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REGULATORY APPROACHES MUST KEEP PROGRESSING TO HELP HOUSEHOLD FINANCES

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Many Canadian investors are part of a household that needs, or wants, to look at finances holistically. This may be because of the financial responsibilities of raising children or managing the care of aging parents or because of family preference.

According to a Statistics Canada study, "Sandwiched" between unpaid care for children and care-dependent adults, 29% of 35-44 years olds, 20% of 45-54 years olds, and 18% of 55-64 years olds in Canada are providing care to *both* children and care-dependent adults (parents, parent-in-law, spouse or partner). About 14% of sandwiched caregivers are living in multiple generation households. The Vanier Institute of the Family has declared that homes housing three or more generations have become one of the fastest growing household types in recent decades.

In turn, regulators such as the Canadian Investment Regulatory Organization–CIRO (previously the Investment Industry Regulatory Organization of Canada–IIROC) have recognized (see 2019 IIROC & Accenture report, Enabling The Evolution Of Advice In Canada) that many investors "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"."

At the same time, CIRO has acknowledged (see 2019 report Enabling The Evolution Of Advice In Canada) that the expanding scope of advice and services investment dealers are offering is testing its 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."

Financial advisors play a role in helping people manage the issues involved in family and multigenerational wealth planning to ensure everyone is taken care of today and in the future. The current regulatory regime requires them to 'know their client' to recommend or make suitable investments for that client's investment accounts. But what if the client is also part of a household, and, in some cases, a multigenerational family, that needs or wants their money looked after together? As a family, they would naturally have multiple goals and needs.

Regulators have tried to close the gap between traditional regulatory approaches and family needs, but those approaches, at times, remain overly restrictive. For example, CIRO Guidance narrowly defines accounts that can be grouped as a household as “multiple accounts held by the same beneficial owner.” Also, any accounts that are grouped are required to have investment needs, objectives, time horizon and risk profiles that are identical for all accounts. But families or households are made up of different beneficial owners, like spouses or partners, parents, children, and grandchildren, with different financial goals.

To their credit, the authors of the Enabling The Evolution Of Advice In Canada report (IIROC and Accenture) offered helpful policy framework ideas. These include that investor goals, time horizons and risk profiling be determined at a household level with a financial planning approach, that there be a clear process for collecting ‘know your client’ information for households, and that suitable investments are made for households with multiple goals and time horizons.

It’s been more than five years since these excellent ideas were proposed by IIROC and Accenture. It’s time that we move forward by applying them clearly and consistently, putting investors and their households first.