

Proposed changes to CFP code of ethics

The changes would bring the Canadian CFP practice standards and code of ethics in line with the global CFP principles

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By Megan Harman

Certified financial planners will face an explicit expectation to put their clients' interests first at all times under proposed changes to the CFP designation's code of ethics.

The Toronto-based **Financial Planning Standards Council** is seeking comments on updated versions of the CFP practice standards and code of ethics. The proposed changes aim to bring the FPSC's standards in line with global CFP principles and standards, which were updated a year and a half ago by Denver-based **Financial Planning Standards Board Ltd.** The FPSB works with member organizations in 24 territories to develop international competency, ethics and practice standards for CFP professionals.

"The changes are relatively small," says John Wickett, senior vice president of standards and certification at the FPSC. "In a few places, we wanted to clean up the language a little bit, tighten it up, make sure it was very directive to CFP professionals but also very clearly protecting of clients."

The most significant change is the addition of a new "client first" principle to the code of ethics, which states that "a CFP professional shall always place the client's interest first" and must "place the client's interests ahead of their own."

Although the code of ethics has always been implicitly client-centric, this addition would make the principle explicit, Wickett says: "[There was] a desire to hit that issue head-on. Instead of not speaking to it directly, it's time to just say it outright."

The Toronto-based **Canadian Foundation for Advancement of Investor Rights** (a.k.a. FAIR Canada), which has called for regulations that would require all financial advisors to put their clients' interests first when providing investment advice, lauds the proposed principle.

"We think it's a step in the right direction," says Marian Passmore, FAIR Canada's associate director. "We will be interested to see how it will be enforced in practice."

FAIR Canada would like to see the FPSC add even more clarification to its code of ethics on the importance of putting clients first. Specifically, Passmore says, the principle should explicitly state that CFP professionals must not only place the client's interests ahead of their own, but also ahead of the interests of the firm with which the CFP is associated. FAIR Canada plans to make this recommendation in the comments that it will submit as part of the consultation process.

Canada is one of many countries that recently have been engaged in a debate around the prospect of imposing a fiduciary duty on financial advisors as a way of enhancing investor protection. The proposed "client first" principle would bring CFPs in Canada one step closer to facing this type of standard.

"Really, we're not asking anything more of a CFP professional than is asked of a lawyer or a physician or anyone else put in that kind of position," says Wickett. "If you're a professional, you're a professional — and this is how you have to conduct yourself."

Another of the FPSC's proposed changes would make the CFP code of ethics enforceable in all professional dealings by a CFP — not just in situations in which a CFP is providing financial planning services. For instance, when a CFP is engaged in the sale of a financial product or another activity that's not, strictly speaking, financial planning, the CFP would still be expected to adhere to the ethical principles.

"That's just to make sure," says Wickett, "that there's no avoiding being held accountable to the code of ethics based on what may be a technicality."

Conduct that contravenes these principles "may be subject to disciplinary action by [the] FPSC's

enforcement department," the proposed code of ethics says.

Meanwhile, the CFP practice standards have been tweaked only modestly. Introduced in 2003, these standards outline the process that CFPs are obliged to follow when engaged in comprehensive financial planning. For instance, the standards stipulate that financial planners must provide clients with a letter of engagement that clearly articulates the scope of services.

The proposed changes include primarily minor adjustments to the language in order to add clarity, Wickett says: "There's no shift in what is expected of a CFP professional."

Wickett doesn't expect that the proposed changes to either document would have much of an impact on the day-to-day activities of most CFPs; most CFPs, he says, already conduct themselves in a compliant manner.

"I don't think it's going to have a major effect on most," he says. "But I think it sends a very important message to industry, to CFP professionals and to the public that this is what's expected."

The FPSC's code of ethics and practice standards are reviewed by the council every five to eight years, and usually the changes are minor.

"You don't expect ethical principles to change that much over time," says Wickett. "But how you describe them can shift a bit as the landscape changes."

The process of revising the current standards was conducted by two task forces composed of FPSC staff, CFPs and representatives from the FPSC's seven member organizations. This last group includes the Montreal-based **Institut québécois de planification financière**, which is currently reviewing its own code of ethics. The FPSC and the IQPF aim to keep their ethical standards as consistent as possible.

The deadline for feedback on the FPSC's proposed changes by financial services industry members and the public is May 16. **IE**