THE GLOBE AND MAIL

Strengthened standards proposed for certified financial planners

CLARE O'HARA

PUBLISHED AUGUST 15, 2018UPDATED AUGUST 15, 2018

Certified financial planners could soon be held to an updated set of standards as the Financial Planning Standards Council proposes several changes that would enhance an adviser's duty to put a client's interest ahead of their own, including prospective clients.

Last week, the Financial Planning Standards Council (FPSC) – which oversees the Certified Financial Planning (CFP) designation for approximately 18,500 individuals in Canada (excluding Quebec) – published a set of proposed amendments to its existing rules for public comment.

In 2017, the FPSC set up an independent panel to review its existing rules in today's financial planning environment. The panel, which comprises financial planners and members of the public appointed by the FPSC's board, proposed a number of changes to the "Standards of Professional Responsibility" as well as several new rules of conduct and the addition of a "duty of loyalty" in the Code of Ethics.

The introduction of the "duty of loyalty" will replace the existing "client-first" principle and enhance the duty requiring CFP professionals and those currently in the FPSC Level 1 certificate course to place the client's interests first by introducing specific obligations, including "the duty to act with honesty, integrity, competence and diligence; to disclose and mitigate conflicts of interest in the client's favour; and to act with the care, skill and diligence of a prudent professional."

One of the biggest changes in the amended standards is that which extends the CFP holder's obligations beyond existing clients to include prospective clients as well, Damienne Lebrun-Reid, managing director of standards for FPSC, said in an interview with The Globe and Mail.

Ms. Lebrun-Reid says this revision is intended to help clear up confusion over who is a client and who is in the process of becoming a client.

"Sometimes those relationships are not reduced to writing, so there is a need to define when that relationship actually started," she said. "Now, the rules are quite clear that you have an obligation to someone when you have a reasonable belief they are likely to become a client."

As well, reporting the costs of services and products to the client must be done in an accurate and understandable method. The focus of the amended rule is to communicate the known cost of services and products to the client, whereas the existing rule focuses on financial planner compensation. For example, the cost of individual services – such as a financial plan – will be clearly listed for clients. Financial planners are still required to disclose, in writing, contingency and referral fees received.

This focus is consistent with the expectations of other professionals – such as lawyers – where the focus really becomes more client-centric, Ms. Lebrun-Reid said.

Other proposed amendments include a prohibition on lending to and borrowing from clients, disclosing the specific financial-planning services a planner will perform for a client and confidentially agreements extending beyond the end of a client relationship.

The amendments are open for public comment until Sept. 14, with the revised standards expected to take effect in January.

FOLLOW CLARE O'HARA ON TWITTER @OHARACLARE