

# THE FINANCIAL PLANNING PROCESS: GUIDANCE FOR THE PROFESSION AND THE PUBLIC

## About the FP Canada Standards Council™:

A division of FP Canada™, the FP Canada Standards Council (the “Standards Council”) establishes and enforces financial planning standards, sets the certification requirements for professional financial planners and develops and delivers certification examinations. The Standards Council ensures that FP Canada Certificants (CFP® professionals and QAFP™ professionals) meet appropriate standards of competence and professionalism through rigorous requirements of education, examination, experience and ethics.

## About the Standards Panel:

An independent panel of the Standards Council, the Standards Panel is composed of CFP professionals, Financial Planners from the province of Québec and public members.

The Standards Panel is responsible for and has delegated responsibility from the Board over the *FP Canada Standards Council Standards of Professional Responsibility* and the *FP Canada Standards Council Competency Profile*. The Standards Panel also oversees the FP Canada Standards Council Projection Assumption Guidelines Committee which maintains and updates the Projection Assumption Guidelines.

## What Consumers Can Expect in a Financial Planning Engagement

The purpose of this notice is to provide guidance to FP Canada Certificants and members of the public regarding the practice of financial planning, the process professional financial planners should follow in providing financial planning services to Canadians and expectations of FP Canada Certificants.

The financial planning process is the series of steps followed by the financial planner to develop and implement strategies to assist clients in managing their financial affairs to meet their life goals.

## Financial Planning Areas

Holistic (integrated) financial planning encompasses a consideration of the following areas:

- 1. Financial Management**

Focuses on the client's current and future financial position, including the use of cash flow and the development of a cash flow statement, the establishment and use of savings, as well as the use of credit and debt repayment.

The client's financial position is characterized by current and projected cash flow and net worth, and reflects the client's inclination to spend, save and borrow.

## 2. **Investment Planning**

Focuses on the client's assets and how best to manage them according to the client's investment risk tolerance and objectives.

## 3. **Insurance and Risk Management**

Focuses on strategies designed to manage the client's exposure to an unexpected financial loss due to death, disability, health issues, property damage and other risks. FP Canada Certificants compare the client's risk exposure to current insurance coverage and other available assets to help determine and prioritize risk management needs.

## 4. **Tax Planning**

Focuses on the client's current and future income tax obligations and the use of available strategies to minimize or defer taxation. Tax planning strategies are designed to help strengthen the client's financial position, allowing the client a better opportunity to meet financial goals.

## 5. **Retirement Planning**

Focuses on the client's financial well-being after regular employment has stopped. It involves a comparison of the client's expected lifestyle in retirement to projected retirement income streams and assets. Retirement savings must be regularly monitored, as circumstances change over time.

## 6. **Estate Planning and Legal Aspects**

Focuses on the distribution of assets on death. FP Canada Certificants discuss estate planning objectives with the client, project the client's net worth at death, determine any constraints or opportunities to achieve the client's objectives and develop strategies and recommendations to help meet them. Legal aspects impact the client's financial planning. Financial planners must be aware of the client's legal situation to help determine the level of exposure and evaluate protective measures.

## **Financial Plan**

In working with a financial planner, clients may receive a financial plan report.

A financial planning engagement culminates in specific recommendations based on the information collected (both quantitative and qualitative) about the client's current situation, goals, needs and priorities, and an appropriate analysis. An effective financial planning

recommendation, properly implemented, will help the client meet their financial goals and needs while helping to optimize their financial position.

Financial planning involves the application of professional judgment; accordingly, the recommendations of one financial planner may be different from those of another financial planner. In every instance, the recommendations should be based on sound professional judgment and defensible on the basis of the information gathered from the client, the analysis of that information and a reasonable evaluation of the potential strategies the client can leverage to achieve their goals and priorities. A financial plan is a report that assesses the client's current financial situation and includes the relevant personal and financial assumptions, analysis, evaluation of financial strategies and recommendations to assist in achieving the client's personal goals, needs and priorities. While financial planning may or may not result in a comprehensive financial plan, all Canadians can benefit from the professional advice of a qualified financial planner.

A financial plan should use clear, concise and accurate language that will allow the client to understand the benefits as well as the risks and costs of the recommendations in helping them meet their goals, needs and priorities.

A plan includes the personal information and financial assumptions on which it is based. It should also include a disclaimer noting its reliance on information provided by the client and assumptions made. A financial plan may also include the importance of regular reviews to ensure that the plan reflects, or is amended to reflect, material changes in the client's life. A plan should provide a list of implementation steps, including what needs to be done, by whom and when.

## Components of a Financial Plan

A financial plan report is customized based on the scope of the engagement (as set out in the Terms of Engagement – for example, the engagement may be limited to a specific type of planning need or comprehensive planning across all areas).

As a general guide, a financial plan report may include the following sections:

Components of a Financial Plan Report	
<b>Cover or Title Page</b>	This section provides contact details for the financial planner; important details about the engagement including the client's name and the date on which the financial plan was prepared.
<b>Executive Summary or Overview</b>	This section provides a summary of the client's goals, needs and priorities together with a high-level summary of the financial planning recommendations. This section also includes a summary of the relevant personal information provided by the client. Any assumptions made by the financial planner when making recommendations should also be included in this section.

	This section should also include a disclaimer noting the financial planner's reliance on information provided by the client and the specific assumptions made by the financial planner.
<b>Financial Planning Areas</b>	A section for each of the financial planning areas, as applicable to the scope of the engagement, that includes an overview of the client's current situation (relevant to each section), issues and opportunities, options to consider and recommendations for the particular financial planning area.
<b>Action Plan</b>	This section provides an action plan for implementing each recommendation, in order of level of urgency, including who should complete each item (may include other professionals) and when.
<b>Acknowledgement</b>	This section provides a place for the client to sign, indicating they have received and understand the plan and the assumptions on which it is based. It should emphasize the importance of regular reviews of the plan and may explain the process and schedule for such reviews.
<b>Appendix</b>	This section includes supporting documentation and/or reference materials, as applicable.

## Applicable Practice Standards:

The *Standards of Professional Responsibility* include the following Practice Standards:

Applicable Practice Standards (PS)	
<b>PS.3</b>	<b>Identify the Client's Goals, Needs and Priorities</b> Discuss the client's personal goals, needs and priorities before identifying possible strategies or making recommendations.
<b>PS.4</b>	<b>Gather the Client's Information</b> Gather sufficient quantitative and qualitative information relevant to the engagement before making and/or implementing any recommendations.
<b>PS.5</b>	<b>Assess the Client's Current Situation</b> Identify and evaluate the strengths and weaknesses in the client's financial situation, perform required calculations, develop needed projections and analyze and integrate the resulting information relative to the client's personal goals, needs and priorities.

<b>PS.6</b>	<b>Identify and Evaluate the Appropriate Financial Planning Strategies</b> Identify and assess the possible financial planning strategies to achieve the client's personal goals, needs and priorities.
<b>PS.7</b>	<b>Develop the Financial Planning Recommendations</b> Develop and prioritize recommendations to help meet the client's personal goals, needs and priorities and aim to optimize the client's financial position.
<b>PS.8</b>	<b>Compile and Present the Financial Planning Recommendations and Supporting Rationale</b> Present the financial planning recommendations and supporting rationale in a way that allows the client to make an informed decision.
<b>PS.9</b>	<b>Discuss Implementation Action, Responsibilities and Time Frames</b> Gain the client's agreement regarding implementation actions, responsibilities and time frames. Stress the importance of a review and ongoing monitoring of the client's situation relative to their personal goals, needs and priorities periodically and as needed based on material changes in personal or external circumstances.
<b>PS.10</b>	<b>Implement the Financial Planning Recommendations</b> Complete the implementation actions for which the FP Canada Certificant has assumed responsibility.