

**Sent by Email**

December 18, 2023

**Attention:**

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Dear OSC and CIRO:

**RE: SUITABILITY CONSIDERATIONS FOR PERSONS AND HOUSEHOLDS**

We enclose our correspondence of March 16, 2022, with its enclosures. In ensuing communications, we were advised that more analysis was necessary and that further guidance or a policy initiative may be required, but it was then too early to determine.

Nearly four years have passed since IROC and Accenture's joint report entitled, "Enabling the Evolution of Advice in Canada". Its findings regarding the need for household accounts that involve multiple financial goals and time horizons, and its observations that the need is not easily translated to current rules, guidance and interpretation have increased in accuracy and importance.

**Putting the Clients' Interest First**

Many investors continue to wish to consider financial goals across a group of multiple accounts, including accounts of a defined household. A flexible, holistic, client-centric approach, as opposed to an "account" approach, is required to meet this need. This does not bring investor harm, but recognizes that investors may:

- Hold multiple accounts including through related legal entities that they wish to be grouped for suitability purposes;
- Wish to identify a “household” whose accounts they wished to be grouped for suitability purposes.

In these circumstances, investors want their multiple accounts, in turn driven by tax and related financial planning purposes in mind, considered together to meet the collective investment needs and objectives, time horizon and risk profile of the group.

### **The Gap – Regulatory Expectation and Investor Needs**

There remains a gap between regulatory expectation and investor needs.

IIRC Guidance GN-3400-21-004 *Know-your-client and suitability determination*, issued December 17, 2021, as supported by the CSA (“**CIRO Guidance**”), has not closed this gap and remains too restrictive for the investor landscape.

The following limitations have been applied, which are unreflective of a client-first approach:

1. Accounts that may be grouped are narrowly defined as “multiple accounts held by the same beneficial owner”. Joint accounts, corporate accounts, and trust accounts cannot be grouped, even if the beneficial owner is the same and grouping of accounts is at the beneficial owner’s request.
2. Any accounts that are grouped are required to have essentially identical investment needs and objectives, time horizon and risk profile for all of the accounts.

Items 1 and 2 are overly restrictive and inconsistently applied.

### **Support within the Regulatory Framework**

There is support within the regulatory framework for a client-centric, multiple-account portfolio approach to suitability. For example:

Section 13.3(f) of Companion Policy 31-103CP *Registration Requirements, Exemptions and Ongoing Registrant Obligations* states:

To meet the criteria in paragraph 13.3(1)(b) to put the client’s interest first, suitability cannot be determined only on a trade by trade basis, but must be determined on the basis of the client’s overall circumstances, given the relationship between the client and the registrant, and the securities and services offered by the registrant. Where a client has multiple investment accounts with the registrant, the registrant must take into consideration whether a recommendation or decision for one account would materially affect the concentration and liquidity of the client’s investments across all their accounts held with the firm. As noted below, we expect registrants to determine appropriate concentration thresholds for their clients.

Similarly, section 3.1.4 of the CIRO Guidance states:

To meet the criteria in clause 3402(1)(ii) to put the client's interest first, Dealers and Registered Individuals cannot determine suitability on an individual trade/position basis, but must make a suitability determination based on the overall client's account portfolio of investments, given the relationship between the client and the Dealer, and the securities and services the Dealer offers.

Where a client has multiple accounts with the Dealer, the Registered Individual should also consider whether a recommendation or decision for one account would materially affect the concentration and liquidity of the client's portfolio of investments across all their accounts which we discuss further in section 3.8 of this Guidance.

The above provisions have not been consistently or fully implemented and are subject to contradictory expectations and provisions.

### **The Continued Need**

The approach taken for a particular client must be driven by that client's needs and preferences. Regulatory expectation should allow for account groupings that give investors choice. These choices include the option of combining asset allocation targets, objectives, and risk tolerances for multiple clients and accounts. A simple example is set out at Schedule "A".

A household could include:

- Multiple beneficial owners
- Multiple generations of a family, whether living in the same "household" or not
- Corporations
- Trusts
- Discretionary and non-discretionary accounts

Importantly, an approach is needed which depends on the particular facts and needs of any given client. An investor should have the option of choosing to be part of a household or maintaining accounts separately from the household, and instructing the dealer accordingly. This is supported by the following provision of the CIRO Guidance:

#### *3.5.2 Documenting how suitability will be assessed for multiple accounts*

Registered Individuals should clearly communicate to clients the basis upon which they will assess suitability, maintain evidence of this communication, and apply it consistently throughout the relationship.

Once a Dealer sets up the account on a certain basis (for example that suitability will be determined for investments held in all accounts on a combined basis) the Dealer and Registered Individual cannot assess suitability on a different basis from time to time (for example on a single account basis). The Dealer and Registered Individual still have an obligation to assess concentration and liquidity in the client's accounts, and across the client's accounts, as discussed in section 3.2.3 of this Guidance.

### **Proposed Solutions**

We propose the following solutions to supplement those of our enclosed prior correspondence to you:

- i) Section 3.5.1 of the CIRO Guidance (*Conditions for assessing suitability on a combined basis for multiple accounts*), set out below, is removed:

Consistent with the conditions for collecting/maintaining one set of KYC information for multiple accounts, Dealers and Registered Individuals may assess suitability on a combined basis for multiple accounts held by the same beneficial owner provided that:

- the account beneficial owner is the same individual or legal entity for all of the accounts,
  - the account beneficial owner's investment needs and objectives, time horizon and risk profile are identical for all of the accounts,
  - the same Registered Individual (or team of Registered Individuals, see section 2.5 of this Guidance) is designated as responsible for all of the accounts,
  - the Dealer has the ability to supervise each of the accounts, including the review of KYC information updates and orders for suitability determination purposes, on a multiple-account basis, and
  - the client understands that the Registered Individual will assess suitability on a multiple-account basis.
- ii) Information is collected and suitability conducted at the client level and household level (as opposed to account level) for multiple accounts.
- iii) Household members appoint a member with Trading Authority/Authorization for the household accounts. The Advisor/Portfolio Manager meets with assigned individual(s) with the same frequency as required for advisory/managed accounts.
- iv) Divorce and Death are addressed in the same manner as currently.

### **Conclusion**

Financial decisions are made holistically, including by household. Firms wish to provide their clients with the options their clients need. Firms are unable to proceed without clear regulatory support as requested.

We are happy to work with you on solutions to achieve meaningful progress on this issue.

Yours truly,

***Investment Industry Association of Canada***

*Laura Paglia*

Per: Laura Paglia, President, and CEO

**Schedule "A"**

**to IIAC submission to the OSC and CRO**  
**RE. Suitability Considerations for Persons And Households**

For example, a couple has \$100,000 and wishes to set a 50% medium- and 50% high-risk profile on a combined basis for a group of accounts. One is the sole beneficial owner of Account 1. Account 2 is held jointly.

As illustrated, each account would not need to have identical investment needs and objectives, time horizon and risk profile:

| Account 1 (\$50,000)  | Account 2 (\$50,000)               |
|---|------------------------------------|
| \$25,000 in medium-risk securities                            | \$25,000 in medium-risk securities |
| \$25,000 in high-risk securities                              | \$25,000 in high-risk securities   |
| Overall holdings for client = 50% medium risk & 50% high risk |                                    |

The following allocation would be acceptable, subject to client consent:

| Account 1 (\$50,000)  | Account 2 (\$50,000)             |
|---|----------------------------------|
| \$50,000 in medium-risk securities                            | \$50,000 in high-risk securities |
| Overall holdings for client = 50% medium risk & 50% high risk |                                  |



March 16, 2022

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Dear All,

**Re: Suitability Considerations for Households**

Thank you for your time and effort to date to address investors' needs and expectations regarding financial services they wish offered to their households. There remain misunderstandings regarding the availability and implementation of householding for suitability purposes. We wish to work with you on straightforward, achievable resolutions that will meet investor requirements.

IIROC and Accenture's joint report entitled "Enabling the Evolution of Advice in Canada" issued March 19, 2019 (the "Joint Report") states in part as follows:

- Changing Expectations: "Many of [these] clients are looking for an approach that not only supports their individual financial objectives and life goals, but one that considers the financial objectives of the entire family or "household"."
- Broadening Scope of Advice and Services: "Correspondingly, the focus on individual accounts has also started to change to a greater focus on planning for the "household", and, in some cases, the extended, multigenerational family. Increasingly clients are being viewed as people, not just a bundle of accounts and assets."

- Regulatory Regime perceived as too slow and reactive and not sufficiently focused on the right things: “Many firms, for example, now focus on managing relationships across an increasingly complex continuum, with individual investment clients on one side, and multi-generational households with holistic financial plans on the other.”
- Impact on our regulatory regime: “The expanding scope of advice and services our Dealers are offering or exploring is testing IIROC’s traditional regulatory approach. The shift in focus from product-based advice to more holistic financial – planning advice and from a single account to a household account (that could involve multiple financial goals and time horizons), does not translate easily to our current rules and guidance and how IIROC has traditionally interpreted them.”
- Future Policy Framework ideas:
  - Investor Account Opening: Investor goals, time horizons and risk profiling can be determined at the household level with a financial planning approach
  - Know Your Client: Clear process for collecting KYC for households
  - Suitability Requirements: Suitability obligations clearly articulated for households with multiple goals and time horizons

The observations and conclusions from the Joint Report have not been fully and clearly reflected in CFRs FAQs and IIROC’s KYC and Suitability Guidance in respect of householding.

Enclosed are suggestions to some language amendments that may be made to CFRs FAQ and IIROC’s KYC and Suitability Guidance which will assist in alleviating misunderstandings. The enclosed reflect regulatory principles, investor benefit and the Joint Report. We ask that these amendments be issued.

Yours truly,



Laura Paglia  
President and Chief Executive Officer

# Householding

[IIROC KYC and Suitability Determination Guidance: Dec. 27, 2021: Gn-3400-21-004](#)

<https://www.iiroc.ca/news-and-publications/notices-and-guidance/know-your-client-and-suitability-determination-retail-clients#toc-use-of-one-set-of-kyc-information-for-multiple-accounts>

## 3.7 Under what circumstances can household account suitability determinations be performed?

~~There is no exemption from the requirement to perform account level suitability determinations. However,~~ Dealers may choose to perform ~~supplementary~~ suitability determinations at the “household” level for clients that want it.

Before Dealers can perform ~~supplementary~~ suitability determinations at the household level:

- ~~a process for determining the appropriateness to each individual of a suitability determination at a household level must be established.~~
- ~~the household members should have sufficient alignment of investment objectives to benefit from a household account suitability assessment,~~
- each individual who is not a minor within the household should be fully informed of the purpose of a household suitability determination and how it differs from account-level suitability determinations,
- each individual who is not a minor within the household should agree to the carrying out of a household suitability determination.

The requirements in Rule 3400 ~~continue to apply. apply to account level suitability determinations and supplementary suitability determinations at the household level.~~



# Householding

## Householding for Suitability

[CFRsFAQsDecember2021EN.pdf \(securities-administrators.ca\)](#):

73. Household suitability determinations Can a registrant perform suitability determinations at a “household” level in place of account-level suitability determinations?

~~There is no exemption from the requirement to perform account-level suitability determinations. However, R~~registered firms may choose to perform supplementary suitability determinations at the “household” level for clients that want it. Before registered firms can perform ~~supplementary~~ suitability determinations at the household level:

~~• the household members should have sufficient alignment of investment objectives to benefit from a household account suitability assessment,~~

- [A process for determining the appropriateness to each individual of a suitability determination at a household level must be established.](#)
- each individual who is not a minor within the household should be fully informed of the purpose of a household suitability determination and how it differs from account-level suitability determinations,
- each individual who is not a minor within the household should agree to the carrying out of a household suitability determination.

The requirements in section 13.3 ~~continue to~~ apply. ~~to account-level suitability determinations and supplementary suitability determinations at the household level.~~