examination (as shown in the diagram below).

### FINRA’s General Securities Representative New Exam Structure



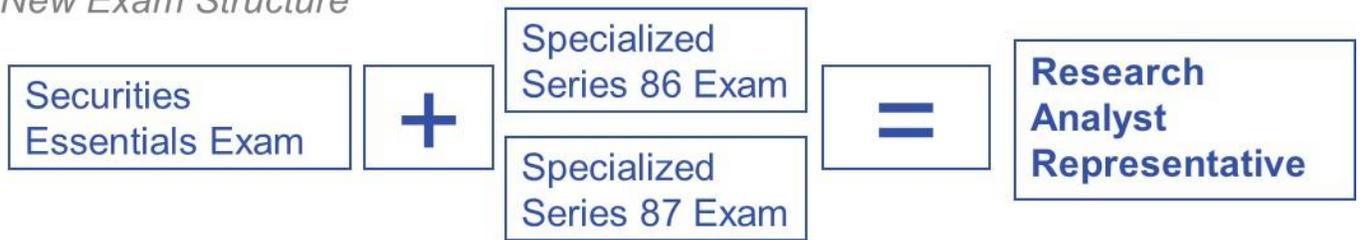
### CFA Proposed Path



Another example is the Research Analyst role, where we propose the CFA Level II in combination with a specialized Series 87 would be equivalent to the proposed requirements, as shown in the diagram in the next page.

### FINRA's Research Analyst

#### *New Exam Structure*



### CFA Proposed Path



#### *Sponsorship*

Under the proposed CFA pathway, taking the CFA program would not require firm sponsorship. However, to sit for the knowledge of rules exam administered by FINRA, individuals would require firm-sponsorship. This proposed structure is similar and would not conflict with the outlined in FINRA's proposal, as the Essentials exam does not require sponsorship but the specialized knowledge examination does.

### *Regulatory Recognition around the world*

Supervisory Agencies around the world have recognized the rigor, value and applicability of the CFA program in producing competent investment professionals by granting waivers from their knowledge requirements for those who successfully participate in the CFA program. In all, regulators from 32 countries or territories formally recognize the CFA program. These Supervisory Agencies range from statutory securities commissions to self-regulatory organizations. This section provides examples of the worldwide reach of the program.

- **Securities Commission in Brazil (CVM)**

CVM exempts candidates who have passed the CFA Level II exam from the knowledge of business requirements to become a research analyst. Additionally, CVM exempts candidates who have passed the CFA Level III exam from the knowledge and competency requirements needed to register as a Portfolio Manager.

- **Canadian Securities Administrators (CSA)**

National Instrument Directive 31-103 recognizes the CFA charter as meeting the competency requirements for the following roles: Mutual Fund Dealer – Dealing Representative; Exempt Market Dealer – Dealing Representative; Portfolio Manager – Advising Representative; Portfolio Manager – Associate Advising Representative; Portfolio Manager – Chief Compliance Officer; and Investment Fund Manager – Chief Compliance Officer

- **Investment Industry Regulatory Organization of Canada (IIROC)**

Under the terms of Rule 2900, IIROC recognizes the three levels of the CFA program for registering for the following job roles: Registered Representative – Portfolio Management and Registered Representative (with discretionary authority for trading futures and options on futures contracts)

*\* Additional note: In its “Proposed IIROC Dealer Member Plain Language Rule Book,” the self-regulator proposed that CFA Level 1 be considered equivalent to the Canadian Securities Course.*

- **Asociación Mexicana de Intermediarios Bursátiles (AMIB)**

AMIB, with the support of the Securities Commission in Mexico, recognizes any level of the CFA program as meeting the knowledge requirements to practice for any of the 5 representative-level job functions: Mutual Fund sales; Securities sales; Financial Advisor; Money Market Trader; and Fixed Income Trader.
  
- **Financial Conduct Authority (FCA)**

The CFA program, in combination with the Investment Management Certificate (run by CFA UK), is recognized for meeting the Authority's Retail Distribution Requirements (RDR).
  
- **Dutch Securities Institute (DSI)**

The Dutch Securities Institute (DSI) recognizes CFA Level 1 for Financial Analysts, Fund Managers and Senior Investment Advisers and the CFA Charter for Senior Financial Analysts, Senior Fund Managers.
  
- **Comisión Nacional del Sistema de Ahorro para el Retiro (CONSAR)**

CONSAR recognizes the CFA Program and the CFA Institute Investment Foundations Program as meeting the certification requirements for those working on AFORES. Specifically, for the CFA Program:

  - General financial certification: For officials working in the area of investments, risk, compliance, and operations, passing CFA Level I and CFA Level II will grant a license valid for 4 years. Obtaining the CFA Charter grants a permanent license.
  - Certification on derivatives and structured instruments: For officers working in the area of investments, risks, and compliance, passing CFA Level I and CFA level II will grant a license valid for 4 years. Obtaining the CFA Charter grants a permanent license.
  
- **Asset Management Association of China (AMAC)**

The Asset Management Association of China (AMAC) is a self-regulatory body that represents the mutual fund industry under the supervision of the China Securities Regulatory Commission (CSRC). AMAC announced that the CFA program is among the approved professional qualification examinations that is needed to register as a senior manager in securities for investment funds.

○ **Hong Kong Securities and Futures Commission (SFC)**

The SFC competency code for Licensed Representatives recognizes the CFA Level I exam as an industry qualification. Passing the CFA Level I exam waives:

- Licensing Exams 7 & 8 for Regulated Activities 1, 4, 8
- Licensing Exams 7 & 9 for Regulated Activities 2, 5
- Licensing Exams 7 & 11 for Regulated Activity 6
- Licensing Exams 7 & 12 for Regulated Activity 9

Under the recency requirements established by the SFC for RIQs, the CFA Level I exam has to be passed not more than three years prior to the date of application.

○ **Monetary Authority of Singapore (MAS)**

Financial Advisor Representative: MAS exempts those who are CFA charterholders seeking to license as Financial Advisor Representatives (advising others concerning securities excluding collective investment schemes) from modules 6, 7, and 8 of the CMFAS Exam.

Capital Markets Services (CMS) Representative: MAS exempts those who are CFA charterholders and are seeking a license as CMS Representatives in Fund Management from modules 6 and 7 of the CMFAS Exam.

○ **Ministry of Finance in Poland**

The Polish Ministry of Finance accepts the CFA charter as fulfilling the professional requirements for both securities brokers and investment advisers.

○ **Capital Markets Board of Turkey (CMBT)**

Passing the CFA Level 1 exam is considered equivalent to the Capital Markets Activity Level 1 License. The Board requires individuals to obtain this license to work as Customer Representatives (including derivative instruments), Clearing and Operations Managers, Accounting for Derivative Instruments, Liaison Officers, and Stock Exchange Member Representatives. Additionally, passing the CFA Level II exam is considered equivalent to the Capital Markets Activity Level 2 License. The Board requires individuals to obtain this license to work as Branch Managers, Internal Controllers, Portfolio Brokerage Customer Representatives, and Research Specialists. Finally, passing the CFA Level III exam is considered equivalent to the Capital Markets Activity Level 3 License. The Board requires individuals to obtain this license to work as Investment Advisers,

Corporate Finance Specialists, Portfolio Managers, Heads of Internal Audit Inspectors and Risk Managers.

- **Securities Commission in Malaysia**

To obtain a Capital Markets Services Representatives License (CMSRL) in Malaysia with the Commission, applicants must pass a series of examinations. CFA charterholders are waived from four licensing examinations:

Module 7 - Financial Statement Analysis and Asset Valuation

Module 10 - Asset and Funds Management Module

Module 12 - Investment Management and Corporate Finance

Module 14 - Futures and Options

- **Securities and Exchange Board of India (SEBI)**

The Securities and Exchange Board of India has proposed that the CFA program be recognized as equivalent to the local exams for portfolio managers and financial advisors. The proposals are under public comment.

- **Capital Market Authority in Kuwait (CMA)**

The CFA Program are recognized as meeting some of the Fit and Proper Requirements for the following functions: Board Member, Chief Executive Officer (CEO), Senior Executives (Only those responsible for the securities services of the firm), Risk Management Officer, Portfolio Management Representatives, Collective Investment Scheme Representatives, Investment Advisory Representatives, Placements/Marketing of Securities/Sales and Agent Representatives.

**Conclusion**

CFA Institute is supportive of FINRA's plans to revamp its representative-level qualification examination program. We believe it is the appropriate course.

We respectfully ask the Commission that it consider allowing the CFA program to play a role in the licensing of representatives, as well. At CFA Institute, we believe this would further enhance the examination program and help continue to ensure high-proficiency standards. By permitting a CFA pathway (that would require support from FINRA), the Commission would be adopting a gradual approach that would continue to safeguard the interests of investors, firms and the general public.

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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## **Appendix**

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

CFA Institute is the leading global association of investment professionals with nearly 148,000 members in more than 164 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. Success 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.

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In addition to the CFA charter, CFA Institute also offers the CFA Institute Investment Foundations and the Certificate in Investment Performance Measurement (CIPM). The CFA Institute Investment Foundations 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. The CIPM is mainly focused on performance attribution and manager selection.

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

As stated previously, CFA Institute has nearly 148,000 members, and approximately 260,000 candidates sit for the CFA exams each year. In the United States of America, CFA Institute has more than 66,000 CFA charterholders and about 40,000 candidates sat for the exams in the most recently completed exam cycle.

There are 67 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 ten largest CFA Societies in the world, including the New York Society of Security Analysts (NYSSA) with 9,500 members, CFA Society Boston nearly 5,500, CFA Chicago with more than 4,300 members and CFA San Francisco with more than 3,300.