General Financial Planning Principles, Professional Conduct, and Regulation
I. FINANCIAL PLANNING PROCESS

CFP Board Principal Knowledge Topic B.8.

A. WHAT IS FINANCIAL PLANNING?

1. Financial planning is defined in The Standards of Professional Conduct as “the process of determining whether and how an individual can meet life goals through the proper management of financial resources.”

2. The subject matter of financial planning is incorporated into the financial planning process when financial planning takes place. According to The Standards of Professional Conduct, these subject matter areas include:
   a. Financial statement preparation and analysis
   b. Education planning
   c. Risk management
   d. Investment planning
   e. Income tax planning
   f. Retirement planning
   g. Estate planning

B. WHAT ARE THE MATERIAL ELEMENTS OF FINANCIAL PLANNING?

1. A number of The Standards of Professional Conduct’s ethical obligations apply only when a CFP® professional is engaged in financial planning or material elements of the financial planning process.

2. The CFP Board Rules of Conduct must be followed by any person allowed to use the CFP® marks, regardless of his nature of employment, title, role, or compensation structure.

3. Whether financial planning exists or the material elements of financial planning are present is not always clear.

4. According to CFP Board, some considerations that may assist in determining if this is the case include, but are not limited to the following:
   a. the client’s (not the CFP® professional’s) expectations, understanding, and intent by engaging the professional—therefore, a CFP® professional’s messaging to clients should not create confusion regarding whether the certificant is providing financial planning services (if a client, based on the CFP® professional’s messaging, believes that the CFP® professional is providing financial planning services, in all likelihood he is);
   b. the detail of the data-gathering regarding multiple aspects of a client’s financial situation (the more detailed the data-gathering for multiple aspects of a client’s circumstances, the more likely the service will be considered financial planning);
c. the depth at which multiple financial planning subject areas are addressed (the greater the scope the analysis, the more likely the activities will be considered material elements of financial planning);

d. the analysis of a client’s data and how wide-ranging the recommendations are (the more comprehensive the recommendations, the more likely the activities will be considered financial planning); and

e. providing investment advisory services as defined by the SEC will be considered financial planning.

5. Activities CFP Board may consider not to be material elements of the financial planning process include the following:

a. Completing paperwork to open a brokerage account
b. Acting as an order-taker for brokerage services
c. Engaging solely in sales activity related to insurance products
d. Acting as a mortgage broker without providing any other financial services
e. Completing tax returns without providing any other financial services
f. Teaching a financial class or continuing education program

Be aware that, per CFP Board, these preliminary guidelines are examples and not an all-inclusive list.

6. Financial planning letter of engagement (see sample in Appendix)

a. Exists whenever a certificant performs any type of mutually agreed upon financial planning service for a client
b. The CFP® certificant and the client should reduce the agreement to writing and, in the agreement, specify the financial planning services to be provided

1.) In these cases, a certificant is clearly providing financial planning

C. CFP® CERTIFICATION EXAM JOB TASK DOMAINS

Important note: You need to thoroughly understand these job task domains. Questions on the CFP® exam will test the CFP Board principal topics in the context of these eight domains. You will be required to not only understand the topics and their applications but also know the best actions a CFP® professional should take and when. These types of questions are presented throughout the Kaplan exam prep/review volumes, the online mock exams, and the exam prep/review practice QBank.

1. The six-step financial planning process is based on eight CFP Board job task domains:

a. Domain 1 - Establishing and defining the client-planner relationship
b. Domain 2 - Gathering information necessary to fulfill the engagement
c. Domain 3 - Analyzing and evaluating the client’s current financial status
d. Domain 4 - Developing the recommendations
e. Domain 5 - Communicating the recommendations
f. Domain 6 - Implementing the recommendations  
g. Domain 7 - Monitoring the recommendations  
h. Domain 8 - Practicing within professional and regulatory standards  

D. SIX-STEP FINANCIAL PLANNING PROCESS  
The financial planning process is based on the eight CFP Board job task domains as illustrated below.

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1. Step 1: Establishing and defining the client-planner relationship (Domain 1)  
a. Activities involved:  
   1.) Identify the client (an individual, a family, a business, an organization?)  
   2.) Discuss the client’s financial planning needs and expectations  
   3.) Explain issues and concepts related to the overall financial planning process as appropriate to the client  
   4.) Explain services provided by the CFP® professional and his firm  
   5.) Determine and communicate the CFP® professional’s ability to meet the client’s needs and expectations
6.) Identify and resolve apparent and potential conflicts of interest in client relationships

7.) Clarify the responsibilities of the client and the CFP® professional

8.) Define and document the scope of the engagement with the client

9.) Provide client disclosures
   a.) Regulatory disclosure
   b.) Compensation arrangements and associated potential conflicts of interest

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**ANALYZE AND APPLY**

George and Betty Steiner are a married couple, both age 62, with two adult daughters, Rachel and Katherine. The Steiners have recently received a considerable inheritance and, because they own a modest amount of assets, feel they should have a formal financial plan so that their finances are managed more appropriately. In their financial plan, they would also like to include a means to leave an inheritance to Rachel but, since they have been estranged from Katherine for many years, choose not to include her in their wills. They would also like to leave legacies to their six grandchildren. They have contacted Marie, a CFP® professional, for some financial planning assistance. The focus of Marie’s practice is primarily retirement planning, although in the past she has worked with other financial planners to create financial plans. During the initial meeting with the Steiners, Marie realizes that Katherine is also one of her financial planning clients, and last month she met with Katherine to discuss options for a future inheritance from her parents. Which of the following statements regarding Marie’s obligations at this stage of the client-planner relationship is(are) CORRECT?

1. Marie should evaluate and communicate her ability to meet the client’s needs and expectations.
2. Marie should resolve the potential conflict of interest as a result of her working relationship with Katherine.
3. Marie should identify who her client(s) will be and define the scope of the relationship with the client(s) before proceeding further.
4. Marie should ask the Steiners to provide information concerning their current wills so she can begin developing appropriate recommendations.

A. 3 only
B. 1 and 2
C. 2 and 4
D. 1, 2, and 3
Answer: D Statement 1 is correct. Because estate planning is not Marie’s primary area of expertise, she should assess and communicate her ability to meet the clients’ needs and expectations while establishing and defining the client-planner relationship. Statement 2 is correct. Marie’s working relationship with Katherine creates a potential conflict of interest because Katherine, as part of her financial planning process, is discussing a future inheritance she likely will never receive. Statement 3 is correct because Marie’s potential clients include the Steiners, their daughter, Rachel, and the grandchildren, all of whom may have differing needs and expectations. Statement 4 is incorrect. Marie should not ask the couple for information regarding their wills until she has established and defined the client-planner relationship and has resolved the potential conflict of interest with Katherine. (Domain 1—Establishing and Defining the Client-Planner Relationship)

b. CFP Board requires CFP® certificants to disclose the following verbally or in writing before entering into an agreement to provide financial planning services:

1.) The obligation and responsibilities of each party to the agreement
2.) Information regarding compensation that any party to the agreement or any legal affiliate to a party under the agreement will or could receive under the agreement
3.) Terms under which the agreement permits the certificant to offer proprietary products
4.) Terms under which the certificant will use other entities to meet any of the agreement’s obligations

c. Although this information can be disclosed either in writing or by discussing it with the client, verbal disclosures should be followed up with written documentation. If the information is presented in writing by the certificant, he must encourage the client or prospective client to review the information and answer any questions from the client or prospective client.

d. CFP Board requires a written agreement by the CFP® certificant or his employer if a certificant provides financial planning or material elements of the financial planning process to a client. The following information and disclosures must be in writing:

1.) The parties to the agreement
2.) The date and duration of the agreement
3.) How and on what terms each party can end the agreement
4.) The services to be provided under the agreement
5.) A precise and understandable description of the compensation arrangements being offered
6.) A summary of likely conflicts of interest between the client and the certificant, certificant’s employer or any affiliates or third parties, or interests of the certificant, certificant’s employer or any affiliates or third parties that appear to conflict with those of the client
7.) Any information regarding the certificant or the certificant’s employer that could realistically be expected to considerably influence the client’s decision to engage the certificant or that the client might reasonably want to know in establishing the scope and nature of the relationship (this includes information about the certificant’s area of expertise)

8.) Contact information for the certificant and, if applicable, the certificant’s employer
e. The requirement that information be disclosed in writing depends upon whether an agreement to provide financial planning services has been entered into by the planner and the client.

1.) Prior to an agreement: may be disclosed verbally or in writing

2.) With an agreement: must be disclosed in writing

A N A L Y Z E  A N D  A P P L Y

David has decided to retain Lucas, a CFP® certificant, as his financial planner. They discuss the services Lucas will provide and other details regarding the nature of their relationship. CFP Board requires a written agreement by Lucas detailing which of the following elements?

1. The date and duration of the agreement
2. A general description of the compensation arrangements being offered
3. Terms under which the agreement permits the certificant to offer proprietary products
4. Terms under which the certificant will use other entities to meet any of the agreement’s obligations

A. 1 only
B. 1 and 2
C. 2 and 3
D. 1, 2, and 3

Answer: A An element that must be in writing addresses the date and duration of the agreement. A precise and understandable description of the compensation arrangements being offered, not merely one that is general, must be included in a written agreement. The terms under which the CFP® professional will use other entities to meet any of the agreement’s obligations may be communicated verbally or in writing, as can the terms under which the certificant will use other entities to meet any of the obligations of the agreement. (Domain 1—Establishing and Defining the Client-Planner Relationship)

2. Step 2: Gathering information necessary to fulfill the engagement (Domain 2)
   a. Obtain information from client through interview/questionnaire regarding financial resources and obligations
   b. Determine client’s personal and financial goals, needs, and priorities
      1.) The planner should encourage the client to:
         a.) identify financial needs and set goals accordingly; and
         b.) prioritize multiple goals as financial resources may prove insufficient to fund them all.
2.) Examples of questions the financial planner may ask to assist the client when establishing goals and expectations, identifying needs, and developing priorities
   a.) What level and type of education would you like your children to have?
   b.) Do you own a business, and have you made provisions for someone to succeed you in ownership of that business? If so, what are the provisions?
   c.) Are you charitably inclined and, if so, what charities do you favor?
   d.) What provisions have you made for your minor children in the event you and your spouse die?
   e.) Have you been previously married, and are there children from that previous marriage or marriages? What arrangements have been made for child support, if applicable, or succession upon your death?
   f.) When would you like to retire and what type of lifestyle do you want at that time?

3.) Planners should make the questions as open-ended as possible.

**ANALYZE AND APPLY**

Nathaniel is meeting with his financial planner, Matthew, to identify his financial goals and objectives. Which of the following is(are) likely to take place as Matthew helps Nathaniel describe and list his goals and expectations?

1. Matthew encourages Nathaniel to prioritize his goals
2. Matthew tells Nathaniel what his other clients chose as financial goals
3. Matthew asks Nathaniel questions regarding the lifestyle he would like during retirement
4. Matthew makes recommendations regarding how Nathaniel can implement all of his goals

A. 1 only
B. 1 and 3
C. 2 and 4
D. 1, 2, and 3

**Answer: B** As Nathaniel defines his goals and expectations, Matthew may ask Nathaniel questions regarding any career changes, business succession, or retirement lifestyle. Additionally, Matthew may encourage Nathaniel to prioritize multiple goals as financial resources may not be sufficient to fund them all. This is not the time for Matthew to make specific recommendations; Nathaniel has not yet finalized his goals. Matthew should not let Nathaniel know what other clients select as financial goals. Nathaniel’s goals should be based on his specific circumstances. (Domain 2—Gathering Information Necessary to Fulfill the Engagement)

c. Assess client’s values, attitudes, expectations, and experience with financial matters—the planner should not allow his own values, attitudes, and expectations to influence his assessment of those of the client
d. Determine client’s life cycle phase

1.) As people progress through their life cycles, there is a tendency to move subtly among financial objectives as the result of changes in personal financial circumstances. These phases are known as:
   a.) Asset accumulation
   b.) Conservation/protection
   c.) Distribution/gifting

2.) Although not all people move through these phases at the same rate, a great number actually do. Financial planners can gain valuable insight into their clients’ objectives and concerns by identifying which phases their clients are in at a given time. Goals within the life cycle are influenced by the following:
   a.) Age—A 35-year-old client may have saving for retirement and providing income to his family should he die as goals, while a 65-year-old’s goals would more likely be having retirement income and using life insurance to leave an inheritance to his children and grandchildren.
   b.) Marital status and dependents—If married, mutual objectives should be considered. Children and parents dependent on the client will also influence goals (e.g., providing life insurance funds at the client’s death and saving for the care of elderly parents)
   c.) Financial status—Level of income and net worth will affect goals (e.g., tax savings strategies for higher net worth clients)
   d.) Special needs—Special needs may result from, but not limited to, disabled dependents, nontraditional relationships, and children from previous marriages.
   e.) Attitudes, values, beliefs, biases, and behavioral characteristics—Clients may have varying perspectives regarding financial matters, such as retirement or leaving a legacy.
3.) Asset accumulation phase
   a.) Begins between ages 20 and 25 and lasts until approximately age 45 or later if the client’s children are not yet independent. The beginning of the phase is characterized by the following:
   ■ Limited excess funds for investing
   ■ High degree of debt to net worth
   ■ Low net worth
   ■ Lack of concern for existing risks
   b.) As the person moves through the asset accumulation phase there is:
   ■ An increase in cash for investments
   ■ Less use of debt as a percentage of total assets
   ■ An increase in net worth

4.) Conservation/protection phase
   a.) Begins when one has acquired some assets, usually in late 30s or 40s
   ■ May last throughout the client’s working life or, in some cases, even until death
   ■ Also characterized by an increase in cash flow, assets, and net worth and typically some decrease in the proportionate use of debt
   b.) People generally become more risk averse as more assets are acquired. Thus, they:
   ■ are more concerned about losing what they have acquired than acquiring more; and
   ■ become aware of and are concerned with many risks they ignored at the beginning of the asset accumulation phase, including an increased awareness of life’s risks (e.g., untimely death, unemployment, or disability).

5.) Distribution/gifting phase
   a.) Begins subtly when the person realizes that he can afford to spend on things he may have never believed possible
   ■ At the beginning of this phase a person may remain in both the asset accumulation and conservation/protection phases
   ■ For many people, there is a period when they are being influenced by all three phases simultaneously, although not necessarily to the same degree
   b.) When clients purchase new cars for adult children, pay for a grandchild’s private school tuition, or treat themselves to expensive vacations, they are likely to be in the distribution/gifting phase
e. Determine client’s risk tolerance and risk exposure

1.) Risk tolerance: investor’s willingness to accept risk (e.g., declines in the value of his investments)

2.) The financial planner must know her client’s risk tolerance levels to help determine the types of investments and the style of risk management best suited for the client

3.) The planner can help the client develop the right mix (for that particular client’s circumstances and risk tolerance)
   a.) Between low premiums and high deductibles/low coverage or higher premiums with more coverage (for insurance considerations)
   b.) To determine the appropriate investment portfolio (for investment considerations)

4.) Risk tolerance levels are subject to misinterpretation because they are subjective. The statement, “I am not very risk tolerant,” may mean something different to each client. Therefore, additional questioning using open-ended questions is needed to ensure understanding. The planner should also ask about the client’s past actions during the market phases as an indication of his historical risk tolerance.

f. Collect applicable client records and documents including financial statements, tax and investment statements, insurance policies, education plan information, retirement and employee benefit details, estate planning documents, and business documents.

3. Step 3: Analyzing and evaluating the client’s current financial status (Domain 3)

a. General financial status – assets, liabilities, cash flow, budgeting, and debt management

b. Risk management and insurance evaluation (current insurance coverage, retained risks, asset protection, and client liquidity)

c. Government and employee benefits – availability, participation, and coverage levels

d. Investment evaluation – asset allocation, investment strategies, types of investments

e. Tax evaluation – income, estate, and gift tax issues; current tax strategies; tax compliance status

f. Retirement evaluation – current retirement plans and strategies, accumulation and distribution planning

g. Estate planning evaluation – documents, estate tax liabilities, asset ownership, beneficiary designations, and gifting strategies

h. Business ownership – business form, employer benefits, succession planning and exit strategy, and risk management

i. Education planning evaluation – sources of financing, tax considerations

j. Special needs – divorce/remarriage considerations, nontraditional couples planning, charitable planning, dependent adult needs, disabled child needs, and terminal illness planning
4. Step 4: Developing and communicating the recommendation(s) (Domains 4 and 5)

a. Creating client-specific recommendations tailored to meet the goals and objectives of the client, in line with client’s values, temperament, and risk tolerance
   1.) Synthesize (incorporate) all findings from the analysis of the client’s financial status into the recommendations.
   2.) Consider alternatives. In many cases, there may be more than one manner in which to achieve the client’s goals, and alternate approaches should be presented in the plan. Advantages and disadvantages of each approach should be clearly identified.
   3.) May involve input from a team of advisors (e.g., accountant, trust officer, or estate planning attorney). The financial plan should explain the specific responsibilities of the planner, the client, and any other advisors involved in implementing the plan.
   4.) Be mindful of the interrelationships of the financial planning recommendations.
   5.) A comprehensive plan should have detailed recommendations that are well-documented.

b. Collaborating with the client to ensure that the plan meets the goals and objectives of the client, revising the plan as needed

c. Communicating the recommendations to the client
   1.) Present a financial plan to the client reviewing:
      a.) Client goals
      b.) Assumptions
      c.) Observations and findings
      d.) Alternatives
      e.) Recommendations
   2.) When communicating the recommendations, use and understand the following:
      a.) Emotional intelligence: includes the ability to recognize emotional expressions in oneself and the client, as well as selecting socially appropriate responses to both the circumstances and the client’s emotions
      b.) Active listening: paying full attention to what the client is saying and responding by paraphrasing the client’s comments
      c.) Leading responses: guide the client to give more detail, making a “meeting of the minds” more likely
      d.) Body language: nonverbal messages involving facial expressions, gestures, and body posture
         ■ The tone, inflection, and quality of one’s voice more greatly influence the message conveyed than do the words actually spoken.
         ■ Impacts how clients receive messages more than any type of communication.
e.) Context: a client’s past history or conditions
   ■ Examples include attitudes, values, biases, behaviors, cultural influences, risk tolerance level, and experience in financial matters

3.) Once feedback is obtained, revise recommendations as appropriate

4.) Provide documentation of recommendations and any applicable disclosures to client

5.) Confirm client’s acceptance of recommendations

5. Step 5: Implementing the recommendation(s) (Domain 6)
   a. Create a prioritized implementation plan with timeline
   b. Assign responsibilities among the CFP® professional, the client and any other professionals (e.g., accountants, attorneys, real estate agents, investment advisers, stockbrokers, and insurance agents)
   c. Support the client directly or indirectly with the implementation of the recommendation(s)
   d. Coordinate and share information, as authorized, with others
   e. Determine monitoring responsibilities with the client (e.g., what will be monitored, how often, communication methods)

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**ANALYZE AND APPLY**

Grace is a wealthy client of Tom, a CFP® professional. She works with Tom to invest her retirement assets. Last year, Tom advised Grace that she was required to take an annual required minimum distribution (RMD) from her IRA. Since then, Grace has always calculated her annual RMD from her IRA, although Tom has offered to perform this task. She does, however, want Tom to check her calculations when she completes them. Last year, Grace was traveling the entire month of December and did not take the appropriate RMD. She is upset and feels Tom has violated professional conduct standards for not calculating the RMD in her absence. She believes Tom should reimburse her $10,000, the amount of the excise penalty for not taking the distribution. What should Tom do?

A. File a claim on his errors and omissions insurance for $10,000.
B. Sign a promissory note and agree to pay Grace $1,000 per year plus interest until the $10,000 has been repaid.
C. Transfer $10,000 from his business account to Grace’s bank account as it was really his responsibility as a planner to see that the RMD was taken.
D. Inform Grace that, unfortunately, it is ultimately her responsibility to assure appropriate RMDs are taken, and he would have been glad to do it had she advised him she would not be doing the calculations this year.
Answer: D While an unfortunate incident, ultimately, it is the client’s responsibility to assure compliance with the required minimum distribution rules. There is no mention of an agreement between Grace and Tom in which Tom was to calculate the RMD. Since Tom was not liable, there is no reason for him to arrange for any type of payment to Grace. Tom filing a claim with his errors and omissions insurance company because the error was made by Grace would be unethical. (Domain 6—Implementing the Recommendation(s))

6. Step 6: Monitoring the recommendation(s) (Domain 7)
   
   a. Discuss and evaluate changes in client’s personal circumstances (e.g., birth/death, age, illness, divorce, and retirement)
   
   b. Review performance and progress of the plan
   
   c. Review and assess changes in the legal, tax, and economic environments
   
   d. Make new recommendations to take into consideration changed circumstances
   
   e. Review the scope of work and redefine the client-planner engagement as appropriate
   
   f. Provide client ongoing support
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