

A decorative floral pattern in shades of gray and black, featuring stylized leaves and scrolls, occupies the top portion of the slide.

**CREATING ETHICAL HABITS AND INCREASING TRUST IN THE
FINANCIAL PLANNING PROFESSION**

TODAY'S AGENDA

- ❖ CFP Board Standards of Professional Conduct
- ❖ Suggestions for Creating Habits and Integrating the Standards for Professional Conduct into Your Workflow

THE LEARNING OBJECTIVES

1. Define elements of the fiduciary standard.
2. Determine when the fiduciary standard applies in a variety of financial planning contexts and scenarios.
3. Determine if a CFP® professional is providing financial planning services or material elements of financial planning services.

THE LEARNING OBJECTIVES

4. Explain CFP Board's compensation disclosure requirements to clients and prospective clients.

Note: This objective would require two disclosures:

- 1) one at the beginning of the client engagement providing a general description of how the client would pay for all of the services of the CFP® professional;
- 2) and one at the time the CFP® Professional makes specific recommendations to the client/prospective client.

THE LEARNING OBJECTIVES

5. Communicate any potential conflicts of interest to a client at the initiation of client engagement.

Note: This would require two disclosures –

- 1) one given at the beginning of the client engagement providing a general description of the CFP® professional's conflicts of interest;
- 2) and a second disclosure provided if a new conflict arises.

CREATING ETHICAL HABITS FOR THE FINANCIAL PLANNER

1. Understand the problem
2. Understand human nature
3. Know the Code of Ethics, Practice Standards, & Rules
4. Daily efforts to apply the Code routinely and make it part of our own nature

THE PROBLEM

- ❖ “Financial Services Continues to be the Least Trusted Industry Globally”¹
- ❖ 20% trust content marketing from financial institution reps²
- ❖ 28% of financial professionals feel the profession doesn’t put clients’ interests first³
- ❖ 29% believe they might need to be unethical to be successful³
- ❖ 24% admit they’d likely do something illegal given the right “reward” if they could get away with it³

1. 2014 Edelman Trust Barometer
2. 2014 NewsCred survey
3. Wall Street in Crisis: A Perfect Storm Looming, Labaton Sucharow’s U.S. Financial Services Industry Survey, July 2013

THE PROBLEM

“Young people see the industry as greedy, unethical, and, in some cases, illegal.” Mark Tibergien⁴

4. Osterland, Andrew. “Advisors slow to train successors.” May 1, 2014. *CNBC*. Web

OPPORTUNITIES/THREATS

Integrity & Engagement are 2 areas that can build trust, but the public believes we're underperforming these¹

29% U.S. respondents say there's not enough business regulation, but 49% say there's not enough financial service regulation. The less trust in a country's financial services the more desire for regulation.¹



A Lesson from Flight Attendants

and Starting Point #1: Keep it Simple

1. 2014 Edelman Trust Barometer

HUMAN NATURE

- ❖ We like simplicity...but expect professionals to do the complex.
- ❖ We professionals want to achieve the complex...simply

THIS IS NOT A CONTRADICTION!

- ❖ We can be impatient.
- ❖ We procrastinate.

THIS IS A CONTRADICTION!

- ❖ But we are also creatures of habit. (Even if that means we have the habit of having no definable habits!)

OPPORTUNITIES

There's hope for us yet!

Studies cite the public's desire for more integrity & more engagement.¹

Engagement: Interacting with people in ways they see your authentic integrity

Simple ways exist so we can adjust the habits we already have and, gradually (sorry, no instant gratification) improve our trust problem.

Starting Point #2 “Begin with the End in Mind.”

1. 2014 Edelman Trust Barometer

THE CFP BOARD CODE OF ETHICS

1. Integrity
2. Objectivity
3. Competence
4. Fairness
5. Confidentiality
6. Professionalism
7. Diligence

THE CODE OF ETHICS

What is one of the things all 7 principles share in common?

- It's a level of service each of us would like to receive for ourselves, whether we're ordering a cheeseburger or talking to our surgeon about the risks and our options.



ETHICS

Branch of philosophy that deals with morality. Ethics is concerned with distinguishing between good and evil in the world, between right and wrong human actions, and between virtuous and nonvirtuous characteristics of people.

-The American Heritage® New Dictionary of Cultural Literacy, Third Edition,
Copyright © 2005 by Houghton Mifflin Company.

ETHICS

Practically speaking?

The one who possesses character excellence does the right thing, at the right time, and in the right way.

Paraphrased from Book II of Aristotle's *Nicomachean Ethics*

And if we asked Aristotle how we should achieve this?

Practice makes perfect.

ETHICS



ETHICS

So how do we “practice” good ethics?

Starting Point #3

Use of Imagination & Manners to apply the Golden Rule

- ❖ The Theory of Moral Sentiments by Adam Smith
- ❖ Edmund Burke
- ❖ George Washington
- ❖ Emily Post

DEFINING FINANCIAL PLANNING

Financial planning is the process of determining whether and how an individual can meet life goals through the proper management of their financial resources.

Financial planning integrates the financial planning process with the financial planning subject areas.

DEFINING FINANCIAL PLANNING

The financial planning process consists of six steps, laid out in the Financial Planning Practice Standards.

This process helps your clients take a "big picture" look at where they are financially. Using these six steps, you can work out where they are now, what they may need in the future and what they must do to reach their goals.

THE 6 STEPS OF THE FINANCIAL PLANNING PROCESS

1. Establishing and defining the client-planner relationship
2. Gathering client data - including goals
3. Analyzing and evaluating the client's financial status

**THE 6 STEPS OF THE
FINANCIAL PLANNING PROCESS**

4. Developing and presenting financial planning recommendations and/or alternatives
5. Implementing the financial planning recommendations
6. Monitoring the financial planning recommendations

THE 6 STEPS OF THE FINANCIAL PLANNING PROCESS

Are these 6 steps unique to the financial planning process?

No. These steps may occur in connection with other activities including brokerage, investment advisory and/or insurance products or services.

Such as:

- ❖ gathering client data for suitability analysis
- ❖ recommendations for investments or insurance
- ❖ Implementation of products or services

FINANCIAL PLANNING SUBJECT AREAS

- ❖ Financial Statement Preparation and Analysis; including Budgeting and/or Cash Flow Analysis
- ❖ Insurance Planning and Risk Management
- ❖ Employee Benefits Planning
- ❖ Investment Planning
- ❖ Income Tax Planning
- ❖ Retirement Planning
- ❖ Estate Planning

**FINANCIAL PLANNING
SUBJECT AREAS**

Is there a requirement for a certain number of subject areas required for financial planning to occur?

No...

MATERIAL ELEMENTS OF FINANCIAL PLANNING

CFP Board is careful to typically require the same rules whether financial planning or material elements of financial planning are involved.

Material elements could include:

1. A detailed data-gathering on multiple aspects of a client's financial situation
2. Recommendations provided that cover multiple financial planning subject areas
3. Certain investment advisory services

**NOT MATERIAL ELEMENTS
OF FINANCIAL PLANNING**

- ❖ Completing account forms
- ❖ Data gathering for regulatory requirements for suitability, such as meeting accredited investor standards
- ❖ Providing only brokerage and/or insurance products or services

NOT MATERIAL ELEMENTS
OF FINANCIAL PLANNING

- ❖ Provided no other financial planning or material elements involved...
- ❖ Mortgage broker activity
- ❖ Tax return preparation
- ❖ Teaching

FACTORS IN FINANCIAL PLANNING

CFP Board includes these factors in defining financial planning:

1. The client's understanding and intent in engaging the certificant
2. The degree to which multiple financial planning subject areas are involved
3. The comprehensiveness of data gathering
4. The breadth and depth of the recommendations

FURTHERING THE DEFINITION OF FINANCIAL PLANNING

Consider the entirety of a client relationship.

- ❖ Is the 6-step process used?
- ❖ How detailed was the data gathering?
- ❖ How many financial planning subject areas are covered?
- ❖ What was communicated to the prospect or client?
- ❖ What is the client's understanding and intent?
- ❖ Is it reasonable for a client to assume they are receiving financial planning?

FURTHERING THE DEFINITION OF FINANCIAL PLANNING

Material elements do not have to be provided simultaneously for a financial planning engagement to exist.

Material elements can be delivered over a period of time
And can be delivered in distinct subject areas

A written agreement is required for a financial planning engagement, but not having one does not negate the financial planning engagement.

WHY IS THIS IMPORTANT?

Understanding when financial planning or material elements of financial planning is being offered or perceived informs

1. Our fiduciary duty requirement, and
2. What written disclosures are required.

THE FIDUCIARY STANDARD

Rule 1.4 “A certificant shall at all times place the interest of the client ahead of his or her own. When the certificant provides financial planning or material elements of financial planning, the certificant owes to the client the duty of care of a fiduciary as defined by CFP Board.”

THE FIDUCIARY STANDARD

Fiduciary “One who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.”



OUR MUTUAL BEST INTEREST

What if you're not sure if what you're engagement is financial planning or includes material elements?

Use the Fiduciary Standard.

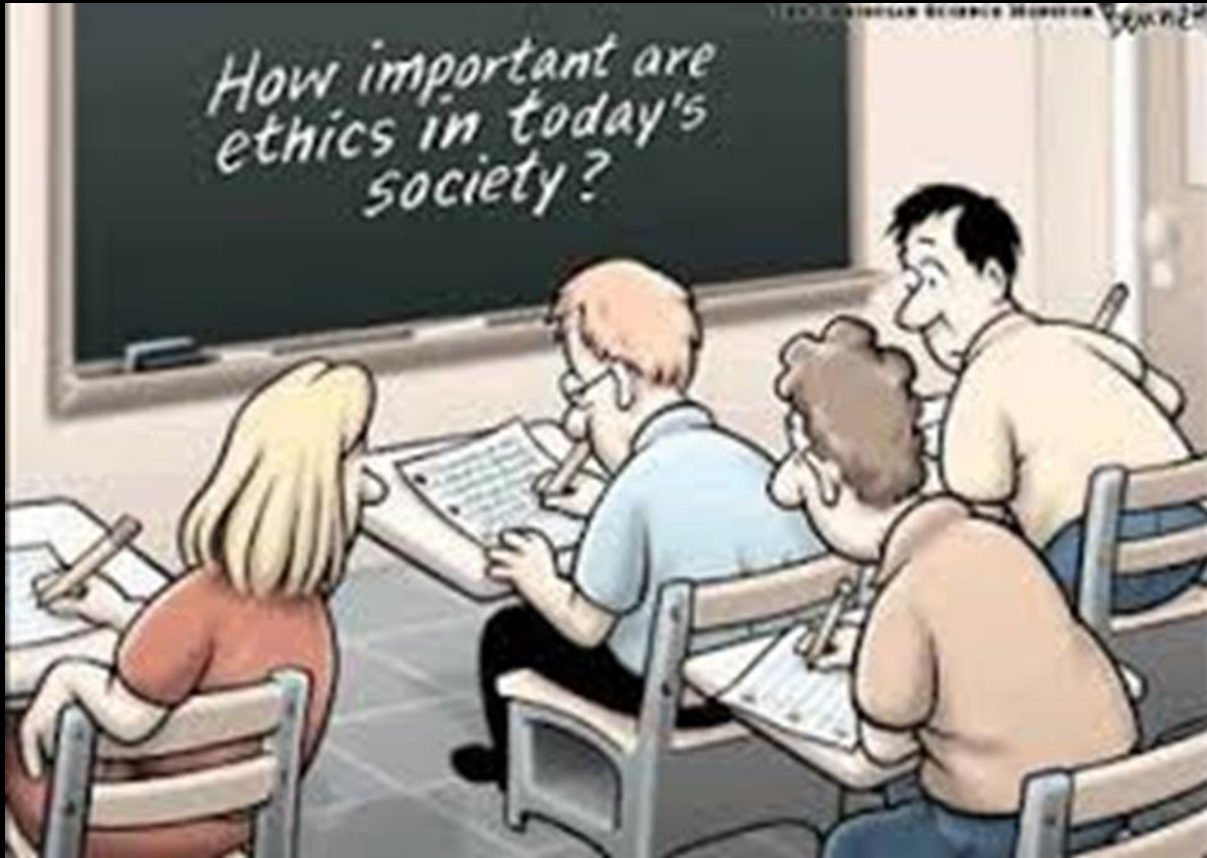
Wouldn't you want the same if you were a client?

10 MINUTE BREAK

Let's take a quick break...

Please be back in
10 minutes

Thank you!!



RECAP OF 1ST HALF

Creating Ethical Habits and Increasing Trust

The problem: Perceptions & Reality of Trust

Human Nature

3 Starting Points

1. Keep it simple
2. “Begin with the end in mind”
3. Practice using our imaginations as we apply the Golden Rule

HABITS

Human Nature as Personal Assistant

1. Keep it Simple – Go *with* the grain, not against it
2. Focus on Habit/Process Building...NOT the Results – Kill impatience by defining success with small tasks
3. Habit Stacking – Integrate small tasks into current habits or processes
4. Seek Moral Elevation

INTEGRATING THE STANDARDS INTO YOUR WORKFLOW

CFP Board offers several checklists and templates as a guide

CFP Board checklist and templates are not required and can be modified

The following is a sample process you can modify to meet your particular needs that emphasizes the Practice Standards and Rules of Conduct

Have a process that refines and better defines what you do for each client

Implement that process one task, one success, at a time

INTEGRATING THE STANDARDS INTO YOUR WORKFLOW

We will use a CRM software agnostic example by using a MS Word version of CFP Board sample documents.

This documentation could also be formatted as part of your workflow directly within some CRMs to eliminate the need for the separate checklists.

The order of events and the order of how I use the checklist seemed most appropriate for the presentation. This exact example may or may not work with your practice. Learning with trial and error within your own workflow using this as a base will likely be best for you.

MR. WHITE

Rex White has contacted your firm about rolling over his 401k and you agree to meet with him.

You meet and Rex brings just his 401k statement and asks you about your investment style, fees and performance. He makes it clear he's not interested in anything else at the moment.

Sample agenda

CFP Board Standards of Professional Conduct Compliance Checklist

MAKING DISCLOSURES

Don't reinvent the wheel...

CFP Board's Other Professional Service ([OPS](#)) form

CFP Board's Financial Planning Disclosure and
Agreement Sample ([FPDA](#))

MR. WHITE

Rex likes what he hears and agrees to work with you.

You take a copy of his 401k and basic information you need to make a recommendation and begin paperwork.

NECESSITY OF ONGOING DISCLOSURE

Proper disclosure is not a one-time event. Client engagements can evolve over time.

Rule 2.2: “The certificant shall timely disclose to the client any material changes to the above information.”

Disclosures must be updated on an ongoing basis so clients can make informed decisions with the most current AND most accurate information.

MR. WHITE

You arrive back at your office to enter your notes and your data into your CRM.

Your CRM links to your standard follow-up [letter](#) or email template for a prospect meeting and your specific client agreement is prepared.

Then link to the [CFP Board Standards of Professional Conduct Compliance Checklist](#) and check off Section A.

MR. WHITE

You analyze the case and make a recommendation.

Review your work by simply reviewing Section C.2 of the [Checklist](#) (or in your CRM).

Once you've checked off all of Section C.2 and reviewed C.3, you're ready to bring the client back in & your CRM workflow continues.

MR. WHITE

During your recommendation meeting, you must now disclose specifically how you will be compensated and review any other potential conflicts of interest before there is an agreement to implement the recommendations.

MR. WHITE

You had a successful presentation meeting. Your new client agreed to everything, you pointed out your specific fee, noted any potential conflicts of interest, and agreed on an appropriate portfolio review schedule.

Review your work one more time, post presentation meeting, by reviewing Section C.3 of the [Checklist](#) (or returning to your CRM).

Mr. White's checklist/agenda or other notation you use is saved alongside a copy of your engagement letter and attached to his CRM workflow to review at least once/year.

MR. WHITE: ONE YEAR LATER

Over the last year you've earned a greater degree of trust with Rex and he's gradually opened up to you about other aspects of his personal finances and goals.

Before your first annual review, he calls and says he would like to discuss his new business' succession plan, retirement goals, life insurance and estate plan.

So now you discuss financial planning.

MR. WHITE: ONE YEAR LATER

After the call, you enter your notes into your CRM and from there, pull up the [CFP Board Standards of Professional Conduct Compliance Checklist](#) and revisit Section A.

MR. WHITE: ONE YEAR LATER

This new financial planning relationship requires

1. Revising the Scope of the Engagement (Section A)
2. Revisiting compensation disclosures
3. Updating/gathering new data
4. A written agreement
5. A fiduciary standard

Per Rule 1.2 you must also encourage Rex to review the information and offer to answer any questions he has.

THE WRITTEN AGREEMENT

1. The parties to the agreement
2. The date of the agreement and its duration
3. How and on what terms each party can terminating the agreement
4. The services to be provided as part of the agreement

Clarity and ink can reduce misunderstandings and worse.

MR. WHITE: ONE YEAR LATER

Now, you have

1. An understanding from the client that you will be providing financial planning
2. General disclosures about your compensation & conflicts of interest for this engagement

The CFP Board's Financial Planning Disclosure Agreement ([FPDA](#)) provides a sample written agreement.

Section B of the Compliance Checklist gives you a guide for your client process.

MR. WHITE: ONE YEAR LATER

CFP Board Standards of Professional Conduct Compliance Checklist

Again, once you have specific recommendations to implement, you must disclose conflicts of interest and your specific compensation method(s) before implementation.

These and your other meeting notes, associated with the checklist, can all be maintained within your CRM and/or folder system for easy reference.

THE COMPLIANCE CHECKLIST SUMMARY

- ❖ First task might be to set up workflow from your CRM and/or Word Document.
- ❖ Then set up links to relevant checklists & guides (low-tech, but simple to put together, could get high tech integrating into CRM software systems.)
- ❖ Follow along with the Compliance Checklist (embed or print paper agendas/checklists/templates for the client/prospect files as you go) to walk through each step & check off as completed (Engagement Letter, FPD, FPDA and/or OPS).

GENERAL GUIDELINES

- ❖ Keep it simple
- ❖ “Begin with the end in mind” – and then begin with the simplest task to stack habits
- ❖ Use your moral imagination to apply the Golden Rule
- ❖ Engage with and confirm with clients & prospects about what’s been done and what the next step is.
- ❖ People don’t care how much you know until they know how much you care.
- ❖ Build trust, one prospect, one client, and one colleague at a time.

QUESTIONS?

If you have any questions about any of the *Standards of Professional Conduct* you may email CFP Board directly at

standards@CFPBoard.org

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ADDITIONAL RESOURCES

Personal Financial Planning Department at Texas Tech University
Continuing Education Resources

<http://pfpttu.inreachce.com/>

www.ethicalhabits.wordpress.com