

CFP BOARD

PRACTICE STANDARDS REFERENCE GUIDE

**REFERENCE GUIDE TO THE PRACTICE STANDARDS
FOR THE FINANCIAL PLANNING PROCESS**

STEP 1 - UNDERSTANDING THE CLIENT'S PERSONAL AND FINANCIAL CIRCUMSTANCES

STANDARDS	TIPS
<ul style="list-style-type: none"> • Obtain qualitative and quantitative information. 	<ul style="list-style-type: none"> • CFP Board's Practice Standards for the Financial Planning Process provide examples of qualitative and quantitative information that may be needed. • Make sure to have necessary information and documents.
<ul style="list-style-type: none"> • Analyze information. 	<ul style="list-style-type: none"> • Confirm with the Client that the information is accurate.
<ul style="list-style-type: none"> • Address incomplete information. 	<ul style="list-style-type: none"> • Address with the Client any inconsistencies in the information provided.

Examples of qualitative or subjective information:

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| <ul style="list-style-type: none"> — Health — Life expectancy — Family circumstances — Values — Attitudes | <ul style="list-style-type: none"> — Expectations — Earnings potential — Risk tolerance — Goals, needs, and priorities — Current course of action |
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Examples of quantitative or objective information:

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| <ul style="list-style-type: none"> — Age — Dependents — Other professional advisors — Income — Expenses — Cash flow | <ul style="list-style-type: none"> — Savings — Assets — Liabilities — Available resources — Liquidity — Taxes — Employee benefits | <ul style="list-style-type: none"> — Government benefits — Insurance coverage — Estate plans — Capacity for risk — Education and retirement accounts and benefits |
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STEP 2 - IDENTIFYING AND SELECTING GOALS

STANDARDS	TIPS
<ul style="list-style-type: none"> Identify potential goals. 	<ul style="list-style-type: none"> Consider discussing with the Client how changes to assumptions and estimates may affect the Client's goals. Consider providing to the Client in writing the reasonable assumptions and estimates you have used, such as life expectancy, inflation rates, tax rates, investment returns, and other Material
<ul style="list-style-type: none"> Select and prioritize goals. 	<ul style="list-style-type: none"> Note the impact that selecting a particular goal may have on other goals. Discuss with the Client any goals the Client has selected that you think are unrealistic.

Examples of assumptions and estimates:

- Life expectancy
- Inflation rates
- Other material assumptions and estimates
- Tax rates
- Investment returns



STEP 3 – ANALYZING THE CLIENT’S CURRENT COURSE OF ACTION AND POTENTIAL ALTERNATIVE COURSE(S) OF ACTION

STANDARDS

- Analyze the current course of action.
- Analyze material advantages and disadvantages of the current course of action.
- Analyze whether the current course maximizes the potential for meeting the Client’s goals.
- Analyze potential alternative courses of action.
- When appropriate, consider and analyze one or more potential alternative courses of action, including their material advantages and disadvantages, whether they help maximize the potential for meeting the Client’s goals, and how they integrate the relevant elements of the Client’s personal and financial circumstances.

TIPS

- Always determine whether the Client’s current course of action maximizes the potential for meeting the Client’s goals.
- Note that a potential alternative course of action does not become a recommendation until the CFP® professional selects it as a recommendation in Step 4 of the process.



STEP 4 – DEVELOPING THE FINANCIAL PLANNING RECOMMENDATION(S)

STANDARDS	TIPS
<ul style="list-style-type: none"> • From the current and potential alternative courses of action, select one or more recommendations designed to maximize the potential for meeting the Client's goals. • For each recommendation selected, you must consider the following: <ul style="list-style-type: none"> ◦ The assumptions and estimates used to develop the recommendation; ◦ The basis for making the recommendation, including: <ul style="list-style-type: none"> – How the recommendation is designed to maximize the potential to meet the Client's goals, – The anticipated material effects of the recommendation on the Client's financial and personal circumstances, and – How the recommendation integrates relevant elements of the Client's personal and financial circumstances; ◦ The timing and priority of the recommendation; and ◦ Whether the recommendation is independent or must be implemented with another recommendation. 	<ul style="list-style-type: none"> • Sometimes no change is necessary; the recommendation may be to continue the Client's current course of action. • Document the basis for your recommendations. • Consider whether to modify previously selected goals.

STEP 5 – PRESENTING THE FINANCIAL PLANNING RECOMMENDATION(S)

STANDARDS	TIPS
<ul style="list-style-type: none"> • Present to the Client the selected recommendation(s) and the information that was required to be considered in developing the recommendation(s). • Present to the Client: <ul style="list-style-type: none"> ◦ The recommendation(s); ◦ The assumptions and estimates used to develop the recommendation; ◦ The basis for making the recommendation, including: <ul style="list-style-type: none"> – How the recommendation is designed to maximize the potential to meet the Client's goals, – The anticipated material effects of the recommendation on the Client's financial and personal circumstances, and – How the recommendation integrates relevant elements of the Client's personal and financial circumstances; ◦ The timing and priority of the recommendation; and ◦ Whether the recommendation is independent or must be implemented with another recommendation. 	<ul style="list-style-type: none"> • This is an opportunity to engage the Client in a conversation about your recommendations. • Consider whether to modify previously selected goal. • Recommendations may be presented orally, in writing, in person, over the phone, or in another format that enables the Client to understand the recommendations. • Consider the complexity of your recommendations when determining the format in which to present your recommendations. • Document the recommendations. If you present the recommendations in writing, then retain a copy of the presentation. • Tailor the presentation to the Client's level of sophistication.

STEP 6 – IMPLEMENTING THE FINANCIAL PLANNING RECOMMENDATION(S) (UNLESS SPECIFICALLY EXCLUDED FROM SCOPE OF ENGAGEMENT)

STANDARDS	TIPS
<ul style="list-style-type: none"> Address implementation responsibilities. 	<ul style="list-style-type: none"> Remember: <i>Code and Standards</i> Section A.10.b.ii states that you are responsible for implementing the Client's Financial Planning recommendation(s) unless specifically excluded from the Scope of Engagement. Ensure that the delineation of implementation responsibilities is clear. Third parties involved in implementation could include attorneys or accountants, among others.
<ul style="list-style-type: none"> If you have implementation responsibilities, identify, analyze, and select actions, products, and services designed to implement the recommendation(s). 	<ul style="list-style-type: none"> Consider the basis for each selection, which must include: <ul style="list-style-type: none"> How the action, product, or service is designed to implement the recommendation; and The advantages and disadvantages relative to reasonably available alternatives.
<ul style="list-style-type: none"> If you have implementation responsibilities, recommend one or more actions, products and services for implementation. 	<ul style="list-style-type: none"> Discuss with the Client: <ul style="list-style-type: none"> The basis for selecting the action, product, or service, The timing and priority of implementing the action, product, or service, and Describe any Conflicts of Interest.
<ul style="list-style-type: none"> If you have implementation responsibilities, select and implement actions, products, or services. 	<ul style="list-style-type: none"> Discuss with the Client any selection that deviates from your recommendation.

STEP 7 – MONITORING PROGRESS AND UPDATING (UNLESS SPECIFICALLY EXCLUDED FROM SCOPE OF ENGAGEMENT)

STANDARDS	TIPS
<ul style="list-style-type: none"> • Establish monitoring and updating responsibilities. 	<ul style="list-style-type: none"> • When you have responsibilities for monitoring and updating, you must communicate to the Client: <ul style="list-style-type: none"> ◦ Which actions, products, and services are/are not subject to your monitoring responsibility; ◦ How and when you will monitor actions, products, or services; ◦ The Client’s responsibility to inform you of any Material changes to the Client’s qualitative and quantitative information; ◦ Your responsibility to update the Financial Planning recommendations; and ◦ How and when you will update the Financial Planning recommendations.
<ul style="list-style-type: none"> • Monitor the Client’s progress. 	<ul style="list-style-type: none"> • Remember: <i>Code and Standards</i> Section A.10.b.ii states that you are responsible for monitoring and updating the Client’s Financial Planning recommendation(s) unless specifically excluded from the Scope of Engagement. • Consider documenting your implementation, monitoring, and updating efforts. • Be realistic and clear in setting monitoring expectations. • Monitoring is an ongoing obligation unless the Engagement is terminated. • You should document when the Engagement is not ongoing. • Ensure that you have appropriate access to or authority to communicate with third parties to gather information to fulfill your monitoring responsibilities.
<ul style="list-style-type: none"> • Obtain current qualitative and quantitative information. 	<ul style="list-style-type: none"> • If you have monitoring responsibility, analyze at appropriate intervals the progress toward reaching Client goals and review with the Client the results of your analysis. • If you have monitoring responsibility, collaborate with the Client in an attempt to obtain current qualitative and quantitative information concerning the Client’s personal and financial circumstances.
<ul style="list-style-type: none"> • Update goals, recommendations, or implementation decisions. 	<ul style="list-style-type: none"> • If you have updating responsibility, and circumstances warrant changes, update as appropriate in accordance with the Practice Standards for the Financial Planning Process.

CFP BOARD

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