




FINANCIAL PLANNING STANDARDS BOARD



## Guidance for Candidates Developing a Financial Plan

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## INTRODUCTION

FPSB's Financial Planner Assessment Framework relies on an assessment approach that integrates theory and practice to assess a candidate for financial planner certification's ability to develop viable financial plans for clients.

Candidates for financial planner certification should demonstrate mastery of the elements described in FPSB's Financial Planner Competency Profile, along with FPSB's Financial Planning Practice Standards, when developing written financial plans for assessment by the certifying body.

FPSB's Financial Planning Framework provides a format for entrants to the financial planning profession to integrate among fundamental financial planning practices, Financial Planning Components<sup>1</sup>, Financial Planner Abilities and Financial Planning Practice Standards when creating written financial plans for clients.

FPSB's Financial Plan Case Study provides candidates for financial planner certification the opportunity to: evaluate a fictitious client's financial situation, goals, needs and objectives; determine key areas that need to be addressed in a written financial plan; identify what additional information is needed to develop a viable financial plan; and develop strategies and recommendations and present them in writing in a manner understandable to the client.

FPSB has developed this Guidance for Candidates Developing a Financial Plan to assist certifying bodies in introducing a financial plan component to their certification assessment, and assess candidates' ability to develop viable written financial plans for clients, based on information and instructions provided by the certifying body in a Financial Plan Case Study.

Candidates for financial planner certification are required to independently develop a written financial plan for a fictitious client, based on information provided by the certifying body in the Financial Plan Case Study. The issues presented in the Case Study are intended to assess whether a candidate has the abilities, skills and knowledge to analyze and synthesize information across different Financial Planning Components, develop strategies, and make appropriate recommendations to meet the client's financial planning goals and objectives.

The financial plan developed by the candidate should clearly demonstrate that he or she is capable of delivering a viable written financial plan for the profiled client, supported by appropriate assumptions, sound decision-making and relevant data. Within the financial plan, the candidate should cover all of the required Financial Planning Components and appropriate professional skills included in the Case Study. Explanations should be clear and concise, in language understandable to the client.

The candidate should be familiar with the Financial Planner Professional Skills described in FPSB's Financial Planner Competency Profile, and should demonstrate mastery of the elements of the Competency Profile. The candidate should demonstrate his or her adherence to FPSB's Code of Ethics and Professional Responsibility by not including advice or information contradictory to the Code in the written financial plan.

<sup>1</sup> Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning.

## PROFESSIONAL SKILLS

FPSB's Financial Planner Professional Skills (described in FPSB's Financial Planner Competency Profile) form an integral part of what the candidate needs to master to be able to develop a financial plan independently, based on FPSB's Financial Planner Assessment Framework.

An entrant to the financial planning profession needs to be able to integrate appropriate Professional Skills (at an appropriate level of competence and professionalism) with appropriate knowledge and abilities into each of his or her professional actions and interactions with clients. The candidate should demonstrate the ability to integrate Professional Skills into his or her strategies and recommendations in the written financial plan.

A candidate's demonstration of Professional Skills is assessed qualitatively based on the production of a financial plan. Not all professional skills can, or will, be assessed using a written financial plan assessment. However, candidates should demonstrate in the financial plan that they have adhered to the following Financial Planner Professional Skills, as described in FPSB's Financial Planner Competency Profile:

### Professional Responsibility

- Demonstrate ethical judgment;
- Demonstrate intellectual honesty and impartiality (or make clear, concise and effective disclosure of any conflicts of interest); and
- Recognize limits of competence and voluntarily seek the counsel of and/or delegate to other professionals when appropriate.

### Practice

- Comply with relevant financial services laws and regulations;
- Make appropriate judgments in areas not addressed by the laws of professional practice standards;
- Keep up to date with changes in the economic, political and regulatory environments;
- Conduct appropriate research when performing analysis and developing strategies; and
- Demonstrate a reasonable basis for advice.

### Communication

- Construct written communication (e.g. with no spelling or grammatical errors) in a manner that is likely to be readily understood by the client and others (professional or layperson) that the client may choose to consult; and
- Provide a reasonable basis for any advice.

### Cognitive

- Apply mathematical (quantitative and qualitative) methods as appropriate;
- Analyze and integrate information from a variety of sources to arrive at solutions;
- Use reasoning to evaluate potential courses of action; and
- Arrive at qualified decisions when faced with incomplete or inconsistent information.

## **PROFESSIONAL AND LEGAL COMPLIANCE**

Professional compliance and legal compliance form an integral part of financial planning. Entrants to the financial planning profession should understand and adhere to all applicable legal and professional compliance requirements for the practice of financial planning in the applicable jurisdiction. FPSB's Financial Planner Professional Skills calls for financial planning professionals to comply with relevant financial services laws and regulations (PS.201) and adhere to a professional code of ethics and standards of practice (PS.202).

The candidate should also demonstrate compliance with the certifying body's requirements for adhering to FPSB's Code of Ethics and Professional Responsibility and Financial Planning Practice Standards. (Note: Failure to comply, or inadequate performance by the candidate in complying, with relevant legislative or regulatory requirements in the submitted written financial plan, would be subject to penalty during grading of the assessment by the certifying body.)

## CANDIDATE GUIDANCE

### 1. Financial Plan Content

Financial plan submissions should include the following sections:

#### 1.1 Table of Contents

The financial plan should include a Table of Contents page, indicating page numbers, and a clear hierarchy of headings and appendices.

#### 1.2 Executive Summary

The financial plan should include an executive summary that outlines:

- The client's goals, concerns and objectives;
- Relevant financial data and key findings; and
- The candidate's recommendations, including a clear action plan for the client(s) and how the recommendations address the client's needs, concerns and objectives.

The executive summary should be able to stand alone as an independent document – a “snapshot” of the financial plan as a whole.

#### 1.3 Page Numbering

All pages of the financial plan, including appendices, should be numbered consecutively.

#### 1.4 Plan Structure

Other than the requirements for the Table of Contents and Executive Summary described in 1.1 and 1.2, the structure of the financial plan and how information is presented is up to the candidate's professional judgment. However, the structure should be logical and should facilitate the client's ability to understand the financial plan.

#### 1.5 Generic Material

The inclusion of material of a generic or general nature (i.e., material not clearly linked to the client's specific needs, concerns and objectives) is not viewed favorably during marking of the plan. If the candidate believes it is necessary to include such material, he or she should include the material in the financial plan's appendices.

##### *Future Illustrations*

Illustrations of future values should be realistic and based on justified and stated assumptions about rates of return and other economic factors. Such rates and information should be based on reputable research or other reliable sources and should be clearly stated in the financial plan.

##### *Diagrams and Tables*

The candidate should use tables and diagrams only where they will add to the client's understanding. When included in the body of the financial plan, diagrams and tables should be clearly explained in the accompanying text. Do not assume that diagrams and tables are self-explanatory. Diagrams and tables should be appropriately titled/labeled, numbered sequentially, and sources (where relevant) should be properly recognized.

#### 1.6 Appendices and Attachments

While useful as additions to a financial plan, appendices and attachments are expected to be used sparingly and only where they are likely to aid understanding or provide support to the financial plan. Appendices and attachments should be relevant and cross-referenced in the financial plan. Appendices of a general nature that are not relevant to the financial plan or to the client's situation would not be viewed favorably during marking of the plan. It may be appropriate to include certain data in appendices, but the candidate should be selective, indicating in the body of the plan why such material has been included and how it adds value.

## **1.7 Financial Planning Software**

If allowed by the certifying body, financial planning software may be used to assist with the preparation of the financial plan, but it must not be, or appear to be, a substitute for the candidate's own input. Where used, such software should be appropriately referenced in the financial plan's reference list or as a footnote to the page on which the calculation appears.

In some instances, the software used to help a financial planning professional determine the optimal approach for a client may create scenarios. A candidate would not receive a favorable grade in the marking process if he or she relied heavily on such material when developing the financial plan, or if the strategy appears to have been determined by the software rather than the candidate. The financial plan should demonstrate the candidate's understanding of the client issues, both qualitative and quantitative, the critical thinking that led to the strategies developed, and the underlying rationale, with recommendations clearly linked to the client's goals, needs and objectives. Software-generated text modules should be used sparingly and should be adapted to match the client's situation.

## **1.8 Prohibited Inclusions**

The financial plan should not include research profiles, investment memoranda, insurance quotations, product brochures, prospectuses or any product-advertising material. To demonstrate familiarity with the content and purpose of such documents, the candidate may refer to them in the plan and/or include a list of documents that would ordinarily be provided to the client in the appendices. The financial plan should reference any research reports and/or prospectuses that would need to be provided to the client to satisfy legal, compliance and professional practice requirements.

## **1.9 Compliance**

The financial plan should demonstrate that the candidate understands applicable compliance requirements with financial services laws and regulations in the territory, as well as FPSB's Code of Ethics and Professional Responsibility and Financial Planning Practice Standards.

### *Disclosures*

The candidate should meet his or her obligation to the client to disclose his or her identification, the firm's identity, the relationship between the adviser and the firm, and any other statutorily required disclosure on the front page and/or in a cover letter. Additionally, the plan should include a separate section, identified in the Table of Contents, disclosing the cost to the client for the plan and the implementation of the recommendations (if applicable), the financial planner's compensation and any conflicts of interest, to allow the client to understand the total cost of the financial plan and of implementing the recommendations, and to understand any conflicts the candidate may have in advising the client.

### *Disclaimers*

The candidate should clearly communicate in a separate disclaimer section, identified in the Table of Contents, any limitations he or she may have with regard to the scope of services to be performed and how those limitations may affect the recommendations provided in the financial plan.

### *Engagement letter*

The candidate should be required to include an engagement letter, specifying such details as the scope of services, responsibilities, costs, timeframes, and termination requirements of the engagement. The certifying body should provide further guidance on the format of the engagement letter required.

## **1.10 General and Key Assumptions**

The certifying body will supply information in the case study related to general and key assumptions about the client, and market-related information. All other assumptions made by the candidate should be clearly stated in the financial plan, must be reasonable and not in conflict with the given facts of the case study (see Section 2.1).



### **1.11 External Professionals**

If part of the financial plan requires a referral to, input from or completion by an external professional (e.g. a lawyer, accountant, etc.), the candidate should identify the need, include strategic analysis and comment on the desired or likely outcomes and how these relate to the client's situation. Simply stating that a matter will be referred to an external professional would not be viewed favorably during marking of the plan. The financial plan is not expected to include copies of referral letters to external professionals.

### **1.12 External Sources**

Material from external sources should be appropriately acknowledged and referenced in the financial plan. Paraphrasing or quoting a source without appropriate attribution is plagiarism, which would be penalized and/or investigated under the certifying body's assessment policies and procedures.

### **1.13 Marking**

Refer to Section 3 of this document for information on the marking scheme. All essential elements that are relevant to the case study should be included in the financial plan, as these are the criteria against which the plan is marked. Points could be deducted if information is included in the financial plan without explanation of its relevance to the client.

## 2. Financial Plan Criteria

Candidates should use the following FPSB Financial Plan Framework elements (see also FPSB's Financial Plan Framework for further guidance) to develop a financial plan for the client.

Guidance is provided for each element to indicate the types of information and issues the candidate may address in the financial plan. Not all of the guidance items or questions may be relevant for the particular Case Study for which the candidate is developing a financial plan, nor are they meant to represent all of the considerations necessary for satisfactory development of the financial plan.

### 2.1 Data

The information in the Case Study is intended to provide enough data to give the candidate a thorough understanding of the client and his or her approach to financial issues and life goals. The personality of the client is also explained in the case material.

If the candidate believes information required to complete the financial plan is not included in the Case Study material, the candidate may make additional assumptions to develop the financial plan. Each additional assumption must be specified together with a clear explanation of the reason why the candidate believes it is required. The assumptions should be on a separate sheet of paper headed "Additional Assumptions." In all cases, additional assumptions may only be used to clarify the facts of the Case Study supplied; any resulting change to the client's circumstances or future prospects must be minimal (see Section 2.2).

During the data collection process, the candidate should identify material information required to structure the financial plan and determine what material changes in the client's personal and financial situation should be considered. The candidate should identify and review information on the following to enable analysis of the client's situation:

#### *Financial Management*

- The client's assets and liabilities;
- The client's cash flow, income and/or financial obligations;
- The client's use of bank accounts, credit and other cards and debt;
- The client's present and future budgets; and
- The client's current savings and planned spending.

Where appropriate, the candidate should prepare statements of the client's net worth, cash flow and budget.

#### *Asset Management*

- The client's investment holdings covering all types of assets (e.g. real estate, commodities, etc.);
- The client's current asset allocation; and
- The client's cash (lump sums and/or anticipated future flows) available for investment.

#### *Risk Management*

- The client's existing insurance coverage; and
- The client's potential financial obligations and inadequately covered risks.

#### *Tax Planning*

- The client's tax position;
- The taxable nature of the client's assets and liabilities; and
- Parties relevant to the client's tax situation.

#### *Retirement Planning*

- Potential sources of the client's retirement income; and
- The client's estimated retirement expenses.

#### *Estate Planning*

- Legal agreements and documents that impact the client's estate planning strategies, such as a testament/last will, testamentary contract, prenuptial agreement, company agreement, information related to existing foundations and trusts, etc.; and
- Matrimonial property regime applicable and assets subject to exceptions.

## **Additional Assumptions**

The additional assumptions used by the candidate to determine the outcomes of the analysis and related calculations are crucial to the overall viability of the financial plan. Inappropriate assumptions can lead to suboptimal or incorrect recommendations. The candidate must clearly identify assumptions, provide suitable support (e.g. by naming a recognized, reputable source) and understand the impact of the assumptions within the body of the financial plan. The following assumptions (if not provided in the Case Study as general and key assumptions) may be considered but should not be in conflict with any of the given facts of the Case Study:

### *Financial Management*

- Income sources;
- Financial ratios;
- Present and likely future tax rules and rates;
- Present and likely future inflation rates, with support; and
- Present and likely future interest rates, with support.

### *Asset Management*

- Likely future investment returns, with support;
- Expected portfolio rate of return, and risk level (i.e. appreciation and dividends);
- Asset allocation and reasonable basis;
- Investment time horizon(s);
- Tax rules and rates;
- Likely future inflation rates, with support; and
- Likely future interest rates, with support.

### *Risk Management*

- Life expectancy, limitations and approach to dealing with these;
- Health factors; and
- Risk factors.

### *Tax Planning*

- Tax law and rates; and
- Changes in tax regime.

### *Retirement Planning*

- Retirement age;
- Life expectancy and application (e.g. may live to what age);
- Income needs at identifiable stages;
- Income sources in retirement (in today's value and/or as a percentage of pre-retirement income);
- Initial withdrawal amount in first year of retirement and at later times (in today's value and/or as a percentage of initial fund);
- Tax and state pension rules and rates;
- Likely future inflation rates, with support; and
- Likely future interest rates, with support.

### *Estate Planning*

- Life expectancy;
- Growth rates for various asset classes, with support;
- Income needs of beneficiaries;
- Tax rules and rates;
- Likely future inflation rates, with support; and
- Likely future interest rates, with support.

## 2.2 Attitudes, Goals and Objectives

The candidate should identify the client's attitudes (needs and values), goals and objectives that have financial implications. Issues for consideration include:

- Are the client's goals specific, measurable, realistic and achievable?
- What, in the candidate's opinion, are the factors that motivate the client?
- How much capital will the client need to meet future goals?
- Is the client's capital likely to remain intact or diminish in value in relation to the client's anticipated life expectancy?
- Does the client have the capacity to save? Should the client's current savings rates change?
- How much capital will the client need to meet the capital requirements for his or her dependents in the event of death or disability?

The candidate should determine and assess the following:

### *Financial Management*

- The client's propensity/capacity to save;
- How the client makes spending decisions; and
- The client's attitude toward debt.

### *Asset Management*

- The client's investment objectives; and
- The client's investment horizon.

### *Risk Management*

- The client's risk management objectives; and
- The client's risk management needs.

### *Tax Planning*

- The client's current, deferred and future tax liabilities.

### *Retirement Planning*

- The client's retirement objectives.

### *Estate Planning*

- The client's estate planning objectives;
- The client's goals with regard to anticipatory succession; and
- The specific needs of the client's beneficiaries.

## 2.3 Issues and Problems

The candidate should identify issues and problems that could materially impact the financial plan content and recommendations (e.g. legal issues, the client's attitude toward risk, the client's level of financial sophistication, etc.). In addition, the candidate should consider the impact of economic, political and regulatory issues on the financial plan strategies and recommendations.

- What, in the candidate's opinion, are the existing concerns?
- What are the potential future problems?
- Does the client have a manageable debt level?
- Is the client's stated risk profile consistent with the expressed concerns?
- Is the client's stated risk profile in line with asset allocation?

The candidate should evaluate issues and problems related to the following:

### *Financial Management*

- The client's assets and liabilities; and
- The client's emergency fund provision.

#### *Asset Management*

- The client's experience with and attitudes and biases toward investments;
- The client's tolerance for investment risk (covering both attitude risk and capacity to absorb the impacts of investment risk); and
- The client's assumptions and return expectations.

#### *Risk Management*

- The client's tolerance for risk exposure;
- The client's relevant lifestyle issues;
- The client's relevant health issues; and
- The client's willingness to take active steps to manage financial risk.

#### *Tax Planning*

- The client's attitude toward taxation.

#### *Retirement Planning*

- The client's attitude toward retirement; and
- The client's comfort with retirement planning assumptions.

#### *Estate Planning*

- Family dynamics and business relationships that could impact the client's estate planning strategies.

## **2.4 Analysis**

The candidate should consider opportunities and constraints, including the inter-relationships among Financial Planning Components, when analyzing the client's attitudes, goals, objectives and information to develop and prioritize strategies. The candidate should consider potential opportunities and constraints relating to the following:

#### *Financial Management*

- Whether the client is living within his/her financial means – calculate surplus/shortfall in income;
- Whether any existing emergency fund is adequate;
- The place and management of debt in the client's financial plan;
- The impact of potential changes in the client's income and expenses; and
- Conflicting demands on the client's cash flow.

#### *Asset Management*

- Required rate of return to reach the client's objectives;
- Whether the client's investment return expectations are consistent with the client's risk tolerance;
- Achieving the client's investment income needs;
- The characteristics of the client's investment holdings;
- The implications of the client acquiring/disposing of assets; and
- Whether the client's asset holdings are consistent with the client's risk tolerance and required rate of return.

#### *Risk Management*

- Characteristics of the client's existing insurance coverage (including possible tax on insurance proceeds);
- The client's exposure to financial risk;
- The expectations of survivors if an insured event should occur;
- The client's risk exposure compared to current insurance coverage and risk management strategies;
- The client's preference for insurance and alternative strategies for managing risk exposure; and
- The implications of changes to the client's insurance coverage.

#### *Tax Planning*

- The client's current and future tax position;
- The suitability of existing tax strategies and structures; and
- The financial impact of tax planning alternatives on the client.

### *Retirement Planning*

- Financial projections based on the client's current position and arrangements;
- The appropriateness (specificity, measurability, achievability, reasonableness) of the client's retirement objectives;
- The client's financial requirements during retirement (retirement funding gap);
- The sensitivity of future illustration to changes in key assumptions;
- Trade-offs necessary to achieve the client's retirement objectives; and
- New recurring investment needed if there is no alternative to cover a future shortfall.

### *Estate Planning*

- Succession planning consequences;
- The client's net worth at death;
- Risks and benefits in alternative asset ownership and transfer alternatives;
- Potential expenses and taxes due at the client's death;
- The liquidity of the client's estate at death; and
- Liquidity of heirs at client's death (e.g. can inheritance tax be met?).

## **2.5 Strategies and Alternatives**

Based on the data collected, identification of the client's attitudes, goals and objectives, and analysis of the opportunities and constraints, the candidate should consider and develop strategies for the financial plan, evaluating each strategy in the following areas where relevant to the facts of the Case Study: financial management, asset management, risk management, tax planning, retirement planning and estate planning.

## **2.6 Synthesis and Recommendations**

The candidate should develop and prioritize the financial planning recommendations. The candidate should determine the recommendations that best suit the client's situation. To demonstrate that the recommendations suitably and optimally meet the client's attitudes, goals and objectives, the candidate should integrate the strategies and recommendations across the areas of financial management, asset management, risk management, tax planning, retirement planning and estate planning as required by the facts of the Case Study.

The candidate should provide the client with a clear explanation of his or her risk profile and the impact this profile has on investment strategies and recommendations, and address the relationship between the client's stated risk profile and financial concerns and objectives.

In all analyses and recommendations, the candidate should prove his/her holistic understanding of the client's financial plan by showing relevant relationships among liquidity issues, tax issues, risk/return-issues, etc.

## **2.7 Implementation**

The candidate should consolidate the recommendations and action steps for the client into a financial plan. The candidate should demonstrate how the recommendations need to be implemented. The candidate should provide an action list that summarizes what needs to be done, by whom, and when (including a date or dates where appropriate).

The candidate should set out action steps to assist the client in understanding and acting as required to implement recommendations for the financial planning components covered in the financial plan. Each action step should refer to a timeframe, the person responsible, and (when appropriate) indicate the level of importance for achieving the client's objectives.

## **2.8 Periodic Reviews**

The candidate should recommend an appropriate review cycle in the financial plan, determine benchmarks for measuring success against the client's current expectations, and identify each party's responsibilities to review the financial plan. Issues the candidate could address include:

- The level of review service to be provided;
- The frequency of financial plan reviews;
- Other features and benefits associated with the review process;
- The cost of financial plan reviews;
- Anticipated changes in the client's situation (e.g. birth, death, marriage, etc.); and
- Anticipated legal changes.

### 3. Marking Scheme

#### Assessment Criteria

Assessors appointed by the certifying body will look for the following when assessing a financial plan submission:

- Attention to the 11 essential elements of a financial plan (see FPSB Financial Plan Framework);
- Relevance and attention to the specific client situation outlined in the Case Study;
- Depth of analysis of client situation;
- Appropriateness of financial strategies and recommendations;
- Demonstrated understanding of financial planning principles and concepts;
- Quality of presentation of the financial plan including logical structure, language suited to the client, use of tables, diagrams and appendices to aid client understanding, spelling and grammar (refer to Section 1);
- Accurate use of terminology;
- Accuracy of calculations; and
- Compliance with legal and regulatory requirements and with FPSB's Code of Ethics and Professional Responsibility and Financial Planning Practice Standards.

#### Mark Allocation

The mark allocation table below is a guide only. The final allocation of marks will depend on the specific Case Study facts and will be decided by the certifying body.

Section	Mark Allocation
Content page	X%
Part of overall financial plan presentation	
Executive summary	X%
Data collection	X%
Candidate collects data for Case Study	
Candidate makes sound and valid assumptions on data missing in order to be able to deliver informed advice	
Goals and objectives	X%
Issues and problems	X%
Assumptions (financial and technical)	X%
Analysis	X%
Strategies	X%
Inter-relationship between financial planning components	X%
Synthesis and supported recommendations	X%
Implementation and review process described	X%
Professional and legal compliance	X%
Overall financial plan presentation	X%
<b>Total</b>	<b>100%</b>



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