



## WHY LIQUID ALTS ARE STILL NOT AVAILABLE TO MANY CANADIANS

*Regulators have modernized alternative investment funds in 2019. But the proficiency requirements remain outdated.*

In January of 2019, securities regulators introduced a new fund category to National Instrument (NI) 81 – 102 Investment Funds, called *Alternative Investment Funds*. This introduces new types of investment funds, such as liquid alternatives, or “liquid alts”, to Canadian investors.

Liquid alts are investment funds that have combined characteristics of a mutual fund and a hedge fund. Fundamentally, they are mutual funds, offered by prospectus, giving investors liquidity, transparency, and accessibility; however, they also have fewer restrictions than conventional mutual funds, giving liquid alts the flexibility, sophistication, and diversification of a hedge fund.

Alternative mutual funds, like liquid alts, can invest in physical commodities and derivatives, take short positions, borrow cash, and use leverage in ways not permitted by conventional mutual funds. For this reason, it is not enough for a licensed Representative to have only completed a mutual fund licensing course, such as the Canadian Investment Funds Course (CIFIC) or the Investment Funds in Canada (IFC).

To offer liquid alts to clients, licensed Representatives will need to have successfully completed the Canadian Securities Course (CSC), Derivatives Fundamentals Course (DFC) or the Chartered Financial Analyst (CFA) Program. This is a legacy rule from National Instrument 81-104 Commodity Pools, the original framework for the new Alternative Mutual Fund category. Here is why it should be updated.

For the mutual fund representatives who became licensed by completing the CIFIC or IFC course, there is redundancy in completing the CSC, since much of its content is covered in the CIFIC and IFC, while the DFC and CFA Program are excessive for alternative mutual funds. And all three options are very expensive.

One solution is for the Mutual Fund Dealers Association of Canada (MFDA) to introduce proficiency requirements specifically for alternative mutual funds, as they did for exchange-traded funds (ETFs) in 2017. They drafted specific proficiency requirements so that licensed Representatives could offer ETFs to clients, even if they had only completed the CIFIC or IFC licensing courses.

Yes, licensed Representatives should have proper training to offer alternative mutual funds to clients, but that training should be affordable, appropriate, and properly integrate with their previous training.

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