



Financial Credential Demystification

Introduction

According to SEC registration records, there are many financial credentials achievable. Naturally most financial professionals would like to invest in themselves on certain designations to boost their capability. However, investors can hardly differentiate among the various credentials. This article aims to shed a light on some most commonly seen credentials on the investors' advisors.

CFA (Chartered Financial Analyst)

The CFA Institute is an international organization that serves investment management professionals with educational, ethical and certification programs. Formerly known as the Association for Investment Management and Research (AIMR), the CFA Institute is comprised of more than 70,000 members who hold the Chartered Financial Analyst (CFA) designation or are otherwise bound by its rules. Its primary mandate is to specify and maintain a high standard for the investment industry.

The Institute also has the Investment Foundations Program, which covers the essentials of investment roles, finance and ethics. The self-study program is designed to benefit people who work for or in investment and financial services companies, such as sales and marketing professionals, human resources, or information technology professionals.

To achieve the financial designation, one has to pass every test by obtain at least 70% of the score of the top 1% scorers of that test and then accumulates at least 4-year qualified employment history.

Structure

The CFA level 1 test involves all fundamental blocks of finance; level 2 test tilts more heavily towards quantitative methods employed in the financial industry; level 3 test incorporates more comprehensive and practical contents.

1500 West Park Drive • Suite 100 • Westborough, MA 01581 • Phone: 800-427-9781 • Fax: 508-366-1711

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Value Delivered

The biggest value provided by this financial credential lies in its comprehensiveness. Almost every aspect of finance and investment is included in this self-study program. Typically after one gets granted the usage of CFA trademark after his name, he will be able to contribute in a wide range based on what role he is positioned.

Naturally, the customers should learn to discern the roles for CFA charter holders as divided based on functions: back-office, mid-office, and front-office roles. Back-office employees are mostly analysts and researchers, who throw themselves into gathering and analyzing financial data, constructing and back testing models, as well as providing valuation analysis and supporting reports to substantiate their recommendations. These professionals should be the ones to turn to when customers would like to control their own investment strategies. Mid-office staffs are mostly risk managers, who focus on managing risk structures and corporate strategies, while calculating profits and losses. Because they are usually the ones making trading decisions, customers should put more confidence in them because their benefits tend to align together as their income won't rise unless customers make money in the market. Front-office practitioners are mostly salespersons and advisors, who are more involved in practicing face-to-face communication and direct investment consulting with clients, so these should be most familiar to investors.

CFP (Certified Financial Planner)

CFP is a U.S. based exam administered by the Certified Financial Planner Board of Standards Inc. that focuses on the financial planning field, such as retirement, estate, and investment planning.

Upon successfully completing the education requirements, passing the exam, and have indicated that you will adhere to the CFP Board's Code of Ethics and Professional Responsibility and Financial Planning Standards, you are eligible to use the CFP mark. The CFP certification mark represents your proven expertise within the financial planning profession.

Structure

There are six modules to study in this program.

Module 1: Introduction to Financial Planning.

Module 2: Risk Analysis and Insurance Planning.

Module 3: Retirement Planning and Employee Benefits.

Module 4: Investment Planning.

Module 5: Tax and Estate Planning.

Module 6: Advanced Financial Planning.

Value Delivered

CFP is widely recognized and used by financial professionals in wealth management industry. Any advisor who wishes to gain more skillsets and experience of investment consulting and planning for his clients should try to get this designation. In this light, customers who aim to seek general advice of wealth management and try to avoid particular in-depth research focused on one spot of financial industry should turn to professionals with this credential. This trademark is most valuable not only among peers within wealth management field, but also for retaining clients' confidence as well.

CPA (Certified Public Accountant)

Certified Public Accountant (CPA) is a designation given by the American Institute of Certified Public Accountants to those who meet education and experience requirements and pass an exam. Its major and possibly only focus is on accounting practice of business.

For the most part, the accounting industry is self-regulated. The CPA designation helps enforce professional standards in the industry. Other countries have certifications equivalent to the certified public accountant. For example, in Canada, the equivalent to a CPA is Chartered Accountants (CA).

Structure

CPAs are required to get a bachelor's degree in business administration, finance or accounting. They are also required to complete 150 hours of education and have no less than two years of public accounting experience. CPAs must pass a certification exam; certification requirements vary by state. Additionally, they must complete a specific number of continuing hours of education yearly.

In 1887, 31 accountants created the American Association of Public Accountants (AICPA) to define moral standards for the accounting industry and U.S. auditing standards for local, state and federal governments,

private companies and nonprofits. The AICPA also gives CPA certification exams. The first CPAs received licenses in 1896.

In 1934, the Securities and Exchange Commission (SEC) required all publicly traded companies to file periodic financial reports endorsed by members of the accounting industry. The AICPA established accounting standards until 1973, when the Financial Accounting Standards Board (FASB) was launched to set standards for private companies.

Value Delivered

CPAs usually choose to participate in public accounting and corporate accounting. They can move into executive positions such as controllers or chief financial officers (CFOs). CPAs are known for their role in income tax preparation but can specialize in many other areas, such as auditing, bookkeeping, forensic accounting, managerial accounting and information technology. For most customers, CPAs are obviously very important when it comes to managing their household balance sheets and seeking tax services.

FRM (Financial Risk Manager)

Financial Risk Manager (FRM) refers to a professional designation issued by the Global Association of Risk Professionals (GARP). The GARP FRM accreditation is globally recognized as the premier certification for financial risk professionals. It is suitable for individuals who want specialized knowledge in assessing risk on behalf of banks, insurance companies, accounting firms, regulatory agencies and asset management firms.

To receive the FRM designation, candidates must successfully complete a comprehensive, two-part exam and demonstrate that they have two years of work experience in financial risk management. Professionals who hold the FRM designation can participate in optional continued professional development.

Structure

The FRM program follows the major strategic disciplines of risk management: market risk, credit risk, operational risk and investment management. Recognized in over 90 countries, the exam is designed to measure a financial risk manager's ability to manage risk in a global environment.

The FRM exam consists of two parts: Part I and Part II. In Part I section of the exam tests knowledge of the tools used to assess financial risks, such

as quantitative analysis, fundamental risk management concepts, financial markets and products, and risk models.

Part II section of the exam requires candidates to apply Part I knowledge to market, credit, operational and integrated risk management; it also examines topical risk management issues. Both exams are held in May and November each year at over 100 different global locations.

Value Delivered

Most financial professionals wishing to obtain this credential have very specific aims for risk management roles in big corporates. The promotion option for this group of people should chief risk officers (CROs).

PFS (Personal Financial Specialist)

A Personal Financial Specialist is specialty credential for CPAs who are expert at helping individuals with all aspects of wealth management. The American Institute of Certified Public Accountants (AICPA) grants the Personal Financial Specialist (PFS) credential only to certified public accountants (CPA) with significant personal financial planning education and experience. That said, all PFSs are inherently CPAs. Individuals pursue the PFS credential because they want to display their expertise and knowledge as it relates to all aspects of financial planning.

Successful Personal Financial Specialist (PFS) applicants earn the right to use the PFS designation with their names, which can improve job opportunities, professional reputation and pay. In the AICPA's own words, "A PFS is more than a financial planner — he or she is a CPA with the powerful combination of extensive tax expertise and comprehensive knowledge of financial planning."

Structure

PFS applicants study estate planning, retirement planning, investing, insurance and other areas of personal financial planning. Individuals with the PFS designation may work for accounting firms, consulting firms or run their own firms. To become a PFS, candidates must be active members of the AICPA, have at least three years of financial planning experience, meet all the requirements for being a CPA, receive recommendations and pass a written exam.

Exempt from the PFS exam are CPAs who have passed the Certified Financial Planner (CFP) or Chartered Financial Consultant (ChFC) exams. They are deemed to have met the exam requirement.

Value Delivered

This credential is very similar to CFP and ChFC, but it tilts more to tax analysis and other accounting expertise. It is most suitable for customers with specific requirement of accounting knowledge during financial planning process.

ChFC (Chartered Financial Consultant)

A Chartered Financial Consultant is a professional degree representing the completion of a comprehensive course consisting of financial education, examinations and practical experience. Chartered Financial Consultant degrees are granted by the American College upon completion of seven required courses and two elective courses. Those who earn the designation are understood to be knowledgeable in personalized financial matters and to have the ability to provide sound advice.

In order to be considered for the program, the applicant must already have a minimum of three years working in the financial industry. In addition, it is recommended that applicants have a degree related to finance or business before applying as it will make the program much easier.

Structure

The curriculum to earn this professional degree from the American College is made up of courses designed to include a range of financial planning duties and responsibilities. This includes practical application of skills learned in real-life scenarios.

However, there is debate about whether or not this designation is on a par with or supersedes the certified financial planner designation, which is awarded and administered by the CFP Board, in terms of relevance within the financial industry. The CFP Board has contended that its designation includes an adherence to a code of ethics and what it describes as a more thorough examination process for its applicants compared with the program and designation available through The American College.

The training for a Chartered Financial Consultant includes lessons in understanding key elements of the financial planning world, such as retirement planning, estate planning, insurance, investments, and income taxes. There is also curriculum on how rules within those segments change in relation to small business planning, financial planning for households in the process of divorce, or for families who have special needs dependents.

Once the degree has been earned, there is also a requirement for continuing education credits to maintain the credential. An advisor who has received this credential may work with individuals to assist them with retirement savings, in particular for early retirement, and budget planning, or with companies to assess their investment strategies. There may be an expectation that the advisor remains continuously abreast of all financial laws at international, national, and local levels that might apply to the clients they work with and the financial activities they are involved in.

Value Delivered

ChFC is also a potential alternative for CFP for a financial advisor with slight differences. Customers should consider their own needs when choosing between a ChFC and a CFP.

Summary

Every financial credential has its value. Ultimately, when customers seek financial advice from an investment firm, it is always better to find a firm with professionals possessing a variety of credentials to better meet clients' specific needs, just like Legacy Financial Advisors, Inc.

Resource

1. Investopedia
2. Wikipedia finance
3. CFA program
4. CPA program
5. CFP program
6. FRM program
7. ChFC program
8. PFS program
9. CPWA program

Jay Song, CFA
Legacy Financial Advisors, Inc.

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1500 WEST PARK DR SUITE 100 WESTBOROUGH, MA, 01581 800-427-9781
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