AFP Study Guide

PlannerPrep

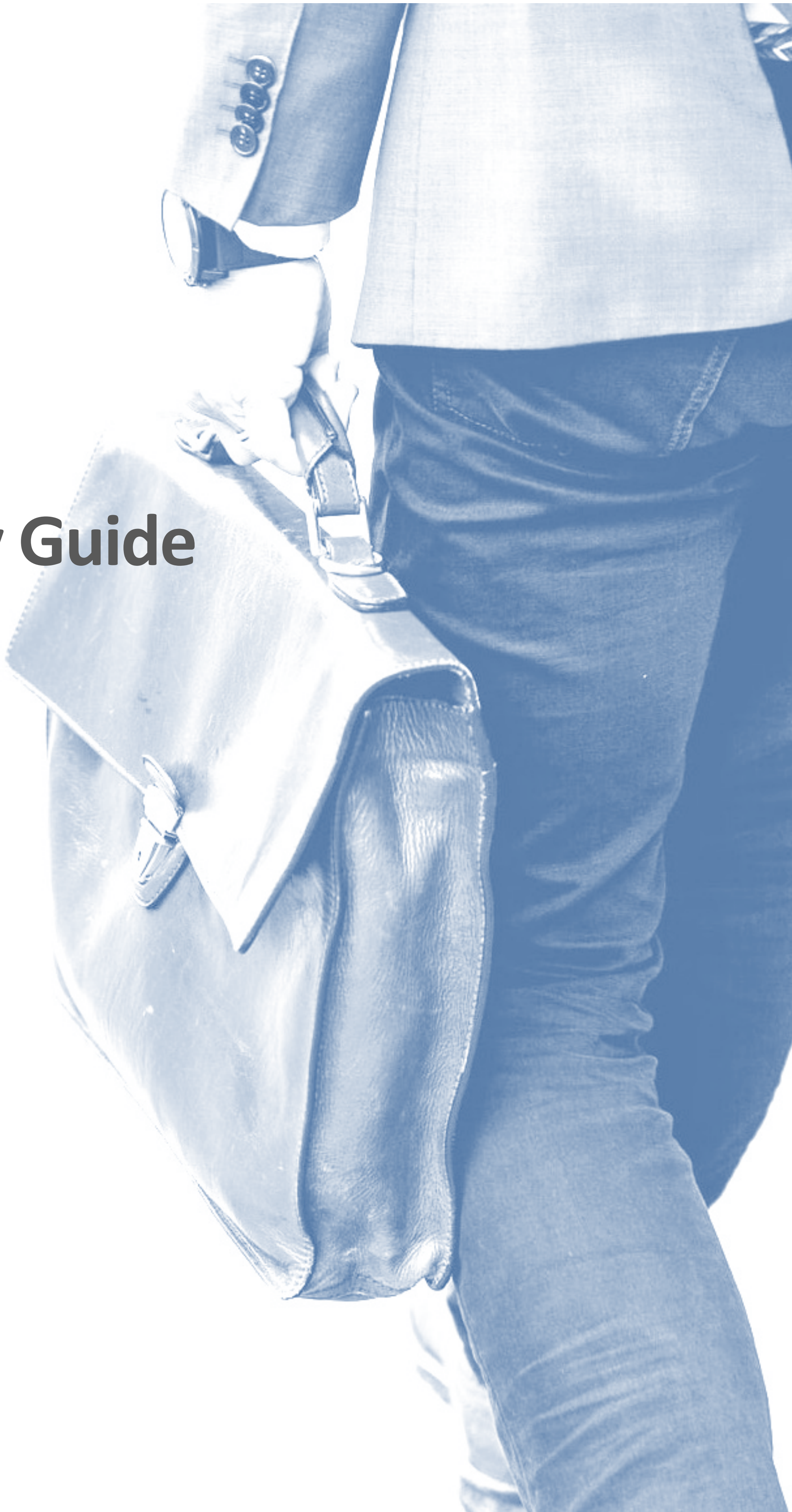
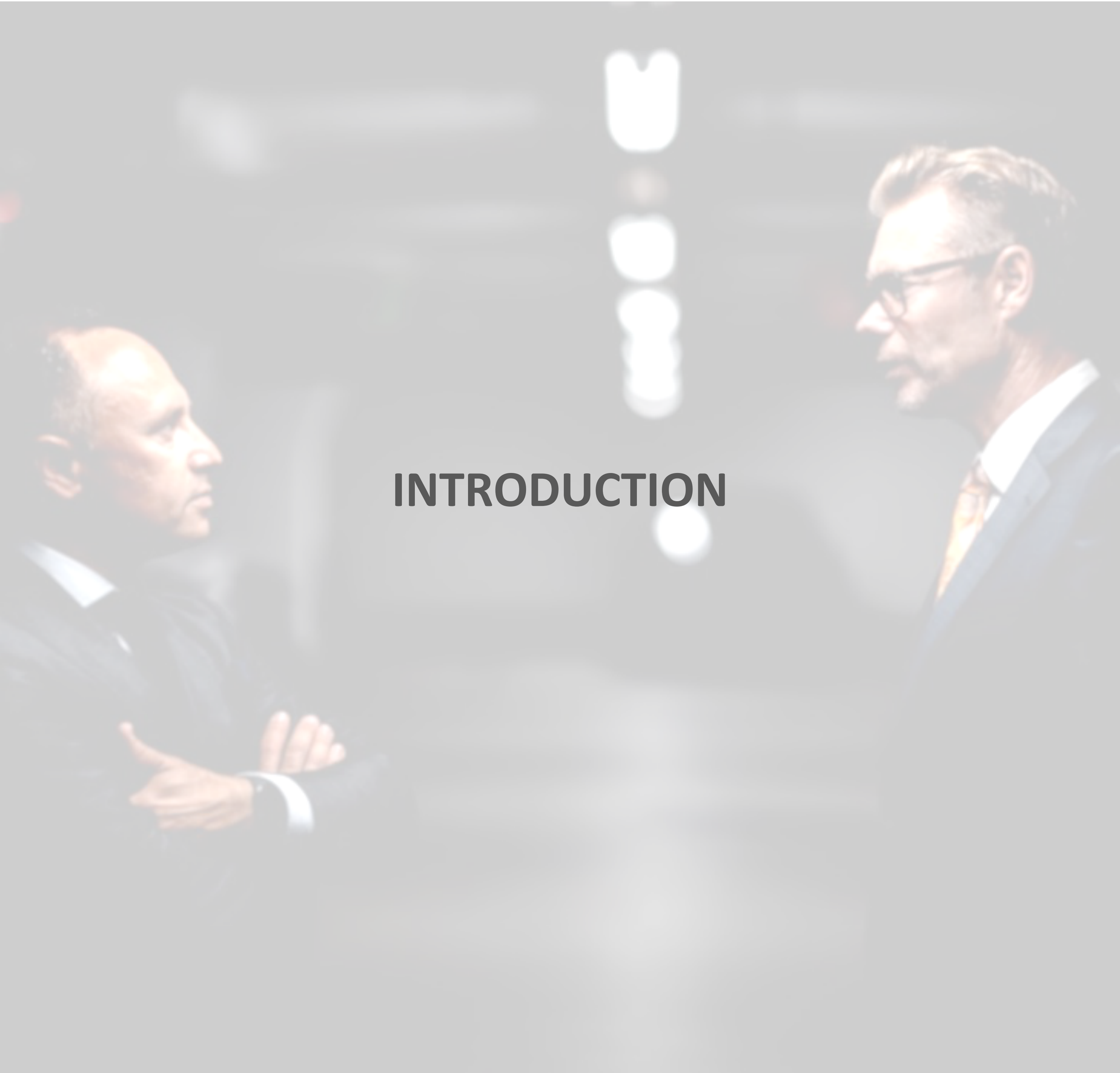


Table of Contents

Disclaimer



INTRODUCTION

Introduction

PFP® Exam Overview

Attaining your Personal Financial Planning (PFP®) designation requires you to pass each of the two Applied Financial Planning (AFP) exams. Both AFP exams are three hours in length and consist of both multiple choice and constructed response questions. Each question focuses on elements of the PFP® Professional Competency Profile, including the integration across several financial planning areas. Each exam can be written throughout the year.

Please refer to the AFP exam overview at the Canadian Securities Institute (CSI):
https://www.csi.ca/student/en_ca/courses/csi/afp_info.xhtml

Eligibility

There are several paths to attaining your PFP® designation. Please refer to the link below to see which path is right for you:

https://www.csi.ca/student/en_ca/designations/PFP®_info.xhtml

PFP® Competency

The Competency Profile was developed to illustrate the industry's proficiency requirements for competent financial planners. It defines the competencies that are respected by both clients and industry experts in terms of knowledge, skills, and abilities. The foundation of this course is the Competency Profile.

This Competency Profile activity was designed to help you quickly identify the competency statements you need as a financial planner to demonstrate your ability to meet the client's needs.

The development of the Competency Profile resulted in eight broad competency themes, including six technical and two enabling competency groupings.

Enabling Competency Areas

- Professional Conduct and Regulatory Compliance
- Client Relationship and Practice Management

Technical Competency Areas

- Asset and Liability Management
- Risk Management and Insurance
- Investment Planning
- Tax Planning
- Retirement Planning
- Estate Planning

To gain a clear understanding of the PFP® Competency Profile, we recommend that you review the **PFP® Professional Competency Profile** document available to those individuals that have registered for the AFP Exams.

Professional Conduct and Regulatory Compliance

Competency and Knowledge Statements

- Adhere to the **PFP® Code of Ethics**
    - Guiding values of the financial services industry
- **Comply with federal and provincial laws and regulations** relevant to the profession of a financial planner
    - Understand professional liabilities
    - Consumer protection
    - Principles of securities regulation
    - Regulatory bodies in the financial industry
- **Maintain knowledge** of political, economic, and regulatory changes
- Explain the role of the financial planner and meaning of the PFP®
- Act in the **best interest of the client** in providing financial planning services
    - Follow the Know Your Client (**KYC**) rule
- Follow through on one's commitment
- Demonstrate ethical judgement and behaviour in all situations
    - Ethics of trading
    - Methods to deal with ethical dilemmas, suspicious activities, and fraud
- Treat all individuals in a non-discriminatory manner
- **Disclose** potential **conflict of interests**
- Protect client confidentiality
    - Use and protection of client information
- Deal effectively with client's concerns, objections, and complaints
    - Understand complaint handling techniques
- Pursue **continuous education**
    - Know Your Product (KYP) Rule
- **Identify the need for referral**

Client Relationship and Practice Management

Competency and Knowledge Statements

- Build rapport/maintain relationship with client
    - **Client relationship model**
    - Interpersonal perception
- Treat the client with utmost case, empathy, and respect

- **Manage client expectations**
- Communicate a **value proposition**
    - Values
- Provide full **disclosure of compensation structure and fees**
- **Interview client** thoroughly
    - Focus on interview structure and techniques
- Use active listening to understand client needs
    - **Life-cycle hypothesis**
    - Effective note taking
- Communicate quantitative and qualitative information logically, clearly, and concisely
- **Adapt communication** based on the client's age, needs and life circumstances
    - Forms and styles of communication
    - Conflict management techniques
- Assess the client's non-verbal behaviour
    - **Behavioural finance**
- Examine the client's values, personality, lifestyle, and relationships that may influence financial planning
- Assist the client in prioritizing short-term and long-term goals
- Prepare a **letter of engagement**
- Maintain accuracy and relevance of client information
    - Effective use of technology
- Seek feedback on the financial planning experience to implement improvements
- Steps in the financial planning process

Asset and Liability Management

Competency and Knowledge Statements

- Identify the client's asset and liability mgmt. goals
- **Assess client's** financial **knowledge/experience**
- Identify the client's attitudes towards debt, spending and savings
- Identify client's income and expenses
    - Interest calculations
- Obtain relevant financial information from the client
- Examine the impact of the client's personal, family, and work circumstances on financial planning
- Determine the client's **legal issues**
    - Legal and financial considerations of owning or renting real estate
- Prepare and analyze personal financial statements (cash flow and net worth)
    - Asset and liability ratios
    - Compounding frequencies
- **Create financial projections** – cash flow, net worth, and budget
- Advise on the features and benefits of credit products and borrowing options
    - **Time value of money**, debt mgmt., mortgages,
- Explain the impact of credit standing on the ability to borrow

- Determine appropriate asset and liability management strategies
    - **Emergency fund**, account ownership types, **business ownership structures**, home buyers plan
- **Analyze advantages/disadvantages of asset and liability mgmt. strategies** in relation to client goals
- Recommend and implement the optimal asset and liability mgmt. strategy
- **Periodically review** and update the asset and liability mgmt. strategy as required to ensure relevance

Risk Management and Insurance

Competency and Knowledge Statements

- Evaluate unexpected changes to circumstances and their impact on a client's plan
    - Concept of risk
    - Types of risk
- Assess the **client's ability to deal with financial impacts**
- Identify reasons why insurance might make sense for the client
- Conduct **insurance needs analysis**
- Advise on the features and benefits of insurance products
    - Life insurance
    - Long-term care insurance
    - Disability insurance
    - Critical illness insurance
    - Group insurance
    - Creditor insurance
    - Business insurance
- Determine appropriate risk mgmt. strategies
- Analyze advantages/disadvantages or risk mgmt. strategies in relation to the client's goals
- Assess **tax implications of insurance products** and risk mgmt. strategies
- Recommend the optimal risk mgmt. strategy
    - Approaches to risk mgmt.
- Implement the recommended risk mgmt. strategy as part of the client's plan
- Periodically review and update the risk mgmt. strategy as required to ensure relevance

Investment Planning

Competency and Knowledge Statements

- Assess the **client's investment knowledge**
- Examine the client's return expectations, time horizon and risk tolerance
    - Types of investment risk
    - Relationship between risk and reward
    - Investment risk profile
- **Discuss investment goals** based on the client's needs
- Determine the appropriate **asset allocation**

  - Economic theories, diversification, fixed income vs equity
- Advise on the features and benefits of investment products
- Analyze statements of **investment holdings**
- Calculate risk-adjusted ratios for investments/portfolios
  - **Return calculations**
- Calculate the required rates of return for clients to reach their goals
- Determine appropriate investment strategies
  - Hedge funds, segregated funds, mutual funds, ETFs
- Analyze advantages/disadvantages of investment strategies relative to goals
  - Investment and portfolio mgmt. theories
  - Leveraging
- Recommend and implement the optimal investment strategy
  - Portfolio mgmt. styles
  - Fundamental vs technical analysis
  - Transactional and fee-based accounts
- Periodically review the investment portfolio and update as required
  - Portfolio review

Tax Planning

Competency and Knowledge Statements

- Identify **parties relevant to the client's tax situation**
- Identify the **taxable nature of assets/liabilities**
  - Overview of the Canadian income tax system
- Identify current, deferred, and future tax obligations
  - Earned income, other income, investment income, employee stock options, personal income tax returns
- Analyze implications of different **taxation structures**
  - Tax shelters
  - Trusts and estates
  - Tax consequences at death
- Identify **deductions, credits, and taxes payable**
- Determine appropriate tax planning strategies
  - Income splitting
  - Residency implications
- Analyze advantages/disadvantages of tax planning strategies in relation to client goals
  - Taxation of registered vs. non-registered accounts
  - RESP
  - Taxation of foreign income and property
  - Principal Residence
- Recommend optimal tax planning strategy
- Implement the recommended tax planning strategy as part of the client's financial plan
- Periodically review and update the tax planning strategy as required to remain relevant

Retirement Planning

Competency and Knowledge Statements

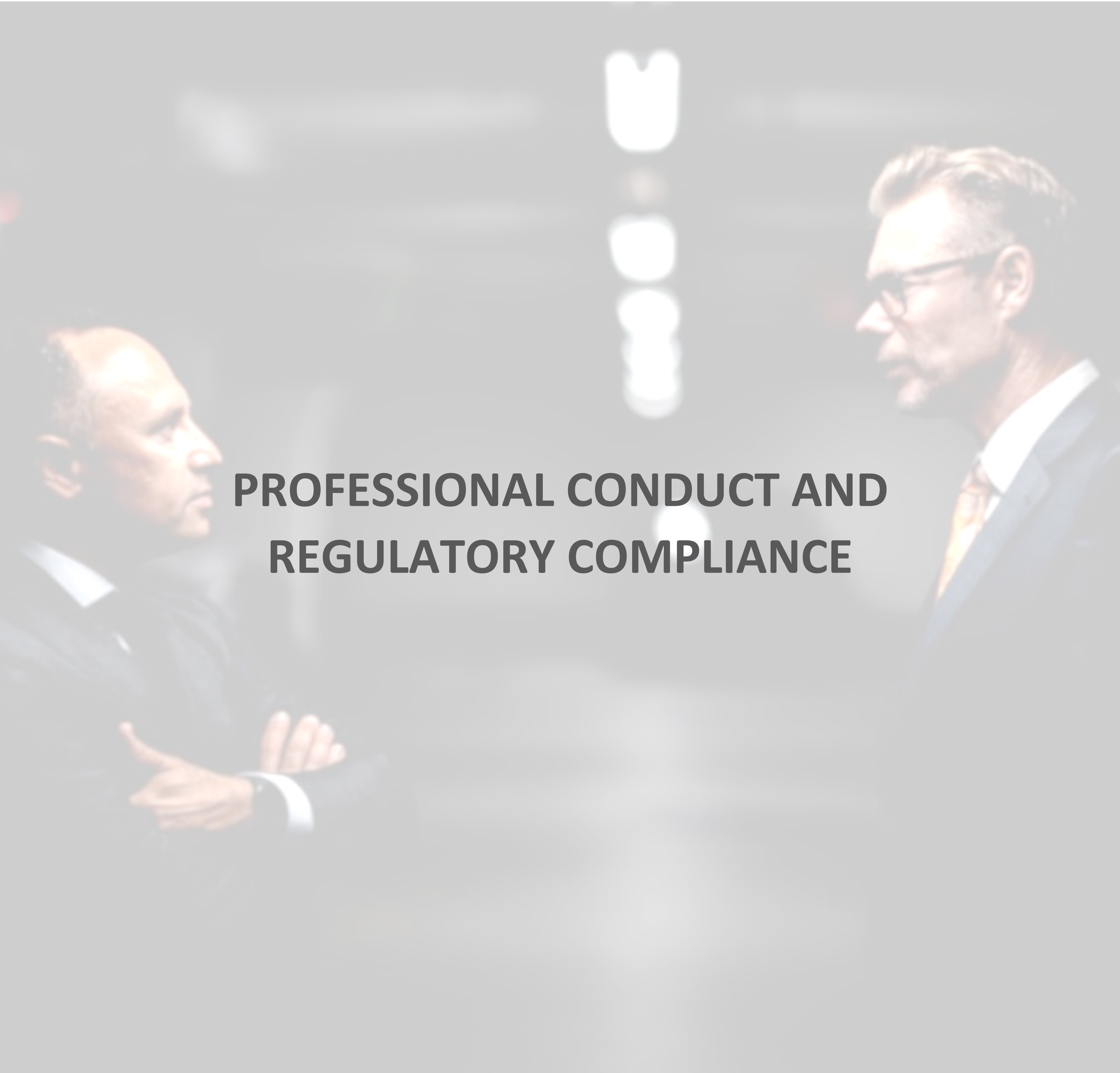
- Determine the client's **retirement goals**
- Assess the implications of the **client's longevity and healthcare costs** on the retirement plan
- Identify the impact of the client's **family dynamics and business ownership**
- Create **financial projections** based on the client's current position
    - Calculation of retirement income and expenses
    - Pension adjustment calculation (PA)
    - Pension adjustment reversals (PAR)
    - Vesting and locking-in provisions
- Conduct a **retirement needs analysis**
- Identify trade-offs required to meet the client's retirement goals
- Advise on the features and benefits of **retirement accounts and government benefits**
    - RPP, RRSP, TFSA, RRIF, RDSP, LRSP, LIRA, LIF, DPSP, Defined Contribution Plan vs Defined Benefit Plan, CPP/QPP, OAS
- Determine **small business succession strategies** for retirement
- Determine appropriate retirement planning strategies
- Analyze advantages/disadvantages of retirement planning strategies
- Recommend and implement the optimal retirement planning strategy
- Periodically review and update the retirement planning strategy as required

Estate Planning

Competency and Knowledge Statements

- Identify the client's estate planning goals
- Identify the **client's family dynamics and business relationships**
    - Personal property ownership
    - Marriage
    - Separation/divorce
    - Dependent support
- **Collect legal documents** that have implications for estate planning
    - Wills
    - Executor, guardian, and trustee appointments
    - Estate administration process
- Advise on the features and benefits of estate planning vehicles
    - Trusts
- Explain **different types of the POA**
- Assess the liquidity estate at death
    - **Probate**
    - Net worth at death
- Assess the structure of the client's estate plan and its implications for taxation
    - **Intestacy**

    - Common and civil law
- Assess the needs of beneficiaries
- Determine appropriate estate planning strategies
- Analyze advantages/disadvantages of estate planning strategies
- Recommend and implement the optimal estate planning strategy
- Periodically review and update the estate planning strategy as required



PROFESSIONAL CONDUCT AND REGULATORY COMPLIANCE

Professional Conduct and Regulatory Compliance

Competency and Knowledge Statements

- Adhere to the **PFP® Code of Ethics**
    - Guiding values of the financial services industry
- **Comply with federal and provincial laws and regulations** relevant to the profession of a financial planner
    - Understand professional liabilities
    - Consumer protection
    - Principles of securities regulation
    - Regulatory bodies in the financial industry
- **Maintain knowledge** of political, economic, and regulatory changes
- Explain the role of the financial planner and meaning of the PFP®
- Act in the **best interest of the client** in providing financial planning services
    - Follow the Know Your Client (**KYC**) rule
- Follow through on one's commitment
- Demonstrate ethical judgement and behaviour in all situations
    - Ethics of trading
    - Methods to deal with ethical dilemmas, suspicious activities, and fraud
- Treat all individuals in a non-discriminatory manner
- **Disclose** potential **conflict of interests**
- Protect client confidentiality
    - Use and protection of client information
- Deal effectively with client's concerns, objections, and complaints
    - Understand complaint handling techniques
- Pursue **continuous education**
    - Know Your Product (KYP) Rule
- **Identify the need for referral**

Exam Weightings

Professional Conduct and Regulatory Compliance section has the following exam weightings:

- AFP Exam 1 – **7%**
- AFP Exam 2 – **7%**

Ethics and Standards of Conduct

Financial planning takes a broad approach to investing and wealth management. Financial planning provides a framework for analyzing a clients' needs, setting objectives, and helping them succeed to reach their goals. **Ethics** plays an important role in financial planning. When dealing with the public as an advisor, you are in a position of trust and have a duty to act ethically. Ethical behavior plays a vital role in maintaining and enhancing the integrity of the capital markets.

Ethical Decision-Making

- Ethics can be defined as a set of moral values that guide actions. They are enduring beliefs that reflect standards of what is right and what is wrong.
- As a concept, ethics can be defined as follows
    - The rules or standards governing the behaviour of a particular group or profession
    - A set of moral principles or values
    - The study of the general nature of morals and the moral choices made by individuals

Standards of Conduct

Industry rules and regulations can be distilled into five standards of conduct

- Duty of Care
    - Duty of care is the responsibility to conduct due diligence before providing advice or recommending products.
    - You must gather as much information as you can about your clients, so you understand their needs, goals, and risk tolerance.
    - You must also learn about the products you sell to ensure that your recommendations suit each client's situation.
- Integrity
    - You must act in an honest, fair, and trustworthy manner in all dealings with clients, employers, colleagues, and the public.
    - You must avoid entering into situations where your interests' conflict with those of your clients.
- Professionalism
    - You must conduct business in a professional manner that reflects well on yourself, your employer, and your profession.
    - You should encourage others to do the same.
    - You should also strive to maintain and improve your professional knowledge.
- Compliance
    - You must conduct yourself in accordance with applicable legislation and industry rules
- Confidentiality
    - You must hold client information in the strictest confidence

Types of Ethical Dilemmas

In most situations requiring an ethical decision, one must choose between right and wrong. Given such a straightforward decision, no ethical dilemma exists because there is only one right choice. Codes of conduct, codes of ethics, and compliance policies are mainly concerned with these right-versus-wrong situations.

- Right vs. Wrong Situations
    - Situations that tend to be unambiguous, and the right choice is usually clear
        - One choice is clearly illegal
        - One choice lacks a basis in truth

        - The negative consequences of one choice will far outweigh any possible positive results
        - One choice does not conform to the fundamental, commonly held values that define the difference between right and wrong
- Right vs. Right Dilemmas
    - Occurs when pursuing any solution will satisfy one deeply held value, but compromise another
    - No choice appears to be clearly wrong, and two or more possible choice are right to some degree – this is the most difficult dilemmas to resolve
    - Truth vs. Loyalty
        - Values of honesty or integrity class with the values of commitment, personal responsibility or promise keeping
    - Individual vs. Group
        - Rights or values of the individual conflict with those of the group
        - The dilemma can also be seen in terms of us versus them, self vs. others, or the smaller group vs. the larger group
    - Short-Term vs. Long-Term Goals
        - Immediate desires or needs conflict with future goals, or the means clashes with the desired end
    - Justice vs. Mercy
        - Values of fairness, equity, and righteousness conflict with the values of compassion and empathy

PFP® Code of Ethics

General Responsibilities

PFP® designates will comply with legal and regulatory principles that govern the financial services industry. You will be professional, compliant, and recognize your limitations, exercise due diligence and practice with sound judgment. To be compliant with this code of ethics you must respect all of the requirements set out below:

As a PFP® you will:

- Make yourself aware of the legal and regulatory requirements to operate in your jurisdiction. Maintain knowledge of and **comply with all applicable laws**, rules, and regulations of any government, regulatory organization, or professional association governing your professional activities. However, this Code of Ethics may set out different standards of behaviour than does the law. Where there is a conflict between the Code of Ethics and the law, you must abide by the law.
- **Act with dignity, integrity, professional competence and in an ethical manner** when dealing with the public, clients, prospects, employers, and colleagues. You must use reasonable care and exercise independent, professional judgment.
- **Recognize your own limitations**. When appropriate, seek additional opinions and services.
- Abide by the annual license renewal and continuing education requirements as required to maintain the PFP® designation.

Responsibilities to the Client

All PFP® designates will strive to maintain the highest level of personal integrity when dealing with clients. By demonstrating respect, honesty, due diligence and practicing sound compliance, you will honor the trust of clients, while providing an environment of confidentiality, free from discrimination.

As a PFP® you will:

- Treat each client with respect, **put the client's interests ahead of your own**, and not exploit a client for personal advantage.
- **Not discriminate** against any client on such grounds as age, gender, marital status, national or ethnic origin, physical or mental disability, political affiliation, race, religion, sexual orientation, or socioeconomic status. You only have the right to refuse to accept a client for legitimate business reasons.
- Constantly **exercise due diligence** in making recommendations for financial products.
- Use particular care in executing your duty of care when working with clients.
- **Preserve the confidentiality** of information communicated by clients, prospects, and employers.
- Not make any oral or written statements that misrepresent the services that you or your employer are capable of performing, your qualifications or the qualifications of your firm. Do not make or imply any assurances regarding any financial product except to **communicate accurate information** regarding the product.

Responsibilities to the Profession

PFP® designates will operate in accordance with financial services regulation governing the activity you are conducting and licensed to provide, and in accordance with the law. PFP®s have a responsibility to conduct themselves with honesty, trust, competence and abide by the terms of the PFP® Certification Mark License Agreement.

As a PFP® you will:

- Enter into associations only if you can **maintain your professional integrity**.
- Only use the PFP® designation in a dignified and judicious manner and in compliance with the PFP® Certification Mark License Agreement.
- Not engage in any professional conduct involving dishonesty, fraud, deceit, or misrepresentation, or commit any act that reflects adversely on your honesty, trustworthiness, or professional competence.
- **Abide by the Ethical Misconduct Review Process**, cooperate with an investigation request and comply with decisions of the Designation Ethics Committee and/or Appeal Panel

Responsibilities to the Employer (If not Self Employed)

In addition to the General Responsibilities, Client Responsibilities, and Responsibilities to your Profession within this code; you also have responsibilities in dealing with your employer.

As a PFP® you will:

- **Place your employer's interests ahead of your own** and not exploit your position for personal advantage.
- Disclose to your employer all matters that reasonably could be expected to interfere with your duty to your employer.
- **Comply with any prohibitions on activities imposed by your employer** if a conflict of interest exists.

Complying with Laws & Regulations Relevant to the Profession of Financial Planning

The securities industry is subject to complex and extensive rules and regulations, which may not be clear and easy to apply in every situation. Ethical conduct comprises more than compliance with those rules. In assessing a situation, you must also be guided by the norms of ethical behaviour.

Certain securities' industry regulations define broad, principles-based requirements. You must handle client business while being bound by ethical conduct that is consistent with just and equitable principles and not detrimental to the interests of the securities industry.

The industry is also subject to numerous technical and procedural rules that may not have a readily apparent moral complexion. These rules have been adopted to offer clear and consistent standards across the industry.

An inadvertent violation of a rule resulting from lack of knowledge, without malicious motivation, normally warrants relatively lenient sanctions. A conscious decision to disregard a rule, even one that is seemingly administrative, can call into question the violator's personal ethics. For this reason, repeat offenders are usually treated differently from one-time offenders. Similarly, the employee's reaction upon being found to have violated a rule may be more significant than the circumstances of the violation itself. For example, a display of unconcern, bullying, or arrogance, in contrast to cooperation, regret, and remorse, can be highly revealing of the offender's personal values and ethics.

Rules-Based vs. Principles-Based Regulation

Rules-based regulation is subject to prescriptive, detailed, and technical standards. **Principles-based regulation**, on the other hand, parallels and overlaps the ethical decision-making process. In the second case, industry participants are expected to apply judgment and discretion in determining whether any given activity conforms to broadly defined values and standards.

As an example, speed limits are used as an example of rules-based regulation that is distinct from regulation based on principles. The rule might state that it is illegal to drive faster than 100 km/hr. The rule is clearly defined, applicable to everyone, and ensures that all drives understand and are held to the same standard. In contract, a principles-based rule might state that drivers should not drive faster than is reasonable and prudent in all circumstances. This rule might sound good conceptionally but is susceptible to different interpretations by different people. Defending the correctness of such a subjective view after an accident may be even more difficult.

Financial Planning Business Today

The Financial Planner today acts as a generalist or coordinator. Sometimes they are an expert in a specific area such as Investment Planning or Estate Planning and will engage other specialists as required. It is the planner's duty to contact these specialists when their skillset is needed to give the client the best overall service when it comes to meeting financial goals.

Emerging Trends

Canadians realize that they are enjoying a better quality of life than previous generations: longer life spans, better health, more leisure time, and more varied choices about lifestyles. However, they also recognize that in order to take full advantage of these improvements they need financial security.

- The Changing Family
  - Trends include a decline in households consisting of married couples with children and a rise in single-person households.
  - Families are less able to assist their aging parents and their children as much as they would like
  - This century will be marked by an increasing need for each individual to take responsibility for meeting his or her own financial expectations.
  - Two-income family, where both spouses work and make a significant contribution to family finances.
- Increasing Costs
  - The cost of achieving the lifetime goals continues to increase
  - Larger mortgage payments continue to cut into a significant part of the average household income today, especially in major cities
  - The expenses associated with having a family are escalating and higher education costs continuing to rise
- Lower Savings, More Debt
  - High taxes and stagnant incomes have diminished the ability of many Canadians to save. The savings rate is now at its lowest level in more than two decades, and household debt, relative to disposable income, is at a record high.
- Low Interest Environment
  - There are strong arguments that support interest rates staying low for some time and this is a secular trend
  - The result is that investment return assumptions that prior generations lived with and depended upon are no longer valid.
  - The financial planning implications are potentially positive and negative depending on one's life-cycle stage. Borrowers can significantly benefit while late-stage savers will have to adjust their plans and budgets.
- New Retirement Realities
  - Based on current trends, the average individual in the future will enjoy at least the potential for a longer retirement due to increasing average life spans
  - Concurrently, some Canadians are retiring by the age of 60. Will they have enough money saved to enjoy a comfortable retirement for 30 or more years?

- It is estimated that 70% to 75% of pre-retirement income is needed to continue a comparable lifestyle during retirement. Where will this money come from? The Old Age Security and Canada Pension Plan/Quebec Pension Plan programs provide a maximum annual benefit of around $20,000 per eligible person, no matter how high the pre-retirement earnings.
- The gap between retirement dreams and reality can be bridged only by the savings, investments, and the disposition of assets.

Role of the Financial Planner

Financial planners are oftentimes also specialists in other fields such as a lawyer, accountant, or insurance advisor. If the financial planner is not a specialist, then they **act more as a generalist or coordinator of a client's financial life**. Financial advisors have to be **willing to contact an expert in an area in which they do not possess knowledge** or licensing sufficient to meet their client's needs. The advisor is usually an expert in one or more of the areas involved in producing a financial plan, whereas an investment advisor in the securities field is licensed to sell securities, a professional accountant is licensed in taxation, for example. It is the advisor's role to contact these specialists when their abilities are required so as to give the client the best overall service when it comes to meeting financial goals. These specialists include **accountants**, **lawyers**, **investment Advisors**, and **insurance agents**.

Know Your Client (KYC) Rule

The KYC Rule sets out the minimum amount of information that firms and their advisors must collect from their clients. The KYC rule is one of the cornerstones of the investment industry. It originated when the business of investment dealers mainly involved buying and selling securities on behalf of clients. The information gathered allowed investment firms and their advisors to determine the suitability of each proposed client trade, whether it was initiated by the advisor or the client.

KYC Themes:

- Identity and Creditworthiness
    - Learn and remain informed of the essential facts regarding every customer and every order or account accepted. In particular, you must verify the customer's identity and creditworthiness.
- Business Conduct
    - Make sure that the acceptance of any order for any account is within the bounds of good business practice.
- Suitability Requirement
    - Make sure that any order received from a customer is suitable for that customer before you accept it.
    - When recommending the purchase, sale, exchange, or holding of any security to a customer, you must verify that the recommendation is suitable for the customer. Suitability is based on factors such as the customer's current financial situation, investment knowledge, investment objectives and time horizon, and risk tolerance.

Client Variables:

Variables that should be considered when determining acceptance of a trade, making a recommendation, transfers or deposits into the client's account, a change in representative for the account or a material change in the KYC information for the account:

- Age, occupation, and marital status
- Income and net worth
    - Annual income from all sources
    - Estimate net liquid assets and net fixed assets
    - Bank references
- Number of dependents
- Risk tolerance
    - % allocation to low, medium, and high-risk investments
    - Assessment of their ability to handle volatility and the importance of reaching certain goals or milestones by using financial planning services
- Investment objectives
    - % allocated to income and to short, medium, and long-term capital gains
    - Longer term objectives and broader financial goals, such as when they want to retire, saving up for a large purchase, etc.
- Investment knowledge and experience
    - Usually ranked as sophisticated, good, limited or poor/nil
- Time horizon

.

Major Changes in Client Circumstances:

In addition to completing client onboarding forms or any checklists before trade execution, client information should also be reviewed and updated **when there is a major change in a client's circumstances**, including:

- Account name (e.g., from "Marie Roy" to "Marie and Robert Roy")
- Address that takes the client out of your jurisdiction
- New marital or employment status
- Another person taking a financial interest in or gaining control over the account
- New trading authorization
- Financial circumstances
- Investment objectives or risk factors
- Any amendment to items in the regulatory section (such as insider status)
- Circumstances that affects the client's investment objectives, creditworthiness, or risk tolerance

For more unique situations, updates to information are required for the following:

- If the account is a **joint account**, complete personal information is needed from everyone named on the account.
- If the account is a **corporate account**, personal information is needed for all persons who beneficially own at least 10% of the corporation.

- If the account is a **trust account**, personal information is needed from the settlor and all direct or indirect beneficiaries of more than 10% of the trust. Testamentary and publicly traded trusts are exempted.

Client Considerations

- First meeting should address the following:
    - Explain **issues** and **concepts** related to the overall financial planning process that are appropriate to you
    - Discuss the scope of the client/planning engagement
    - Explain the **services they will provide** and the process of planning and documentation
    - Clarify your **responsibilities** as a planner – include how and by whom they are **compensated**
    - Any **conflicts of interest**
    - Agree on how decisions will be made
- Client responsibilities:
    - Provide the planner with all the relevant information
    - Agree on the scope of the engagement
    - How decisions will be made and implemented
    - Ask for an explanation of any recommendation that you do not understand
    - Agree to a recommended **product/service** only after you understand **how it works**, how it **benefits you**, the **risks involved and the fees**.
    - Let us know right away if your **financial situation or goals change** so we can make appropriate changes to your financial plan.
- Client Interviews vs. Questionnaires
    - Questionnaires ensure that most if not all the required information is collected. They also allow the client to think about their responses prior to completing the questionnaire
    - The drawbacks include lack of detail in the responses which can be collected during a personal interview, ability to collect the affective nature of decisions and see the client's reaction to questions
- Importance of a Letter of Engagement
    - Outlines the nature of the engagement
    - Roles and responsibilities of the CFP and the client
    - Any potential conflicts of interest
    - How CFP is compensated
- Time Horizon
    - First and probably most important question and of course they might have different time horizons for different goals.
- Liquidity Needs
    - Emergency – **3 to 6 months of expenses** saved up in an emergency fund
    - Fulfill a financial goal within the next two years
    - To pay known pending expenses – income tax payments for self-employed, funds to cover probate and capital gains taxes upon death and equalization payments during divorce

    - Take advantage of investment opportunities
- Income vs. Growth
    - Primary objective for clients is one or the other. You need some exposure to equities as an inflation hedge. Need to distinguish income that is **needed for day to day expenses** or **for reinvestment**
- Goal Achievement
    - Will I have enough is the most common question clients ask their advisors about retirement.
    - Client has the following 6 options when trying to deal with this question:
        - Years to retirement
        - Annual income required in retirement
        - Amount of retirement savings already in place - UNCONTROLLABLE
        - Savings rate each year
        - Inflation rate differential – between now and retirement - UNCONTROLLABLE
        - Expected return
- It is the goal of the advisor to make the client aware of the financial impact of decisions made today.

Regulatory Environment

- Banking
    - Federal government responsibility under the *Bank Act*
- Credit Unions and Caisses Populaires
    - Provincially incorporated, and powers do not extend outside of province
- Insurance Companies
    - Federal government regulates life and health sector under *Insurance Companies Act*
- Trust and Loan Companies
    - Regulated by both levels of government under *Trust and Loan Companies Act*
- Mutual Fund Dealers Association (MFDA)
    - Self-Regulatory organization (SRO) for regulating all sales of mutual funds by its members in Canada.
- Investment Industry Regulatory Organization of Canada (IIROC)
    - SRO that oversees all dealer members and trading activities on equity and debt marketplaces in Canada
- International Organization of Securities Commissions (IOSCO)
    - International Association of securities regulators regulating majority of world markets
    - Goals to develop and implement consistent standards of regulation, enhance investor protection and promote confidence, exchange info at global and regional levels
- Financial Stability Board (FSB)
    - Established April 2009 at G20 Leaders' Summit
    - Goals to assess vulnerabilities, promote info exchange, monitor and advise on market developments, advise and monitor best practices

- Foreign Account Tax Compliance Act (FATCA)
  - Enacted in 2010 by USA to reduce tax evasion
  - Goal to enhance reporting requirements to IRS for US persons with substantial US ownership
- Canadian Securities Administrators (CSA)
  - The Canadian Securities Administrators (CSA) is an umbrella organization of Canada's provincial and territorial securities regulators whose objective is to improve, coordinate and harmonize regulation of the Canadian capital markets

Consumer Protection

Protection in case of insolvency of a financial institution:

- Canadian Deposit Insurance Corporation (CDIC)
  - Responsible for insuring against the loss of eligible deposits in the event of the failure/bankruptcy of a participating institution, up to a maximum of $100,000 Canadian dollars at a time
  - The following conditions must be met for deposits to be guaranteed by the CDIC:
    - It must be payable in Canada
    - Money must be deposited with a participating institution in a **bank account**, **term deposit**, **GIC**, **money order/draft**, **certified cheque**, or held in an account with the intent of being used to pay property taxes
    - Coverage now includes accounts that hold foreign currency (e.g. USD)
    - The $100,000 coverage includes deposits held in single name, joint name, deposits held in an RSP, RIF, TFSA or deposits held in trust
  - Accounts not covered include mutual funds, principal protected notes, crypto currency, stocks, or bonds
- Assuris
  - Not-for-profit, funded by the life insurance industry and endorsed by government – it **protects** life **insurance policy holders** against **loss of benefits** due to the financial **failure of a member company**.
    - All life insurance companies are **required to be members**
    - In the event of failure, Assuris works with the liquidator to transfer policies to a solvent company
    - Limits: **$2,000 per month**, **$200,000** for **death benefit** and **$60,000** for **Cash Value** – **85%** of the value will be paid beyond these amounts
- Canadian Investor Protection Fund (CIPF)
    - In the event of insolvency of a member firm (such as an investment dealer/broker), the CIPF will step in a ensure that the property is returned to the client
    - CIPF does not protect against market losses, bad investment decisions, unsuitable investments, or fraud
    - Limits: **$1MM in all non-registered accounts, $1MM in all registered accounts (excluding RESPs), and $1MM in RESP accounts**

- CIPF members are registered to distribute their products through IIROC. For mutual fund dealers, investors are protected under the MFDA. Coverage is also available up to $1MM per type of account

Protection from unwanted communication:

One of the mandates for the CRTC is to oversee Canada's anti-span legislation, and National Do Not Call List (DNCL)

- Canada Anti-Span Legislation (CASL)
  - Three main requirements
    - Consent. You must have consent
    - Identification. You must clearly identify the name of the business or organization
    - An "opt-out" mechanism. Also referred to as "unsubscribe", there must be a clear way to opt out
- Do Not Call List
  - Exemptions include registered charities, political parties, those conducting surveys, and newspapers seeking new subscribers and anyone who was a customer of that organization during any point in the previous 18 months

Ethics of Trading

The exchanges and the SROs have extensive rules and regulations that govern trading on an exchange and industry practices in general. Infractions may lead to fines, suspension, expulsion, and even criminal charges.

- Unethical conduct
  - Includes any omission, negotiation, or manner of doing business that is not in the public interest nor in the interest of the exchange, in the opinion of the disciplinary body.

Examples of Unethical Conduct

- **Deceiving the public**, the buyer, or the vendor as to **price of any transaction** or the value of any security
- Creating, or attempting to **create a false or misleading appearance of active public trading** in a security in an effort to make a profit
- Entering, or attempting to enter, into any arrangement to sell and repurchase a security in an effort to **manipulate the market**
- **Making a fictitious trade** that involves no change in the beneficial ownership of a security in an effort to mislead the public
- Using **high-pressure** or otherwise undesirable **selling** techniques
- Violating any statute applicable to the sale of securities
- **Misleading a client** as to the risk involved in purchasing a specific security
- Trading in one's own account before effecting the same trade for a client (a practice known as **front running**)

- Conducting oneself in a way that would bring the securities business, the exchanges, or IIROC into disrepute

Securities dealers are responsible for the acts or omissions of all their employees. In terms of discipline, unethical conduct of an advisor may be handled as though it were also the conduct of the securities dealer itself.

Disclosure

The general principle underlying Canadian securities legislation is full, true, and plain disclosure of all pertinent facts by those offering the securities for sale to the public. Until such facts are disclosed to the satisfaction of the designated administrator, it is illegal to offer the securities for public sale.

- Generally, the securities acts use **three methods to protect investors**:
  - **Registration** of securities dealers and advisors
  - **Disclosure of facts** necessary to make reasoned investment decisions
  - **Enforcement** of the laws and policies

Know Your Product (KYP)

In addition to meeting KYC obligations, representatives must fully understand the features of the products being recommended to clients. You must fully understand the characteristics of a fund, such as level of risk and investment objectives before you can make suitable recommendations to your clients.

Planners must understand the terms, features, risks and potential returns of the securities, transactions, and trading strategies they recommend, including how:

- they can assist the client in achieving their investment objective(s), and
- market volatility could affect potential returns.

KYP is an extension of a general duty to deal fairly, honestly and in good faith with their clients

When making a recommendation, planners should:

- Explain to the client the security's structure, features, risks, initial and ongoing costs, and the impact of those costs. For example, the Approved Person should understand and
- Outline product features
  - Including potential returns, use of leverage, conflicts of interest, investment time horizon, overall complexity of the security,
- Review risks with the client
  - Including the possibility that clients may lose some or all of the principal amount invested, liquidity risk, redemption risk, and risks from underlying derivatives or structured products, conflicts of interest risk, and
- Explain costs
  - including fees paid to registrants or other parties (commissions, sales charges, trailer fees, management fees, incentive fees, referral fees, embedded fees, executive compensation).

What planners should not do:

- Recommend a security solely on the information from issuers or other third parties, including related parties, about the security, similarities with other securities, or recommendations by other market participants or by unregistered persons providing general advice.

Professional Skills

Professional Responsibility

- Conducts oneself in a trustworthy manner
  - Maintain trust in all dealings with the client, colleagues, and others. At no time do you compromise that position of trust
- Puts the client's interest first
  - Placing the clients' needs first and setting competing demands aside
  - Advice will not be swayed by compensation, employer pressures to sell certain products, opportunities to attract new clients or sources of referral or any other external influences
- Demonstrates ethical judgement
  - Must not only decide what is technically optimal, but also the one that is ethically and morally right
  - Must contemplate the best course of action in situations where there is no clear objectively right path
  - You can demonstrate this by providing advice that is fair, reasonable, and objective – and only in the areas where you are competent
- Honesty and Impartiality
  - Strategies and recommendations are made based on sound analyses and knowledge of the client without regard to compensation, bias, interests of the client's family, other client advisors, PFP®'s employer, or any other interested parties
- Recognizes limits of competence and voluntarily seeks the counsel of and / or defers to other professionals where appropriate
- Recognizes the public interest role of the profession and acts accordingly
  - You are part of a profession which is committed to benefiting the lives of Canadians and that brings with it the responsibility to always consider the greater good
- Complies with all applicable laws and regulations
  - Must ensure that any advice provided complies with the rules set out in relevant federal or provincial legislation to help meet client goals and avoid any fees, taxes or penalties associated with non-compliance
- Follows professional standards
  - All applicable PFP® standards (as outlined in this document)
- Uses reasonable judgment in areas not addressed by existing practice standards
- Maintains awareness of changes in the economic, political, and regulatory environments
- Engages in continuous professional development to ensure knowledge and skills remains current

- Certification does not end with final examination
- May take the form of conferences, seminars, self-study, or in-class courses; writing or teaching; or other appropriate educational activities

- Conducts appropriate research when performing analyses and developing strategies
  - References might include educational texts, professional publications, websites, government, and regulatory resources
- Ability to act independently in the performance of professional activities
  - A professional who is experienced should be capable of performing all necessary collection, analysis, and recommendations functions across all Financial Planning areas to meet clients' needs
- Exercises responsibility for own and subordinates' ability to deliver professional services
  - Where you learn of error or false/misleading statement, analysis, strategy, or suggestion made within a plan, you act promptly to remedy the situation
  - As a supervisor you provide appropriate reviews, feedback, and approvals to help ensure that the terms of the client engagements are upheld as set out in the Code
  - Risks of inadequate guidance include
    - Errors, omissions, losses, missed opportunities, compromised client information and other challenges creating the potential to materially impact client's financial well-being

Cognitive Skills

- Applies mathematical methods or formulas as appropriate
  - Must be capable of undertaking TVM calculations and calculate required returns in investment, net interest costs associated with borrowing options, taxation of different ownership structures or transactions and a client's insurance needs
- Analyzes and integrates information from a variety of sources to arrive at solutions
  - Need to know where to look for key information and be able to pull in all together to synthesize and arrive at appropriate recommendations
- Uses critical thinking to identify and assess the strengths and weaknesses of potential courses of action
- Makes reasonable decisions when faced with incomplete or inconsistent information
  - Making assumptions based on best available information or research and good professional judgment
- Demonstrates the capacity to adapt thinking and behaviours
  - Flexibility to change course considering new information
  - As a client's financial and personal circumstances change (new job, windfalls, marriage, etc.) you must be able to adapt
  - Same applies to economic, political, or regulatory impacts
- Capacity to understand the thinking and behaviour of the client
  - Must be capable of empathy and respond to a client's behaviours, attitudes, biases, and decision-making style
  - How does the qualitative information intersect with the quantitative data to ensure greater confidence that recommendations will be fitting for the client if adopted?

Communication

- Practices active listening with clients and others
    - Must be able to solicit information from clients to gather both quantitative and qualitative information
    - Gained in an interview process using open-ended questions to encourage discussion and demonstrate interest and attention
    - Making eye contact, avoiding distractions, showing appreciation for information shared and setting aside opinions and the inclination to agree or disagree with what the client is saying
- Ensure proper understanding of all points being made in communications
    - Applies across all communication channels
    - To affirm understanding, you may restate and summarize key points, ask clarifying questions, and provide feedback and interpretation of messages communicated
- Establishes good rapport
    - Builds and maintains positive and productive working relationships
    - Demonstrates empathy, treats others with courtesy and respect and responds positively to input and feedback
- Communicates in a manner that is understandable to clients
    - Responsibility for effective communication rest primarily with you
    - Level of sophistication and detail of communication will be appropriate based on the knowledge, backgrounds, experiences, and expectations of those who receive them
- Presents recommendations and strategies in a logical and persuasive manner
    - Must resonate with clients
    - You do not assume that it is only the client's responsibility to digest the information presented, but takes steps to ensure that the client understands what has been presented and that the client understand why the following recommendations will be of benefit
- Deals effectively with concerns, objections, and complaints
    - You do this in a way that maintains positive and productive relationships
    - Determining the root cause of the issue
    - Must be able to set aside own ego and practice empathy to deal effectively with issues raised by a client and rectify the situation in a positive manner
- Respects differences of opinion and the decisions of the client
    - Even if you believe that your advice and recommendations will be best for the client, you must still be able to appreciate the clients may not always see things your way
    - Must set a course of action that is not only in the client's interest, but also that the client can live with