

# Financial Planning

## Practice Standards



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The Financial Planning Practice Standards have been adopted by the Board of the Institute of Financial Planning (IFP) to provide principles and guidelines to all persons who are members of the Institute of Financial Planning, including those who are CERTIFIED FINANCIAL PLANNER<sup>CM</sup> professionals in the UK. In this document, the term “member” shall apply equally to IFP members and CFP<sup>CM</sup> Professionals.

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## The Institute of Financial Planning's Practice Standards

The Financial Planning Practice Standards as set out by Institute of Financial Planning (IFP) are detailed in this guide. The standards it contains establish the level of professional practice reasonably expected of all Financial Planning professionals who are members of the IFP during Financial Planning engagements, regardless of practice type, setting, location or method of compensation.

The IFP expects that clients of Financial Planning professionals will benefit from the incorporation of this globally accepted set of Practice Standards by IFP members. These standards are in keeping with the global standards for CFP<sup>CM</sup> certification established by the Financial Planning Standards Board (FPSB). The IFP has defined standards of performance from its members that:

- establish the level of practice expected of a Financial Planning professional engaged in the delivery of Financial Planning to a client;
- establish norms of professional practice and allow for consistent delivery of Financial Planning by Financial Planning professionals;
- clarify the respective roles and responsibilities of Financial Planning professionals and their clients in Financial Planning engagements; and
- enhance the value of the Financial Planning process.

Financial Planning is the process of developing strategies to assist clients in managing their financial affairs to meet life goals. The process of Financial Planning involves reviewing all relevant aspects of a client's situation across a large breadth of Financial Planning activities, including inter-relationships among often conflicting objectives.

| Financial Planning Process  | Related Practice Standard(s)   |
|---|--|
| 1. Establish and define the relationship with the client.                         | 1.1: Inform the client about Financial Planning and the financial planning professional's competencies.<br>1.2: Determine whether the Financial Planning professional can meet the client's needs.<br>1.3: Define the scope of the engagement. |
| 2. Collect the client's information.  | 2.1: Identify the client's personal and financial objectives, needs and priorities.<br>2.2: Collect quantitative information and documents.<br>2.3: Collect qualitative information.   |
| 3. Analyse and assess the client's financial status.                              | 3.1: Analyse the client's information.<br>3.2: Assess the client's objectives, needs and priorities.   |
| 4. Develop the Financial Planning recommendations and present them to the client. | 4.1: Identify and evaluate Financial Planning strategies.<br>4.2: Develop the Financial Planning recommendations.<br>4.3: Present the Financial Planning recommendations to the client.  |
| 5. Implement the client's Financial Planning recommendations.                     | 5.1: Agree on implementation responsibilities.<br>5.2: Identify and present product(s) and service(s) for implementation.  |
| 6. Review the client's situation.   | 6.1: Agree on responsibilities and terms for the review of the client's situation.<br>6.2: Review and re-evaluate the client's situation.  |

# 1. Establish and define the relationship with the client

## 1.1 Inform the client about Financial Planning and the Financial Planning professional's competences.

The Financial Planning professional informs the client about the Financial Planning process, the services the Financial Planning professional offers, and the Financial Planning professional's competences and experience.

### Explanation

Prior to entering into a Financial Planning engagement with the client, the Financial Planning professional helps the client understand the Financial Planning process and the nature of Financial Planning engagements, and provides information on the Financial Planning professional's qualifications. This information may include: how Financial Planning can help the client meet objectives; a description of the Financial Planning professional's methodology when providing Financial Planning; and information about the Financial Planning professional's licenses, experience and expertise. The Financial Planning professional provides to the client, as required, information about the services the Financial Planning professional provides as well as what charges may be incurred by the client.

## 1.2 Determine whether the Financial Planning professional can meet the client's needs.

The Financial Planning professional and the client determine whether the services offered by the Financial Planning professional and his or her competences meet the needs of the client. The Financial Planning professional considers his or her skills, knowledge and experience in providing the services requested or likely to be required by the client. The Financial Planning professional determines if he or she has, and discloses, any conflict(s) of interest.

### Explanation

The Financial Planning professional considers if he or she, or his or her staff, has the appropriate abilities, skills and knowledge to meet the client's expectations. The Financial Planning professional considers if there are any personal conflicts that would affect his or her ability to work successfully with the client. The Financial Planning professional determines if there are any other circumstances, relationships or facts that would place the interest(s) of the Financial Planning professional in conflict with the client's interest(s), or the interest(s) of one client in conflict with another client. The Financial Planning professional discusses the confidentiality of the client's information.

### 1.3 Define the scope of the engagement.

The Financial Planning professional and the client agree on the services to be provided. The Financial Planning professional describes, in writing, the scope of the engagement before any Financial Planning is provided, including details about: the responsibilities of each party (including third parties); the terms of the engagement; and compensation and conflict(s) of interest of the Financial Planning professional. The scope of the engagement is set out in writing in a formal document signed by both parties or formally accepted by the client and includes a process for terminating the engagement.

#### Explanation

Mutually defining the scope of the engagement establishes realistic expectations for both the client and the Financial Planning professional. The Financial Planning professional and the client may agree that the scope of the engagement covers one, several or all of the Financial Planning Components (i.e., Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning).

A written document ensures mutual understanding and agreement between the Financial Planning professional and the client about the terms of the Financial Planning engagement. In setting out the terms in an engagement letter or disclosure document, the Financial Planning professional includes the following:

- Specific services to be included or excluded, such as implementation and review;
- The Financial Planning professional's compensation arrangements with respect to the engagement, including fees to be paid by the client;
- Existing conflicts of interest, including those involving compensation arrangements with third parties, and agreement to disclose subsequent conflicts of interest if or when they occur;
- Specific parties to the engagement, including details of any legal and agency relationships which may exist;
- Assurance of protection of client confidentiality;
- Duration of the engagement;
- The client's responsibilities, including the full and timely disclosure of information;
- The Financial Planning professional's responsibilities;
- Provisions for terminating the client engagement; and
- Procedures for resolving the client's claims and complaints against the Financial Planning professional.

Additional information that may form part of the formal written document includes:

- The potential need to use other professionals during the engagement;
- An explanation of qualifications, licenses and experience of individuals who will work with the client;
- Specific limitations on the use of client information; and

- Any other information necessary to adequately inform the client.

Circumstances may change the Financial Planning professional's ability to provide services to the client, or the client may decide to terminate services or transfer to another professional. The Financial Planning professional disengages the client or facilitates the client's transfer to another adviser in a professional manner.

## 2. Collect the client's information

### 2.1 Identify the client's personal and financial objectives, needs and priorities.

The Financial Planning professional and the client identify the client's personal and financial objectives, needs and priorities that are relevant to the scope of the engagement before making and/or implementing any recommendations.

#### Explanation

The Financial Planning professional strives to clearly understand the client's current situation and financial objectives, needs and priorities. The client's financial objectives state intent, provide guidance and bring structure to the Financial Planning engagement. The Financial Planning professional assists the client in clarifying and prioritising his/her short and long-term objectives, and discusses with the client the merit and feasibility of any objectives that appear to be unrealistic.

### 2.2 Collect quantitative information and documents.

The Financial Planning professional collects sufficient quantitative information and documents about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

#### Explanation

The Financial Planning professional strives to collect complete and accurate client information and documents relevant to the scope of the engagement. The Financial Planning professional relies on information provided by the client and other sources to make appropriate recommendations and clearly communicates to the client the importance of collecting complete, current and accurate information. In return, the Financial Planning professional respects the confidentiality of, and safeguards, client documents. If the Financial Planning professional is unable to collect information necessary to develop and support recommendations, the Financial Planning professional discusses this with the client, explaining how these limitations impact the engagement and the financial plan. These limitations could result in a revised engagement document or in termination of the engagement.

### 2.3 Collect qualitative information.

The Financial Planning professional collects sufficient qualitative information about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

### **Explanation**

The Financial Planning professional gathers information to understand the client's values, attitudes, expectations and financial experiences. This includes asking questions of the client and employing appropriate listening skills. The Financial Planning professional determines the client's level of sophistication and financial literacy. These areas are subjective and the Financial Planning professional's interpretation may be limited by what the client reveals.

## **3. Analyse and assess the client's financial status**

### **3.1 Analyse the client's information.**

The Financial Planning professional analyses the client's information, subject to the scope of the engagement, to gain an understanding of the client's financial situation.

### **Explanation**

The Financial Planning professional analyses the client's current situation and information, and works with the client to resolve obvious omissions and/or inconsistencies in the information collected. As part of this analysis, the Financial Planning professional uses client-specified, mutually agreed upon objectives and other reasonable assumptions, which may include the client's retirement age, life expectancy, income needs, risk factors, time horizon and special needs, as well as economic assumptions such as inflation rates, tax rates and investment returns.

### **3.2 Assess the client's objectives, needs and priorities.**

The Financial Planning professional assesses the strengths and weaknesses of the client's current financial situation and compares them to the client's objectives, needs and priorities.

### **Explanation**

The Financial Planning professional considers the opportunities and constraints presented by the client's financial situation and current course(s) of action, and determines the likelihood of the client reaching his or her objectives by continuing present activities or making anticipated changes. The Financial Planning professional may identify other issues that may impact the client's ability to achieve objectives, which he or she discusses with the client. It may be appropriate for the Financial Planning professional to amend the scope of the engagement and/or to obtain additional information.

## 4. Develop the Financial Planning recommendations and present them to the client

### 4.1 Identify and evaluate Financial Planning strategies.

The Financial Planning professional considers one or more strategies relevant to the client's current situation that could reasonably meet the client's objectives, needs and priorities.

#### Explanation

The Financial Planning professional identifies alternative strategies for achieving the client's confirmed objectives. The Financial Planning professional evaluates the ability of each strategy to reasonably address the client's objectives, needs and priorities. This evaluation may involve discussing with the client the importance, priority and timing of the client's objectives and needs; considering multiple assumptions; and/or conducting research or consulting with other professionals. This process may result in a single strategy, multiple strategies or no change to the client's current course(s) of action. In considering alternative strategies, the Financial Planning professional takes into account his or her legal and/or regulatory limitations or requirements and his or her competence to address each of the client's objectives, needs and priorities. More than one strategy may meet the client's objectives, needs and priorities. Strategies and consequences identified by the Financial Planning professional may differ from those of other

practitioners or advisers, illustrating the subjective nature of exercising professional judgment.

### 4.2 Develop the Financial Planning recommendations.

The Financial Planning professional develops the Financial Planning recommendations based on the selected strategies to reasonably meet the client's confirmed objectives, needs and priorities.

#### Explanation

After identifying and evaluating various strategies and the client's current course(s) of action, the Financial Planning professional develops Financial Planning recommendations that can reasonably meet the client's objectives, needs and priorities. The recommendations may be an independent action or a combination of actions which may need to be implemented collectively. The recommendations may be to continue the current course(s) of action. If the Financial Planning professional recommends a change, it may be general or specific in nature. It may be necessary for the Financial Planning professional to recommend that the client modify an objective, need or priority. The recommendations developed by the Financial Planning professional may differ from those of other practitioners or advisers, yet each may reasonably meet the client's objectives, needs and priorities. It is important that this part of the Financial Planning process be sufficiently documented.

### 4.3 Present the Financial Planning recommendations to the client.

The Financial Planning professional presents the Financial Planning recommendations and the supporting rationale in a way that allows the client to make an informed decision.

#### **Explanation**

When presenting the Financial Planning recommendations, the Financial Planning professional helps the client understand the client's current situation, the factors and assumptions that were critical to the recommendation(s), the risks of the recommended strategy(ies), and the likely impact of the recommendation(s) on the client's ability to meet his/her objectives. The Financial Planning professional avoids presenting his or her opinion as fact. The Financial Planning professional informs the client that the Financial Planning recommendations will likely need to be modified as the client's personal, economic and other conditions change. The Financial Planning professional discloses to the client any conflict(s) of interest not previously disclosed, and explains how such conflicts impact the Financial Planning recommendations. At this stage of the Financial Planning process, the Financial Planning professional can further assess whether the Financial Planning recommendations meet the client's expectations, whether the client is willing to act on the recommendation(s), and whether modifications are necessary.

## 5. Implement the client's financial planning recommendations

### 5.1 Agree on implementation responsibilities.

The Financial Planning professional and the client agree on implementation responsibilities that are consistent with the scope of the engagement, the client's acceptance of the Financial Planning recommendations, and the Financial Planning professional's ability to implement the Financial Planning recommendations.

#### **Explanation**

The Financial Planning professional gains the client's agreement on implementation of the recommendations and provides the required documentation. The Financial Planning professional may change the scope of the engagement, as originally defined, based on the agreement reached with the client. The Financial Planning professional's responsibilities may include: identifying activities necessary for implementation; determining respective responsibilities of the Financial Planning professional and the client; referring to, and coordinating with, other professionals; sharing client information as authorised; and selecting and securing products and/or services. If there are conflicts of interest, sources of compensation or material relationships with other professionals that have not been previously disclosed, the Financial Planning professional discloses these to the client. The Financial Planning professional explains the rationale for

referrals and the qualification(s) of the referred professional(s). If a Financial Planning professional is engaged by the client to provide only the implementation step of the Financial Planning process, this is clearly defined in writing in the scope of the engagement. This scope may include the extent to which the Financial Planning professional relies on information, analysis or recommendations provided by others.

## 5.2 Identify and present product(s) and service(s) for implementation.

Based on the scope of the engagement, the Financial Planning professional identifies and presents appropriate product(s) and service(s) that are consistent with the Financial Planning recommendations accepted by the client.

### Explanation

The Financial Planning professional investigates and recommends products or services that are suitable to the client's financial situation and reasonably address the client's objectives, needs and priorities. The Financial Planning professional uses professional judgment in identifying the products and services that are in the client's interest. Professional judgment incorporates both qualitative and quantitative information. Solutions identified by the Financial Planning professional may differ from those of other professionals since more than one product or service may meet the client's needs. The Financial Planning professional makes all disclosures to the client necessary to enable him or her to make informed decisions, including the

risks, disadvantages and costs involved in implementing any recommendations made. Recommendations regarding products or services may be presented concurrently with the Financial Planning strategies and recommendations.

## 6. Review the client's situation

### 6.1 Agree on responsibilities and terms for review of the client's situation.

The Financial Planning professional and client mutually define and agree on terms for reviewing and re-evaluating the client's situation.

### Explanation

The Financial Planning professional communicates to the client that Financial Planning is a dynamic process that may require updates due to changes in the client's personal, economic or other conditions. The Financial Planning professional and the client mutually agree on, and understand, their respective roles, if any, in ensuring that the client's situation is being adequately reviewed. The Financial Planning professional defines and communicates to the client the nature and scope of the reviewing activities that the Financial Planning professional will provide. The reviewing process may require the Financial Planner professional to modify the original scope of engagement or initiate a new engagement.

## 6.2 Review and re-evaluate the client's situation.

If conducting a review, the Financial Planning professional and the client review the client's situation to assess progress toward achievement of the objectives of the Financial Planning recommendations, determine if the recommendations are still appropriate, and confirm any revisions mutually considered necessary.

### Explanation

The review process may include: confirming that the Financial Planning recommendations agreed on by the client and the Financial Planning professional have been implemented; assessing progress toward and achievement of the objectives of the Financial Planning recommendations to date; re-evaluating initial or subsequent assumptions made by the Financial Planning professional for reasonableness; determining whether changes in the client's circumstances or objectives require adjustments to the financial plan; and mutually agreeing on any required changes. As circumstances and needs change, a Financial Planning professional may need to revisit earlier steps in the Financial Planning process.

## Glossary

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### **Client**

A person, persons or related entities with whom the Financial Planning professional has a formal planner-client-relationship.

### **Compensation**

Any non-trivial economic benefit, whether monetary or non-monetary, that a Financial Planning professional or related party receives or is entitled to receive for providing professional activities.

### **Comprehensive Financial Planning**

The process of developing strategies to assist clients in managing their financial affairs to meet life goals, integrating across the six Financial Planning Components (i.e. Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning).

### **Financial Planning**

The process of developing strategies to assist clients in managing their financial affairs to meet life goals.

### **Financial Planning process**

The process by which Financial Planning professionals develop strategies to assist clients in managing their financial affairs to meet life goals which includes:

- 1) establishing and defining the relationship with the client
- 2) collecting the client's information
- 3) analysing and assessing the client's financial status
- 4) developing the Financial Planning recommendations and presenting them to the client
- 5) implementing the client's Financial Planning recommendations
- 6) reviewing the client's situation.

### **Sufficient information**

All information necessary for the Financial Planning professional to make an informed analysis and recommendation.

### **Terms of review**

The frequency, scope, applicable fees and other conditions relevant to the Financial Planning professional's review and re-evaluation of the client's situation.





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