Sent by Email

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Attention:

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Dear OSC and CIRO:

RE: SUPPORTING HOUSEHOLD NEEDS

Thank you for the discussion had March 27, 2024, with the OSC and CIRO on this issue.

This letter seeks to both summarize the key issues from our prior correspondence of December 19, 2023 and March 16, 2022 and provide the additional householding examples requested.

Executive Summary

More than five years have passed since IIROC and Accenture's joint report entitled, "Enabling the Evolution of Advice in Canada" issued March 19, 2019. It recognized that investors are looking for an approach that considers their households which involve multiple financial goals.

At the investor's option, a flexible, holistic client and household centric, as opposed to an account centric, approach is needed.

Greater efforts are required to close the gap between current regulatory expectation and investor needs, which include tax, family, and succession planning.

Householding methodologies may vary. A reasonable process should be determined by the firm and explained to clients, who may wish to participate.

I. IIROC's Recommendation

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."

Nearly five years have passed since IIROC 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 have increased in accuracy and importance.

II. Putting the Clients' Interest First

Many investors want financial goals considered for their 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 members of a household hold multiple accounts including accounts of related legal entities, that they wish to be grouped for suitability purposes.

III. The Gap – Regulatory Expectation and Investor Needs

There remains a gap between regulatory expectation and investor needs.

An investor should have the option of choosing to be part of a household or maintaining accounts separately from the household and instructing their firm accordingly.

Though efforts have been made to close this gap, the following limitations have been applied at times:

> 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.
>
> Any accounts that are grouped are required to have essentially identical investment needs and objectives, time horizon and risk profile for all the accounts.

Where applied, the above are overly restrictive. A household should include, at the investors' option, multiple beneficial owners, and could, therefore, include spouses, children, holdcos, trusts and grandparents.

IV. Householding Examples

Reasons investors may choose to household vary. Reasons and samples include:

Tax planning

For example, a couple has multiple individual taxable accounts: RRIFs and TFSAs. They would like the accounts managed on a consolidated basis so that tax efficiencies may determine household allocations per account.

Family Planning

For example, a parent wants to buy an adult child, the adult child's preferred high-risk stock. The adult child has no income and no assets, but the purchase may be considered in the context of the household's overall income and asset mix.

Succession Planning

For example, elderly parents being looked after by their children, want to invest with a view to estate planning. Longer-term or higher risk securities are considered in the context of the household.

V. Methodologies for Householding

The methodologies for householding may also vary. An averaging approach is an option amongst others. It is explained and illustrated through various scenarios in Schedule A enclosed.

The simple premise is that information is collected, and suitability conducted at the client level and household level (as opposed to account level) for multiple accounts. Registered firms may perform suitability determinations at the "household" level for clients who select this option. Before registered firms can perform suitability determinations at the household level:

- A reasonable householding methodology must be established.
- Each individual who is not a minor within the household should be fully informed of the

methodology and agree to the carrying out of a household suitability determination.

Conclusion

Financial decisions are often made holistically on a household basis. We ask that regulatory expectation consistently reflect this reality and investor need.

We remain 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

Assumptions:

Averaging as one method of householding (subject to others).

Objectives:

- Safety: Cash equivalents and government fixed income timed to withdrawal needs
- Income:
  - 0-30% Equity
  - Seeking a steady stream of income and capital preservation.
- Balanced
  - >30%-<70%Equity
  - Seeking a combination of income and generation of capital growth
- Growth
  - 70%-90%Equity
  - Seeking potential growth through capital appreciation.
- Aggressive Growth
  - 90- 100% Equity
  - Seeking capital appreciation through investing in volatile, speculative, high-risk securities

Risk:

- Low Risk: 0 - 30% Equity
- Medium Risk: 30-90% Equity
- High Risk: >90 % Equity

Time Horizon

- Short-term: up to three years
- Medium Term: three to seven years
- Long term: 7 years plus

A. Household Scenario 1: 2 Spouses

i) On a per account basis:

Account	Objective	Account Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity	Time Horizon
Cdn. Non-Reg Joint #1	Safety	$500,000	$500,000 100%			$250,000 50%	$250,000 50%		2 yrs
Cdn. Non-Reg Joint #2	Balanced	$450,000	$90,000 20%	$270,000 60%	$90,000 20%	$90,000 20%	$135,000 30%	$225,000 50%	10+ yrs
US Non-Reg.	Balanced	$150,000	$45,000 30%	$90,000 60%	$15,000 10%	$30,000 20%	$90,000 60%	30,000 20%	3+ yrs for partial withdrawals to begin
RRSP for Spouse 1	Income	$50,000	$25,000 50%	$25,000 50%		$15,000 30%	$35,000 70%		10+ yrs
TFSA for Spouse 1	Growth	$25,000		$20,000 80%	$5,000 20%			$25,000 100%	10+ yrs
TFSA for Spouse 2	Growth	$25,000		$20,000 80%	$5,000 20%			$25,000 100%	10+ yrs

ii) On a household basis:

Methodology:

Joint Account No. 1 will be excluded as it is a special purpose account for a home purchase within 2 years.

Overall allocations are calculated by multiplying the account percentage in each category by the account value and adding the results. For example, the low-risk figure is calculated:

$90,000 (Cdn Joint Account No. 2) plus $45,000 (US Non-Reg) plus $25,000 (RRSP) = $160,000 divided by the total of $700,000 equals .229 or 22.9%.

Time horizon is a weighted average (total of account time horizon times account balance divided by total household balance).

Household Profile:

Overall Objective	Overall Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity	Time Horizon
Balanced	$700,000	22.9%	60.7%	16.4%	19.3%	37.1%	43.6%	9.02

Results:

Household allocations:

- The top percentage (in black) represents the percentage of the account value
- The bottom percentage (in red) represents the percentage of the total portfolio value.

Household Allocation No. 1 as follows:

Account	Account Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity
Cdn. Non-Reg Joint #2	$450,000	$115,000 25% 9.6%	$270,000 60% 22.5%	$65,000 14% 5.4%	$105,000 23% 8.8%	$90,000 20% 7.5%	$255,000 57% 21.3%
US Non-Reg.	$150,000	$45,000 30% 3.8%	$105,000 70% 8.8%		$30,000 20% 2.5%	$120,000 80% 10.0%	
RRSP for Spouse 1	$50,000		$50,000 100% 4.2%			$50,000 100% 4.2%	
TFSA for Spouse 1	$25,000			$25,000 100% 2.1%			$25,000 100% 2.1%
TFSA for Spouse 2	$25,000			$25,000 100% 2.1%			$25,000 100% 2.1%
Total	$700,000	$160,000 22.9%	$425,000 60.7%	$115,000 16.4%	$135,000 19.3%	$260,000 37.1%	$305,000 43.6%%

- TFSAs switched to 100% high risk equities to shield gains
- RRSP switched to 100% fixed income to shield interest payments
- U.S. non-reg switched to 20% cash and 80% fixed income because of shorter time horizon
- Canadian non-reg switched to higher equities percentage making overall equities allocation the same as before.

Household Allocation No. 2

The clients want to invest in a high-risk private real estate offering with a minimum investment of $100,000. They qualify as accredited investors.

Household profile remains the same:

Overall Objective	Overall Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity	Time Horizon
Balanced	$700,000	22.9%	60.7%	16.4%	19.3%	37.1%	43.6%	9.02 yrs

Household allocation No. 2 as follows:

Account	Account Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity
Cdn. Non-Reg Joint #2	$450,000	$115,000 26% 9.6%	$220,000 49% 18.3%	$115,000 26% 9.6%	$105,000 23% 8.8%	$90,000 20% 7.5%	$255,000 57% 21.3%
US Non-Reg.	$150,000	$45,000 30% 3.8%	$105,000 70% 8.8%		$30,000 20% 2.5%	$120,000 80% 10.0%	
RRSP for Spouse 1	$50,000		$50,000 100% 4.2%			$50,000 100% 4.2%	
TFSA for Spouse 1	$25,000		$25,000 20% 2.1%				$25,000 100% 2.1%
TFSA for Spouse 2	$25,000		$25,000 20% 2.1%				$25,000 100% 2.1%
Total	$700,000	$160,000 22.9%	$425,000 60.7%	115,000 16.4%	$135,000 19.3%	$260,000 37.1%	$305,000 43.6%%

The joint account #2 can make the purchase while the portfolio maintains the prior allocations.

B. Household Scenario 2: 2 Spouses + Family Holdco + 2 Children + Grandparent

i) On a per account basis:

Account	**Objective**	**Account Balance**	**Low Risk**	**Medium Risk**	**High Risk**	**Cash**	**Fixed Income**	**Equity**	**Time Horizon**
Cdn. Non-Reg Joint #2	Balanced	$450,000	$90,000 20%	$270,000 60%	$90,000 20%	$90,000 20%	$135,000 30%	$225,000 50%	10+ yrs
US Non-Reg.	Balanced	$150,000	$45,000 30%	$90,000 60%	$15,000 10%	$30,000 20%	$90,000 60%	30,000 20%	3+ yrs for withdrawals to begin
RRSP for Spouse 1	Income	$50,000	$25,000 50%	$25,000 50%		$15,000 30%	$35,000 70%		10+ yrs
TFSA for Spouse 1	Growth	$25,000		$20,000 80%	$5,000 20%			$25,000 100%	10+ yrs
TFSA for Spouse 2	Growth	$25,000		$20,000 80%	$5,000 20%			$25,000 100%	10+ yrs
Business	Income	$100,000	$20,000 20%	$75,000 75%	$5,000 5%	$20,000 20%	$80,000 80%		10 + yrs
HoldCo	Balanced	$250,000	$50,000 20%	$175,000 70%	$25,000 10%	$50,000 20%	$100,000 40%	$100,000 40%	10+ yrs
RESP Child 1	Balanced	$50,000	$25,000 50%	$25,000 50%		$15,000 30%	$35,000 70%		4+ yrs for withdrawals to begin
RESP Child 2	Balanced	$40,000	$20,000 50%	$20,000 50%		$12,000 30%	$28,000 70%		6+ yrs for withdrawals to begin
Cdn. Non-Reg. Grandparent	Growth	$300,000		$270,000 90%	$30,000 10%			$300,0001 00%	10+ yrs
RRIF	Income	$200,000	$160,000 80%0	$40,000 20%		$40,000 20%	$100,000 50%	$60,000 30%	10+ yrs

ii) Household Profile:

Overall Objective	Overall Balanced	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity	Time Horizon
Balanced	$1,640,000	$435,000 26.5%	$1,030,000 62.8%	$175,000 10.7%	$272,000 16.6%	$603,000 36.8%	$765,000 46.6%	9.08+ yrs

iii) Household Allocation:

Account	Account Balance	Low Risk	Medium Risk	High Risk	Cash	Fixed Income	Equity
Cdn. Non-Reg Joint #2	$450,000	$90,000 20% 5.5%	$320,000 71% 19.5%	$40,000 9% 2.4%	$90,000 20% 5.5%	$135,000 30% 8.2%	$225,000 50% 13.7%
US Non-Reg.	$150,000	$45,000 30% 2.7%	$40,000 27% 2.4%	$65,000 43% 4.0%	$30,000 20% 1.8%	$40,000 27% 2.4%	80,000 53% 4.9%
RRSP for Spouse 1	$50,000	$25,000 501.5.2%	$25,000 50% 1.5%		$15,000 30% 0.9%	$35,000 70% 2.1%	
TFSA for Spouse 1	$25,000			$25,000 100% 1.5%			$25,000 100% 1.5%
TFSA for Spouse 2	$25,000			$25,000 100% 1.5%%			$25,000 100% 1.5%
Corporate Account	$100,000	$20,000 20% 1.2%	$75,000 75% 4.6%	$5,000 5% 0.3%	$20,000 20% 1.2%	$80,000 80% 4.9%	
HoldCo	$250,000	$50,000 20% 3.0%	$195,000 78% 11.9%	$5,000 2% 0.3%	$50,000 20% 3.0%		$200,000 80% 12.2%
RESP Child 1	$50,000	$25,000% 50% 1.5%	$25,000 50% 1.5%		$15,000 30% 0.9%	$35,000 70% 2.1%	
RESP Child 2	$40,000	$20,000 50% 1.2%	$20,000 50% 1.2%%		$12,000 30% 0.7%	$28,000 70% 1.7%	
Cdn. Non-Reg. Grand-parent	$300,000		$290,000 97% 17.7%	$10,000 3% 0.6%		$150,000 50% 9.1%	$150,000 50% 9.1%
RRIF	$200,000	$160,000 80% 9.8%	$40,000 20% 2.4%		$40,000 20% 2.4%	$100,000 50% 6.1%	$60,000 30% 3.7%
Total	$1,640,000	$435,000 26.5%	$1,030,000 62.8%	$175,00 10.7%	$272,000 16.6%	$853,000 36.8%	$765,000 46.6%

- Move Canadian Joint #2 into lower risk and more fixed income and U.S. non-reg into higher risk and more equities to take advantage of perceived better opportunities in U.S. equities. TFSA's both moved to 100% high-risk equities to shield capital gains.
- Corporate account (operating a family business) moved to 100% low/medium risk with no equities as it is the business's float. Holdco moved to more equities for long-term growth.
- Grandparent's non-reg account (intended as inheritance) made less risky with small remainder for higher risk growth.