

F U T U R E

R E A D Y



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*FPA Professionals*  
**CONGRESS**  
PERTH 23-25 NOV 2016

# Ethical Challenges

Learning through case studies 5 - 8

# HOW THIS WORKS

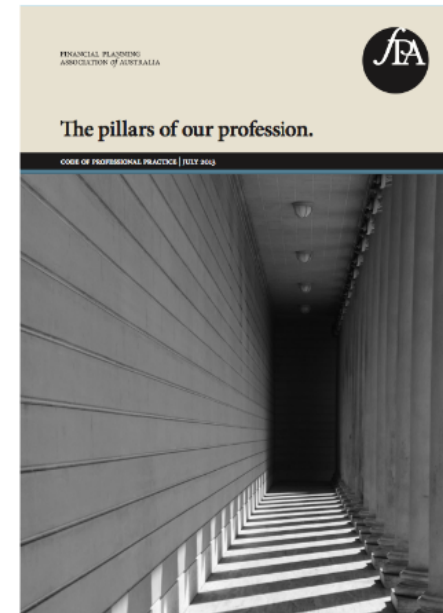
1 CPD Ethics

Present

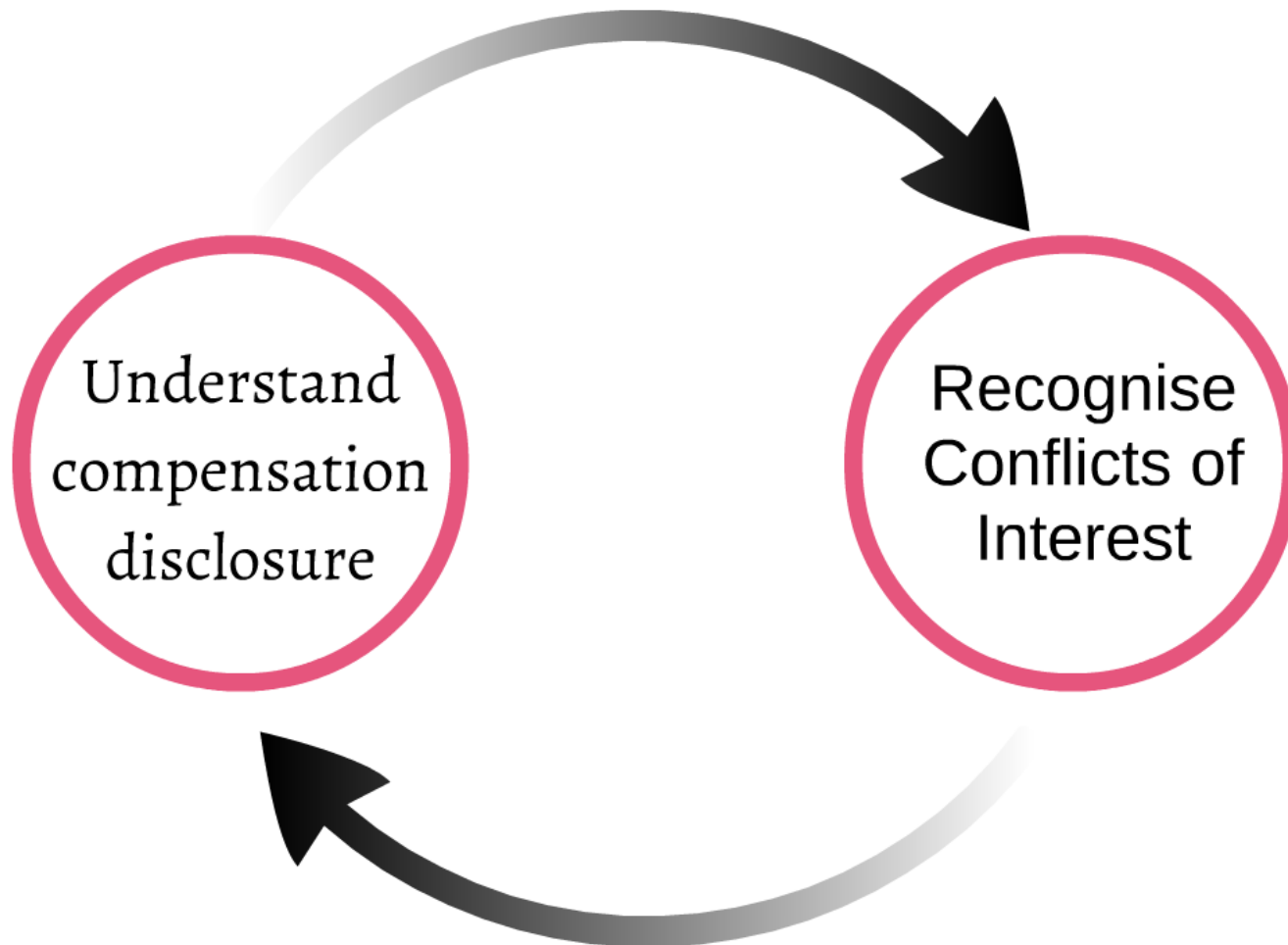
P - A - T

Apply

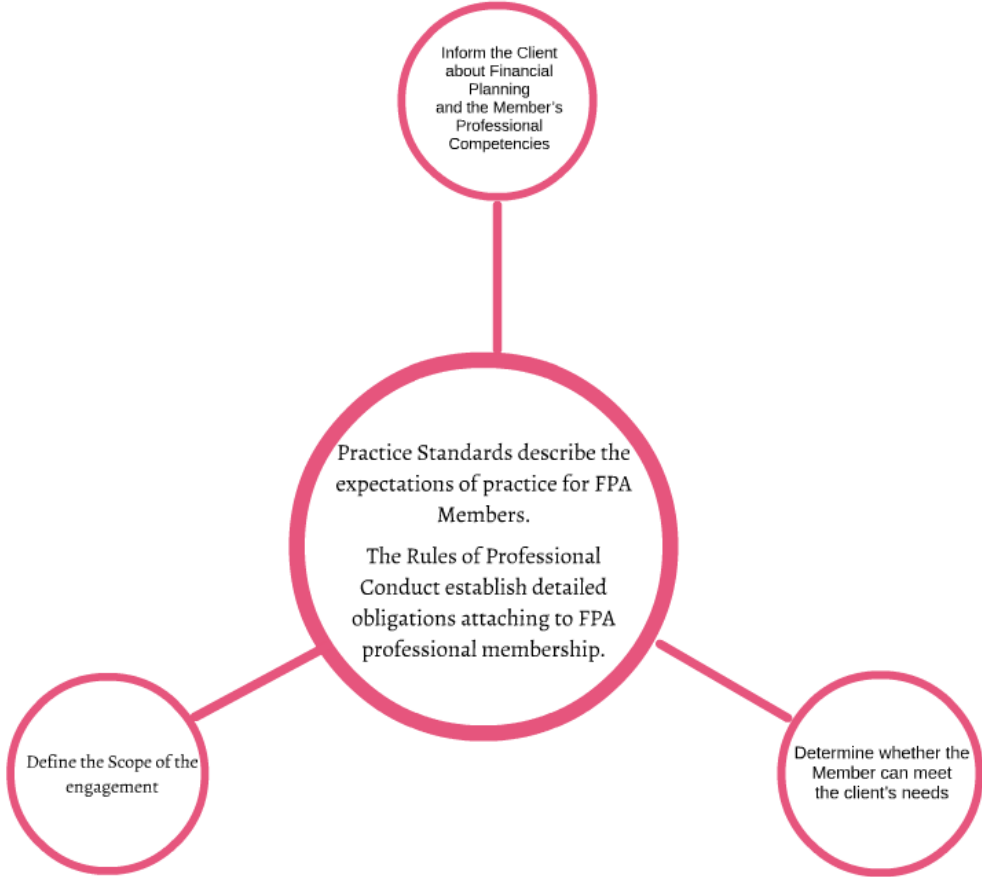
Test



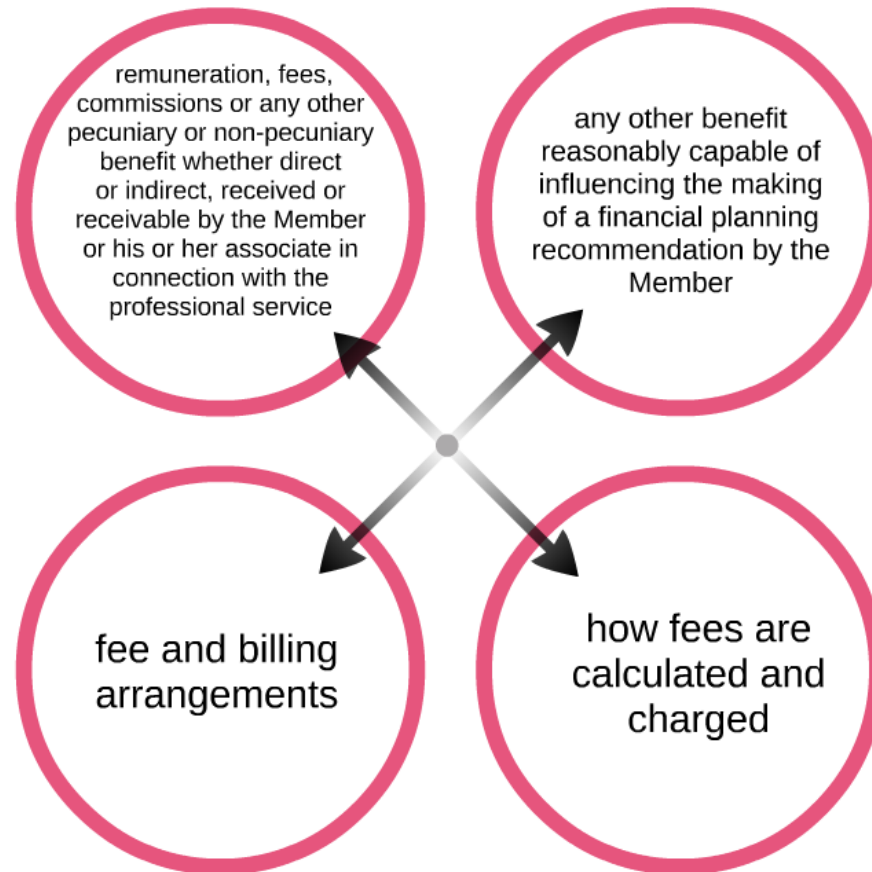
## Learning Objectives



# Engagement



# Rule 1.7 requires you to document





## Case Study 5

An advisor's firm charges commissions to some clients, but all of Marie's clients pay for their services through asset management fees or financial planning fees.

- How should this adviser disclose her compensation structure to her clients?
- Does this adviser's compensation structure meet FPA requirements to be called Fee-Only

## Case Study 5

**Can Marie use the term "Fee-Only"?**

A - Yes - all revenue is from fees

B - No - she does not not qualify

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# Compensation Disclosure

## Rules 1.1 - 1.9

Being sure that the client fully understands the scope, services and costs associated with the engagement

### Start

A Member must not charge a client, or cause a client to be charged, for a service without the client's consent to the service.

R 5.2(c) A Member must not implement a service for which the client is to be charged on an on-going basis without first agreeing a review point for the service.

R 5.2(d) The Member must disclose any conflicts of interest, sources of remuneration or material relationships with other professionals that have not been previously disclosed.

### Implementation Stage

### Recommendation Stage

#### Rule 4.12

....a Member must disclose to the client:

- (a) any remuneration, fees, commissions or any other pecuniary or non-pecuniary benefit whether direct or indirect, received or receivable by the Member or his or her associate in connection with the financial planning recommendations;
- (b) the Member's charging model;
- (c) the impact including any costs and benefits of the Member's charging model on:
  - i. the client's confirmed objectives, needs and priorities; and
  - ii. any selected strategy; if the recommendations are adopted and implemented;

### Ongoing

#### Rule 6.1

(b) provide the client with the opportunity to review any operative terms of engagement including the cost of a review or portfolio monitoring service;

#### Rule 6.3

(b) confirm delivery of any previously agreed services;  
(c) identify any services previously agreed but not utilised by the client;



## Case Study 6

### **What should Brandon do and when?**

A - Summarize now - details later

B - Wait until ready to take action

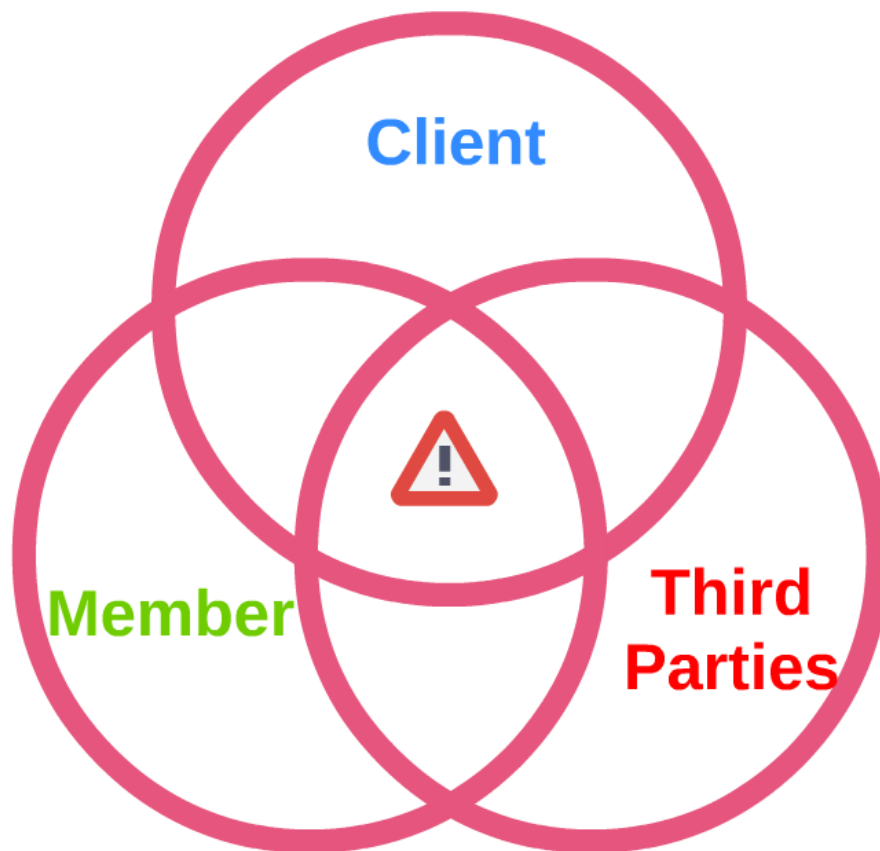
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## Case Study 6

A client wants to fund capital needs at death through the purchase of life insurance. These needs include debt reduction, support for a handicapped spouse and education expenses for 3 children.


- What does a CFP<sup>®</sup> professional need to disclose about compensation at the start of the relationship?
- What does a CFP<sup>®</sup> professional need to disclose about compensation when discussing specific solutions?

# Conflicts of Interest

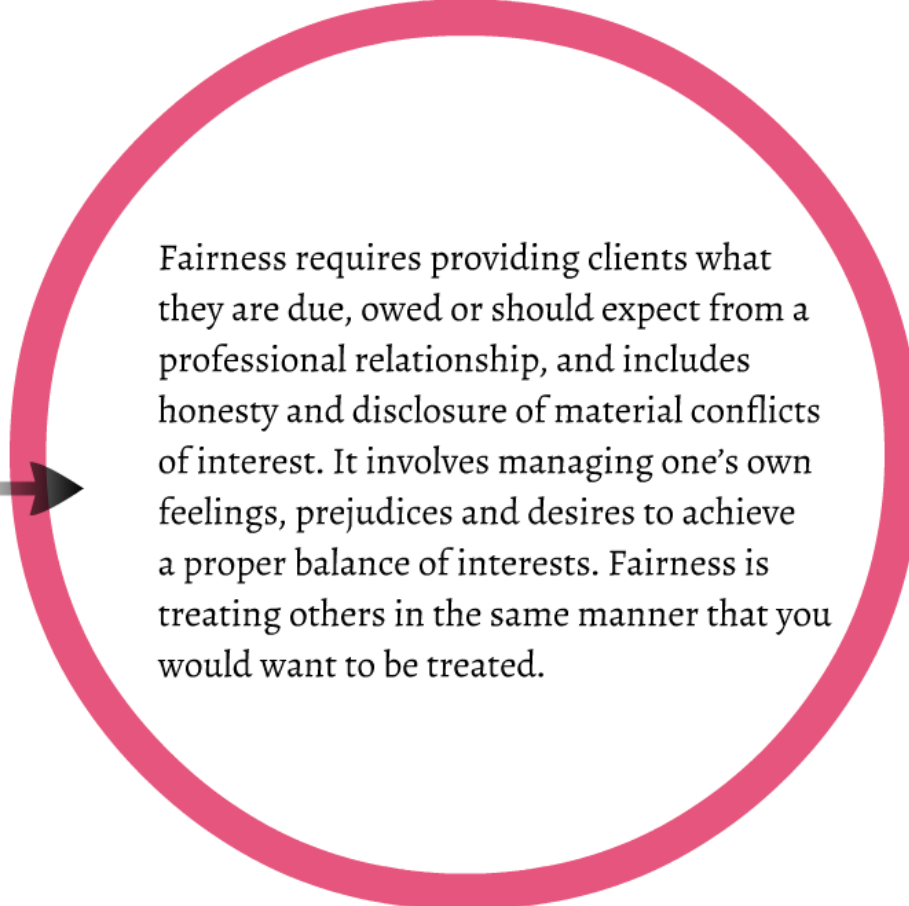




## Principle 4: Fairness



**BE FAIR AND  
REASONABLE IN ALL  
PROFESSIONAL  
RELATIONSHIPS.  
DISCLOSE AND  
MANAGE CONFLICTS  
OF INTEREST**



Fairness requires providing clients what they are due, owed or should expect from a professional relationship, and includes honesty and disclosure of material conflicts of interest. It involves managing one's own feelings, prejudices and desires to achieve a proper balance of interests. Fairness is treating others in the same manner that you would want to be treated.



## Case Study 7

A client approaching retirement wants to pay off mortgage debt using existing assets in a taxable investment account with modest capital gains exposure.

- What conflicts exist if the advisor uses an asset based charging model?
- What conflicts exist if the advisor uses an hourly rate/time based charging?
- What conflicts exist if the advisor uses service based charging?

## Case Study 7

### **What should Marie tell her client?**

- A - Tell client that Marie has a conflict of interest
- B - Ignore since the client pays less

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## Case Study 8

An advisor learns that he has a chronic medical condition that will worsen over time. Although the adviser's current work schedule is unaffected, there may be times when the advisors availability will be limited.

- What is the potential conflict for new clients?
- What is the potential conflict for existing clients?
- What must the adviser do if the condition deteriorates or improves?

## Case Study 8

### **What should Brandon do?**

A - Tell all clients

B - Tell only new clients

C - Tell no clients. It is a private matter

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# What is Required?

PS 7.5

Identify conflicts of interest

Professional integrity requires that the Member identifies where his or her interests and duties conflict and where a duty may conflict with other duties (e.g. duty to client with duty to third party).





## Conclusion

- CFP® Certification is voluntary
  - Good Ethics is good business
    - Fiduciary duty can be challenging
      - Everyone benefits when we uphold the standards