Holders of the Chartered Financial Planner® designation shall maintain the highest standards of professional conduct in dealing with clients and the public. Chartered Financial Planner professionals have obligations to the practise of financial planning. The following provides Chartered Financial Planner professionals a framework of principles and a process to be followed for financial planning engagements.

CHARTERED FINANCIAL PLANNER PROFESSIONALS: PRACTICE STANDARDS

The role of a Chartered Financial Planner professional in financial planning goes beyond merely analyzing the existing financial resources of a client and determining how much must be saved in order to live his or her desired lifestyle during retirement or, making recommendations to maximize investment returns.

While these are important objectives and will certainly form part of the discussion with clients, a Chartered Financial Planner professional must adopt a more holistic approach to financial planning that is in keeping with the six-step financial planning process. This means a Chartered Financial Planner professional must explore and integrate all aspects of a client's finances including financial management, retirement planning, investment planning, tax planning, risk management and estate planning to formulate a comprehensive plan.

A Chartered Financial Planner professional should be prepared to assist his or her client to develop realistic expectations regarding their objectives and desired living standards for their current situation as well as in future phases of their life. They have to help ensure their client is aware of the decisions and adjustments that they may have to make to realize their financial goals.

A Chartered Financial Planner professional must comply with the following Practice Standards.

STEP 1: ESTABLISH THE CLIENT ENGAGEMENT

The purpose of a client engagement is to ensure both the client and the Chartered Financial Planner professional are aware of what to expect from the other party and to make each party aware of their responsibilities to contribute to the development of the relationship. In effect, an engagement ensures both the client and the Chartered Financial Planner professional are on the 'same page'.

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A Chartered Financial Planner professional will work with his or her client to define and agree on the scope of the planning engagement. The details of the engagement will be documented and it is strongly recommended that a letter of engagement be used and signed by both the Chartered Financial Planner professional and the client.

From the perspective of the Chartered Financial Planner professional, he or she must spell out exactly what the financial planning process entails and the benefits the client will realize by following it. The Chartered Financial Planner professional will also detail what services he or she is able and willing to provide to the client based on his or her qualifications and/or licensing.

The Chartered Financial Planner professional must disclose his or her responsibilities to the client, his or her qualifications—which includes the fact he or she holds the Chartered Financial Planner credential in good standing (assuming this is factually accurate)—how he or she is compensated for the planning services they provide and any referral fees they may receive.

In addition, the full details of any conflicts of interest—real or perceived—the Chartered Financial Planner professional may be party to must be disclosed to the client immediately upon the Planner becoming aware of the conflict or the potential for a conflict. This disclosure must be in writing and must fully explain not only the nature of the conflict but also, the possible implications of the conflict to the client. This disclosure will allow the client to make an informed decision as to whether he or she wants to continue working with the Chartered Financial Planner professional within the scope of the engagement notwithstanding the existence of the conflict. While it is strongly advised that where a conflict exists, the engagement should be terminated (without any harm to the client), if the client elects to continue with the engagement, in all instances, the Chartered Financial Planner professional must manage the conflict in favour of the client.

Finally, the Chartered Financial Planner professional should identify his or her expectations of the client and provide a clear explanation as to why these expectations are important to the relationship.

It is imperative that the Chartered Financial Planner professional get clear written confirmation from the client that they understand the process, their respective responsibilities and that the client agrees to be a willing participant in the relationship.

Together, the client and the Chartered Financial Planner professional should then discuss the scope of the planning engagement and come to an agreement as to how decisions will be made going forward. For example, some clients prefer a hands-off approach essentially deferring to the expert judgement of the Chartered Financial Planner professional to provide them with advice and recommendations as the Chartered Financial Planner professional sees fit (in such cases, the Chartered Financial Planner professional must be mindful of the rules prohibiting discretionary trading). Other clients, to varying degrees, prefer to have some involvement in the management of their money and the decisions that are ultimately made.

Following the establishment of the engagement, the client will be able to distinguish between what expectations concerning the engagement are realistic and what expectations are not.

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STEP 2: ESTABLISH OBJECTIVES AND GATHER DATA

Establishing the financial objectives of the client is a fundamental step of the planning process.

A Chartered Financial Planner professional should help his or her clients be as specific as possible in stating their financial planning objectives and the desired outcomes of these goals. These objectives must be documented and can be both quantitative and qualitative in nature.

Objectives should be realistic rather than idealistic or hypothetical. Frequently, a client will state their objectives vaguely, as in the following example: 'I want to retire comfortably, at an age when I can still enjoy my life'.

A Chartered Financial Planner professional should encourage and assist his or her clients to be specific and to reflect anticipated lifestyles, as in the following examples:

- I want to retire at age 60, with an equivalent income of $100,000 per year and travel at least once per year to Florida.
- If possible, I would like to retire before age 65, while being able to maintain my current lifestyle and to take at least one major vacation per year.

A Chartered Financial Planner professional helps his or her clients paint a picture of their current and future life and offers them solutions to help make their preferred lifestyle achievable in all phases of their life. Including a lifestyle perspective to planning will add a dimension to the engagement that will enhance the value of the services offered by the Chartered Financial Planner professional.

When assisting a client with setting his or her objectives, a Chartered Financial Planner professional should encourage the client to ask himself or herself questions about their expected lifestyle, as in the following examples relating to retirement planning:

- Where do I want to live when I am retired?
- Do I want to take on a second career?
- Will I keep busy with volunteer work during retirement?
- Do I want to travel, engage in any hobbies or go back to school when I am retired?

In addition to helping identify their objectives, these types of questions will help the client to prepare psychologically for retirement. Moreover, the objectives themselves can become powerful motivators, giving the clients the resolve to make the current lifestyle changes that may be required to achieve their retirement objectives so that they can live their desired lifestyle.

There is a strong likelihood that a client may not be able to achieve all of their financial objectives in the precise manner that they have stated. In addition, many of their objectives may conflict with each other. For example, it is common for clients to want both financial security and to retire early. For most clients, this is not realistic. Therefore, a Chartered Financial Planner professional should assist clients prioritize their objectives based on the relative importance of each objective to the client. Where it is not possible for a client to achieve a goal as stated, a Chartered Financial Planner professional should be upfront and honest about the challenges the client faces. At the same time, the Chartered Financial Planner professional should be able to

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propose trade-offs to the objective that the client may be prepared to accept even if it may not be a perfect solution based on the original wishes of the client.

STEP 3: CLARIFY PRESENT STATUS AND IDENTIFY PROBLEM AREAS AND OPPORTUNITIES

It is important for a Chartered Financial Planner professional to gain a full understanding of his or her client's current and future financial and lifestyle expectations. A Chartered Financial Planner professional should also ascertain whether other obligations or other goals may interfere with the client's primary objectives.

To assess the financial position of a client, a Chartered Financial Planner professional can work with his or her client to complete net worth and cash flow statements. These important statements can help a Chartered Financial Planner professional identify the client's assets and liabilities and their cash inflows and cash outflows. Information from these statements is integral to understanding the amount and the sources of income available to the client, how the client disposes of their income and what financial resources may be available to fund the objectives of the client.

Depending upon the scope of the engagement, a quantitative analysis will generally include projections to assess whether the client can reasonably expect to fund goals, such as a specified lifestyle during retirement, based on their current financial position and their savings habits.

For example, in the case of a retirement plan, a client's need for retirement funding will be affected by the following:

- his or her estimated financial needs during retirement
- the anticipated income from employer-sponsored pension plans, Canada Pension Plan, Old Age Security program and other potential sources of income (e.g. part-time employment during retirement)
- the current value of his or her retirement savings and other assets that might be used to provide retirement funds (e.g. the sale of a home, cottage or business)
- the remaining time until his or her retirement
- the amount he or she is currently saving towards retirement
- the life expectancy of the client and his or her spouse
- the anticipated inflation rate for the remainder of his or her life expectancy
- the anticipated rate of return on investments
- the anticipated income tax rates leading up to retirement and post-retirement

While many of these factors are difficult to predict with certainty, if the retirement planning horizon is sufficiently long, history may provide a basis to make reasonable assumptions for interest rates and inflation into the future.

Despite the best efforts of a Chartered Financial Planner professional to develop realistic projections, it is important that the client understands that no one can precisely predict the future. The best a Chartered Financial Planner professional can do is provide reasonable assumptions for the purpose of providing direction to the client. A Chartered Financial Planner professional

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should discuss, review and document the applicable assumptions with the client and make it clear that any illustrations contained within the plan are meant for illustrative purposes only.

To emphasize the point that a plan can provide a sense of the range of outcomes a client can expect—rather than an absolute number—it is prudent for a Chartered Financial Planner professional to provide three scenarios for any projection: one based on historical norms, one with more conservative assumptions and one with more aggressive assumptions. A Chartered Financial Planner professional should advise his or her clients that regular monitoring is essential and adjustments to the assumptions should be made as required.

Not all objectives can be resolved through quantitative analysis alone. Qualitative data (e.g. personality style, personal values, health issues and family dynamics) should also be gathered and assessed to determine its impact on financial projections and to aid a Chartered Financial Planner professional provide appropriate, long-term solutions.

STEP 4: IDENTIFY APPROPRIATE STRATEGIES AND PRESENT FINANCIAL PLAN

After a thorough quantitative and qualitative analysis has been completed, a Chartered Financial Planner professional will need to identify strategies and solutions that are appropriate for the client to achieve their stated objectives.

For example, once a Chartered Financial Planner professional has determined the funding that will be needed at retirement (e.g. the client may need to accumulate $400,000 by age 65 to supplement other sources of retirement income such as a pension from their employer and CPP and OAS benefits), he or she can then develop strategies to accumulate those funds. These strategies could be relatively simple, such as contributing $6,000 to their RRSP each year or, they could be indexed to account for inflation and salary increases, such that the contribution of $6,000 to their RRSP this year is increased by 5% in each year that follows.

A Chartered Financial Planner professional may determine that the savings required to fund an objective exceed the available cash flow of the client. In this case, a Chartered Financial Planner professional should work with the client to arrive at a workable trade-off. Upon closer examination, perhaps the client can reduce the amount needed to fund their goal (e.g. the client can work longer and defer retirement or the client can lower their retirement lifestyle expectations).

Alternatively, it may be possible for the client to adjust their current lifestyle—perhaps by reducing his or her discretionary expenditures—such that he or she can allocate additional funds to meet their savings target. A Chartered Financial Planner professional can help assess whether amending the asset mix of the client's investment portfolio can increase his or her investment returns and thereby, bring them closer to achieving their goal. Of course, any changes must factor in suitability issues and the client's financial and psychological tolerance for risk.

Recommended strategies should also account for qualitative lifestyle considerations. For example, a client should be made aware of how dramatically their life will change when they stop working. A Chartered Financial Planner professional can assist his or her client to prepare for the emotional transition they may experience. A Chartered Financial Planner professional

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should encourage his or her client to reflect on how he or she will spend their time during retirement, how they plan to stay active and healthy, how they will remain mentally engaged and stimulated and other qualitative considerations.

The recommendations of a Chartered Financial Planner professional should also include a range of options and supporting rationale in a documented plan. The plan should be understandable to the client (without being condescending, be mindful of using language and financial jargon and terminology that may not be at the appropriate level of the client based on his or her knowledge, experience and sophistication). The plan should enable the client to gain a better understanding of their circumstances and to make informed, long-term decisions.

STEP 5: IMPLEMENT THE FINANCIAL PLAN

Once a Chartered Financial Planner professional has secured an agreement from the client with regards to the strategies and solutions that have been recommended and has obtained permission from the client to proceed to the next step, a time frame for the implementation of the action items should be arranged. The schedule should be documented in the client's file and within the financial plan itself so that the client also has a record of it. It is imperative that the Chartered Financial Planner professional disclose any conflicts of interest that may result from the implementation of the recommended strategies and solutions.

Many people are procrastinators by nature especially when it comes to making complex decisions. A Chartered Financial Planner professional should encourage clients to implement strategies and solutions as soon as possible. Typically, it is more advantages to act with urgency rather than delaying an action (unless a deferral is part of the strategy). For example, a Chartered Financial Planner professional should encourage his or her clients to make their RRSP and TFSA contributions early in the taxation year to maximize tax-deferred growth.

If the Chartered Financial Planner professional is not appropriately qualified or licensed to implement the action items, he or she should refer clients to qualified professionals as appropriate. For example, a referral to an estate planning specialist, such as a lawyer, may be required to deal with the complexities of a blended family or, to a tax planning and/or succession planning specialist for a client who is a business owner. It is standard practice to provide clients with three referrals so that clients do not feel they are being pushed into any one direction by the Chartered Financial Planner professional. Also, the Chartered Financial Planner professional must disclose any conflict of interest—real or perceived—arising from the referral (e.g. the lawyer to whom the client is being referred is the spouse of the Chartered Financial Planner professional) as well as any compensation he or she may be in line to receive by making the referral.

If there are action items that have been assigned to the client or outside professionals (e.g. healthcare professionals), the Chartered Financial Planner professional should help with the implementation of those items by providing the client with objective advice and guidance where he or she is adequately qualified to do so.

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STEP 6: MONITOR AND UPDATE

A Chartered Financial Planner professional should determine with the client how often a plan review should be undertaken. At a minimum, an annual review should be scheduled but, more frequent reviews may be appropriate for complex planning situations or clients who are undergoing or, who are expected to undergo, material changes in their circumstances (e.g. a divorce, change in employment, birth of a child).

Routine monitoring is an essential component of the planning process because assumptions may not remain valid over the long planning horizon. Periodic reviews and updates are needed to evaluate progress towards the client's stated objectives. If the client's personal situation changes, their investments are not performing as expected or, if inflation, interest rates, economic conditions or income levels have deviated significantly from the assumptions in the original plan, the strategies may have to be modified to ensure objectives can still be achieved.

The actual implementation of a financial plan is the first step—ongoing review is crucial to ensure the original objectives and assumptions remain valid. The plan should be reviewed to identify: material changes in the life of the client, (e.g. a change in marital status), changes in the client's financial objectives (e.g. a client wants to retire earlier than anticipated) and economic changes (e.g. an environment of high inflation).

DOCUMENTATION

A Chartered Financial Planner professional cannot prepare a financial plan without a clear understanding of the client's resources or without making certain assumptions (e.g. rate of inflation, income growth rates, return on investments, tax rates). Any planning exercise must include full documentation of the data gathered and assumptions used to develop the plan. A statement regarding the possible variability of these assumptions should also be included so the client understands that the projections within the plan are illustrations and not guarantees.

The strategies developed in *Step 3: Clarify Present Status and Identify Problem Areas and Opportunities* are critical to the implementation of a successful financial plan and should be delivered to the client in writing by a Chartered Financial Planner professional.

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