

Guidance to CFP® professionals and QAFP™ professionals

The Conduct Review Panel (CRP) is issuing this guidance because of an increase in complaints about certificants' failure to disclose information in accordance with the *FP Canada Standards Council™ Standards of Professional Responsibility* (the *Standards*).

Disclosure requirements for CFP professionals and QAFP professionals

Certificants have a professional and ethical obligation to disclose the following specific information to their clients:

- The financial planning services they will provide
- Any information about the Certificant or the Certificant's employer that could reasonably be expected to materially affect the engagement
- Any information that the client might reasonably want to know in establishing the scope and nature of the relationship, including information about the Certificant's areas of expertise
- Contact information
- Compensation, costs and fees, including contingency and referral fees
- Existing and potential conflicts of interest

Disclosure must always be provided in writing.

[Rules 7 and 8 of the Standards](#) set out these obligations in detail, with guidance and direction to meet them.

Complaints in two key areas

The most common complaints that the CRP considers relating to the failure to disclose are in the following areas:

1. **Conflicts of interest**

A conflict of interest – or a potential one – exists where the duties and loyalties a certificant has to their clients could be affected by the duties or loyalties they have either to a third party, or by their own interests. A conflict of interest can have a negative impact on a certificant's

The Conduct Review Panel is an independent panel of the FP Canada Standards Council (the "Standards Council") and is composed of CFP professionals and public members. The CRP's purpose is to support the fulfilment of the Standards Council's professional-oversight mandate by reviewing staff reports and determining the appropriate disposition of complaints, in the public interest.

judgment and obligations to a client. CFP professionals and QAFP professionals must always put their clients' interests first.

In several recent cases, the CRP noted that while certificants had recognized a conflict of interest, or a potential one, and told the client about it, they failed to provide this information in writing, and, importantly, also failed to take the necessary step of getting the client's written consent to continue the engagement. Two examples:

- A certificant failed to disclose in writing the conflict of interest created by having two roles with a client at the same time, as their financial planner and concurrently as their executor and estate trustee.
- A certificant who was acting as a financial planner for their partner and members of the partner's family was in a conflict of interest because of their personal relationships and joint financial holdings. The certificant did not disclose this conflict in writing.

In both of these situations, the certificants did not get written confirmations from their client that they understood the conflict and that the professional engagement should continue.

2. Compensation, costs and fees

CFP professionals and QAFP professionals must give clients written disclosure that includes a clear and accurate description of costs of their services and products, how they and their firm are paid for those services/products, including any contingency or referral fees they or their firm receive for services provided to the client. Certificants should also ensure that their clients understand the written disclosure.

In some recent cases, the CRP noted that certificants failed outright to disclose compensation, costs and/or fees, while in others, although there was partial disclosure or written acknowledgment about some of the fees and commissions, the documents did not sufficiently explain how the fees were calculated or when they were paid. Two examples:

- A certificant failed to give his clients a correct and understandable description of how he was paid, providing information that was too general for the clients to make an informed decision about the certificant's recommendations.
- A certificant did not fully disclose his fees and commissions, giving his clients only partial information.

In both cases, the certificants did not ensure their clients understood the information they received.

New FP Canada Terms of Engagement Tool

FP Canada’s new online [Terms of Engagement tool](#), which can be accessed on the FP Canada portal, helps certificants write and update client engagement letters so that they meet professional disclosure requirements. The tool provides a wide range of sample clauses, so that certificants can customize their letters. The samples include clauses that relate to conflict of interest, and to compensation, fees and costs.

For example, under the heading “Conflicts of Interest”, the tool provides the following three (3) sample clauses:

Conflicts of Interest Sample Clause 1

I am not aware of any potential or actual conflicts of interest impacting this engagement. Should I become aware of a potential or actual conflict of interest, I will notify you, in writing, and will discuss the impact of the conflict with you.

Conflicts of Interest Sample Clause 2

I have no known conflicts of interest in the acceptance of this engagement. If, for any reason during our engagement, my ability to provide objective advice or to put your interests first is impacted due to a conflict of interest, I will notify you in writing and will cease acting for you until and unless you elect, in writing, to continue the relationship.

Conflicts of Interest Sample Clause 3

I acknowledge that I have a potential [or actual] conflict arising from the following facts [insert description of conflict]. I have taken the following steps [or will take the following steps] to manage the impacts of this conflict and to ensure that I am placing your interests first [list mitigating steps]. By signing this Engagement Letter, you acknowledge that I have disclosed this conflict to you and confirm that you still wish to proceed to engage my services.

The tool also provides sample clauses dealing with conflicts under the heading “Joint Engagements”.

In addition, under the heading “Forms of Compensation”, the tool provides eight (8) sample clauses. Following are four (4) samples:

Forms of Compensation Sample Clause 1

Where you may decide to invest in mutual funds with [Company], [Company] receives fees on these funds, which will be disclosed to you at that time. Your investment returns will be net of fees.

Forms of Compensation Sample Clause 2

Where you may decide to invest in mutual funds with [Company], [Company] and I receive fees on these funds, which will be disclosed to you at that time. Your investment returns will be net of fees.

Forms of Compensation Sample Clause 3

The annual fee charged is based on a percentage of the total amount of assets managed on your behalf. The [Company] receives a portion of the annual fee and I receive a portion based on a sliding scale determined by [Company]. As an example, investment assets under management totaling \$100,000 would yield an annual fee of \$1,500.00 based on a management fee of [XX%] per year; [Company] would receive [\$YY] and I would receive [\$ZZ].

Forms of Compensation Sample Clause 4

The fees received by [Company] and I are based on a management fee that is a percentage of the total investment assets under management. We are not compensated based on transactions, nor do we generate commissions on the sale of investment products. As a simplified example, if the market value of investment assets under management totals \$100,000 at quarter end, and the annual management fee is 1.5%, your fee would amount to \$375; the company would receive [\$XX] and I would receive [\$YY].

The tool also provides sample clauses under the headings “Compensation” and “Referral Fees”.

Three steps to meet disclosure requirements

- Review [Rules 7 and 8 on Disclosure Requirements](#) in the *Standards of Professional Responsibility*
- Remember that required disclosures to clients must always be made in writing. Telling them is not enough. Plus, you must get your clients’ written consent to continue the professional engagement.
- Use FP Canada’s Terms of Engagement Tool in the [CFP Professional and QAFP Professional Toolkits](#) to write or update your client engagement letters. Updating existing letters as circumstances change is essential.

FP Canada developed this resource in consultation with professional financial planners and industry stakeholders to support certificants and ensure clients get the information they need.

Yours truly,



Jeff Cormier, CFP®
Chair, Conduct Review Panel