


**Making Choices:  
Ethics and Professional Responsibility in Practice**

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**Making Choices:  
Ethics and Professional Responsibility in Practice**

**Agenda**

- Introduction
  - } Learning Objectives
- Ethics and Values
  - } What are Ethics and Values?
  - } Why are Ethics and Values Important?
- FPSC® Standards of Professional Responsibility
- Ethical Dilemmas
- Common Advisor Justifications
- Apply Your Knowledge - Case Studies
- Quiz
  - } Feedback
  - } Rationale for Quiz Solutions
- Summary
  - } Value of Ethics



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**Introduction**

Ethics and professional responsibility are top priority in the investment management and financial planning industry.

CFP® professionals and FPSC® Level 1 certificants are required to complete a minimum of 1 hour of CE in the newly created category of Professional Responsibility.

Successful completion of this course provides 1 CE credit



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**Introduction**

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**Learning Objectives**  
Understand the importance of ethics in the financial services industry.

Increase awareness of the FPSC® Standards of Professional Responsibility and how they help guide ethical behavior.

Understand how to apply the FPSC® Standards of Professional Responsibility to real life situations.



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**Ethics and Values**

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**Ethics and Values**



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**Ethics and Values**

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**What are Ethics and Values?**

Ethics are “a set of moral principles; a theory or system of moral values.”

Values are beliefs – *not* facts. Values can be thought of as a set of principles or standards of behaviour.

Common values include:

- } Honesty
- } Trust
- } Integrity



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Ethics and Values

Why are Ethics and Values Important?

Ethics and values can provide us with a “moral compass.”

Ethics and values **serve as a foundation** for the rules governing our conduct.

Ethics and values help guide our behaviour in “grey areas” and situations where no specific law applies.



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FPSC® Standards of Professional Responsibility



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FPSC® Standards of Professional Responsibility

Full description and application of The FPSC® Standards of Professional Responsibility can be found on the FPSC website

[www.fpsc.ca](http://www.fpsc.ca)



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**FPSC® Standards of Professional Responsibility**

**Encompasses 4 key areas:**

- 1. FPSC® Code of Ethics
- 2. FPSC® Rules of Conduct
- 3. FPSC® Fitness Standards
- 4. FPSC® Financial Planning Practice Standards



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**FPSC® Standards of Professional Responsibility**

**1. FPSC® Code of Ethics**

FPSC Code of Ethics provides guidance through

## 8 principles

- Reflects the standards of ethical conduct to which CFP® professionals must adhere.
- Guidelines for the expected behaviour of all CFP® professionals.
- Represents the moral mandate by which FPSC® assesses the conduct of CFP® professionals.



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**FPSC® Standards of Professional Responsibility**

## 8 principles

- 1. Client First
- 2. Integrity
- 3. Objectivity
- 4. Competence
- 5. Fairness
- 6. Confidentiality
- 7. Diligence
- 8. Professionalism



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FPSC® Standards of Professional Responsibility

**2. FPSC® Rules of Conduct**

A CFP® professional shall act in a manner reflecting positively upon the profession.

Professionalism refers to conduct that **inspires confidence and respect from clients** and the FPSC® Rules of Conduct represent a set of rules that accompany the FPSC® Code of Ethics.



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FPSC® Standards of Professional Responsibility

**3. FPSC® Fitness Standards**

The FPSC Fitness Standards list specific events and activities that are considered unacceptable and may bar an individual from becoming or remaining certified.

**Ex)** Activities involving deceit or dishonesty for personal gain



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FPSC® Standards of Professional Responsibility

**4. FPSC® Financial Planning Practice Standards**

Provides guidance to CFP professionals when engaged in financial planning activities with clients.

Outlines the process that must be followed in any client engagement where financial planning services are being offered

- not just when delivering a comprehensive financial plan.



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Ethical Dilemmas



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Ethical Dilemmas

Ethical dilemmas, also known as a moral dilemmas, are situations where there is a choice to be made between two options, and yet neither option seems completely acceptable.

“Grey area,” as opposed to black or white

- there’s not necessarily an obvious right or wrong action.



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Ethical Dilemmas

Some of the most common traps include:

- } Following direction from management
- } Responding to reward and incentive programs
- } Sales targets and minimum production quotas
- } Conforming to a group (peer pressure)



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**Ethical Dilemmas**

In particular, advisors should be:

- } **AWARE** of the situation
- } **MOTIVATED** to behave appropriately
- } **WILLING** to act in a professional and ethically responsible manner



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**Common Advisor Justifications**

- "I really had no other choice"
- "It's just this one thing. Look at all the other good things I've done"
- "It's no big deal. No ones was hurt anyway"

Avoiding Responsibility      Keeping Score      Denying Harm



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**Apply Your Knowledge**

- Case Studies -



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Making Choices:  
Ethics and Professional Responsibility in Practice

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Case Study 1  
- Pat -



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Apply Your Knowledge Case Study 1 – Pat

Pat is a CFP® professional with ABC Funds Inc. Pat can offer the company's proprietary ABC mutual funds as well as third party funds from other providers. Her compensation is higher when she sells ABC mutual funds. Pat must generate a minimum level of revenue in order to keep her job.

After a thorough needs analysis and discussion with her client, Pat determines a balanced portfolio would be an appropriate financial solution for her client, based on the client's needs and goals. Both the ABC Balanced Fund and a third party fund, XYZ Balanced Fund, are suitable investment choices.

Pat is at risk of failure to meet her minimum production target. The ABC Balanced Fund would generate far more commission but it has a significantly higher MER and lower historical returns than the XYZ Balanced Fund.



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**Apply Your Knowledge - Pat's Dilemma**

Pat is better served by recommending the internal ABC Balanced Fund which pays her a higher rate of commission and helps secure her employment.

Pat's client is better served with the external XYZ Balanced Fund – it has a lower MER and better track record.

Pat is conflicted between doing what's in her client's best interest and what's in her own best interest.



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**Quiz 1 – Pat**

**Quiz 1**  
**- 4 Questions -**



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**Question 1**

1. What are the implications if Pat moves forward with the ABC Balanced Fund?

- a. Nothing
- b. Pat could lose her mutual funds license
- c. Pat is in violation of a principle of the FPSC® Code of Ethics
- d. Both b. and c.



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**Question 1**

1. What are the implications if Pat moves forward with the ABC Balanced Fund?

**c. Pat is in violation of a principle of the FPSC® Code of Ethics**

**Feedback:**  
Code of Ethics Principle **Client First**: "A CFP® professional shall always place the client's interests first."



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**Question 2**

2. True or False:  
As a CFP professional, Pat should disclose the different compensation related to the ABC and XYZ Funds.

a. True  
b. False



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**Question 2**

2. True or False: As a CFP professional, Pat should disclose the different compensation related to the ABC and XYZ Funds.

**a. True**

**Feedback:**  
FPSC® Rules of Conduct #8 relates to disclosure that is to be provided to the client.

In this case, "An accurate and understandable description of the compensation arrangements being offered."



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**Question 3**

3. What FPSC® Rules, Codes, or Principles apply?

- a. Client First only
- b. Fairness only
- c. Both Client First and Fairness
- d. Neither Client First nor Fairness



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**Question 3**

3. What FPSC® Rules, Codes, or Principles apply?

**c. Both Client First and Fairness**

**Feedback:**  
FPSC® Code of Ethics principle **Client First**: “A CFP® professional shall always place the client’s interests first.”

FPSC® Code of Ethics principle **Fairness**: This requires a CFP® professional to “disclose all relevant facts, including conflicts of interest.”



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**Question 4**

4. In terms of next steps, how should Pat proceed?

- a. She should recommend the ABC Balanced Fund
- b. She should recommend the XYZ Balanced Fund
- c. She should discuss with the client before recommending either fund.



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**Question 4**

4. In terms of next steps, how should Pat proceed?

**c. She should discuss with the client before recommending either fund.**

**Feedback:**  
The critical issue is that the client can only make an informed decision after Pat properly discloses the differences in fee structure, performance, and commission.



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**Pat – 1<sup>st</sup> Principle (Client First)**

2 Principles:.

1) The FPSC® Code of Ethics principle #1 **“Client first”** states that “A CFP® professional shall always place the client’s interests first.”

If Pat recommends the ABC Balanced Fund, she would be putting her own interests first, which is clearly a violation of this principle.



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**Pat – Principle #2 (Fairness)**

2) FPSC® Code of Ethics principle #5 is **Fairness**. This requires the CFP® professional to “disclose all relevant facts, including conflicts of interest.” Pat is indeed in a conflict – her interest does not align with her client’s.

The fact that Pat gets compensated differently depending on which product she recommends should be disclosed to the client.

Pat should disclose the differences in fee structure, performance, and commission to her client. More specifically, she should disclose the potential conflict of interest to her client – that she would receive a higher compensation from the ABC Fund than from the XYZ Fund.



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**Case Study 2**  
**- Robert -**



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**Apply Your Knowledge Case Study 2 – Robert**

Robert is a CFP professional. His client, Jane, is an elderly widow living on a fixed income and facing escalating medical costs. Jane is primarily concerned with principal protection, and her Know Your Client (KYC) profile indicates she is a conservative investor with a low risk tolerance.

Robert spots an opportunity to make a significant amount of money for Jane, and she could profit considerably if the strategy is successful. Indeed, the additional money would be a tremendous help to Jane. The additional wealth could go a long way in supporting her in her old age, especially with her rising medical costs.

However, the strategy is also risky and Jane could stand to lose a significant portion of her capital. He attempted to have a conversation with Jane about it, but she simply said, "Whatever you say I will do, you're the expert Robert!"



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**Apply Your Knowledge - Robert's Dilemma**

Robert appears to have the clients' best interest at heart. The only reason for proceeding with the strategy would be to help put Jane in a better financial position. Robert does not appear to have any incentive to proceed for his own benefit.

However, although the strategy "might" work, and may even have a strong likelihood of working, it's not *guaranteed* to work.

Robert appears to be conflicted between Jane's wants (growth) and needs (principal protection).

Jane trusts Robert implicitly and will go along with his recommendation.



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Quiz 2 – Robert

Quiz 2  
- 4 Questions -



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Question 1

1. What are the implications if Robert moves forward with the strategy for Jane?

- a. Nothing
- b. Robert could lose his mutual funds license
- c. Robert is in violation of a principle of the FPSC® Code of Ethics
- d. Both b and c



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Question 1

1. What are the implications if Robert moves forward with the strategy for Jane?

**d. Both b and c**

**Feedback:**  
FPSC® Code of Ethics Principle #3 **Objectivity** states:  
"A CFP® professional shall be objective when providing advice and/or services to clients. Objectivity requires intellectual honesty, impartiality and the exercise of sound judgment, regardless of the services delivered or the capacity in which a CFP® professional functions."



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**Question 2**

2. True or False:  
Robert should update Jane's KYC before proceeding with the strategy.

- a. True
- b. False



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**Question 2**

2. True or False: Robert should update Jane's KYC before proceeding with the strategy.

- b. False

**Feedback:**  
Ethics Principle Diligence:  
"A CFP® professional shall act diligently when providing advice and/or services to clients. Diligence is the degree of care and prudence expected from CFP® professionals in the handling of their clients' affairs."  
Ethics Principle Client First:  
"A CFP® professional shall always place the client's interests first. Placing the client's interests first requires the CFP® professional to act honestly and to place the client's interests ahead of his/her own and ahead of all other interests."



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**Question 3**

3. What FPSC® Rules of Conduct apply?

- a. Rule #17
- b. Rule #3
- c. Both #3 and #17
- d. Neither #3 nor #17



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**Question 3**

3. What FPSC® Rules of Conduct apply?

a. Rule #17

**Feedback:**  
FPSC® Rules of Conduct #17:  
"A CFP® professional shall implement only those strategies that are both prudent and appropriate for the client which strategies the CFP® professional must reasonably believe will not materially and negatively impact the client's best interests."  
  
FPSC® Rules of Conduct #3 does not apply.



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**Question 4**

4. True or False:  
Based on Standards of Professional Responsibility,  
Robert should proceed with the strategy.

a. T  
b. F



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**Question 4**

4. True or False: Based on Standards of Professional Responsibility, Robert should proceed with the strategy.

b. F

**Feedback:**  
Robert should not proceed with the risky strategy – the associated risks and suitability of the strategy must be fully disclosed to Jane first and her agreement obtained.



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Robert - #17

Consider the FPSC® Rules of **Conduct #17**, which states: "A CFP® professional shall implement only those strategies that are both prudent and appropriate for the client – Those that will not materially negatively impact the client's best interests."

Although he means well, if Robert was to proceed with the strategy, he would be engaging in a transaction that runs contradictory to Jane's investor profile and risk tolerance. The strategy could also result in a loss of capital, which would clearly be in violation of this rule.



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Robert - Objectivity

Consider the FPSC® **Code of Ethics principle #3**, which is **Objectivity**. This requires the CFP® professional to "exercise sound judgment, regardless of the services delivered or the capacity in which a CFO professional functions."

Jane's situation is complex – her need for income and growth does not align with her need for capital protection and a low risk tolerance.

Robert should not proceed with the strategy – the associated risks and suitability of the strategy must be fully disclosed to Jane first and her agreement obtained.



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Case Study 3  
- Linda -



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**Apply Your Knowledge Case Study 3 – Linda**

- Linda is an investment representative (mutual funds licensed), CFP professional. Her client, Phoebe, is a 75-year-old divorced former civil servant.
- She was divorced 12 years ago and retired two years later. She became Linda's client almost immediately after the divorce, seeking Linda's advice on how to best invest the money she received from her ex-husband.

Traditionally, they have an annual review but Linda hasn't met with Phoebe face-to-face for over a year now. However, they speak by phone at least every six months.

In their most recent conversation, Phoebe revealed that she had recently taken on a "boarder," Jan, to live with her and share living expenses. She met Jan at a community recreation centre and they struck up a casual friendship. Within a couple of months Jan suggested that she move into Phoebe's house with her and Phoebe complied.



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**Apply Your Knowledge Case Study 3 – Linda (continued)**

Linda has just received the following set of instructions from Phoebe, by letter:

- *She wishes to surrender \$50,000 of her non-registered investments and withdraw the proceeds to purchase an SUV.*
- *She wishes you to advise her on how to initiate a \$100,000 line of credit against her house. She plans to invest the funds in a tax-refund plan based on the purchase of artwork, to be gifted to charity in return for a generous charitable donations receipt.*
- *Lastly, she wants you to speak to a lawyer to set up a power of attorney for property, naming Jan as her representative to, in Phoebe's words, "...make things easier in handling her finances."*



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**Apply Your Knowledge Case Study 3 – Linda (continued)**

These requests seem out of character for Phoebe – she is debt averse, a conservative investor, and currently does not have a car or a driver's license due to her failing eyesight. Linda has always had a close working relationship with Phoebe and thought that she had a clear understanding of Phoebe's goals and objectives.

At their last annual financial planning review, Phoebe seemed to be alert and in good health. However the last time that Linda spoke with her, she seemed a bit distracted and unfocused.

**Ethical Analysis**  
What's the dilemma?



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**Apply Your Knowledge - Linda's Dilemma**


Why does Phoebe suddenly require a vehicle, and, in particular, a \$50,000 SUV?

Knowing her to be debt and risk averse, the strategy to take a line of credit against her house in order to invest in art seems out of line with her profile and previous investment experience.

Phoebe seems to be of sound mental and physical health. Why place Jan in charge of her financial decisions?

What are Linda's professional obligations and responsibilities in this case?

**Ethical Analysis**  
**What's the rationale to proceed with the letter's instructions?**



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**Quiz 3 – Linda**

**Quiz 3**



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**Question 1**

1. What are the implications if Linda implements Phoebe's instructions at face value and revises her financial plans as instructed?

- a. Nothing
- b. Linda could lose her mutual funds license
- c. Linda is in violation of a principle of the FPSC® Code of Ethics
- d. Both b and c



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**Question 1**

1. What are the implications if Linda implements Phoebe's instructions at face value and revises her financial plans as instructed?

**c. Linda is in violation of a principle of the FPSC® Code of Ethics**

**Feedback:**  
FPSC® Code of Ethics Diligence:  
"A CFP® professional shall act diligently when providing advice and/or services to clients. Diligence is the degree of care and prudence expected from CFP® professionals in the handling of their clients' affairs."  
FPSC® Code of Ethics Client First:  
"A CFP® professional shall always place the client's interests first. Placing the client's interests first requires the CFP® professional to act honestly and to place the client's interests ahead of his/her own and ahead of all other interests."



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**Question 2**

2. Identify the red flags in Phoebe's letter:

a. Vehicle purchase  
b. Leveraged investing  
c. POA designation  
d. All of the above



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**Question 2**

2. Identify the red flags in Phoebe's letter:

**d. All of the above**

**Feedback:**  
On the surface, these items are not inherently "wrong" but they are all red flags.



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**Question 3**

3. What should Linda's next steps be?

- a. Proceed as instructed
- b. Do nothing
- c. Call Phoebe to discuss
- d. Refer to another advisor



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**Question 3**

3. What should Linda's next steps be?

- c. Call Phoebe to discuss**

**Feedback:**  
It appears that Jan is influencing Phoebe's decisions – all of which seem to be in the better interest of Jan. In fact, noticing that the instructions were given in a written letter – not in person, and not on a phone call raises the need to confirm who actually wrote the letter.



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**Question 4**

4. True or False: Linda should proceed with Phoebe's instructions.

- a. T
- b. F



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**Question 4**

4. True or False: Linda should proceed with Phoebe's instructions.

**b. F**

**Feedback:**

- Linda should not proceed with Phoebe's requests.
- Linda needs to exercise care and prudence in handling Phoebe's affairs and resolve the red flags in this situation by having a more detailed face to face meeting with her client.



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**Linda - Diligence**

2 Discussion points:

FPSC® Code of Ethics principle **Diligence**:

"A CFP® professional shall act diligently when providing advice and/or services to clients. Diligence is the degree of care and prudence expected from CFP® professionals in the handling of their clients' affairs."



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**Linda - #17**

FPSC® Rules of **Conduct #17**:

"A CFP® professional shall implement only those strategies that are both prudent and appropriate for the client which strategies the CFP® professional must reasonably believe will not materially and negatively impact the client's best interests."

Linda should not proceed with Phoebe's requests. She should call Phoebe to discuss the letter with her, and request a face to face meeting in order to discuss in more detail and to verify the legitimacy of the letter.



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Making Choices:  
Quiz

Thank you!

SUMMARY



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Summary

**The Value of Ethics**  
Advisors are trusted to act in clients best interest.

Ethics are top priority in the investment management and financial planning industry and should always be kept in mind.

Ethical behavior and adhering to standards of professional responsibility are a key requirement for building **client trust** and maintaining a successful advisory practice.



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Summary

We hope this course provided you with:

A better understanding of the importance of ethics in the financial services industry.

More awareness of the FPSC® Standards of Professional Responsibility and how they help guide ethical behavior and decision making.

A practical understanding of how the FPSC® Standards of Professional Responsibility can apply to real life situations.



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Making Choices:  
Ethics & Professional Responsibility in Practice

Thank you!

Questions?



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