

**IFPHK's Response to the Investor Education Centre's  
Consultation Paper on Hong Kong's Financial Competency  
Framework**

**September 2015**

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## The IFPHK's Profile





### Background

IFPHK was established in June 2000 as a non-profit organization for the fast-growing financial industry. It aims to be recognized in the region as the premier professional body representing those financial planners that uphold the highest standards for the benefit of the public.

The IFPHK is the sole licensing body in Hong Kong authorized by Financial Planning Standards Board Limited to grant the much-coveted and internationally-recognized CFP<sup>CM</sup> Certification and AFP<sup>TM</sup> Certification to qualified financial planning professionals in Hong Kong and Macau.

It represents more than 6,800 financial planning practitioners in Hong Kong from such diverse professional backgrounds as banking, insurance, independent financial advisory, stockbroking, accounting, and legal services.

Currently there are more than 147,000 CFP certificants in 25 countries/regions; the majority of these professionals are in the U.S., Canada, China, Australia and Japan, with more than 4,800 CFP certificants in Hong Kong.

CFP<sup>CM</sup>, CERTIFIED FINANCIAL PLANNER<sup>CM</sup>,  ,  CERTIFIED FINANCIAL PLANNER<sup>TM</sup> , AFP<sup>TM</sup>, ASSOCIATE FINANCIAL PLANNER<sup>TM</sup>,  **AFP**® and  ASSOCIATE FINANCIAL PLANNER® are certification marks and/or trademarks owned outside the U.S. by Financial Planning Standards Board Ltd. The Institute of Financial Planners of Hong Kong is the marks licensing authority for the CFP marks and AFP marks in Hong Kong and Macau, through agreement with FPSB.

### IFPHK's interest in this consultation

Since its inception, the IFPHK has been striving to promote public awareness of the financial planning industry in Hong Kong and uphold the standards of CFP professionals. In 2006, the IFPHK published the *IFPHK Practice Guide for Financial Planners*. This guide is the first set of guidance materials for financial planners working in Hong Kong. The IFPHK subsequently published another guide, the *Suitability of Advice Obligations: Documenting your Financial Advice* for members. In 2010, the IFPHK also participated in a global job analysis review and international studies that focused on financial planning job skills. Through these activities, the IFPHK has gained professional insights into the working practices of Hong Kong's financial planners and international CFP professionals. In response to the results of the global job analysis, the IFPHK revamped the certification programmes in 2011. In January 2014, the IFPHK responded to a consultation paper put forward by the Insurance Industry Advisory Committee about the specification of competency standards for the insurance industry. All of the IFPHK's suggestions have been incorporated into the qualification framework for the insurance industry.

It is also the IFPHK's view that improved financial literacy levels will not only allow consumers to make more informed investment decisions, but also result in a greater consumer appreciation of planning for a long-term financial future – a concept the IFPHK continuously promotes. In response to the 2009-2010 budget consultation, the IFPHK submitted a proposal urging the Hong Kong government to consider providing funding to create a comprehensive financial literacy programme. In May 2010, the IFPHK submitted a response to the government's public consultation on the proposed establishment of an Investor Education Centre (IEC). In October 2011, the institute also gave its opinion on the Securities and Futures (Amendment)

Bill 2011 – the establishment of an Investor Education Council. The IFPHK has been a significant player in financial education as well as a supporter of the IEC.

The IFPHK has taken a strong interest in the Consultation Paper and wishes to express its views on the proposed changes.

**IFPHK’s representation**

The IFPHK was founded by 30 members to raise the professional standards of financial planners and to highlight the importance of sound financial planning advice.

The IFPHK has 47 corporate members including banks, independent financial advisors, insurance companies, and securities brokerages. With our corporate members providing a full spectrum of client services and products, the IFPHK is well positioned to understand the needs, concerns and aspirations of the financial planning community.

## **Executive Summary**

The Investor Education Centre (IEC) issued a consultation paper on the draft Hong Kong Financial Competency Framework on 1 September 2015. It then invited comments from market participants on the draft framework.

In considering the various proposals set out in the consultation paper, the IFPHK's views are based on its practical experience of developing a competency framework for financial planners.

The IFPHK agrees, in principle, with establishing a financial competency framework. It is an undertaking to set a benchmark for assessing financial literacy in Hong Kong. The framework provides unity, clarification and transparency about what is expected and required of a consumer after they have been given financial education.

The IFPHK has both general views on and specific comments about the draft framework. The institute feels that qualified financial planners have the responsibility to educate consumers about the products and services they are offering so that the consumers are empowered to make informed decisions. Thus, it makes sense to have a financial competency framework that greatly resembles the framework already used by the IFPHK's financial planners.

Notwithstanding the benefits of implementing a FCF, the IFPHK would like to remind the Investor Education Centre to constantly review and improve the Financial Competency Framework so that it remains flexible, keeps up with the needs of consumers, and adapts to the ever-changing local and international economic climate.

The statements given in the IFPHK's response to the centre's consultation paper are based on an objective and independent analysis of market and consumer needs. To ensure that the IFPHK understands the concerns and practical requirements of the issue, it sought comments from active industry practitioners, who deal with financial planning issues on a regular basis.

## **The IEC Consultation**

The Investor Education Centre or IEC published a consultation paper on 1 September 2015 to seek views on the proposed Financial Competency Framework. The submission deadline is 18 September. The aim of establishing the framework is to identify a comprehensive set of knowledge, skills, attitudes, motivations and behaviour required to become financially literate. The first version of the framework will be released by November 2015.

A questionnaire on the proposed framework is attached to the Consultation Paper.

### **A: Do you agree with the following statements on the structure and content of the proposed framework?**

1. The seven Knowledge and Skills Themes can cover all the relevant
2. Using the four Key Stages of Learning (KS1-KS4) as the progression in the FCF for children is appropriate
3. The knowledge and skills in the FCF for children are developed in a progressive manner
4. Having Core and Extended competencies in the FCF for adults is appropriate
5. The linkage of the content between the children and adults FCF is cohesive
6. The length of the proposed FCF is appropriate
7. The content in proposed FCF is detailed enough
8. The proposed FCF is easy to understand

### **B: Do you agree that the coverage in each of the following themes is appropriate?**

- Knowledge & skills
  - Money and banking (MB)
  - Income and taxation (IT)
  - Saving and investing (SI)
  - Spending and credit (SC)
  - Consumer rights and responsibilities (CR)
  - Financial planning (FP)
  - Protection and risk (PR)
- Attitudes (A)
- Motivations (M)
- Behaviour (B)

### **C: Further comments and opinions**

## **The IFPHK's Submission**

Financial planning refers to the process of setting, planning, achieving and reviewing life goals through proper management of finances<sup>1</sup>. For the IFPHK and other affiliates of the Financial Planning Standards Board (FPSB), the financial planning process consists of six steps that help clients take a holistic approach to assessing their financial situation. The six steps include:

- Step 1: Establishing and defining the relationship with the client
- Step 2: Gathering client data
- Step 3: Analysing and evaluating the client's financial status
- Step 4: Developing and presenting the financial planning recommendations
- Step 5: Implementing the financial planning recommendations
- Step 6: Monitoring

The IFPHK is the sole licensing body in Hong Kong authorised by the FBSB to grant the internationally recognised CFP<sup>CM</sup> Certification and AFP<sup>TM</sup> Certification to qualified financial planning professionals in Hong Kong and Macau. CFP Certification is a world-class certification programme that tests the abilities, skills and knowledge required to competently perform financial planning tasks. In order to become a CFP certificant, candidates must fulfill rigorous requirements in terms of education, examination, experience and ethics. The standards and requirements for the international CFP Certification Education Programs are based on a global FPSB framework that includes empirical research of the abilities, professional skills and knowledge needed to practise financial planning. To ensure that CFP Certification is continuously relevant to the needs of the practitioners, the IFPHK and its worldwide counterparts conduct a survey every five years in order to understand the job profiles and skills of the financial planners. The latest global survey was conducted in 2010<sup>2</sup>. Through this process, the IFPHK gained professional insights into the working practices of Hong Kong's financial planners and international CFP professionals. The results of the survey are reflected in the certification programme and the associated policy documents, for example, the Financial Planner Competency Profile, the Financial Planning Education Framework and the Financial Planning Practices Standard. The IFPHK feels that qualified financial planners have the responsibility to educate the consumers on the products and services they are offering so that the consumers are empowered to make informed decisions. Thus, the IFPHK believes that the FPSB's competency profile not only provides a body of knowledge essential to practitioners, it also serves as the basis for a financial competency framework for consumers.

### **A. Structure and content of the proposed Financial Competency Framework**

As mentioned above, the IFPHK has conducted a survey on the practices of the financial planning industry. The survey results showed that the knowledge, skills and abilities required for professional financial planners and the value proposition of financial planning in Hong Kong were unique. The IFPHK also summarised the results of the survey in a report. When reviewing the proposals set out in the Investor Education Centre's

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<sup>1</sup> [www.fpsb.org](http://www.fpsb.org)

<sup>2</sup> The survey was developed based on the identified list of tasks and knowledge, skills, and abilities. It was organized into five content categories with 212 task statements necessary for effective and efficient job performance. These statements included 5 financial planning function statements, 14 fundamental financial planning practices evaluations, 95 ability evaluations, 26 professional skills evaluations, and 72 knowledge statements.

consultation paper, the IFPHK referred to the FPSB’s Financial Planner Competency Profile and its Financial Planning Education Framework.

In general, the IFPHK:-

- Agrees to divide the Financial Competency Framework (FCF) into two parts: the ‘Financial Competency Framework – School Children’ and the ‘Financial Competency Framework- Adults’.
- Agrees to develop the knowledge and skills in the FCF for children in a progressive manner.
- Agrees to divide core and extended competencies in the FCF for adults.
- Finds no major problem with the cohesiveness of the linkage of the content between the children and adults’ framework.

However, the IFPHK has the following comments and suggestions for the IEC to review:

- As discussed earlier, the FCF for consumers should be based on the practitioners’ competency framework, so that consumers acquire the necessary knowledge to understand financial planning practices and the ability to communicate with a financial planner. The FPSB’s Financial Planner Competency Profile covers most of the financial topics that are important in one’s life. Therefore, the IFPHK suggests that the IEC reorganise the framework along the lines of the FPSB’s framework.

<b>Proposed Knowledge Topics</b>	<b>Recommendations</b>
Financial System	<ul style="list-style-type: none"> <li>• While the IFPHK considers it appropriate to include consumer rights and responsibilities in the proposed framework, it would be more comprehensive to have a topic called “Financial System” in which “consumer rights and responsibilities” are part of that subject.</li> <li>• The Financial System section could include economic and monetary systems, an introduction to the regulatory framework and retirement system, consumer rights and responsibilities and also the resolution framework.</li> </ul>
Financial Management	<ul style="list-style-type: none"> <li>• The Financial Management section helps an individual to develop strategies and techniques to optimise short and mid-term cash flow, assets and liabilities.</li> <li>• An individual needs to understand personal financial statements, cash flow and debt, asset acquisition and liabilities.</li> <li>• “Money and banking”, “Spending and credit” and part of “Saving and investing” could be re-categorised under the topic “Financial Management”.</li> </ul>
Tax Principle and Optimisation	<ul style="list-style-type: none"> <li>• The Tax Principle and Optimisation section enables an individual to understand and broadly evaluate strategies and techniques to maximise the present value of after-tax net worth.</li> <li>• We recommend changing the topic “Income &amp; taxation” to “Tax Principle and Optimisation”.</li> </ul>



Proposed Knowledge Topics	Recommendations
Investment Planning and Asset Management	<ul style="list-style-type: none"> <li>• The Investment Planning and Asset Management topic prepares an individual to understand strategies and techniques to optimise returns on assets based on one’s requirements and constraints.</li> <li>• It also helps an individual to understand various types of securities traded in financial markets, investment theory and practice, portfolio construction and management, and investment strategies and tactics.</li> <li>• Part of “Saving &amp; Investing” could be re-categorised in “Investment Planning and Asset Management”.</li> </ul>
Risk Management and Insurance Planning	<ul style="list-style-type: none"> <li>• The Risk Management and Insurance Planning section helps an individual to understand strategies and techniques to manage financial exposure due to personal risk.</li> <li>• We recommend categorizing “Protection &amp; Risk” as “Risk Management and Insurance Planning”</li> </ul>
Retirement Planning	<ul style="list-style-type: none"> <li>• The Retirement Planning topic helps an individual to understand strategies and techniques for wealth accumulation and withdrawal during his or her retirement years.</li> <li>• Given that Hong Kong has one of the fastest growing ageing populations in the world, it makes sense to have a separate knowledge theme “Retirement Planning” in the framework for adults.</li> <li>• Part of “Financial Planning” could be re-categorised in “Retirement Planning”.</li> </ul>
Estate Planning and Wealth Transfer	<ul style="list-style-type: none"> <li>• The Estate Planning section prepares an individual to understand and broadly evaluate strategies and use techniques to handle the preservation and distribution of accumulated assets, and to understand the basic legal, tax, financial, and non-financial aspects of the process.</li> <li>• This could be a separate knowledge theme “Estate Planning and Wealth Transfer” in the FCF for adults.</li> </ul>
Financial Planning	<ul style="list-style-type: none"> <li>• The Financial Planning topic includes principles and practices of financial planning. It introduces financial planning as the process of developing strategies to assist an individual in managing his or her financial affairs to meet life goals.</li> <li>• It enables an individual to understand the practices of financial planning and the role of financial planners.</li> </ul>

- While the IFPHK agrees to divide the FCF for Children into stages and in a progressive manner, the IFPHK also thinks that the same should apply in the FCF for Adults. As a pensioner will have very different financial needs and goals to a young graduate, the IFPHK proposes dividing the framework into different life stages. Consumer websites of FPSB’s affiliate in United States and Australia provide good example of different lifecycle stages.  
<http://www.letsmakeaplan.org/your-financial-roadmap/LifelongFinancialStrategies>  
<http://fpa.com.au/why-a-financial-planner/advice-for-every-stage/>

**B. Coverage of the knowledge and themes of the proposed FCF**

In addition to the comments on the structure and content of the proposed FCF, the IFPHK also has specific comments on the knowledge and themes of the proposed framework:

- *Financial planning is not just about preparing for retirement*  
 The IFPHK notes that the knowledge topic “Financial Planning” includes of many knowledge on retirement planning. As mentioned above, financial planning refers to the process of setting, planning, achieving and reviewing life goals through proper management of finances, therefore the definitions laid out in the Financial Planning section in the proposed framework are too narrow. Retirement planning should be a topic under “Financial Planning”. As suggested in Part A above, financial planning knowledge helps an individual understand financial planning as the process of developing strategies to manage his or her financial affairs to meet life goals. Thus, the IFPHK suggests including the following topics under the Financial Planning knowledge theme

Topics	Recommendations
Financial planning process	<p>This topic introduces the six-step financial planning process provided by financial planners to their clients. Consumers can understand the process of giving financial planning advice by financial planners.</p> <p>Consumers gain a greater understanding about what a financial plan is and the information required to develop a financial plan.</p>
Financial planning practice	<p>This topic introduces Financial Planning Practice Standards and the role of Financial Planners. This enables consumers to understand financial planning in reality and the ethical principles by which the financial planners abide.</p>

- *Consumers should possess the ability to understand a financial plan rather than the ability to develop a financial plan themselves*  
 A core skill stipulated in the FCF understands the topic Financial Planning is FP12 “Can develop financial plans to achieve long-term personal goal”. As we have emphasised in this submission, financial planning is the process of setting, planning, achieving and reviewing life goals through proper management of finances. It requires extensive knowledge and training to develop a financial plan and we suggest that it should be done by qualified financial planners. To us, a qualified financial

planner is someone who uses the financial planning process to provide a client with integrated strategies to achieve financial and life goals. A financial planner typically reviews relevant aspects of a client's situation across a wide breadth of financial planning activities, which may include financial management, asset management, risk management, tax planning, retirement planning and estate planning. A financial planner integrates all of this financial knowledge and client information to develop a financial plan that is tailored to that specific client. As such, the IFPHK doubts whether most individuals would be able to develop their own financial plan without having the vigorous certification requirements of a Certified Financial Planner. We would therefore suggest changing that sentence to the consumer being able to: "Understand the financial planning process and financial planning advice".

- *Ability to choose a financial planning professional*

The financial planning professional works with the client to identify all relevant parameters for the development of a financial plan. The financial planning professional is required to collect and properly document quantitative and qualitative data, which might include (but is not limited to) the client's background, financial condition, investment experience, attitude towards risk and capacity of loss, in order to enable the financial planning professional to provide a recommendation and advice for a product or service appropriate for that client. While the role of an adviser or financial planning professional is to help a client make an informed investment decision, ultimately it is the client themselves who makes the investment decision. As a result, the IFPHK suggests adding to the text the phrase "able to appoint a qualified financial planning professional" as an expected behaviour.

- *Monitoring and reviewing a financial plan*

Financial planning is a dynamic process that may require updates due to changes in the client's personal, economic or other circumstances. Financial planning professionals have a responsibility to check the consistency and quality of their advice or recommendations given to clients. To ensure the quality and validity of their advice, financial planning professionals should work with the client to define and agree on terms for reviewing and re-evaluating the client's situation. The reviewing process may require financial planning professionals to modify the original advice or initiate a new plan. The financial planning professional communicates to the client the nature and scope of the reviewing activities that he or she will provide. The review activities may include additional data collected from the client. When conducting a review, the financial planning professional and the client should review the client's situation to assess progress towards achieving the set objectives, determine if the original recommendations are still appropriate, and confirm any mutually agreed revisions<sup>3</sup>. A consumer should understand that developing a financial plan is not a one-off exercise and a consumer should be aware that the financial planner should be provided with updates on any developments that may affect the consumer's life goal. Thus, the IFPHK suggests adding to the expected behaviour the line: "monitor and review financial plan with financial planning professionals".

- *Estate planning and Wealth Transfer*

As discussed in Part A, the IFPHK believes it warrants adding a separate topic on estate planning and wealth transfer to the proposed Financial Competency Framework. The topic can include estate planning principles, the estate planning process, and method of estate transfer and transferring assets. It should introduce different types of trusts and power of attorney. It should also introduce the various legal requirements for estate planning and tax implications.

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<sup>3</sup> IFPHK Practice Guide for Financial Planners

- Add time value of money in Financial Management

The time value of money is a core concept in the accumulation of savings and the projection of expenses. A working knowledge of this important concept will have a positive influence on money management decisions and behaviours. The IFPHK suggests adding topic “time value of money” into the knowledge theme of “Financial Management”.

- Knowledge of the China financial market

Given the political, social and geographical ties with mainland China, the IFPHK recommends adding the topic “China Financial System” into the knowledge theme “Financial System”.

### **C. Further comments**

The development and implementation of an Financial Competency Framework is a demanding task and requires long-term commitment and investment. In view of the fast-changing social environment and regulatory requirements, the IFPHK urges the Investor Education Centre to constantly review and continuously improve the proposed framework based on the following principles:

- *The FCF must keep up with the needs of the consumers*

The FCF can be seen as a catalyst for change. To make the FCF more sustainable, the IFPHK recommends that the IEC construct the FCF in a demand-led way, which would address the customer’s demand to have trusted advisors who act in the best interests of the clients and can help them make informed investment decisions.

- *Don’t be prescriptive*

The FCF should be flexible enough to incorporate specific content as well as outcomes, and these should be linked to appropriate forms of assessment

- *Keeping abreast of local and international regulatory developments*

Globalisation and financial market integration has increased rapidly in the past few years. As an international financial centre, Hong Kong is not immune to international financial market and regulatory development. Whilst the FCF should be tailored to local levels of financial literacy, it should also include international development that affect Hong Kong economy.