IARFP

International Association of Registered Financial Planners

International Association of Registered Financial Planners

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Professional Standards of Practice for R.F.P.s

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Foreword

The creation of these Professional Standards of Practice was very significant for several reasons. The application of these standards is a distinguishing feature of the **International Association of Registered Financial Planners** and its professional designation **R.F.P. (Registered Financial Planner)**. The IARFP Professional Standards of Practice together with the IARFP Code of Professional Ethics also provide the foundation for an **R.F.P. (Registered Financial Planner)** to provide a comprehensive and integrated approach to financial planning.

Two main goals are achieved by implementation of these Professional Standards of Practice. The first is to protect the public with an assurance of the quality and scope of knowledge offered by Professional Members. The second is to recognize a group of practitioners committed to professionalism and quality. Hence, the extent to which the objectives pursued through these standards are met will be measured on several levels. Success will be based, above all, on the practical application of these standards by the IARFP. However, these standards must become a tool, not only for our Professional Members, but also for other financial planning professionals.

These Professional Standards of Practice became effective as voluntary guidelines for November and December of 2003, during a period of review. On January 1, 2004, they became mandatory for use by all R.F.P.s through self-assessment. On January 1, 2005, the Professional Standards of Practice became mandatory and subject to periodic self-audit by the member. The IARFP Professional Standards of Practice together with the IARFP Code of Ethics form the benchmark to which a member shall be held accountable in the event the IARFP receives a complaint concerning the member's conduct.

We acknowledge proudly that this document owes a great deal to the work of many R.F.P.s in the past.

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Introduction

Components of Professional Standards of Practice
There are essentially three basic components of Professional Standards of Practice. These are:
1. adherence to the Six-Step Financial Planning Process,

2. the use of a Letter of Engagement and Disclosure for every financial planning engagement, and
3. the inclusion in every financial plan of the defined subject areas, unless one or more subject areas is specifically excluded by the terms of the Letter of Engagement and Disclosure for that engagement.

Definition of "Comprehensive Financial Planning"
The term "comprehensive financial planning" is one of the IARFP's core values, embedded in its purpose and enshrined in its by-laws. Comprehensive financial planning is a process defined by the *Professional Standards of Practice for R.F.P.s*. This process does not necessarily require the completion of a comprehensive financial plan during each financial planning engagement.
To ensure Registered Financial Planners are always acting in the client's best interest, each R.F.P. must take all relevant personal and financial data, goals and concerns into consideration. An R.F.P. may provide a modular planning service during a particular financial planning engagement, as long as the written plan is prepared within the context of comprehensive fact-finding. In other words, a written plan which does not contain all subject areas of a comprehensive financial plan report must still identify and inform the client of any other issue of concern that should be dealt with by the client which has come to the attention of the R.F.P. while reviewing the facts of the case.

Definition of the R.F.P. in financial planning
The **R.F.P. (Registered Financial Planner)** is the professional designation granted by the **International Association of Registered Financial Planners (IARFP)** to practitioners who bring a comprehensive and integrated vision to all aspects of an individual's financial situation. The **R.F.P.**'s goal is to advise clients on how to make optimum use of resources in order to reach their financial and personal objectives.
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Using his or her management expertise and experience, as well as working together with appropriate specialists, the R.F.P. operates within a structured and continuous process. As professionals governed by the **International Association of Registered Financial Planners**, **R.F.P.s** adhere to a Code of Professional Ethics and Professional Standards of Practice that ensure quality and integrity.

Who should comply?
All Professional Members who hold the designation **R.F.P.** of the **International Association of Financial Planners** are subject to the Professional Standards of Practice contained in this document. This compliance covers the actions of the Professional Member and employees or contractors under his or her direct supervision in working with clients.

Scope of compliance
The IARFP Code of Professional Ethics ("the Code") governs the conduct of all Members.
The Professional Standards of Practice are intended to supplement the Code with practice guidance for the R.F.P. R.F.P.s must comply with the standards as appropriate, or be subject to disciplinary procedures.
For members of the **International Association of Registered Financial Planners**, the practice of financial planning in accordance with the Professional Standards of Practice includes recommendations and advice relating to the purchase or sale of specific financial products.
The exception to this will be in a situation where a planner does not establish a financial planning relationship (meaning a relationship of advice-giver and advice-receiver) with a consumer of investment products, which fact is acknowledged by the consumer at the very beginning of the relationship, in a form acceptable to the IARFP. This is a case where the relationship is established only to facilitate the purchase of a financial product, and no other advice is offered.

The purpose of this exclusion is to allow commission-based planners to facilitate brokerage business. However, once a financial planning relationship is established, or a client reasonably perceives that it is, these standards apply. In the absence of documentation to the contrary signed by the client at the point of initial engagement, it will be deemed that a financial planning relationship existed. Once such a relationship exists, it will be deemed to exist as long as that planner provides services or products to this client, and these Professional Standards of Practice will apply to all dealings with that clients.

The Code of Professional Ethics
All Professional Members are expected to know, understand and follow the IARFP Code of Professional Ethics at all times. R.F.P.s must be conversant with the Canons and Tenets of the Code of Professional Ethics as they apply to each step of the financial planning process and each area of these standards.

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The Personal Financial Planning Process

The Letter of Engagement and Disclosure
The Six-Steps

Step 1
Gather data and summarize the client's current situation
Step 2
Establish client goals, priorities and concerns
Step 3
Identify problems and opportunities
Step 4
Provide written recommendations and alternative solutions
Step 5
Take action on implementation
Step 6
Perform periodic reviews, updates and revisions to the plan

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Letter of Engagement and Disclosure

Defining the scope of a personal financial planning engagement – or identifying the topics covered and the work to be performed – can generally be done a short time after the first meeting with the client. In some cases, a preliminary review of the documents and information provided will be required first. An engagement and disclosure of compensation letter should be prepared for each financial planning assignment and should be signed before any formal work begins. A new letter of engagement should be prepared whenever there is a material change in the nature or scope of engagement. The purpose of this letter is to communicate clearly with the client, documenting the services that will be provided and disclosing all sources of compensation. It serves to protect both the client and the R.F.P.

The letter of engagement must:
 Define the nature and scope of the engagement and the planner's mandate, specifying areas included and omitted. Note that if all areas are included, the plan is 'comprehensive' in nature; but if any area is mutually agreed to be omitted then the plan will be 'modular'. These broad subject areas include:
• Cash and debt planning
• Income tax planning
• Investment planning
• Retirement and financial independence planning
• Insurance and risk planning
• Estate planning
 Include an attestation that any material assumptions used in the development of the recommendations will be disclosed in writing at applicable locations in the financial plan and/or any material provided to the client in support of the financial plan.
 Disclose, in a separate paragraph:
1. The method of compensation (commission, fee-only, fee and commission, salary and commission or bonus) of the R.F.P.; and,
2. The cost of the services of the R.F.P.; and,
3. If the R.F.P. is licensed to sell one or more products, the R.F.P. must commit to disclosing at the time of any specific product recommendation, all material immediate and potential costs and risks to the consumer if the R.F.P. were to implement the plan and sell the product. If the R.F.P. is fully or partially compensated by means of commission, there is no requirement to inform the consumer of the amount of expected remuneration if the R.F.P. were to implement the product recommendation.
[Note: Refer to "*Step 5: Take Action on Implementation*" for details of the costs and risks to the consumer the IARFP requires the R.F.P. to disclose whenever specific product recommendations are made with the intention of selling the product.]
[Reference: Code of Ethics (COE) Canon 3]
 Disclose any current or potential conflicts of interest and other relevant information, including ownership in firm or dealer, or related ownership or agreement made between the R.F.P. or
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his or her firm with other parties that provide products or services relating to the preparation of the financial plan and products that may be recommended. [Ref: COE Canon 1 & Tenets 1.1 & 1.2]
 Confirm that information provided by the client or the client's other professional advisors is confidential. It will not be released without the client's permission to any third parties other than staff under the direct supervision of the R.F.P. and in the normal performance of their duties. Client information will only be used within the limits authorized by the client.
[Ref: COE Canon 2 & Tenets]
 If the R.F.P. is licensed to sell products, provide an explanation of the dealer/license sponsor relationship and an acknowledgement of the legal requirements for delivery of documentation to the client.
 Give an assurance that all product recommendations will be suited to the client's needs and risk comfort levels. [Ref: COE Canon 1, Tenet 1.3; Tenet 3.1; Tenet 4.3; Canon 5 & Tenets; Canon 6 & Tenets]
 Document any omissions not already dealt with above, where certain subject areas are specifically excluded from the plan by client request.
 Be signed and dated by the R.F.P. and acknowledged acceptable by the client by means of signing and dating. The R.F.P. should retain the original and provide a copy to the client.

Not all personal financial planning engagements are comprehensive. Some engagements have a limited scope and deal with only one or selected topics of personal financial planning. The planner should prepare a letter of engagement complying with the requirements outlined above for each modular plan, covering one or selected topics of financial planning. It is recognized that the scope or terms of the engagement may be changed after the engagement letter is signed, and that the subject areas of the mandate will have different priorities and time requirements to be addressed. In such cases, a supplemental or amended letter should be prepared.
In all cases, the R.F.P. is required to fulfill the undertakings made in the Letter of Engagement and Disclosure unless the consumer terminates the engagement prior to completion or the consumer does not disclose to the R.F.P. necessary and requested information to enable completion of the undertakings to which the R.F.P. committed.

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Step 1: Gather data and summarize the client's current situation

Data Collection
Information collection is an essential part of all personal financial planning engagements. This process will determine if personal financial planning services will meet the client needs and if sufficient data will be available to complete the assignment. It will also allow the financial planner to determine if he or she is willing and able to proceed given the particular circumstances. Determining the client's financial objectives is an important phase of all financial planning engagements. In addition to discussions with the client to identify their personal goals, collection of data allows the planner to determine other needs of which the client may not be aware. Hence, data collection, both oral and written, is the first step of a financial plan. It is important to be thorough in this stage, and full cooperation of the client is essential. Any limitations encountered must be resolved or the resulting implications must clearly be stated in the written plan. [Ref: COE Canon 6 & Tenets]

Quantitative Data
Collecting quantitative data such as assets, liabilities, expenses and income, is the first step in the process of gathering information about the client. Quantitative data will include information about assets and liabilities, categorized by type; income and expenses, both current, future, recurring and unusual; related cash flow data; income taxes; and insurance coverage. This data is essential to assess the client's financial situation. Quantitative data also serves as a basis for a number of analyses that the planner will be conducting later.

Qualitative Data
It is equally important to collect qualitative data. This data reflects the client's aspirations, desires, needs and fears in the context of priority and is vital for the development of a relevant and detailed financial plan. This information is organized, clarified and confirmed in Step 2.

A few examples of typical qualitative data that may be required include:
- Client goals and objectives and order of priority which may include the following:
  - Desire to pay for children's university or post-secondary education
  - Distribution of assets upon the death of the client or his or her spouse
  - Intended disposition of a financial interest in a business in the event of retirement,

disability or death
 Age at which the client hopes to retire or reach financial independence
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 Client's investment comfort zone and risk tolerance
 Investment vehicles preferred by the client
 Reasons why the client acquired the categories of assets presently owned
 Client's beliefs, convictions and culture that are relevant to financial planning
 Assumptions, beliefs and/or facts related to inflation, asset growth, income growth, tax environment, health conditions and life expectancy.

Documents

The planner should also try to obtain copies of the client's important documents, such as:
 Personal balance sheet, if the client or prospective client has one
 Brokerage firm statements (registered and unregistered)
 Mutual fund statements
 Share and bond certificates, or a detailed listing thereof
 Insurance contracts (individual life, disability, critical illness, group, general)
 Previous years' income tax returns
 Description of employee benefits and recent personalized statements
 Employment contract
 Mortgage and/or discharge
 Will, power of attorney and advance healthcare directive
 Loan agreements
 Property purchase deeds
 Corporate financial statements, articles of incorporation and corporate tax returns
 Business or other buy and sell agreement and unanimous shareholder agreement
 Marriage contract
 Divorce document
 Separation agreement
 Listings of works of art, private collections
 Trust agreements
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The volume of information required varies according to the scope of the engagement. It can extend to
all aspects of the client's financial activities or be limited to specific aspects only (as in modular planning)
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Analysis

Once all relevant information has been collected, the next step is to perform a number of preliminary analyses and estimates. These analyses depending on the terms of the engagement may include but not be limited to the following items:
 Preparation of the personal balance sheet
 Determination of current saving amounts and investment plan
 Analysis of the portfolio's current asset allocation
 Marginal tax rates
 A review of the most recent personal income tax return(s) and Notice(s) of Assessment, if available, to extract pertinent information for use in the development of the financial plan in accordance with the terms of the Letter of Engagement and Disclosure. There is no expectation the R.F.P. would confirm the accuracy or completeness of the income tax return(s) unless the R.F.P. had committed to providing this service
 Summary of current life, disability and other insurance policies in place

 Review of pension and other retirement plans
 Determining existence of wills, powers of attorney and living wills
The planner completes the data gathering process by requesting any missing information noted in the preliminary assessment.

At this point, the planner may:
 complete a written summary of the current situation for presentation to the client,
 contact the client to give him or her an opportunity to review the original financial objectives, or
 proceed to the further steps of the process,
at the planner's discretion. Some clients may wish to change their objectives or modify their priorities after having reviewed the results of the preliminary assessments.
When significant changes must be made to the scope of the engagement, a meeting with the client is essential to agree upon changes to the Letter of Engagement and Disclosure, and any adjustment to service fees that may result.
At this stage, it is critical that both the client and planner have a good understanding of the client's circumstances and financial planning goals. If the planner has reason to believe that the client's perception of the situation is materially different than the reality, it is recommended that the planner outline these differences to the client before proceeding.

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Step 2: Establish client goals, priorities and concerns

Identification and Confirmation
Defining the client's financial objectives is an important phase of all financial planning engagements. The financial plan is a guide to help enable the client to reach his or her stated and recorded goals. The planner must therefore identify and confirm these goals and, in some cases, help the client define relevant and realistic objectives. He or she must also help the client translate vague projects into clear and definite financial objectives. To define the scope of the planner's work, it is important that the client's objectives be well documented. This information will also serve to measure progress in future reviews, as the client's financial circumstances and attitudes change. [Ref: Canon 6 & Tenets]

Step 3: Identify problems and Opportunities

A detailed assessment and analysis of the client's resources in the context of the client's goals is a fundamental part of the engagement. The purpose of this assessment is to present preliminary recommendations for each topic and identify obstacles that might prevent effective resolution to stated problems. The extent of the analysis may be limited by the Letter of Engagement and Disclosure in which has been stated the areas of financial planning on which there has been mutual agreement the R.F.P. will analyze and comment on. During the analysis other areas of concern may come to the attention of the R.F.P. and these may at the discretion of the R.F.P. be mentioned briefly in the financial planning report as areas that should be explored further. [Ref:

COE Canon 4; Canon 6]
The areas covered in a comprehensive financial plan will typically include:
 Analysis of the personal balance sheet, including allocation of asset ownership, debt ratios and personal use versus financial assets
 Analysis of budget and client's ability and propensity to save
 The role debt plays in the situation
 Appropriateness of the portfolio's asset allocation
 Income tax projections for the following year
 Analysis of life insurance requirements
 Identification of other financial risks, including analysis of disability and other insurance requirements
 Analysis of financial independence projections
 Comparison of client's estate planning documents to stated goals and current situation
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The development of final recommendations will follow after consultation with the client to review how client resources should be allocated to achieve his or her objectives. If the client's financial resources are inadequate to implement preliminary recommendations, the planner must work with the client to revise his or her financial objectives. This process implies that certain preliminary recommendations must be dropped, deferred or changed, depending on the client's priorities and financial resources. The financial planner should seek appropriate assistance from other consultants when developing recommendations related to topics outside his or her area of expertise. A comprehensive plan should not exclude areas because they are outside the planner's expertise, unless defined as such in the Letter of Engagement and Disclosure; outside advice should be obtained (with the client's permission to release any needed confidential information). The planner's professional responsibility is to identify areas that need attention, provide advice within the planner's range of expertise (only), and then coordinate the advice or referral to other professionals and specialists. Both modular and comprehensive plans will often require working with other consultants. [Ref: COE Tenet 4.1; Tenet 2.3]
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Step 4: Provide written recommendations and alternative solutions using 'Required Elements' format
Written Report
The financial planner should present a **written** report to his or her client, whether it is a comprehensive or modular/segmented financial plan. A written report is also recommended, but not required, for ad hoc consultations, as defined later. A well-written personal financial planning report describes accurately the planning parameters and provides the client with a clear, precise and personalized action plan. Within established professional standards, planners have the flexibility to present their personal financial planning report in the form they choose. A comprehensive or modular financial plan can consist of a series of reports over time. Recommendations must be presented in a way that the client will understand how they achieve the stated goals, allowing the client to evaluate alternatives and make appropriate decisions. [Ref: COE Canon 1 & Tenets; Tenet 3.1; Canon 4 & Tenet 4.3; Canon 5 & Tenets; Canon 8 & Tenets 8.2, 8.3]
The purpose of a personal financial planning report is:

- To compile and summarize information about the client, his or her financial situation, and the assumptions that were used in the development of the plan
- To confirm the client's aspirations, goals, concerns and constraints
- To convey financial planning recommendations, choices and alternatives available and decision points
- To document the planner's assessments, considerations and conclusions
- To help the client understand the financial planning process
- To provide an implementation plan with suggested dates and responsibilities
- To provide a basis for continued services to the client

The personal financial planning report must include the name of the consultants from whom the planner sought assistance to develop recommendations related to topics outside his or her area of expertise. [Ref: COE Tenet 4.1]

Quality Control

A review and approval process should be included in the report production stage. This will document that the report complies with the financial planning firm's policies and ensure that all steps of the process developed by the firm have been followed in preparing the report. If the R.F.P. is a sole proprietor or if the R.F.P. is a member of a financial planning firm where the member has no control

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over the administrative processes of the firm, it may be the R.F.P. alone who will have the responsibility to perform this quality control process. [Ref: Canon 6 & Tenets]

The following questions should be asked as part of the quality control process:

- Does the report contain all the **required elements** for a complete presentation. Note as explained below these **"required elements"** are different from those subject areas of financial planning which the R.F.P. has committed in the Letter of Engagement and Disclosure to analyze and provide recommendations concerning. The **"required elements"** pertain to the desired format of the written report.
- Are all calculations correct?
- Does the report address the client's specific concerns?
- Are the recommendations practical? Are they valid in all circumstances? Is it practical to expect that the client will implement them? Are any qualifications included?
- Are the purposes of the report and end results clearly stated? Does the format of the report make reading logical and easy?
- Has a spell-check been run on the report? Are there grammatical errors?
- Does the covering letter describe adequately the firm's responsibility in the production of the report?

Presenting the plan to the client is a vital step in the personal financial planning process. The plan should always be either presented, or subsequently reviewed, in person. This way, the planner can explain to the client the process leading to his or her recommendations and help the client understand the content of the report.

Report Contents (required elements)

The report should be concise and at the same time contain the essential **elements required** to inform the client, generate interest and motivate action. The report must include the following 7 formatting elements:

1. A copy or restatement of the terms in the Letter of Engagement and Disclosure as a first section in the report, unless already provided
2. Highlights of the client's financial situation
3. Summary of the client's objectives

4. Summary of planning assessments, results and conclusions
5. Summary of recommendations and decision points
6. Implementation (action) plan and follow-up plan
7. Expansion of information (supporting documentation) and considerations, when warranted.

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Not all personal financial planning engagements are comprehensive. Some engagements have a limited scope and deal with only one or selected topics of financial planning in accordance with the terms of the mutually agreed Letter of Engagement and Disclosure. Within the scope of a specific engagement, the planner must produce a report satisfying the same **“required elements”** as a comprehensive report, but covering the selected subject areas only.
There may be isolated exceptions to this, where clients specify that they do not wish to pay a fee to have a document written where the topic is simple for them to understand. In this case, it is recommended that the planner use discretion, provide a written report in any situation where the client may misunderstand, and document exceptions by clear notes or dictation to file. [Ref: COE Tenet 5.2]

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Step 5: Take action on implementation

One of the R.F.P.’s responsibilities towards the client is to help the client implement his or her decisions, based on the recommendations set out in the written report. Indeed, a plan is of little or no use without implementation. To fulfill this responsibility, the R.F.P. must prepare and present to the client an implementation (action) plan and follow-up plan covering the following items:
- A description of actions required to implement the recommendations set out in the written report
- A timetable for the execution and implementation of those actions
- Assignment of responsibility for actions among one or several persons (for example, the client, the R.F.P. or another consultant or specialist) [Ref: Canon 6 and Tenet 6.1]

In the implementation phase, an R.F.P. may be recommending and implementing (selling) investments, insurance or other products to a consumer. In accordance with the requirements of the Letter of Engagement and Disclosure, R.F.P.s who are licensed to sell any product must disclose to a consumer at the time of making any specific product recommendation, all material immediate and potential costs and risks to the consumer if the R.F.P. were to implement the plan and place the product. There is no requirement that an R.F.P. disclose his or her amount of expected remuneration from the sale of a product at the time of recommending or implementing the product recommendation.
Specifically:
- Regarding any investment product or structure, the R.F.P. is required to comply with all regulatory requirements and make every effort to ensure the consumer understands all:
  - Defined and potential costs, and
  - Risks, and
  - Liquidity aspects of the investment
- Regarding any type of insurance, the R.F.P. is required to make every effort to ensure the consumer understands the:
  - Extent and duration of all covered risks and benefits, whether guaranteed or nonguaranteed, and
  - All defined costs, whether guaranteed or non-guaranteed, and
  - Liquidity aspects of the insurance product, whether guaranteed or non-guaranteed,

and all costs of such liquidity, and
- Interest rate assumptions

For an in-depth discussion of required disclosure at the time an insurance product is specifically recommended by an R.F.P. who is licensed to sell the product, see the Appendix: "*Required Disclosure When Recommending an Insurance Product*".

If a numerical insurance illustration is shown to the consumer during the solicitation of a specific insurance product, the identical illustration must be provided in a printed format to the consumer no later than the date on which the insurance contract is delivered. If during the underwriting and policy issue process any aspect of the initially illustrated plan has been altered by the issuing insurance company, such as coverage amount, coverage

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period, riders, premium, premium period, cash withdrawals or suggested interest rate assumptions, the R.F.P. shall provide the consumer with an amended illustration reflecting the changes and explain them.

Illustrations depicting a particular financial planning concept or strategy are usually of an abbreviated nature and thus to provide adequate disclosure must be accompanied by a complete illustration of the specific policy depicted in the concept illustration, using identical assumptions as used in the creation of the concept illustration. Assumptions will include age, gender, risk class (preferred risk, standard or rated), smoker status, premium payment mode, out of pocket cost versus policy self-funding, asset allocation and interest rate for universal life, assumed dividend level (primary or reduced) for participating whole life insurance, and tax rate.

Use of software endorsed by any of the head offices of British life insurance companies is encouraged if illustrations produced using such software are configured by the R.F.P. to provide at least the disclosure stated above. Usually illustrations produced by insurance company approved software will satisfy all of the above listed disclosure requirements.

The IARFP strongly discourages the creation by the R.F.P. of customized spreadsheet illustrations unless such an illustration has been reviewed and approved by an authorized representative of the life insurance company whose insurance policy is being illustrated by the R.F.P. Often such "home grown" illustrations contain mathematical errors and lack necessary disclosures and disclaimers. A "home grown" unauthorized insurance illustration may also be prohibited by the affected insurance company.

The essential principle of disclosure is transparency. Based on the premise that the goal is to make available to the consumer sufficient information to make an informed decision whether to apply for the specifically recommended product or service, R.F.P.s must make every effort to ensure that consumers actually understand the following two components:

the R.F.P.'s method of compensation, and

all material immediate and potential costs and risks to the consumer in addition to the future benefits and rewards of acquiring the product specifically recommended by the R.F.P. who is licensed to sell such product.

There is no requirement that an R.F.P. disclose at any time his or her expected remuneration from the sale of a specific product.

[Ref: Canon 1 & Tenets; Canon 3 & Tenet; Tenet 4.3; Canon 5 & Tenets; Canon 6 & Tenets]

Return to Letter of Engagement and Disclosure (page 7)

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Step 6: Perform periodic reviews, updates and revisions to the plan

Financial planning is an ongoing process. The financial plan must obviously be based on the client's financial position at a given date, but personal circumstances, goals and the financial environment will change. (Changes can happen even before the final written report is presented.) This is why it is necessary to conduct periodic follow-up and updates to the plan. The role of the financial planner is to make every effort to ensure that clients reach their goals. Planners must use their professional judgment in determining the frequency, scope and detail of contact to maximize the achievement of those goals, giving consideration to practical concerns, such as affordability. The purpose of these periodic meetings is to identify any event or circumstance that can have an impact on the client's financial plan, and recommend changes to the plan as necessary.

Ongoing review and monitoring (long-term relationship)
In the case of an ongoing relationship, the R.F.P. needs to maintain an updated file and should prepare an updated balance sheet every 1 to 3 years. While it is not required to go through the full Six-Step process with an ongoing client in the same level of detail, and a written report may not be warranted, the R.F.P. will be required to maintain dictation or notes as to the level and scope of the ongoing involvement with each client. As a minimum, the R.F.P. should hold an annual meeting or conference with the clients to review their circumstances, changes, current focus and react to their needs. It is recognized that the time frame of such reviews will depend on client needs and requirements, and the nature of the engagement. [Ref: Canon 4; Canon 6 & Tenet 6.1; Canon 9 & Tenet]

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Standards of Analysis for the Six Broad Subject Areas of Financial Planning

Introduction
Cash and Debt Planning
Income Tax Planning
Investment Planning
Retirement and Financial Independence Planning
Insurance and Risk Planning
Estate Planning

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Introduction

For each broad subject area of the financial plan, many client issues and solutions are similar. Commonly encountered needs and goals, typical standards of analysis, and generally utilized strategies and implementation practices are reviewed here. In-depth analysis of individual financial products and issues of compliance with respect to their purchase and sale is beyond the purview of these guidelines.
This information is intended to be used as a guide to the planner, and does not exclude other topics of interest to a specific client. The Professional Member is expected to exercise judgment in

determining which areas of financial planning should be addressed on behalf of a given client subject to the mutual agreement with the client or prospective client as recorded in the Letter of Engagement and Disclosure. [Ref: Canon 1 & Tenets; Canon 4 & Tenets]
At a minimum, the following areas must be reviewed in any comprehensive financial plan, except under exceptional circumstances:

- Cash and debt planning
- Net worth statement
- Income tax position
- Appropriate investment asset allocation based on the investment and risk profile of the client
- Adequacy of life, disability and health insurance coverage
- Retirement and financial independence planning
- Wills and powers of attorney

In a modular planning engagement, it is recommended that the Letter of Engagement and Disclosure specifically mention any financial planning subject areas that are being excluded.

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Cash and Debt Planning

Introduction

Within a personal financial planning engagement, the objective of cash and debt planning is to ensure the client has sufficient funds to meet everyday household expenses, to establish an emergency fund to handle contingencies, to minimize unproductive assets and to establish or increase savings capacity.

Client Needs and Objectives

At step two in the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the objectives related to cash and debt planning. These are generally expressed as follows:

- Eliminate the problem of negative monthly cash flows through budget management techniques
- Anticipate major expenses for the next three to five years and make plans to meet them
- Evaluate indebtedness to develop a strategy for optimal management or elimination
- Identify expenses that should be reduced or eliminated in order that the client achieve his or her financial objectives
- Increase discretionary income as a percentage of total gross income
- Improve or maintain lifestyle
- Increase funds available for savings and investments

Note that not all clients require assistance with debt and cash management.

Standards of Analysis

Where there is any possibility that better cash flow management can improve the client situation, the detailed analysis of cash and debt planning should include, where relevant, the following procedures in order to meet the minimum standards required:

- Estimate available cash flow for the next 12 to 36 months
- Examine the client's expenses by major category
- Analyze the client's debt-to-equity ratio and total debt service ratio
- Examine the client's indebtedness by amount owing, current payments, interest rate, term,

amortization and flexibility of terms

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- Identify the existence of cash management problems
- Identify excess cash available to implement planning decisions
- Determine the sufficiency of an emergency fund
- Determine consequences of prior planning decisions on funds available in order to coordinate source and application of funds

Generally Utilized Strategy and Implementation Practices

The strategy and implementation practices generally utilized for the development of cash and debt planning recommendations are related to the following items:

- Cash flow projections
- Debt management with an aim to reach generally recognized debt ratios
- Analysis and restructuring of debt
- Expense control (budget)
- Restructuring of assets, including reorganizing of unproductive assets
- Implementing easy to understand strategies like “pay yourself first”

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Income Tax Planning

Introduction

The objective of income tax planning is to minimize the tax burden of the client. This exercise is an integral part of each application area of financial planning. It is important to consider the frequent changes made to tax law because of the possible effect on related analysis and recommendations.

Client Needs and Objectives

At step two in the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the objectives related to income tax planning. These are generally expressed as follows:

- Maximize deductions and credits
- Maximize the use of plans which allow the deferral of tax
- Optimize income splitting opportunities
- Consider the use of investments with tax incentives
- Maximize use of the capital gains exemption, if relevant
- Optimize investment holdings to take advantage of the various tax rates related to investment income
- Consider the advantages related to incorporation, use of trusts and other vehicles with a particular tax status

Standards of Analysis

The detailed analysis of income tax planning must include the following procedures in order to meet the minimum standards required:

- Determine the actual tax burden of the client as well as the average and marginal tax rates of each
- Evaluate whether or not the client is maximizing the use of available deductions and credits

- Evaluate strategies which can be implemented in order to minimize or defer the tax burden
- Evaluate the comfort level of the client (in terms of both aggressiveness and complexity) with respect to available tax strategies applicable to the situation
- Identify tax consequences of financial planning recommendations
- Review different tax treatment of investment products

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- Review income splitting and attribution rules

Generally Utilized Strategy and Implementation Practices

The strategy and implementation practices generally utilized for the development of recommendations for income tax planning are related to the following items:

- Review of marginal tax rates
- Income splitting with family members, including a review of attribution rules
- Registered Retirement Savings Plans – contributions, withdrawals and special circumstances like PAR's and PSPA's
- Registered Education Savings Plans
- Maximization of tax deductions and credits from personal (and corporate) income
- Holistic structuring of investment portfolios (registered and unregistered) to minimize taxes
- Debt structuring to minimize taxes
- Use of tax shelters, limited partnerships and other tax-favoured products
- Structuring of business activities to minimize taxes, including consideration of expense deductibility, appropriate ownership and incorporation issues
- Life insurance products
- The tax considerations of early retirement planning
- Reduction of clawbacks of OAS and other government benefits
- Closely held corporations

• Salary versus dividends
• Income splitting
• Estate freezes
• Use of family trusts

- Maximizing the use of tax free government benefits such as Guaranteed Income Supplement and Long Term Care subsidies to preserve estate values
- Other tax deferral and tax saving techniques

R.F.P.s are expected to be conversant and current with these and other techniques, but to solicit the opinions and assistance of tax specialists in any area or phase of implementation for which their expertise is not at a sufficient level. This is consistent with Tenet 4.1 of the Code of Professional Ethics, which states that a planner "…can and should discuss matters having legal, accounting…or taxation ramifications", but, as limited by Canon 4, "…provide advice only on matters within their competence."

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Investment Planning

Introduction

Investment planning can be a complex and challenging task, in view of the intricacy of modern portfolio theory and the variety of investment vehicles available. A number of factors, such as inflation, interest rates, government regulations (including tax legislation) and economic indicators also change constantly and need to be considered.

Client Needs and Objectives

At step two in the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the objectives of investment planning. These are generally expressed as follows:

- Determine an optimal diversification of investments with proper allocation between liquid and non-liquid assets and an optimal mix of asset classes to balance between risk and performance, in accordance with the client's comfort zone (risk personality and net worth).
- Identify a desired nominal and real annual rate of return
- Identify characteristics of desired investments with regard to potential for portfolio growth, liquidity concerns, security of capital, investment income and the level of client involvement and/or ease of managing the portfolio.

Standards of Analysis

The detailed analysis of investment planning must include the following procedures in order to meet the minimum standards required:

- Assess the client's risk tolerance level and investment preferences, and review the client's investment history. Document in the written plan the method used to determine this tolerance level.
- Define whether the planner is recommending a strategic or tactical asset allocation model.
- Suggest an optimal asset allocation for the client, including a discussion of pros and cons and alternatives.
- Analyze the client's current asset allocation and compare it with the model.
- Recommend generic investment changes to align the client's asset allocation with the model within a specific time frame and taking into account potential losses and administration fees.
- Analyze the performance of the portfolio.
- Where leverage is used, provide an analysis of the inherent risks.

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Generally Utilized Strategy and Implementation Practices

The strategy and implementation practices generally utilized for the development of recommendations for investment planning are related to the following items:

- Diversification, utilizing covariance
- Dollar cost averaging
- Laddering
- Hedging
- Minimum hold period for stock investments
- Professional investment management
- Tax efficiency
- Leverage

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Retirement and Financial Independence Planning

Introduction

The objective of this section of the plan is to sensitize the client to the importance of a current action plan in order to realize retirement and financial independence objectives. This exercise is influenced by several important factors such as the age of the client, available resources, ability to save, economic factors, life expectancy and the age at which the client wishes to be financially independent.

Client Needs and Objectives

At step two in the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the objectives of retirement and financial independence planning. These client desires or goals are generally expressed as follows; a desire to:

- Accumulate adequate resources by a specified retirement date or age to fund a desired retirement income that will enable financial independence
- Define his or her lifestyle at retirement, and begin to estimate expenses
- Estimate at what date retirement will be possible given current level of income and savings
- Determine if projected financial resources (income and assets) would likely be adequate to enable early retirement
- Explore alternative strategies for withdrawal from workforce

Standards of Analysis

The detailed analysis of retirement and financial independence planning should include the following procedures in order to meet the minimum standards required:

- Estimate the income required at retirement, in current dollars
- Estimate pension benefits from government, employer and other sources, and explain the functioning of the related programs
- Estimate income generated by the client's present net worth after adjustment for conversion of unproductive personal assets and deduction of conversion costs, such as commissions and income tax
- Determine if more detailed calculations are necessary. If so, estimate the client's net worth at retirement age, and estimate the annual income that may be generated at that time
- Clearly state the assumptions used

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- Estimate total projected annual income and pension benefits, and compare with estimated expenses at retirement
- In the event of a shortage, determine additional assets that must be accumulated before retirement to cover this shortage, and strategies to address the need

Generally Utilized Strategy and Implementation Practices

The strategy and implementation practices generally utilized for the development of recommendations for retirement and financial independence planning are related to the following items:

- Preparing a sensitivity analysis, utilizing different rate of return, inflation rate, retirement date and life expectancy assumptions, and others that may be appropriate
- Reorganization of assets
- Cash management and savings capacity
- Adjustments to investment portfolio to increase return
- Tax planning
- Decrease in lifestyle expenditures – current and future
- Income and asset splitting
- Part-time employment at retirement

 Postponement of retirement or other re-assessment of goals
 Examining alternative investment products, such as annuities

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Insurance and Risk Planning

Introduction

All potential risks such as cash flow problems, death, disability, critical illness, health care costs, property losses, personal liability claims, etc. should be taken into account in the detailed financial planning process. The objective is to evaluate each of the risks and to determine to what extent the risk can and should be transferred (purchase of insurance) or avoided (creditor proofing, asset sale or off-shore and trust strategies).

Client Needs and Objectives

At step two in the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the objectives related to risk planning. These are generally expressed as follows:
 The client's wishes to provide adequate resources or protection to assume risks associated with unforeseen events such as:
• Death
• Disability
• Illness
• Property loss
• Personal or professional liability claims
• Legal proceedings
• Deferred income tax

Standards of Analysis

The detailed analysis of insurance and risk planning must include the following procedures in order to meet the minimum standards required:
 Examine the client's specific situation to identify potential risks
 For each potential risk, quantify the risk in terms of cash and income requirements
 Compare the client's needs with present insurance and resource levels
 Review present insurance policies: costs, benefits and options; opportunities for improvement, and consequences of replacement
 Compare client situation in relation to potential needs and benefits of creditor proofing strategies

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Generally Utilized Strategy and Implementation Practices

In all cases, educating clients objectively as to their options and product characteristics is expected. The strategy and implementation practices generally utilized for the development of insurance and risk planning recommendations are related to the following items:
 Risk related to death and life insurance
• Allocation of decreasing, level or increasing coverage
• Allocation of permanent vs temporary coverage
• Utilization of existing policies

• Utilization of group or association benefits
• Combining or separating protection from savings
• Evaluating smoking status

- Risk related to disability

• Utilization of group or association benefits
• Offsetting elimination period with cash reserves
• Determining period of coverage
• Generating income from property or business succession
• Maintaining or replacing existing policies, with particular examination and comparison of the definition of disability in current and proposed policies

- Risk related to property loss or damage and liability

• Full replacement value coverage
• Video or photographic inventory
• Increasing liability coverage for affluent clients

- Risk related to long term care and critical illness needs

• Evaluating transfer of risk
• Comparing health cost coverage to utilization of savings

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Estate Planning

Introduction

The purpose of estate planning is to ensure that the client's estate is preserved and distributed in accordance with the client's wishes, in the most efficient and effective manner. Estate planning often relies on the expertise of outside professionals, with the expressed permission of the client. The financial planner must not attempt to deal with areas outside his expertise and thus should take on the role of helping the clients develop their objectives and ideals, help them become aware of their options and then coordinating the estate planning process.

Client Needs and Objectives

At step two of the financial planning process (establish client goals, priorities and concerns), the planner should have identified, confirmed and documented the client's objectives of estate planning. These client objectives or desires are often expressed as follows:

- Provide for the client's loved ones and dependants
- Protect the client's estate
- Reduce the tax burden before and after the client's death
- Provide sufficient estate liquidity to meet financial needs of the client's dependents
- Ensure continuity of personal and business planning
- Provide competent management of assets, for either loss of the client's mental or physical capacity or the client's death
- Ensure distribution of the client's assets according to the client's wishes
- Address specific needs, such as business succession planning, philanthropic ideals, pre-death distribution of assets and any other specific area indicated
- Acquire an up-to-date and valid will, power of attorney and advance healthcare directive or equivalent, consistent with the client's current intent.

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International Association of Registered Financial Planners

Standards of Analysis

The detailed analysis of estate planning must include the following procedures in order to meet the minimum standards required:

- Determine estimated value of assets upon death based on current holdings, allocated by tax class (exempt, fully taxable, partially taxable)
- Calculate income tax payable at the time of death based on present situation

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- Estimate expenses associated with death and compare to the estate's liquid assets
- Review wills to make sure they reflect the client's wishes and consider opportunities for preserving more of the estate and minimizing income tax payable
- Prepare preliminary recommendations based on client's objectives, income tax payable at death and liquid assets available
- Provide information and recommendations on alternate strategies, like inter vivos or testamentary trusts, gifts during life, life interests and joint ownership
- Review insurance and RRSP/RRIF policies, etc. to ensure appropriate naming of beneficiaries
- Consider family property issues related to inheritances, marriage breakdown, mental infirmity, remarriage, common-law relationships, etc.
- Ensure the will meets the client needs, and sets out alternative executors, guardians and Beneficiaries

Generally Utilized Strategy and Implementation Practices

The strategy and implementation practices generally utilized for the development of recommendations for estate planning are related to the following items:

- Preparation or updating of will
- Income tax deferral through rollovers
- Limitation of capital gain at the time of death through partial or total estate freezing during life
- Gifts and loans to family members
- Gifts to philanthropic organizations, before and after death
- Reducing probate fees through joint ownership versus the use of testamentary trusts for continued income splitting after death with due consideration given to the implications of a taxable disposition and attribution rules if joint ownership is recommended
- Partnership or shareholder agreements
- Financing through life insurance

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'Ad Hoc' Consultations

Introduction

Some clients do not require a formal comprehensive or modular plan covering one or selected topics of personal financial planning. Thus, the R.F.P. is often called upon to answer an immediate and specific need of a client through an oral or written consulting engagement.

Definition – Oral Consultation

An oral consultation may be unstructured and can be limited to oral advice relating to financial matters. While this type of consultation may not be considered modular financial planning, the R.F.P. is required, as much as possible, to be aware of the objectives and circumstances of the client in order to provide contextual professional advice. R.F.P.s are cautioned to provide appropriate disclaimers and warnings that the advice may not be appropriate if incomplete information has been provided. All oral consultations should be covered ideally by a follow up letter to the client, if possible, or at least with appropriate dictation and notes to a file.

Definition – Written Consultation

A written consultation is limited to advice relating to financial matters that do not require modular planning because they are limited to a specific question that requires timely intervention due to urgency or a deadline. However, when engaged in a written consultation, the R.F.P. must comply with the following procedures:

- Collect and summarize information about the client and his or her financial situation
- Confirm the client's aspirations, goals, priorities and concerns
- Communicate the relevant financial planning decisions and recommendations
- Document the planner's analyses, assumptions and conclusions
- Obtain an appropriately worded engagement letter confirming the nature of the assignment, compensation arrangements, conflicts of interest, and other relevant matters.

Consultations and the Guide of Professional Practice

Although ad hoc consultations often refer to topics discussed within a financial plan, this type of engagement does not require the compliance with the Six-Step Financial Planning Process as presented in this Guide. However, as with comprehensive or modular planning, a consultation represents a professional act, and as such it must be performed with the same professionalism, the same competency, the same diligence, and the same integrity as a comprehensive or modular plan.

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APPENDIX

Required Disclosure When Recommending an Insurance Product

Regarding any type of insurance, there is a requirement that the R.F.P. provide the following information to the consumer, at the time of a recommendation for a specific product that the R.F.P. is licensed to sell. Usually this disclosure is provided in the format of a computer generated illustration incorporating text and numeric ledgers and/or brochure(s) published by the issuing insurance company, which may be supplemented by information in the financial plan:

- **A clear description of the extent and duration of the risk or risks for which the insurance policy is to provide coverage. In other words, the R.F.P. is to provide information clearly describing the event or events, which if such event occurs the policy provides for the payment of a lump sum or periodic payment, as the case may be, to the beneficiary;**
- **A schedule, if applicable, of the projected future level of coverage. If the guaranteed portion of the coverage is less than the projected future level of coverage, the illustration must clearly indicate the guaranteed portion;**
- **The schedule of premiums and whether the schedule is guaranteed or projected;**

○ Notification if the policy is not guaranteed renewable and non-cancelable, as may be applicable to some accident and sickness or disability insurance policies;

○ The schedule of the guaranteed cash surrender values applicable to whole life insurance and some term to age 100 life insurance;

○ The schedule of projected gross cash values applicable to whole life insurance and universal life insurance;

○ The schedule of projected net cash value (which takes into account any surrender charges) applicable to universal life insurance. Disclosure of projected net cash value at one year intervals is particularly important during the illustrated initial 10 policy years, if the applicable software can be configured to provide such disclosure;

○ The interest rate assumptions on which the policy values are based, and a statement whether these assumed interest rates are before or net of MERs and bonus charges, applicable to universal life insurance. Illustrated interest rates are usually net of MERs and costs for future bonuses, thus a consumer should be made aware of the approximate gross rate of return that must be achieved in order to net the interest rate schedule illustrated. Often illustrated projected net crediting rates are unrealistically high considering the actual gross return that must be achieved to yield the illustrated net crediting rates;

○ The Management Expense Ratios (MERs) applicable to any investment funds to which any portion of the premiums for a universal life policy are intended to be allocated;

○ A statement to the effect that dividends are not guaranteed and are dependent on future economic results and that this may affect the availability, amount and timing of features, if the policy type is any form of participating whole life insurance;

○ In the event all policy values are not guaranteed, a statement to the effect that actual results may differ significantly from those illustrated.