# 2: INTERPRETING THE PRACTICE STANDARD FOR UPDATING THE FINANCIAL PLANNING RECOMMENDATIONS

Kayla, a CFP® professional at a small registered investment adviser (RIA) firm, provides financial planning (including ongoing monitoring and updating services) to Isis, a new client, who has a moderate risk tolerance. On June 15 of Year 1, Kayla met with Isis. Isis wants to retire in twelve years and buy a new house. Kayla evaluates Isis's situation and explains that if she wants to retire in twelve years and buy a new home, then under her present standard of living she needs to increase her ongoing savings to make up for some bad investment choices in the past, invest in a more aggressive manner, or retire a few years later. Currently, the equity markets are performing exceptionally well, and Isis has become comfortable with investing in them again. Isis agrees with Kayla's recommendation of increasing her exposure to risk in her investment allocation.

On January 15 of Year 2, Isis tells Kayla that she wants to retire in only seven years, five years earlier than originally planned. Kayla views the equity markets and economy as being exceptionally strong and does not recommend making any changes until they meet at their regular meeting in August.

In February of Year 2, the equity markets experience a deep decline and Isis's portfolio suffers a significant loss.

## QUESTION:

**In accordance with the Practice Standards, what steps should Kayla have taken in monitoring and updating Isis's plan? Choose the most complete response.**

## RESPONSE OPTIONS:

**A. Kayla should have predicted that a steep decline in the equity markets was coming soon.**

**B. Kayla should have discussed with Isis in January whether the modification of her retirement goal warranted any updates to the Financial Planning recommendations.**

**C. Isis is responsible for telling Kayla to modify her portfolio to meet the change in retirement date.**

**D. Kayla is responsible for monthly monitoring per Standard C.7 of the *Code and Standards*.**

**Best Response:** Response B is the best response. This case involves the Practice Standards for the Financial Planning Process, Monitoring Progress and Updating (Standard C.7).

A CFP® professional must establish with the Client whether the CFP® professional has monitoring and updating responsibilities. When the CFP® professional has responsibilities for monitoring and updating, the CFP® professional must communicate to the Client:

i. Which actions, products, and services are and are not subject to the CFP® professional's monitoring responsibility;

ii. How and when the CFP® professional will monitor the actions, products, and services;

iii. The Client's responsibility to inform the CFP® professional of any Material changes to the Client's qualitative and quantitative information;

iv. The CFP® professional's responsibility to update the Financial Planning recommendations; and

v. How and when the CFP® professional will update the Financial Planning recommendations.

A CFP® professional who has monitoring responsibilities must analyze, at appropriate intervals, the progress toward achieving the Client's goals. The CFP® professional must review with the Client the results of the CFP® professional's analysis. A CFP® professional who has monitoring responsibility must also collaborate with the Client in an attempt to obtain current qualitative and quantitative information concerning the Client's personal and financial circumstances. Where a CFP® professional has updating responsibility, the CFP® professional must determine whether circumstances warrant changes to the Client's goals, recommendations, or selection of actions, or products or services. Information is Material when a reasonable Client or prospective Client would consider the information important in making a decision.

Isis informed Kayla of a Material change in her circumstances when she modified her retirement timeline. Therefore, when Isis notified Kayla of the accelerated retirement date, Kayla should have re-run her projections in Isis's financial plan and discussed with Isis any changes to the financial planning recommendations. For example, the accelerated retirement timeline will effect Isis's income needs in retirement, requiring a larger pool of assets to distribute from given the earlier termination of her employment income. Kayla should have reevaluated Isis's portfolio and evaluated the probability of success given the five additional years of retirement. This may have changed Kayla's financial planning recommendations. Kayla might have advised Isis to reduce expenses, increase pre-retirement savings, or possibly develop a phased retirement approach. Laruen may have needed to advise Isis that she is unable to retire early given her existing portfolio, income level, and risk profile.

Response A is not the best response because a CFP® professional would not be able to predict a steep decline in the market.

Response C is not the best response because Isis is not responsible for directing Kayla to update her portfolio.

Response D is not the best response because the Practice Standards do not require monthly monitoring. The Practice Standards require a CFP® professional who has monitoring responsibilities to analyze, at appropriate intervals, the progress toward achieving the Client's goals. The CFP® professional must review with the Client the results of the CFP® professional's analysis.

**Relevant Standards and Definitions:** Monitoring Progress and Updating (Standard C.7.) and Material (Glossary).