



**INSTITUTE OF FINANCIAL ADVISERS INC.**

**PRACTICE STANDARDS**

**EFFECTIVE  
1 JANUARY 2010**

## **TABLE OF CONTENTS**

INTRODUCTION .....	2
Professional Financial Advice.....	2
The Six-Step Process .....	2
The Core Components.....	3
Where no advice is involved .....	3
A range of competencies .....	3
Advisers may have other roles .....	3
THE PRACTICE STANDARDS .....	4
Format of the Practice Standards.....	4
Applicability of the Practice Standards.....	4
1. ESTABLISH AND DEFINE THE RELATIONSHIP WITH THE CLIENT .....	6
1.1 Inform the Client about the Financial Advice Process and the Financial Adviser's Competencies .....	6
1.2 Determine Whether the Financial Adviser Can Meet the Client's Needs.....	6
1.3 Define the Scope of the Engagement .....	6
2. COLLECT THE CLIENT'S INFORMATION .....	8
2.1 Identify the Client's Personal and Financial Objectives, Needs and Priorities.....	8
2.2 Collect Quantitative Information and Documents .....	8
2.3 Collect Qualitative Information.....	8
3. ANALYSE AND ASSESS THE CLIENT'S FINANCIAL STATUS .....	9
3.1 Analyse the Client's Information.....	9
3.2 Assess the Client's Objectives, Needs and Priorities.....	9
4. DEVELOP THE FINANCIAL ADVICE RECOMMENDATIONS AND PRESENT THEM TO THE CLIENT.....	10
4.1 Identify and Evaluate Financial advice Strategies.....	10
4.2 Develop the Financial advice Recommendations .....	10
4.3 Present the Financial advice Recommendations to the Client .....	10
5. IMPLEMENT THE CLIENT'S FINANCIAL ADVICE RECOMMENDATIONS .....	12
5.1 Agree on Implementation Responsibilities.....	12
5.2 Identify and Present Product(s) and Service(s) for Implementation.....	12
6. REVIEW THE CLIENT'S SITUATION.....	13
6.1 Agree on Responsibilities and Terms for Review of the Client's Situation.....	13
6.2 Review and Re-evaluate the Client's Situation.....	13

# INSTITUTE OF FINANCIAL ADVISERS PRACTICE STANDARDS

## INTRODUCTION

The Institute of Financial Advisers benefits the public and the financial advisory profession alike by establishing and enforcing minimum standards for competence, education, examination, experience, ethics and practice for its members.<sup>1</sup>

These standards of practice and ethical behaviour set the benchmark for the financial advisory profession in New Zealand.

The Institute of Financial Advisers recognises that its members practice in many different disciplines and are compensated by a variety of means. Regardless of their area(s) of specialisation, employment relationships, or remuneration arrangements:

- All members subscribe to the same Code of Ethics.
- All practitioner members subscribe to the methodology embodied in these Practice standards to the extent that they apply in any particular engagement.
- Members who hold the CFP<sup>CM</sup> or CLU designation have demonstrated competence as comprehensive financial advisers.
- Other members may also be competent in one or more or all of the core components.
- Having demonstrated competence in the past does not guarantee ongoing competence, or competence in every context.
- Members must not practice outside their competence.
- Members must ensure that advice or services they provide place the client's interest first.

### *Professional Financial Advice*

The Institute of Financial Advisers exists primarily to represent professional financial advisers. The fundamental requirement of a professional is to provide **competent service that places the client's interest first**. This principle underpins all that we say and do, and takes precedence over all other requirements of the Institute of Financial Advisers.

The Institute of Financial Advisers acknowledges and upholds the six-step process and core components promoted by the international Financial Planning Standards Board, and has adopted these as its own, modified as appropriate to reflect the needs of its members and the New Zealand environment.

### *The Six-Step Process*

All members who provide financial advice to or on behalf of clients must either follow the six-step process in full or provide the client with a clear, concise and effective written explanation of which steps are included. The six-step process is reflected in the structure of this document.

---

<sup>1</sup> This document must be read together with the Institute of Financial Advisers' Code of Ethics and Rules of Conduct. Terms used in these documents are defined in a separate Glossary. Some more detailed guidance is provided in a separate Guidelines on Financial Advice Documents covering what should be included in a Scope of Engagement, Disclosure Statement and Statement of Advice.

### ***The Core Components***

All members who provide financial advice to or for clients must either consider all core components or provide the client with a clear, concise and effective written explanation of which of these are included and which are not.

### ***Where no advice is involved***

Where a member is engaged to arrange a transaction without advice, the member is required to ensure that the client is advised of this before acting, in writing where practicable. In all cases once a member has provided financial advice to a particular client, the assumption is that any further financial services to that client are also advice unless the client has a clear understanding that this is not the case.

### ***A range of competencies***

Members can have specialised knowledge and skill in one or more specific areas and develop strategies and provide advice on a countless number of objectives. However sometimes, a member may need to refer a client to a specialist (such as a lawyer or another professional) with competency in an area in which the member is not competent.

### ***Advisers may have other roles***

Practitioner members may also have other roles. For example a member may practice both as a financial adviser and also as a Chartered Accountant.

Regardless of how much time they spend providing financial advice and services, practitioner members must always conduct themselves in accordance with the Code of Ethics, Practice Standards and Rules of Conduct as applicable.

## THE PRACTICE STANDARDS

### *Format of the Practice Standards*

Each Practice Standard is a statement that relates to an element of the financial advice process. The statement is followed by an explanation of the Practice Standard's intent, which guides interpretation and application of the Practice Standard (based on a standard of reasonableness). The explanation is not intended to establish a professional standard or duty beyond what is contained in the Practice Standard itself.

The Practice Standards are not intended to prescribe the services to be provided or step-by-step procedures for providing any particular service. The financial advice process is an integrated one; functions may be combined and/ or revisited based on the ongoing relationship between the financial adviser and the client.

### *Applicability of the Practice Standards*

A financial adviser should always consider all aspects of the client's financial situation in formulating strategies and making recommendations, and should follow these Practice Standards to the extent that they apply to any given situation. At least some of these Practice Standards apply both to comprehensive financial advice and to the provision of services that only represent one of the components of financial advice (i.e., Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning).

Standard 1, dealing with establishing and defining the relationship with the client, applies any time a financial adviser provides financial advice or components of financial advice to a client. This serves to establish clear and appropriate expectations for the client and the financial adviser. Standards 2 through 6 apply to the extent that they are relevant to the financial advice engagement (the scope of the engagement document will dictate the applicability of the standards).

<b>Financial Advice Process</b>	<b>Related Practice Standard(s)</b>
1. Establish and define the relationship with the client.	1.1: Inform the Client about Financial advice and the Financial Adviser's Competencies 1.2: Determine Whether the Financial Adviser Can Meet the Client's Needs 1.3: Define the Scope of the Engagement
2. Collect the client's information.	2.1: Identify the Client's Personal and Financial Objectives, Needs and Priorities 2.2: Collect Quantitative Information and Documents 2.3: Collect Qualitative Information
3. Analyse and assess the client's financial status.	3.1: Analyse the Client's Information 3.2: Assess the Client's Objectives, Needs and Priorities
4. Develop the financial advice recommendations and present them to the client.	4.1: Identify and Evaluate Financial Advice Strategies 4.2: Develop the Financial Advice Recommendations 4.3: Present the Financial Advice Recommendations to the Client
5. Implement the client's financial advice recommendations.	5.1: Agree on Implementation Responsibilities 5.2: Identify and Present Product(s) and Service(s) for Implementation
6. Review the client's situation.	6.1: Agree on Responsibilities and Terms for Review of the Client's Situation 6.2: Review and Re-evaluate the Client's Situation

## 1. ESTABLISH AND DEFINE THE RELATIONSHIP WITH THE CLIENT

### *1.1 Inform the Client about the Financial Advice Process and the Financial Adviser's Competencies*

The financial adviser informs the client about the financial advice process, the services the financial adviser offers, and the financial adviser's competencies and experience.

#### **Explanation**

Prior to entering a financial advice engagement with the client, the financial adviser helps the client to understand the financial advice process and the nature of financial advice engagements, and provides information on the financial adviser's qualifications. This information may include: how financial advice can help the client to meet objectives; a description of the financial adviser's methodology when providing financial advice; and information about the financial adviser's registration, authorisation, experience and expertise. The financial adviser provides to the client, as required, information about the services the financial adviser provides as well as what charges may be incurred by the client. This information will typically be provided in the Disclosure Statement and a Scope of Engagement document.<sup>2</sup>

### *1.2 Determine Whether the Financial Adviser Can Meet the Client's Needs*

The financial adviser and the client determine whether the services offered by the financial adviser and his or her competencies meet the needs of the client. The financial adviser considers his or her skills, knowledge and experience in providing the services requested or likely to be required by the client. The financial adviser determines if he or she has, and discloses, any conflict(s) of interest.

#### **Explanation**

The financial adviser considers if he or she, or his or her staff, has the appropriate abilities, skills and knowledge to meet the client's expectations. The financial adviser considers if there are any personal conflicts that would affect his or her ability to work successfully with the client. The financial adviser determines if there are any other circumstances, relationships or facts that would place the interest(s) of the financial adviser in conflict with the client's interest(s), or the interest(s) of one client in conflict with another client. The financial adviser discusses the confidentiality of the client's information.

### *1.3 Define the Scope of the Engagement*

The financial adviser and the client agree on the services to be provided. The financial adviser describes, in writing, the scope of the engagement before any financial advice is provided, including details about: the responsibilities of each party (including third parties); the terms of the engagement; and remuneration and conflict(s) of interest of the financial adviser. The scope of the engagement is set out in writing in a formal document signed by both parties or formally accepted by the client and includes a process for terminating the engagement.

#### **Explanation**

Mutually defining the scope of the engagement establishes realistic expectations for both the client and the financial adviser. The financial adviser and the client may agree that the scope of the engagement

---

<sup>2</sup> See separate Guidelines on Financial Advice Documents for suggested content of these documents.

covers one, several or all of the financial advice components (i.e., Financial Management, Asset Management, Risk Management, Tax Planning, Retirement Planning and Estate Planning).

A written document ensures mutual understanding and agreement between the financial planning professional and the client about the terms of the financial advice engagement. In setting out the terms in an engagement letter and disclosure statement, the financial adviser includes the following:

- Specific services to be included or excluded, such as implementation and review;
- The financial adviser's remuneration arrangements with respect to the engagement, including fees to be paid by the client;
- Existing conflicts of interest, including those involving remuneration arrangements with third parties, and agreement to disclose subsequent conflicts of interest if or when they occur;
- Specific parties to the engagement, including details of any legal and agency relationships which may exist;
- Assurance of protection of client confidentiality;
- Duration of the engagement;
- The client's responsibilities, including the full and timely disclosure of information;
- The financial adviser's responsibilities;
- Provisions for terminating the client engagement; and
- Procedures for resolving the client's claims and complaints against the financial adviser.

Additional information that may form part of the formal written document includes:

- The potential need to use other professionals during the engagement;
- An explanation of qualifications, registration, authorisation and experience of individuals who will work with the client;
- Specific limitations on the use of client information; and
- Any other information necessary to adequately inform the client.

Circumstances may change the financial adviser's ability to provide services to the client, or the client may decide to terminate services or transfer to another adviser. The financial adviser disengages the client or facilitates the client's transfer to another adviser in a professional manner.



## 2. COLLECT THE CLIENT'S INFORMATION

### ***2.1 Identify the Client's Personal and Financial Objectives, Needs and Priorities***

The financial adviser and the client identify the client's personal and financial objectives, needs and priorities that are relevant to the scope of the engagement before making and/or implementing any recommendations.

#### **Explanation**

The financial adviser strives to clearly understand the client's current situation and financial objectives, needs and priorities. The client's financial objectives state intent, provide guidance and bring structure to the financial advice engagement. The financial adviser assists the client in clarifying and prioritising his/her short and long-term objectives, and discusses with the client the merit and feasibility of any objectives that appear to be unrealistic.

### ***2.2 Collect Quantitative Information and Documents***

The financial adviser collects sufficient quantitative information and documents about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

#### **Explanation**

The financial adviser strives to collect complete and accurate client information and documents relevant to the scope of the engagement. The financial adviser relies on information provided by the client and other sources to make appropriate recommendations and clearly communicates to the client the importance of collecting complete, current and accurate information. In return, the financial adviser respects the confidentiality of, and safeguards, client documents. If the financial adviser is unable to collect information necessary to develop and support recommendations, the financial adviser discusses this with the client, explaining how these limitations impact the engagement and the statement of advice. These limitations could result in a revised engagement document or in termination of the engagement.

### ***2.3 Collect Qualitative Information***

The financial adviser collects sufficient qualitative information about the client relevant to the scope of the engagement before making and/or implementing any recommendations.

#### **Explanation**

The financial adviser gathers information to understand the client's values, attitudes, expectations and financial experiences. This includes asking questions of the client and employing appropriate listening skills. The financial adviser determines the client's level of sophistication and financial literacy. These areas are subjective and the financial planning professional's interpretation may be limited by what the client reveals.

### 3. ANALYSE AND ASSESS THE CLIENT'S FINANCIAL STATUS

#### ***3.1 Analyse the Client's Information***

The financial adviser analyses the client's information, subject to the scope of the engagement, to gain an understanding of the client's financial situation.

##### **Explanation**

The financial adviser analyses the client's current situation and information, and works with the client to resolve obvious omissions and/or inconsistencies in the information collected. As part of this analysis, the financial adviser uses client-specified, mutually agreed upon objectives and other reasonable assumptions, which may include the client's retirement age, life expectancy, income needs, risk profile, time horizon and special needs, as well as economic assumptions such as inflation rates, tax rates and investment returns.

#### ***3.2 Assess the Client's Objectives, Needs and Priorities***

The financial adviser assesses the strengths and weaknesses of the client's current financial situation and compares them to the client's objectives, needs and priorities.

##### **Explanation**

The financial adviser considers the opportunities and constraints presented by the client's financial situation and current course(s) of action, and determines the likelihood of the client reaching his or her objectives by continuing present activities or making anticipated changes. The financial adviser may identify other issues that may impact the client's ability to achieve objectives, which he or she discusses with the client. It may be appropriate for the financial adviser to amend the scope of the engagement and/or to obtain additional information.

## **4. DEVELOP THE FINANCIAL ADVICE RECOMMENDATIONS AND PRESENT THEM TO THE CLIENT**

### ***4.1 Identify and Evaluate Financial Advice Strategies***

The financial adviser considers one or more strategies relevant to the client's current situation that could reasonably meet the client's objectives, needs and priorities.

#### **Explanation**

The financial adviser identifies alternative strategies for achieving the client's confirmed objectives. The financial adviser evaluates the ability of each strategy to reasonably address the client's objectives, needs and priorities. This evaluation may involve discussing with the client the importance, priority and timing of the client's objectives and needs; considering multiple assumptions; and/or conducting research or consulting with other professionals. This process may result in a single strategy, multiple strategies or no change to the client's current course(s) of action. In considering alternative strategies, the financial adviser takes into account his or her legal and/or regulatory limitations or requirements and his or her competence to address each of the client's objectives, needs and priorities. More than one strategy may meet the client's objectives, needs and priorities. Strategies and consequences identified by the financial adviser may differ from those of other practitioners or advisers, illustrating the subjective nature of exercising professional judgment.

### ***4.2 Develop the Financial Advice Recommendations***

The financial adviser develops the financial advice recommendations based on the selected strategies to reasonably meet the client's confirmed objectives, needs and priorities.

#### **Explanation**

After identifying and evaluating various strategies and the client's current course(s) of action, the financial adviser develops financial advice recommendations that can reasonably meet the client's objectives, needs and priorities. The recommendations may be an independent action or a combination of actions which may need to be implemented collectively. The recommendations may be to continue the current course(s) of action. If the financial adviser recommends a change, it may be general or specific in nature. It may be necessary for the financial adviser to recommend that the client modify an objective, need or priority. The recommendations developed by the financial adviser may differ from those of other practitioners or advisers, yet each may reasonably meet the client's objectives, needs and priorities. It is important that this part of the financial advice process be sufficiently documented.

### ***4.3 Present the Financial Advice Recommendations to the Client***

The financial adviser presents the financial advice recommendations and the supporting rationale in a way that allows the client to make an informed decision.

#### **Explanation**

The financial adviser shall prepare a written Statement of Advice.<sup>3</sup> When presenting the financial advice recommendations, the financial adviser helps the client understand the client's current situation,

---

<sup>3</sup> See separate Guidelines on Financial Advice Documents on what should be included in a Statement of Advice.

the factors and assumptions that were critical to the recommendation(s), the risks of the recommended strategy(ies), and the likely impact of the recommendation(s) on the client's ability to meet his/her objectives. The financial adviser avoids presenting his or her opinion as fact. The financial adviser informs the client that the financial advice recommendations will likely need to be modified as the client's personal, economic and other conditions change. The financial adviser discloses to the client any conflict(s) of interest not previously disclosed, and explains how such conflicts impact the financial advice recommendations. At this stage of the financial advice process, the financial adviser can further assess whether the financial advice recommendations meets the client's expectations, whether the client is willing to act on the recommendation(s), and whether modifications are necessary.

Recommendations regarding specific products or services may be presented at this stage, concurrently with the financial advice strategies and recommendations, or as part of the implementation stage (5.2).

## 5. IMPLEMENT THE CLIENT'S FINANCIAL ADVICE RECOMMENDATIONS

### ***5.1 Agree on Implementation Responsibilities***

The financial adviser and the client agree on implementation responsibilities that are consistent with the scope of the engagement, the client's acceptance of the financial advice recommendations, and the financial adviser's ability to implement the financial advice recommendations.

#### **Explanation**

The financial adviser gains the client's agreement on implementation of the recommendations and provides the required documentation. The financial adviser may change the scope of the engagement, as originally defined, based on the agreement reached with the client. The financial adviser's responsibilities may include: identifying activities necessary for implementation; determining respective responsibilities of the financial adviser and the client; referring to, and coordinating with, other professionals; sharing client information as authorised; and selecting and securing products and/or services. If there are conflicts of interest, sources of remuneration or material relationships with other professionals that have not been previously disclosed, the financial adviser discloses these to the client. The financial adviser explains the rationale for referrals and the qualification(s) of the referred professional(s). If a financial adviser is engaged by the client to provide only the implementation step of the financial advice process, this is clearly defined in writing in the scope of the engagement. This scope may include the extent to which the financial adviser relies on information, analysis or recommendations provided by others.

### ***5.2 Identify and Present Product(s) and Service(s) for Implementation***

Based on the scope of the engagement, the financial adviser identifies and presents appropriate product(s) and service(s) that are consistent with the financial advice recommendations accepted by the client.

#### **Explanation**

The financial adviser investigates and recommends products or services that are suitable to the client's financial situation and reasonably address the client's objectives, needs and priorities. The financial adviser uses professional judgment in identifying the products and services that are in the client's interest. Professional judgment incorporates both qualitative and quantitative information. Solutions identified by the financial adviser may differ from those of other professionals since more than one product or service may meet the client's needs. The financial adviser makes all disclosures to the client required by applicable regulations. Recommendations regarding products or services may be presented concurrently with the financial advice strategies and recommendations as part of 4.3.

## 6. REVIEW THE CLIENT'S SITUATION

### ***6.1 Agree on Responsibilities and Terms for Review of the Client's Situation***

The financial adviser and client mutually define and agree on terms for reviewing and re-evaluating the client's situation.

#### **Explanation**

The financial adviser communicates to the client that financial advice is a dynamic process that may require updates due to changes in the client's personal, economic or other conditions. The financial adviser and the client mutually agree on, and understand, their respective roles, if any, in ensuring that the client's situation is being adequately reviewed. The financial adviser defines and communicates to the client the nature and scope of the reviewing activities that the financial adviser will provide. The reviewing process may require the financial planner professional to modify the original scope of engagement or initiate a new engagement.

### ***6.2 Review and Re-evaluate the Client's Situation***

If conducting a review, the financial adviser and the client review the client's situation to assess progress toward achievement of the objectives of the financial advice recommendations, determine if the recommendations are still appropriate, and confirm any revisions mutually considered necessary.

#### **Explanation**

The review process may include: confirming that the financial advice recommendations agreed on by the client and the financial adviser have been implemented; assessing progress toward and achievement of the objectives of the financial advice recommendations to date; re-evaluating initial or subsequent assumptions made by the financial adviser for reasonableness; determining whether changes in the client's circumstances or objectives require adjustments to the financial plan; and mutually agreeing on any required changes. As circumstances and needs change, a financial adviser may need to revisit earlier steps in the financial advice process.