

2016

Ethics for Financial Planners Online CE Course

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2016 ETHICS FOR FINANCIAL PLANNERS ONLINE CE COURSE
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Code of Ethics and Professional Responsibility

CFP Board adopted the *Code of Ethics* to establish the high principles and standards of the financial planning profession. The *Principles* are general statements expressing an ethical and professional model certificants and PERs are expected to follow in their professional activities. As such, the *Principles* represent character ideals and offers guidance to certificants and PERs.

The *Principles* expressed in the *Code of Ethics* are the foundation for CFP Board's *Rules of Conduct*, *Practice Standards* and *Disciplinary Rules*, and together these documents define certificants' and PERs' responsibilities to the general public, clients, colleagues and employers. The *Principles* are explained below.

Principle 1 – Integrity

Provide professional services with integrity.

Integrity demands honesty and candor which must not be subordinated to personal gain and advantage. Certificants are placed in positions of trust by clients, and the ultimate source of that trust is the certificant's personal integrity. Allowance can be made for innocent error and legitimate differences of opinion, but integrity cannot co-exist with deceit or subordination of one's principles.

Key Points – Principle 1 – Integrity

CFP® certificants must be truthful and open with clients, and they must put the client's interest first, ahead of their own. Because clients trust certificants to guide them on very important matters, the certificant must display a high degree of integrity as the basis of this trust. This doesn't mean that innocent mistakes won't occur; financial planning is a practice, and necessitates some subjectivity. However, the certificant must always practice with honesty and candor.

Principle 2 – Objectivity

Provide professional services objectively.

Objectivity requires intellectual honesty and impartiality. Regardless of the particular service rendered or the capacity in which a certificant functions, certificants should protect the integrity of their work, maintain objectivity and avoid subordination of their judgment.

Key Points – Principle 2 – Objectivity

CFP® certificants must be truthful and unbiased, and must make decisions in the best interest of their clients independently of personal prejudices and other predisposed points of view. Certificants must base their opinions and recommendations on sound knowledge of financial planning concepts and experience in this field.

Principle 3 – Competence

Maintain the knowledge and skill necessary to provide professional services competently.

Competence means attaining and maintaining an adequate level of knowledge and skill, and application of that knowledge and skill in providing services to clients. Competence also includes the wisdom to recognize the limitations of that knowledge and when consultation with other professionals is appropriate or referral to other professionals necessary. Certificants make a continuing commitment to learning and professional improvement.

Key Points – Principle 3 – Competence

Financial planning clients expect CFP® certificants to be capable and knowledgeable in matters related to them. If certificants lack the expertise in an area of planning that must be addressed by their clients, they should have the insight to refer the clients to another, more competent professional or consult with one. Certificants must also be committed to continuing education in the fields of financial planning, as well as engaging in activities that advance their professional expertise.

Principle 4 – Fairness

Be fair and reasonable in all professional relationships. Disclose conflicts of interest.

Fairness requires impartiality, intellectual honesty and disclosure of material conflicts of interest. It involves a subordination of one's own feelings, prejudices and desires so as to achieve a proper balance of conflicting interests. Fairness is treating others in the same fashion that you would want to be treated.

Key Points – Principle 4 – Fairness

CFP® certificants must have no prejudices when planning for their clients. The relationships with their clients should be based on truthfulness, always making any possible conflicts of interest known.

Principle 5 – Confidentiality

Protect the confidentiality of all client information.

Confidentiality means ensuring that information is accessible only to those authorized to have access. A relationship of trust and confidence with the client can only be built upon the understanding that the client's information will remain confidential.

Key Points – Principle 5 – Confidentiality

All client information must remain private as sensitive information is often disclosed to CFP® certificants during the financial planning process. Clients should be made to understand that this information will only be disclosed to authorized individuals. Only through this assurance will clients feel at ease and be willing to divulge all information necessary for a sound comprehensive financial plan.

Principle 6 – Professionalism

Act in a manner that demonstrates exemplary professional conduct.

Professionalism requires behaving with dignity and courtesy to clients, fellow professionals, and others in business related activities. Certificants cooperate with fellow certificants to enhance and maintain the profession's public image and improve the quality of services.

Key Points – Principle 6 – Professionalism

The behavior of CFP® certificants is a reflection of the certificant and his profession. Therefore, CFP® certificants must demonstrate poise and civility to clients and other professionals. CFP® certificants should support one another, always striving to improve and uphold the public's view of the financial planning profession and its practices.

Principle 7 – Diligence

Provide professional services diligently.

Diligence is the provision of services in a reasonably prompt and thorough manner, including the proper planning for, and supervision of, the rendering of professional services.

Key Points – Principle 7 – Diligence

CFP® certificants are obliged to give timely and complete financial planning services. Certificants should consider their clients' specific objectives and circumstances and should make recommendations accordingly. In addition, certificants must manage and follow through any actions needed as a result of the recommendations.

Chapter 2 – Code of Ethics and Professional Responsibility

RECALL

TO REVIEW

Choose the best answer for each of the questions below.

1. Kevin, a CFP® certificant, is considering various recommendations for his client, Pete, a wealthy 70-year-old widower. During their meetings, Pete expressed an interest in establishing a testamentary trust for his grandchildren. Kevin has no trust expertise, and feels as though the purchase of life insurance would be a better option for leaving an inheritance to Pete's grandchildren. Kevin also feels that Pete, like most 70-year-olds, is too feeble to understand how trusts work anyway. Therefore, Kevin recommends a new life insurance policy for Pete with his grandchildren designated as beneficiaries. Which of the following statements is(are) CORRECT?

- I. Kevin has violated the Principle of Competence because he did not consult a professional knowledgeable about trusts or refer Pete to someone with this expertise.
- II. Kevin has violated the Principle of Objectivity because of his consideration of Pete as "feeble."
- A. I only
- B. II only
- C. Both I and II
- D. Neither I nor II

Answer: C. Kevin has violated both of these principles. The decision to recommend life insurance without consulting a trust professional to consider Pete's wishes violated the Principle of Competence. Kevin violated the Principle of Objectivity when he made the decision to recommend life insurance because of the point of view he had that Pete was "feeble."

2. Which of the following statements regarding CFP Board Code of Ethics is(are) CORRECT?
- I. Diligence is the provision of services in a reasonably prompt and thorough manner.
 - II. Confidentiality means ensuring that information is accessible only to those authorized to have access.
 - III. Competence means attaining and maintaining an adequate level of knowledge and skill in all subject matter areas.
 - IV. Certificants are placed in positions of trust by clients with no allowance for innocent error legitimate differences of opinion.
- A. 2 only
 - B. 1 and 2
 - C. 1, 2, and 3
 - D. 1, 2, 3, and 4

Answer: B. Statements 1 and 2 are correct. Statement 3 is incorrect. Certificants need not be competent in all subject matter areas, but when they lack competence, they should recognize the limitations of their knowledge and consult with other professionals or referral their clients to other professionals. Statement 4 is incorrect. Under the Principle of Integrity, allowance can be made for innocent error and legitimate differences of opinion, but integrity cannot coexist with deceit or subordination of one's principles.

3. Which *Code of Ethics* principle requires certificants to cooperate with fellow certificants to enhance and maintain the profession's public image and improve the quality of services?
- A. Integrity
 - B. Objectivity
 - C. Competence
 - D. Professionalism

Answer: D. This is a requirement of the Principle of Professionalism. Under this principle, certificants are also required to behave with dignity and courtesy to clients, fellow professionals, and others in business related activities.