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## **SRO PLENARY**

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A Study Report Prepared for the  
SRO Consultative Committee of the  
International Organisation of  
Securities Commissions

*Canadian Securities Institute  
and  
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*May 2000*

## 0. EXECUTIVE SUMMARY

- The purpose of this study is to determine what proficiency models are currently in place among members of the International Organization of Securities Commissions (IOSCO). Following up on the research survey on regulatory practices conducted by the Committee in 1995, this survey is intended to update that data and provide the Committee with greater detail. This survey is designed to compare practices with indicators of the level of investor confidence.
- Some 52 respondents representing 39 countries (out of 59 asked) completed the survey questionnaire. Those countries with the most heavily capitalized stock exchanges all responded to the survey.

### Education, Examination & Ethics

- Most countries have educational courses, but most roles or positions within most countries do not require a course.
- With the exception of assignments, which are required in just under half of courses, once a course exists there are two things almost certain to follow.
  - > First, any required course is likely to include an ethics component.
  - > Second, if there is a course, there is certainly an examination.
- One or two exams are equally common for any position with each exam taking about two hours to complete. This works out to three hours of exams in total on average. In most cases when there is an examination, the exam includes an ethics component.
- Key regulators and SRO's are equally likely to set and administer exams and are the two most common providers of exams. Industry educators trail by a very small amount.

### Supervisory Training & Continuing Education

- Almost all countries require the ongoing supervision of various categories of registrant when they are working at a firm. For the most part, continuing education is voluntary.
- Just over half of all countries make continuing education available for some roles within the industry. Continuing education is far more common in more heavily capitalized markets. Half of the time, the amount of continuing education is what a firm decides. Only slightly less often, the amount is the decision of the individual or registrant.
- Proving the completion of continuing education is a responsibility typically split between the registrant and their firm. Successful completion of continuing education is most likely to be noted in firm documents. There is no consistent basis for oversight of completion of continuing education.

## Market Perceptions

- One-quarter of countries indicated that more than half of all households participate in their equity markets, either directly or via mutual funds. Fully one-half of countries feel the level of foreign participation in their domestic equity market is Good. As one would expect, countries with the largest stock markets are most likely to get good foreign participation in their domestic equity markets.
- Most countries reckoned that their market's overall reputation for investor protection was either Good (51 %) or Above average (25%). Only 4% indicated it was Below average. Correspondingly, two-thirds of countries view compliance problems as either Very rare or Rare. Only 6% have Frequent compliance problems.

## Proficiency Standards & Liquidity

- More than half of respondents indicate there is no evidence that proficiency standards and market liquidity are correlated. Those who believe there is a correlation are not doing so based on empirical evidence.
- From our point of view, there are so many other correlated economic indicators that affect market liquidity that we suspect it is not realistic to isolate specific causes. Based on our previous work, we suggest that a lack of standards opens a market to events that are likely to damage its reputation and hence reduce its liquidity. Improving standards won't necessarily improve liquidity, but it will make a market less susceptible to the kind of reputational damage that reduces liquidity.
- As for measures of market quality, much of the argument is circular. It is often assumed that better capitalized markets are higher quality since they typically offer more liquidity, faster fills, better systems and a host of other qualities that investors desire. Instead, we need to look at market quality in terms of the things that proficiency standards represent, namely, protection of investors. Quantifying these aspects of quality is far more difficult, but we expect that this can be done with intensive study of compliance practices (de facto and actual) across markets. Only when we better understand quality in light of investor protection and the real nature of proficiency standards, can we really understand how the two are related in practice.
- Regardless of the inconclusive relationship between proficiency standards and market quality, it is clear that some practices have become so widespread as to constitute de facto international proficiency standards. Some nine emerging international proficiency standards are identified on the final page of this report.

# IOSCO SRO COMMITTEE PROFICIENCY SURVEY: FINAL REPORT (May 4, 2000)

## INTRODUCTION

### 1.1 Background

In 1999, IOSCO's SRO Consultative Committee agreed to carry out a research study on proficiency models and a Sub-Committee was struck to oversee the work. A list of the members of the Sub-Committee is attached as Appendix "A".

The purpose of this study is to determine what proficiency models are currently in place among IOSCO members. Following up on the research survey on regulatory practices conducted by the Committee in 1995, this survey is intended to update that data and provide the Committee with greater detail. As well, this survey is designed to test these proficiency models against a number of measures to indicate the level of investor confidence. Ultimately, this research aims to enable the Committee to identify "best practices" which can be adapted to enhance confidence in domestic markets. While finding best practices is an elusive objective, we note that a number of common practices are emerging to become 'standards' by virtue of their widespread use.

For purposes of this study, the CSI has defined proficiency in terms of six elements needed to develop a well-trained and competent individual employed in the securities industry, as follows:

*Education* - completion of a course of study which provides the skills required to perform a designated function;

*Examination* - successful completion of a test of the skills required;

*Ethics* - training in ethical and compliance standards for the profession;

*Prerequisites* - a training and/or examination requirement that a registrant must complete prior to independent contact with clients;

*Supervision* - a period of close supervision to ensure that the individual adheres to the skills and ethical standards required;

*Continuing Education* - a requirement that the individual continue to upgrade product knowledge and professional skills throughout a career.

## 1. Method

A self-complete survey was sent to some 111 potential respondents in 59 countries. Potential respondents were then contacted by phone or e-mail to encourage them to respond. Ultimately, some 52 respondents representing 39 countries completed the survey questionnaire. Those **countries with the most heavily capitalized stock exchanges all responded to the survey**. Regionally, there are 6 countries represented by 11 respondents in the Americas, 23 countries represented by 28 respondents in Europe-Middle East-Africa and 10 countries represented by 13 respondents in the Asia-Pacific region.

Brendan Wood International (BWI), a firm engaged in research and consulting in global financial markets, was engaged to analyze the responses from the IOSCO survey and to interpret them in light of potential best practices. In doing so, BWI considered several potential measures of market quality, including market liquidity, fairness, transparency, efficiency and other measures. Ultimately though, the only real measures of market quality readily available (in addition to the perception of survey respondents) were market capitalization, market turnover and the number of listed companies. Since there was a great deal of overlap in these measures, we focused primarily on market capitalization.

Using market capitalization to tier responses, we divided the 39 responding countries into three distinct tiers of six, thirteen and twenty countries respectively. The tiers are:

- **Top Tier** (US\$ 1 trillion or more in market capitalization): USA, UK, Japan, France, Germany, Spain.
- **Middle Tier** (US\$ 100-999bln): Australia, Brazil, Canada, Finland, Greece, Hong Kong Korea, Malaysia, Singapore, South Africa, Sweden, Switzerland, Taiwan.
- **Lower Tier** (<US\$ 100bln): Argentina, Bermuda, Channel Islands, China (PRC), Czech Republic, Hungary, Ireland, Isle of Man, Jamaica, Latvia, Luxembourg, Malta, New Zealand, Norway, Portugal, Poland, Slovenia, Thailand, Ukraine, Zambia.

The combined US stock markets had a capitalization approaching \$17trillion in January 2000. The combined Japanese markets were \$7trillion with the UK approaching \$3trillion in capitalization. The remaining top tier markets had capitalization in the \$1.0-1.5 trillion range.

Tiers were based on the sum of the exchanges in a country, rather than judging individual exchanges. The nature of the survey responses made this a necessity. Ultimately, **there was no consistent relationship between the International Federation of Stock Exchanges (FIBV) measures of market quality and proficiency practices**. To some extent this is a reflection of the complexity of financial markets, but in large measure it also reflects the imprecise definitions of regulatory practice inherent in an opinion survey like this.

Proficiency practices varied within each tier often reflecting the member country reliance on firm versus individual registration. Because of the variability and imprecise definitions of regulatory requirements, it has proved impossible to provide linkages between proficiency practices and market quality. A more detailed analysis that reviews regulations directly is needed to provide a framework for meaningful comparison. As well, a better standard for judging market quality is also desirable.

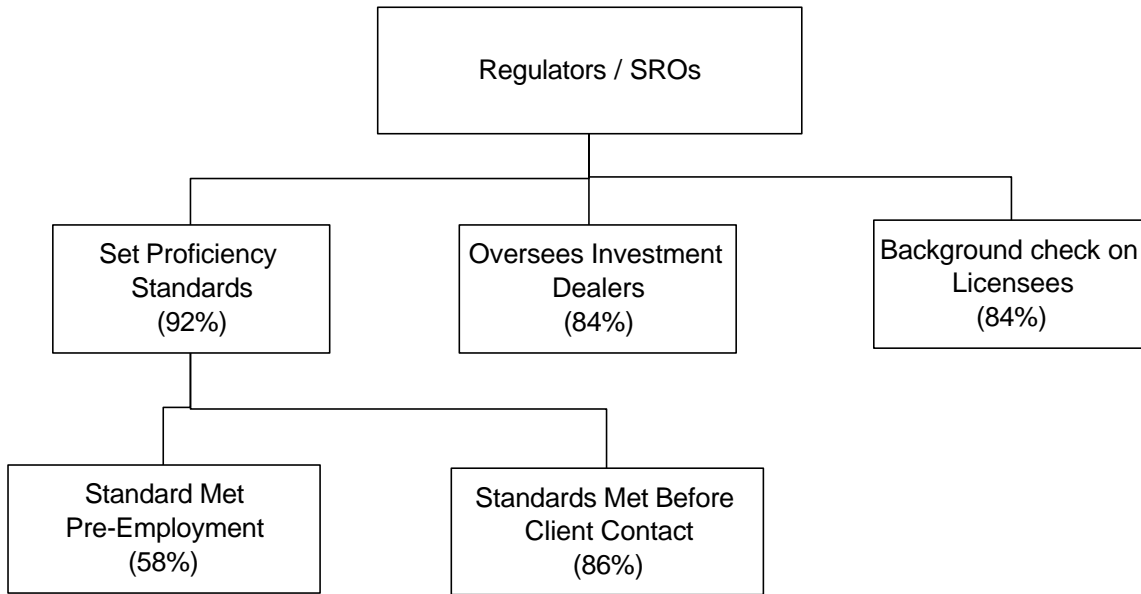
## 2. EDUCATION, EXAMINATION & ETHICS

In this chapter we provide an overview of the findings related to regulation and education, as well as examinations and ethics.

### 2.1 Regulation of Proficiency

- **Almost every country (92 %) has a regulator or SRO setting proficiency standards** for people licensed to carry on securities-related activities. Half have just one regulator or SRO, but 2/10 have three or more regulators or SROs. Most typically, the regulator or SRO is either a national securities commission or an arm of the stock exchange itself.
- **Almost every country (84%) makes it mandatory for an investment firm to report to or join a regulatory body or SRO.** In one of the few countries (7%) where reporting was voluntary, all investment firms chose to report. Typically, a firm must be legally approved and licensed as an investment dealer if it wishes to voluntarily report to a regulatory body or SRO. This requirement is seldom waived (25%). In addition, **most of the time (75%) the regulator or SRO of the investment firm is also the regulator or SRO responsible for proficiency for licensees.**
- **Background checks of potential registrants are nearly universal.** Some 5 out of 6 countries check registrants for bankruptcy, criminal records and prior discipline by any regulatory body or SRO within the capital markets.
- When a country has proficiency standards monitored by a regulator or SRO, proficiency only need be demonstrated before employment in 6/10 countries. The remainder allow proficiency to be demonstrated after employment in the industry, and indeed, some firms support the development of proficiency.
- Regardless, **when there are educational or examination proficiency standards in a country, in almost all cases (86%) they must be met prior to handling clients' money.**
- To make all of these relationships more readily understandable, we have created an exhibit to show how regulation works in the countries that responded. Please see Exhibit 1 on the next page.

## Exhibit 1. Regulators, SROs & Proficiency





## 2.2 Educational Prerequisites

- Two-thirds of countries that responded to this survey provided information about their country's proficiency requirements. One can make two different assumptions about the remaining one-third of countries: either they have no proficiency requirements or they simply did not respond to a rather complex and potentially confusing set of questions. In light of the fact that 92% report having regulators or SROs that set proficiency standards, we can only conclude that the 13 countries simply did not respond and that the remaining 26 countries are representative of what we would find across markets. All remaining comments will be based solely on the 26 responding countries.
- **While most countries have educational prerequisites and educational courses, most positions/roles in the securities industry in most countries have neither educational prerequisites nor courses. Only 23% of countries have educational prerequisites for the majority of roles in their securities industry.**
- As Exhibit 2 shows, **8 out of 10 countries (78%) have educational prerequisites for at least one of the eleven major positions in the securities industry.** Trading leads in requirements with more than half of countries requiring some education. This is followed by Discretionary money managers. Only 3/10 countries require some educational prerequisites for retail sales, sales supervision and Officers & Directors. For all other positions, educational requirements are typical for fewer than 1 out of 4 countries.

### Exhibit 2.

#### Educational Prerequisites per Position

(% Yes)

	Total
Trading	53
Discretionary Money Managers	38
Retail sales	30
Sales Supervision	27
Officers & Directors	27
Institutional sales	24
Investment Banking	21
Compliance Supervision	17
Financial principals	15
Operations principals	15
Partners	14
<b>No Educational Prerequisites</b>	<b>22</b>

- **While education is not always required, we still find that 8/10 countries (78%) offer some educational programs with 3-4 programs offered on average.** Exhibit 3 shows the role of education in setting proficiency. Courses for Retail sales, Sales supervision and Officers & Directors are offered in more than one-third of countries. Roughly speaking, one-quarter of countries offer no educational courses, one-quarter offer just one course, another one-quarter offer 2-3 courses and the remainder offer 4 or more courses. One out of six countries offers courses for at least 10 of the 11 positions.

**Exhibit 3.**  
**Educational Courses per Position**

(% Yes)

	Total
Trading	57
Retail Sales	37
Sales Supervisor	35
Officers & Directors	35
Discretionary Money Manager	33
Institutional Sales	32
Compliance Officer	26
Investment Banking	25
Financial Principals	25
Operations Principals	25
Partners	19
<b>No Educational Courses</b>	<b>22</b>
<b>Average No. Courses Offered</b>	<b>3.5</b>

- When an Educational Course is offered, assignments are part of the course in about half of the countries we surveyed. For each position, however, courses require assignments in just under half of all courses surveyed (43%).

**Exhibit 4.**

<b>Course Assignments (% Yes)</b>	<b>% Yes</b>
Compliance Officer	61
Operations Principals	61
Investment Banking	48
Financial Principals	46
Discretionary Money Manager	45
Officers & Directors	44
Partners	39
Sales Supervisor	35
Institutional Sales	32
Retail Sales	31
Trading	31
<b>Average % with Assignments</b>	<b>43</b>

- While assignments may not be the rule, **courses almost always have an ethics component** . Exhibit 5 shows an ethics component is a core requirement in 8/10 courses. Only two countries indicated that their courses did not contain an ethics component.

**Exhibit 5.**  
**Course Ethics Component (% Yes)**

	<u>% Yes</u>
Operations Principals	92
Trading	90
Investment Banking	85
Discretionary Money Manager	83
Compliance Officer	81
Institutional Sales	77
Sales Supervisor	77
Financial Principals	77
Officers & Directors	77
Retail Sales	75
Partners	74
<b>Average % with Ethics Component</b>	<b>81</b>

- Across all markets and all courses, **the typical educational course takes about 55-60 hours to complete.** As you can see in Exhibit 6, Compliance Supervision courses are about 50% longer than other courses. We also find that Retail sales, Sales supervision and Discretionary money management courses run slightly longer than average.

**Exhibit 6.**  
**Number of Hours to Complete the Course**

	Avg. Hours
Compliance Supervision	88
Retail sales	72
Sales Supervision	69
Discretionary Money Managers	67
Investment Banking	61
Trading	56
Institutional sales	51
Officers & Directors	46
Partners	45
Financial principals	27
Operations principals	24
<b>OVERALL</b>	<b>58</b>

## 2.3 Examinations

On completion of a course, **an exam is typically a standard requirement (85%)** as we can see in Exhibit 7. **Certainly for retail sales, institutional sales and trading it is safe to say that an exam is the rule for establishing proficiency.**

### Exhibit 7.

#### Course Has An Exam (% Yes)

	% Yes
Trading*	100
Retail Sales	95
Institutional Sales	94
Sales Supervisor	88
Investment Banking	85
Operations Principals	85
Discretionary Money Manager	83
Compliance Officer	81
Partners	74
Officers & Directors	72
Financial Principals	70
<b>Average % Courses with an Exam</b>	<b>85</b>

\* Two countries have exams for traders without any required course.

- When there is an exam, some two-thirds of the time the exam does include an Ethics component. For Discretionary money managers and Sales supervisors, an Ethics component is even more common.

### Exhibit 8.

Exam Has an Ethics Component (%Yes)	<u>% Yes</u>
Discretionary Money Manager	100
Sales Supervisor	81
Trading	74
Investment Banking	74
Retail Sales	68
Compliance Officer	64
Officers & Directors	62
Institutional Sales	57
Operations Principals	55
Partners	48
Financial Principals	45
<b>Average % Exams with Ethics Component</b>	<b>66</b>

- With 1.5 as the average number of exams per position, it is clear that one or two exams are equally likely for any role. Compliance supervision and Discretionary money management are the only two positions where two or more exams is a near certainty.
- Information on the number of hours spent in exams is somewhat spotty, but the overall average is about 3 hours. To state this in another way, it is two hours per exam with 1.5 exams given on average. The time spent on examining for Compliance supervision and Sales supervision typically runs about four hours.
- Overall, there is no real consistency in who provides examinations and testing. Key regulators (38%) and SRO's (38%) each provide testing in 4/10 countries With exams. But it is clear that other bodies can also provide exams in some places. Industry educators provide 30%, while private exam suppliers (21 %) and academic institutions (21 %) are all providers of exams in 2/10 countries.

## 2.4 Summary: Education, Examination & Ethics

- Most countries have courses, but most roles or positions within most countries do not require a course.
- A typical educational course takes about 55-60 hours to complete.
- With the exception of assignments, which are required in just under half of courses, once a course exists there are two things almost certain to follow.
  - > First, any required course is likely to include ethics component.
  - > Second, if there is a course, there is certainly an examination.
- One or two exams are equally common for any position with each exam taking about two hours to complete. This works out to three hours of exams in total on average.
- In most cases when there is an examination, the exam includes an ethics component.
- Key regulators and SROs are equally likely to set and administer exams and are the two most common providers of exams. Industry educators trail by a very small amount.
- In setting out ethical standards, a Common code of ethics for all registration categories (47%) and **Common standards** of practice for all registration categories (44%) are equally common. Allowing individual firms set their own code of ethics (34%) is less common and defaulting to letting the courts set general liability is less common still (20%). There are no significant differences in practices based on market capitalization.
- Proficiency standards, educational requirements, examination practices and ethical standards are not clearly related to market quality (as measured by market capitalization) in any consistent manner.
- Now let us move on to chapter 3 and take a closer look at supervisory training and continuing education.

### 3. SUPERVISORY TRAINING & CONTINUING EDUCATION

#### 3.1 Supervisory Training

- **Almost all countries (82%) require the ongoing supervision of various categories of registrant when they are working at a firm.** Of those needing ongoing supervision, this is '*always*' required for two-thirds (68%) while this varies by role/position for the remaining third. Typically, the people carrying out the ongoing supervision are qualified to do so (86%). While 100% of supervisors who carry out the supervision in Top Tier countries are qualified, this number drops to 90% in the Middle Tier and 79% in the Lower Tier.
- When special early supervision (i.e. additional supervision of new employees and restriction on their activities with clients) of registrants is required by their firms, we find that the duration of the supervision is up to the registrant's firm to decide in two-thirds of responding countries (65%). Only in one-third of cases, do we find that the duration of supervision is dependent on requisite standards being met.
- Information on which positions are most often supervised is incomplete in our view. Probably the safest thing we can say is that **traders are more likely to be supervised than any other role** by a considerable margin. Supervision of Partners, Financial principals and Investment bankers is nearly non-existent. Other positions and roles fall in the middle between these two extremes. While there is little relationship to market capitalization, we can see that Mid-tier countries are far more likely than others to require supervision for Retail sales, Institutional sales and Trading,

### 3.2 Continuing Education

- **For the most part, continuing education is voluntary (61 %).** Nevertheless, 4/10 countries have a mandatory continuing education requirement for at least some of their registrants. If there is a mandatory requirement, it applies to all registrants in 68% of cases while it only applies to some registrants in the remaining third.
- Most often, a registrant's firm (44%) requires continuing education. It is less often required by either the key regulator (26%) or an SRO (25%). The registrant decides on personal need for continuing education in more than one-quarter of countries (28%).
- **Just over half of all countries make continuing education available for some roles within the industry.** Trading is the most often cited for continuing education. It is followed by Retail sales, Institutional sales and Sales supervision.

#### Exhibit 9. Continuing Education Available

	% Yes
Trading	41
Retail sales	32
Institutional sales	31
Sales Supervision	28
Officers & Directors	23
Compliance Supervision	20
Financial principals	20
Operations principals	20
Partners	20
Investment Banking	19
Discretionary Money Managers	18
<b>NO Continuing Education</b>	<b>47</b>

- **Three-quarters of countries (74%) with continuing education deliver the program through multi-day seminars.** Some 6 out of 10 (59%) deliver the programs in regular formal classroom instruction while 4 out of 10 (39%) now deliver continuing education by correspondence. Computer-based delivery is used in one-quarter (27%) of countries.
- Ethical considerations are addressed in a number of areas of continuing education. Ethics are frequently covered within both required courses (71 %) and seminars (62%). Special employee sessions are an important source of continuing education in ethics.
- Ethics is seldom part of an examination at this post-registration stage of a person's career (29%), largely because examinations for continuing education are rare.

#### Monitoring Continuing Education

- **The amount of continuing education is primarily the result of what a firm decides (49%). Quite often, the amount is also the decision of the individual or registrant (38%).** It is much less likely to be determined by fixed requirements, like a set number of mandatory hours of study per year/cycle, mandatory courses or exams/tests.
- **Proving the completion of continuing education is a responsibility typically split between the registrant and their firm (83%).** Regulatory bodies are less often involved (25%). There are no discernable differences by market capitalization.
- **Successful completion of continuing education is most likely (55%) to be noted in firm documents.** Completion is also very likely to be noted by simple participation in a training class (42%) and notification from an SRO (30%). Only a small percentage must submit an assignment or write an exam for key regulators or an SRO.

- **There is no consistent basis for oversight of completion of continuing education.**
- Filing with an SRO and internal employee records and reviews (~1/3) are equally likely to be used as means for oversight of completion of continuing education. Leaving it up to the individual/registrant or their supervisor is also equally common. Only filing with a key regulator lags somewhat.

### **3.3 Summary: Supervisory Training & Continuing Education**

- Almost all countries require the ongoing supervision of various categories of registrant when they are working at a firm. Traders are the most likely to require supervision.
- For the most part, continuing education is voluntary. Nevertheless, 4/10 countries have a mandatory continuing education requirement for at least some of their registrants.
- Just over half of all countries make continuing education available for some roles within the industry. Trading is the most often cited for continuing education. It is followed by Retail sales, Institutional sales and Sales supervision.
- Three-quarters of countries deliver continuing education through multi-day seminars. Some 6 out of 10 deliver the programs in regular formal classroom instruction while 4 out of 10 now deliver continuing education by correspondence. Computer-based delivery is used in one-quarter of countries.
- Half of the time, the amount of continuing education is what a firm decides. Only slightly less often, the amount is the decision of the individual or registrant.
- Proving the completion of continuing education is a responsibility typically split between the registrant and their firm. Successful completion of continuing education is most likely (55%) to be noted in firm documents. There is no consistent basis for oversight of completion of continuing education.



## 4. MARKET PERCEPTIONS

- In this chapter, we briefly examine how respondents view the quality and depth of their own home country equity markets. Responses are compared to actual market capitalization.

### Participation in Equity Markets

- **One-quarter of countries indicated that more than half of all households participate in their equity markets**, either directly or via mutual funds. One-third (33%) report participation in the 26-50% range. The remaining 4/10 countries have participation rates under one-quarter of households. As one would expect, less capitalized markets have lower participation rates.
- **Fully one-half of countries (50%) feel the level of foreign participation in their domestic equity market is Good.** The impression for another one-sixth (16%) is Above average. Fewer than one in ten (7%) feel that foreign participation is Below average. As one would expect, countries with the largest stock markets are most likely to get good foreign participation in their domestic equity markets.

<b>Exhibit 10</b>	Overall	Top Tier	Middle Tier	Lower Tier
<b>Foreign Participation</b>	%	%	%	%
Good	50	83	55	35
Above Average	18	17	18	18
Average	26	0	18	41
Below Average	6	0	9	6

### Investor Protection

- **Most countries reckoned that their market's overall reputation for investor protection was either Good (51%) or Above average (25%).** Only 4% indicated it was Below average, with the remainder feeling investor protection was only Average (20%). The world's largest stock exchanges are more likely to believe their markets are doing, a good job protecting investors than their smaller counterparts.

<b>Exhibit 11</b>	Top Tier	Middle Tier	Lower Tier
<b>Market Reputation</b>	%	%	%
Good	83	50	40
Above Average	17	25	30
Average	0	17	25
Below Average	0	8	5

- Correspondingly, **two-thirds of countries view compliance problems as either Very rare (22%) or Rare (45%).** Only 6% have Frequent compliance problems.

### Proficiency Standards & Liquidity

- **Most respondents (55%) indicate that there is no evidence that proficiency standards and market liquidity are correlated.** Those who believe there is a correlation are twice as likely to feel that there is an average amount (30%) of correlation between the two rather than an above average amount (13%). As well, **those who feel there is a correlation are not doing so based on empirical evidence.** Rather, they are basing it on their own personal feelings, and to a lesser extent, anecdotal evidence.
- From our point of view, there are so many other correlated economic indicators that affect market liquidity that we suspect it is not realistic to isolate specific causes. Based on our previous work, we suggest that a lack of standards opens a market to events that are likely to damage its reputation and hence reduce its liquidity. **Improving standards won't necessarily improve liquidity, but it will make a market less susceptible to the kind of reputational damage that reduces liquidity.**

- To gain a better understanding of the relationship between proficiency standards and market quality, several steps are required. First, Proficiency standards for each market must be more precisely identified with statutory requirements and common practices delineated. This material will need to be gathered in anecdotal form with enough detail that it can be coded into precise categories for analysis. This requires spending some time to develop a comprehensive scheme for gathering the information and going back over the same territory to gather it systematically and then code it.
- In addition to defining the nature of proficiency standards (i.e., regulatory, voluntary, etc.), we need to focus in on a few key positions that are widespread and do an in-depth analysis of how individuals are really prepared. Traders and Retail sales representatives are the two positions most amenable to detailed study. Some of the preparation will be de facto based on market expectations (e.g., completion of college or university), some will be based on common practices in different types of firms (e.g., bank securities departments versus money managers) and some will be mandated. Regardless, all aspects of preparation must be captured if one is to have a real understanding of proficiency standards.
- As for measures of market quality, much of the argument is circular. It is often assumed that better capitalized markets are higher quality since they typically offer more liquidity, faster fills, better systems and a host of other qualities that investors desire. Instead, we need to look at market quality in terms of the things that proficiency standards represent, namely, protection of investors. Quantifying these aspects of quality is far more difficult, but we expect that this can be done with intensive study of compliance practices (de facto and actual) across markets. Only when we better understand quality in light of investor protection and the real nature of proficiency standards, can we really understand how the two are related in practice.

## 5. EMERGING INTERNATIONAL STANDARDS OF PRACTICE

While there is no real international effort to create common standards of practice, some practices have become so widespread that we may view them as de facto standards at the international level. As we see from the survey results, **there are nine emerging standards of practice.**

1. A regulator or SRO sets proficiency standards for individuals licensed to carry on securities related activities.
2. Investment firms must report to or join a regulatory body or SRO. This regulator or SRO is the same one that sets individual proficiency standards.
3. All potential registrants are subject to background checks for criminal record, bankruptcy or prior discipline by a regulatory body for any capital market.
4. Individual proficiency must be demonstrated to a regulator or SRO prior to handling clients' money, typically through passing an examination.
5. Educational programs or prerequisites are in place for one or more positions within the securities industry, depending upon a country's priorities.
6. Of those with prerequisites an examination is required for retail sales, institutional sales and trading.
7. Ethics is a core component of educational programs and a core component of examinations.
8. Ongoing supervision of selected categories of registrants (especially traders) is required for those working at a securities firm.
9. When continuing education programs are offered, proving completion is a joint responsibility of the individual registrant and their firm.

While we can identify nine emerging standards now, there is clear evidence that other practices will be joining this list in the years to come. Continuing education practices will probably evolve to become more standardized is one example. Other practices will surely emerge, as pressures and events in financial markets encourage investment firms and their regulators or SROs to offer better protection for retail and institutional investors in the high profile securities markets.

## APPENDIX "A" - LIST OF SUB-COMMITTEE MEMBERS

1. Dr. Roberta Wilton, Chair  
President  
Canadian Securities Institute
2. Kenton G. Farrow  
Chief Executive  
Australian Financial Markets Association
3. Christa Franke  
Market Policy & External Relations  
Deutsche Borse
4. Sang Hoon Lee  
Director  
Korea Securities Dealers Association
5. Dan Sibears  
Senior Vice-President & Deputy, Member Regulation  
NASD Regulation Inc.
6. Mary Ross Hendriks  
Director of Policy & Regulatory Affairs  
Canadian Securities Institute
7. Taka Okada  
International Liaison  
Japan Securities Dealers Association