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Comment on Kenneth S. Bigel's Paper

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Consumer research has shown that two core values are at the heart of personal financial planning relationship between financial advisors and their clients-competency and trustworthiness. In 1993 a national consumer survey of 500 households with income of $50,000 or more, commissioned by the Certified Financial Planner Board of Standards, Inc. (CFP Board), illustrated that consumers believed the following components, of the certification the Board offered, are of particularly high importance:

- The existence of a professional code of ethics;
- Successful completion of a certification examination;
- Individuals being subject to disciplinary action;
- The requirement of practical work experience;
- A financial planning-specific curriculum; and
- The need for continuing education.

The availability of these key components as a part of our certification is, perhaps, the single most important reason why the CFP designation has become popular with the public over the years.

Dr. Kenneth S. Bigel's study is the first known survey dealing specifically with the ethics of those holding the CFP credential, and among the first in testing for manifestations of higher ethical development in investment advisers and financial planners. For these reasons alone the work is significant. But his hypotheses also attempt to determine whether there a difference in ethical development because of several elements the value of which have been debated extensively within the financial planner and adviser community for more than decade. Is ethics associated with the manner in which an adviser is paid for his or her services? Is moral judgment affected by education, age, gender, or the length of work experience?

Our experience at the CFP Board may shed some light on one finding running counter to Bigel's hypothesis that ethical development should increase with career tenure. He found that

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those CFP licensees with less than ten years of career tenure manifested statistically significant higher moral judgment than those with more than ten years of experience. It may be instructive for readers to know that in 1987 the CFP Board undertook its first financial planner job analysis and developed its educational standard—a model financial planning curriculum. This standard has now been adopted by more than 90 colleges and universities in the U.S. for their formal education of financial planners. Both the curriculum and the comprehensive Certification Examination, which we first put into effect in 1991, cover to some extent ethical and professional considerations in financial planning. Integrity, objectivity, competence, fairness, confidentiality, professionalism and diligence in performing financial planning activities are core principles. Further, we updated and emphasized the Code of Ethics and Professional Responsibility beginning in 1992, and in 1994 we began requiring a specific ethics course as part of the continuing education requirements that we first inaugurated in 1989. Lastly, as CFP licensees know, we have become more diligent in highlighting our increased disciplinary activity handled by the peer review group known as the Board of Professional Review. For example, in the six years between 1987 and 1993 we handled 273 disciplinary cases, while in the five years from 1994 to 1998 we completed 721. In 1999 we anticipate closing another 225 ethics cases. The cumulative result of these developments has been an expectation that those persons recently certified by us, many of which have less work experience or tenure in the field, should in fact have a greater awareness and sensitivity to the moral dimensions of their work as financial planning practitioners.

Bigel's other conclusion, that no statistically significant differences were found in the ethics of investment planners based upon how they were compensated for their work, might indeed need more future study. The consumer press notion that advisers who are compensated solely by fees from clients are without conflicts of interest is too simplistic to be accurate. Potential or real conflicts of interest may exist for advisers no matter how they are compensated, and this is a basis for the kind of mandatory disclosure of such conflicts and sources of compensation required in the CFP Board's Code of Ethics. The current trends toward both more fees and less commission and toward greater numbers of advisers and planners receiving some combination of both, again is likely to increase the sensitivity and awareness of CFP licensees to the necessary moral judgements called for in this rapidly growing financial planning field.

CFP Licensee Standards

There are two standards pertinent to this research—ethical or conduct standards and practice standards. Below is the text of the current *Code of Ethics and Professional Responsibility* as well as practice standards to which CFP licensees adhere.

Code of Ethics and Professional Responsibility

Preamble and Applicability

The Code of Ethics and Professional Responsibility (Code) has been adopted by the Certified Financial Planner Board of Standards, Inc. (CFP Board) to provide principles and rules to all persons whom it has recognized and certified to use the CFP certification mark and the marks CFP and Certified Financial Planner (collectively "the marks"). The CFP Board determines who is recognized and certified to use the marks.

Implicit in the acceptance of this authorization is an obligation not only to comply with the mandates and requirements of all applicable laws and regulations but also to take responsibility to act in an ethical and professionally responsible manner in all professional services and activities. For purposes of this Code, a person recognized and certified by the CFP Board to use the marks is called a CFP designee or Certified Financial Planner designee. This Code applies to CFP designees actively involved in the practice of personal financial planning, in other areas of financial services, in industry, in related professions, in government, in education or in any other professional activity in which the marks are used in the performance of their professional responsibilities. This Code also applies to candidates for the CFP designation who are registered as such with the CFP Board. For purposes of this Code, the term CFP designee shall be deemed to include candidates.

Composition and Scope

The Code consists of two parts: Part I—Principles and Part II—Rules. The Principles are statements expressing in general terms the ethical and professional ideals expected of CFP designees and which they should strive to display in their professional activities. As such the Principles are aspirational in character but are intended to provide a source of guidance for a CFP designee. The comments following each Principle further explain the meaning of the Principle. The Rules provide practical guidelines derived from the tenets embodied in the Principles. As such, the Rules set forth the standards of ethical and professionally responsible conduct expected to be followed in particular situations. This Code does not undertake to define standards of professional conduct of CFP designees for purposes of civil liability. Due to the nature of a CFP designee's particular field of endeavor, certain Rules may not be applicable to that CFP designee's activities. For example, a CFP designee who is engaged solely in the sale of securities as a registered representative is not subject to the written disclosure requirements of Rule 402 (applicable to CFP designees engaged in personal financial planning) although he or she may have disclosure responsibilities under Rule 401. A CFP designee is obligated to determine what responsibilities the CFP designee has in each professional relationship including, for example, duties that arise in particular circumstances from a position of trust or confidence that a CFP designee may have. The CFP designee is obligated to meet those responsibilities. The Code is structured so that the presentation of the Rules parallels the presentation of the Principles. For example, the Rules which relate to Principle 1—Integrity, are numbered in the 100 to 199 series while those Rules relating to Principle 2—Objectivity, are numbered in the 200 to 299 series.

Compliance

The CFP Board of Governors requires adherence to this Code by all those it recognizes and certifies to use the marks. Compliance with the Code, individually and by the profession as a whole, depends on each CFP designee's knowledge of and voluntary compliance with the Principles and applicable Rules, on the influence of fellow professionals and public opinion, and on disciplinary proceedings, when necessary, involving CFP designees who fail to comply with the applicable provisions of the Code.

Terminology In This Code

"Client" denotes a person, persons, or entity who engages a practitioner and for whom professional services are rendered. For purposes of this definition, a practitioner is engaged when an individual, based upon the relevant facts and circumstances, reasonably relies upon information or service provided by that practitioner. Where the services of the practitioner are provided to an entity (corporation, trust, partnership, estate, etc.), the client is the entity acting through its legally authorized representative.

"CFP designee" denotes current licensees, candidates for certification, and individuals that have any entitlement, direct or indirect, to the federally registered service marks CFP® and Certified Financial Planner®.

"Commission" denotes the compensation received by an agent or broker when the same is calculated as a percentage on the amount of his or her sales or purchase transactions.

"Conflict(s) of interest(s)" denotes circumstances, relationships or other facts about the CFP designee's own financial, business, property and/or personal interests which will or reasonably may impair the CFP designee's rendering of disinterested advice, recommendations or services.

"Fee-only" denotes a method of compensation in which compensation is received solely from a client with neither the personal financial planning practitioner nor any related party receiving compensation which is contingent upon the purchase or sale of any financial product.

A "related party" for this purpose shall mean an individual or entity from whom any direct or indirect economic benefit is derived by the personal financial planning practitioner as a result of implementing a recommendation made by the personal financial planning practitioner.

"Personal financial planning" or "financial planning" denotes the process of determining whether and how an individual can meet life goals through the proper management of financial resources.

"Personal financial planning process" or "financial planning process" denotes the process which typically includes, but is not limited to, the six elements of establishing and defining the client-planner relationship, gathering client data including goals, analyzing and evaluating the client's financial status, developing and presenting financial planning recommendations and/or alternatives, implementing the financial planning recommendations and monitoring the financial planning recommendations.

"Personal financial planning subject areas" or "financial planning subject areas" denotes the basic subject fields covered in the financial planning process which typically include, but are not limited to, financial statement preparation and analysis (including cash flow analysis/planning and budgeting), investment planning (including portfolio design, i.e., asset allocation, and portfolio management), income tax planning, education planning, risk management, retirement planning, and estate planning.

"Personal financial planning professional" or "Financial planning professional" denotes a person who is capable and qualified to offer objective, integrated, and comprehensive financial advice to or for the benefit of individuals to help them achieve their financial objectives. A financial planning professional must have the ability to provide financial planning services to clients, using the financial planning process covering the basic financial planning subjects.

"Personal financial planning practitioner" or "financial planning practitioner" denotes a person who is capable and qualified to offer objective, integrated, and comprehensive financial advice to or for the benefit of clients to help them achieve their financial objectives and who engages in financial planning using the financial planning process in working with clients.

Part I—Principles

Introduction

These Principles of the Code express the profession's recognition of its responsibilities to the public, to clients, to colleagues, and to employers. They apply to all CFP designees and provide guidance to them in the performance of their professional services.

Principle 1—Integrity

A CFP designee shall offer and provide professional services with integrity. As discussed in Composition and Scope, CFP designees may be placed by clients in positions of trust and confidence. The ultimate source of such public trust is the CFP designee's personal integrity. In deciding what is right and just, a CFP designee should rely on his or her integrity as the appropriate touchstone. Integrity demands honesty and candor which must not be subordinated to personal gain and advantage. Within the characteristic of integrity, allowance can be made for innocent error and legitimate difference of opinion; but integrity cannot co-exist with deceit or subordination of one's principles. Integrity requires a CFP designee to observe not only the letter but also the spirit of this Code.

Principle 2—Objectivity

A CFP designee shall be objective in providing professional services to clients. Objectivity requires intellectual honesty and impartiality. It is an essential quality for any professional. Regardless of the particular service rendered or the capacity in which a CFP designee functions, a CFP designee should protect the integrity of his or her work, maintain objectivity, and avoid subordination of his or her judgment that would be in violation of this Code.

Principle 3—Competence

A CFP designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged. One is competent only when he or she has attained and maintained an adequate level of knowledge and skill, and applies that knowledge effectively in providing services to clients. Competence also includes the wisdom to recognize the limitations of that knowledge and when consultation or client referral is appropriate. A CFP designee, by virtue of having earned the CFP designation, is deemed to be qualified to practice financial planning. However, in addition to assimilating the common body of knowledge required and acquiring the necessary experience for designation, a CFP designee shall make a continuing commitment to learning and professional improvement.

Principle 4—Fairness

A CFP designee shall perform professional services in a manner that is fair and reasonable to clients, principals, partners, and employers and shall disclose conflict(s) of interest(s) in providing such services. Fairness requires impartiality, intellectual honesty, and disclosure of conflict(s) of interest(s). 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 and is an essential trait of any professional.

Principle 5—Confidentiality

A CFP designee shall not disclose any confidential client information without the specific consent of the client unless in response to proper legal process, to defend against charges of wrongdoing by the CFP designee or in connection with a civil dispute between the CFP designee and client. A client, by seeking the services of a CFP designee, may be interested in creating a relationship of personal trust and confidence with the CFP designee. This type of relationship can only be built upon the understanding that information supplied to the CFP designee or other information will be confidential. In order to provide the contemplated services effectively and to protect the client's privacy, the CFP designee shall safeguard the confidentiality of such information.

Principle 6—Professionalism

A CFP designee's conduct in all matters shall reflect credit upon the profession. Because of the importance of the professional services rendered by CFP designees, there are attendant responsibilities to behave with dignity and courtesy to all those who use those services, fellow professionals, and those in related professions. A CFP designee also has an obligation to cooperate with fellow CFP designees to enhance and maintain the profession's public image and to work jointly with other CFP designees to improve the quality of services. It is only through the combined efforts of all CFP designees in cooperation with other professionals, that this vision can be realized.

Principle 7—Diligence

A CFP designee shall act diligently in providing professional services. Diligence is the provision of services in a reasonably prompt and thorough manner. Diligence also includes proper planning for and supervision of the rendering of professional services.

Part II—Rules

Introduction

As stated in Part I—Principles, the Principles apply to all CFP designees. However, due to the nature of a CFP designee's particular field of endeavor, certain Rules may not be applicable to that CFP designee's activities. The universe of activities by CFP designees is indeed diverse and a particular CFP designee may be performing all, some or none of the typical services provided by financial planning professionals. As a result, in considering the Rules in Part II, a CFP designee must first recognize what specific services he or she is rendering and then determine whether or not a specific Rule is applicable to those services. To assist the CFP designee in making these determinations, this Code includes a series of definitions of terminology used throughout the Code. Based upon these definitions, a CFP designee should be able to determine which services he or she provides and, therefore, which Rules are applicable to those services.

Rules that Relate to the Principle of Integrity

Rule 101

A CFP designee shall not solicit clients through false or misleading communications or advertisements: (a) Misleading Advertising: A CFP designee shall not make a false or misleading communication about the size, scope or areas of competence of the CFP designee's practice or of any organization with which the CFP designee is associated; and (b) Promotional Activities: In promotional activities, a CFP designee shall not make materially false or misleading communications to the public or create unjustified expectations regarding matters relating to financial planning or the professional activities and competence of the CFP designee. The term "Promotional activities" includes, but is not limited to, speeches, interviews, books and/or printed publications, seminars, radio and television shows, and video cassettes; and (c) Representation of Authority: A CFP designee shall not give the impression that a CFP designee is representing the views of the CFP Board or any other group unless the CFP designee has been authorized to do so. Personal opinions shall be clearly identified as such.

Rule 102

In the course of professional activities, a CFP designee shall not engage in conduct involving dishonesty, fraud, deceit or misrepresentation, or knowingly make a false or misleading statement to a client, employer, employee, professional colleague, governmental or other regulatory body or official, or any other person or entity.

Rule 103

A CFP designee has the following responsibilities regarding funds and/or other property of clients: (a) In exercising custody of or discretionary authority over client funds or other property, a CFP designee shall act only in accordance with the authority set forth in the governing legal instrument (e.g., special power of attorney, trust, letters testamentary, etc.); and (b) A CFP designee shall identify and keep complete records of all funds or other property of a client in the custody of or under the discretionary authority of the CFP designee; and (c) Upon receiving funds or other property of a client, a CFP designee shall promptly or as otherwise permitted by law or provided by agreement with the client, deliver to the client or third party any funds or other property which the client or third party is entitled to receive and, upon request by the client, render a full accounting regarding such funds or other property; and (d) A CFP designee shall not commingle client funds or other property with a CFP designee's personal funds and/or other property or the funds and/or other property of a CFP designee's firm. Commingling one or more client's funds or other property together is permitted, subject to compliance with applicable legal requirements and provided accurate records are maintained for each client's funds or other property; and (e) A CFP designee who takes custody of all or any part of a client's assets for investment purposes, shall do so with the care required of a fiduciary.

Rules that Relate to the Principle of Objectivity

Rule 201

A CFP designee shall exercise reasonable and prudent professional judgment in providing professional services.

Rule 202

A financial planning practitioner shall act in the interest of the client.

Rules that Relate to the Principle of Competence

Rule 301

A CFP designee shall keep informed of developments in the field of financial planning and participate in continuing education throughout the CFP designee's professional career in order to improve professional competence in all areas in which the CFP designee is engaged.

As a distinct part of this requirement, a CFP designee shall satisfy all minimum continuing education requirements established for CFP designees by the CFP Board.

Rule 302

A CFP designee shall offer advice only in those areas in which the CFP designee has competence. In areas where the CFP designee is not professionally competent, the CFP designee shall seek the counsel of qualified individuals and/or refer clients to such parties.

Rules that Relate to the Principle of Fairness

Rule 401

In rendering professional services, a CFP designee shall disclose to the client: (a) Material information relevant to the professional relationship, including but not limited to conflict(s) of interest(s), changes in the CFP designee's business affiliation, address, telephone number, credentials, qualifications, licenses, compensation structure and any agency relationships, and the scope of the CFP designee's authority in that capacity. (b) The information required by all laws applicable to the relationship in a manner complying with such laws.

Rule 402

A financial planning practitioner shall make timely written disclosure of all material information relative to the professional relationship. In all circumstances such disclosure shall include conflict(s) of interest(s) and sources of compensation. Written disclosures that include the following information are considered to be in compliance with this Rule: (a) A statement of the basic philosophy of the CFP designee (or firm) in working with clients. The disclosure shall include the philosophy, theory and/or principles of financial planning which will be utilized by the CFP designee; and (b) Resumes of principals and employees of a firm who are expected to provide financial planning services to the client and a description of those services. Such disclosures shall include educational background, professional/employment history, professional designations and licenses held, and areas of competence and specialization; and (c) A statement of compensation, which in reasonable detail discloses the source(s) and any contingencies or other aspects material to the fee and/or commission arrangement. Any estimates made shall be clearly identified as such and shall be based on reasonable assumptions. Referral fees, if any, shall be fully disclosed; and (d) A statement indicating whether the CFP designee's compensation arrangements involve fee-only, commission-only, or fee and commission. A CFP designee shall not hold out as a fee-only financial planning practitioner if the CFP designee receives commissions or other forms of economic benefit from related parties; and (e) A statement describing material agency or employment relationships a CFP designee (or firm) has with third parties and the fees or commissions resulting from such relationships; and (f) A statement identifying conflict(s) of interest(s).

Rule 403

A CFP designee providing financial planning shall disclose in writing, prior to establishing a client relationship, relationships which reasonably may compromise the CFP designee's objectivity or independence.

Rule 404

Should conflict(s) of interest(s) develop after a professional relationship has been commenced, but before the services contemplated by that relationship have been completed, a CFP designee shall promptly disclose the conflict(s) of interest(s) to the client or other necessary persons.

Rule 405

In addition to the disclosure by financial planning practitioners regarding sources of compensation required under Rule 402, such disclosure shall be made annually thereafter for ongoing clients. The annual disclosure requirement may be satisfied by offering to provide clients with the current copy of SEC form ADV, Part II or the disclosure called for by Rule 402.

Rule 406

A CFP designee's compensation shall be fair and reasonable.

Rule 407

Prior to establishing a client relationship, and consistent with the confidentiality requirements of Rule 501, a CFP designee may provide references which may include recommendations from present and/or former clients.

Rule 408

When acting as an agent for a principal, a CFP designee shall assure that the scope of his or her authority is clearly defined and properly documented.

Rule 409

Whether a CFP designee is employed by a financial planning firm, an investment institution, or serves as an agent for such an organization, or is self-employed, all CFP designees shall adhere to the same standards of disclosure and service.

Rule 410

A CFP designee who is an employee shall perform professional services with dedication to the lawful objectives of the employer and in accordance with this Code.

Rule 411

A CFP designee shall: (a) Advise the CFP designee's employer of outside affiliations which reasonably may compromise service to an employer; and (b) Provide timely notice to the employer and clients, unless precluded by contractual obligation, in the event of change of employment or CFP Board licensing status.

Rule 412

A CFP designee doing business as a partner or principal of a financial services firm owes to the CFP designee's partners or co-owners a responsibility to act in good faith. This includes, but is not limited to, disclosure of relevant and material financial information while in business together.

Rule 413

A CFP designee shall join a financial planning firm as a partner or principal only on the basis of mutual disclosure of relevant and material information regarding credentials, competence, experience, licensing and/or legal status, and financial stability of the parties involved.

Rule 414

A CFP designee who is a partner or co-owner of a financial services firm who elects to withdraw from the firm shall do so in compliance with any applicable agreement, and shall deal with his or her business interest in a fair and equitable manner.

Rule 415

A CFP designee shall inform his or her employer, partners or co-owners of compensation or other benefit arrangements in connection with his or her services to clients which are in addition to compensation from the employer, partners or co-owners for such services.

Rule 416

If a CFP designee enters into a business transaction with a client, the transaction shall be on terms which are fair and reasonable to the client and the CFP designee shall disclose the risks of the transaction, conflict(s) of interest(s) of the CFP designee, and other relevant information, if any, necessary to make the transaction fair to the client.

Rules that Relate to the Principle of Confidentiality

Rule 501

A CFP designee shall not reveal-or use for his or her own benefit-without the client's consent, any personally identifiable information relating to the client relationship or the affairs of the client, except and to the extent disclosure or use is reasonably necessary: (a) To establish an advisory or brokerage account, to effect a transaction for the client, or as otherwise impliedly authorized in order to carry out the client engagement; or (b) To comply with legal requirements or legal process; or (c) To defend the CFP designee against charges of wrongdoing; or (d) In connection with a civil dispute between the CFP designee and the client. For purposes of this rule, the proscribed use of client information is improper whether or not it actually causes harm to the client.

Rule 502

A CFP designee shall maintain the same standards of confidentiality to employers as to clients.

Rule 503

A CFP designee doing business as a partner or principal of a financial services firm owes to the CFP designee's partners or co-owners a responsibility to act in good faith. This includes, but is not limited to, adherence to reasonable expectations of confidentiality both while in business together and thereafter.

Rules that Relate to the Principle of Professionalism

Rule 601

A CFP designee shall use the marks in compliance with the rules and regulations of the CFP Board, as established and amended from time to time.

Rule 602

A CFP designee shall show respect for other financial planning professionals, and related occupational groups, by engaging in fair and honorable competitive practices. Collegiality among CFP designees shall not, however, impede enforcement of this Code.

Rule 603

A CFP designee who has knowledge, which is not required to be kept confidential under this Code, that another CFP designee has committed a violation of this Code which raises substantial questions as to the designee's honesty, trustworthiness or fitness as a CFP designee in other respects, shall promptly inform the CFP Board. This rule does not require disclosure of information or reporting based on knowledge gained as a consultant or expert witness in anticipation of or related to litigation or other dispute resolution mechanisms. For purposes of this rule, knowledge means no substantial doubt.

Rule 604

A CFP designee who has knowledge, which is not required under this Code to be kept confidential, and which raises a substantial question of unprofessional, fraudulent or illegal conduct by a CFP designee or other financial professional, shall promptly inform the appropriate regulatory and/or professional disciplinary body. This rule does not require disclosure or reporting of information gained as a consultant or expert witness in anticipation of or related to litigation or other dispute resolution mechanisms. For purposes of this Rule, knowledge means no substantial doubt.

Rule 605

A CFP designee who has reason to suspect illegal conduct within the CFP designee's organization shall make timely disclosure of the available evidence to the CFP designee's immediate supervisor and/or partners or co-owners. If the CFP designee is convinced that illegal conduct exists within the CFP designee's organization, and that appropriate measures are not taken to remedy the situation, the CFP designee shall, where appropriate, alert the appropriate regulatory authorities including the CFP Board in a timely manner.

Rule 606

In all professional activities a CFP designee shall perform services in accordance with: (a) Applicable laws, rules, and regulations of governmental agencies and other applicable authorities; and (b) Applicable rules, regulations, and other established policies of the CFP Board.

Rule 607

A CFP designee shall not engage in any conduct which reflects adversely on his or her integrity or fitness as a CFP designee, upon the marks, or upon the profession.

Rule 608

The Investment Advisers Act of 1940 requires registration of investment advisers with the U.S. Securities and Exchange Commission and similar state statutes may require registration with state securities agencies. CFP designees shall disclose to clients their firm's status as registered investment advisers. Under present standards of acceptable business conduct, it is proper to use registered investment adviser if the CFP designee is registered individually. If the CFP designee is registered through his or her firm, then the CFP designee is not a registered investment adviser but a person associated with an investment adviser. The firm is the registered investment adviser. Moreover, RIA or R.I.A. following a CFP designee's name in advertising, letterhead stationery, and business cards may be misleading and is not permitted either by this Code or by SEC regulations.

Rule 609

A CFP designee shall not practice any other profession or offer to provide such services unless the CFP designee is qualified to practice in those fields and is licensed as required by state law.

Rule 610

A CFP designee shall return the client's original records in a timely manner after their return has been requested by a client.

Rule 611

A CFP designee shall not bring or threaten to bring a disciplinary proceeding under this Code, or report or threaten to report information to the CFP Board pursuant to Rules 603 and/or 604, or make or threaten to make use of this Code for no substantial purpose other than to harass, maliciously injure, embarrass and/or unfairly burden another CFP designee.

Rule 612

A CFP designee shall comply with all applicable post-certification requirements established by the CFP Board including, but not limited to, payment of the annual CFP designee fee as well as signing and returning the licensee's Statement annually in connection with the license renewal process.

Rules that Relate to the Principle of Diligence

Rule 701

A CFP designee shall provide services diligently.

Rule 702

A financial planning practitioner shall enter into an engagement only after securing sufficient information to satisfy the CFP designee that: (a) The relationship is warranted by the individual's needs and objectives; and (b) The CFP designee has the ability to either provide requisite competent services or to involve other professionals who can provide such services.

Rule 703

A financial planning practitioner shall make and/or implement only recommendations which are suitable for the client.

Rule 704

Consistent with the nature and scope of the engagement, a CFP designee shall make a reasonable investigation regarding the financial products recommended to clients. Such an investigation may be made by the CFP designee or by others provided the CFP designee acts reasonably in relying upon such investigation.

Rule 705

A CFP designee shall properly supervise subordinates with regard to their delivery of financial planning services, and shall not accept or condone conduct in violation of this Code.

Financial Planning Practice Standards

Statement of Purpose for Practice Standards

Practice standards are being developed and promulgated by the Certified Financial Planner Board of Standards, Inc. (CFP Board) for the practice of personal financial planning. These standards: (1) assure that the practice of financial planning by Certified Financial Planner designees (CFP designees) is based on agreed upon norms of practice; (2) advance professionalism in financial planning; and (3) enhance the value of the personal financial planning process.

Origin of Practice Standards

The CFP Board is a professional regulatory organization founded in 1985 to benefit and protect the public by establishing and enforcing education, examination, experience, and ethics requirements for CFP designees. Through its certification process, the CFP Board has established fundamental criteria necessary for competency in the personal financial planning profession. Through its Code of Ethics and Professional Responsibility, the Board has identified the ethics standards to which personal financial planning professionals should adhere. Now, consistent with its objective to promote and maintain professional standards and continuing competency among CFP designees, the CFP Board addresses standards of practice for personal financial planning. The CFP Board has established the Board of Practice

Standards, a subsidiary board comprised exclusively of CFP practitioners, to draft these practice standards.

Practice Standards Defined

A practice standard establishes the level of professional practice that is expected of CFP designees engaged in personal financial planning. The services provided depend on the facts and circumstances of a particular situation.

Practice standards apply to CFP designees in performing the tasks of personal financial planning regardless of the person's title, job position, type of employment, or method of compensation. Practice standards should be considered by all personal financial planning professionals when performing the financial planning task or activity addressed by the standard but are enforceable by the CFP Board only against CFP designees. Conduct inconsistent with a standard in and of itself is not intended to give rise to a cause of action nor to create any presumption that a legal duty has been breached. The standards are designed to provide CFP designees a structure for identifying and implementing expectations regarding the professional practice of personal financial planning. They are not designed to be a basis for legal liability.

Practice standards are not intended to prescribe step-by-step procedures for providing any particular service. Such procedures may be provided in practice aids developed by various financial planning organizations and other sources.

Practice standards are being developed for selected financial planning activities identified in a financial planner job analysis first conducted by the CFP Board in 1987 and updated in 1994 by CTB/McGraw-Hill, an independent consulting firm.

Financial Planning Process	*Related Practice Standard Series*
Establishing and defining the relationship with the client	100
Gathering client data including goals	200
Analyzing and evaluating the client's financial status	300
Developing and presenting financial planning recommendations and/or alternatives	400
Implementing the financial planning recommendations	500
Monitoring the financial planning recommendations	600

Compliance

The practice of financial planning consistent with these standards is required for CFP designees and will be enforced by the CFP Board.

Practice Standard 100-1

Establishing and Defining the Relationship with the Client

Defining the Scope of the Engagement

The scope of the engagement shall be mutually defined by the financial planning practitioner and the client prior to providing any financial planning service.

Explanation of this Practice Standard

Prior to providing any financial planning service, a financial planning practitioner and the client shall mutually define the scope of the engagement. The process of "mutually-defining" is essential in determining what activities may be necessary to proceed with the client engagement. This is accomplished by:

- identifying the service(s) to be provided;
- disclosing financial planning practitioner's compensation arrangement(s);
- determining the client's and the financial planning practitioner's responsibilities;
- establishing the duration of the engagement; and
- providing any additional information necessary to define or limit the scope.

The scope of the engagement may include one or more financial planning subject areas. It is acceptable to mutually define engagements in which the scope is limited to specific activities. This serves to establish realistic expectations both for the client and the practitioner.

This practice standard does not require the scope of the engagement to be in writing. However, as noted in Section 3, there may be certain disclosures that might be required to be in writing.

As the relationship proceeds, the scope may change by mutual understanding.

This practice standard shall not be considered alone, but in conjunction with all other practice standards.

Effective Date

This practice standard shall be effective January 1, 1999.

Practice Standard 200-1

Gathering Client Data

Determining a Client's Personal and Financial Goals, Needs and Priorities

A client's personal and financial goals, needs and priorities that are relevant to the scope of the engagement and the service(s) being provided shall be mutually defined by the *financial planning practitioner and the client prior to making and/or implementing any recommendations.*

Explanation of this Practice Standard

Prior to making recommendations to a client, a financial planning practitioner (practitioner) and the client shall mutually define the client's personal and financial goals, needs and priorities. In order to arrive at such a definition, the practitioner will need to explore the client's values, attitudes, expectations, and time horizons as they affect the client's goals, needs, and priorities. The process of "mutually-defining" is essential in determining what activities may be necessary to proceed with the client engagement. Personal values and attitudes shape a client's goals and objectives and the priority placed on them. Accordingly, these goals and objectives must be consistent with the client's values and attitudes in order for the client to make the commitment necessary to accomplish them.

Goals and objectives provide focus, purpose, vision, and direction for the financial planning process. It is essential that objectives relative to the scope of the engagement are determined and that they are clear, precise, consistent, and measurable. The role of the practitioner is to facilitate the goal-setting process in order to clarify, with the client, goals and objectives, and, when appropriate, the practitioner must try to assist clients in recognizing the implications of unrealistic goals and objectives.

This practice standard addresses only the tasks of determining a client's personal and financial goals, needs and priorities; assessing a client's values, attitudes and expectations; and determining a client's time horizons. These areas are subjective and the practitioner's interpretation is limited by what the client reveals. A practitioner performing the activity of "gathering client data" should consider together the various practice standards applicable to such activity.

This practice standard shall not be considered alone, but in conjunction with all other practice standards.

Effective Date

This practice standard shall be effective January 1, 1999.

Relationship of this Practice Standard to the CFP Board's Code of Ethics and Professional Responsibility

This practice standard relates to the CFP Board's *Code of Ethics and Professional Responsibility* through the Code's Principle 4-Fairness Rule 402 and Principle 7 - Diligence Rule 702.

Principle 4 states that "a CFP designee shall perform professional services in a manner that is fair and reasonable to clients . . .". Although, as stated earlier, there is no requirement that the scope of the engagement be in writing, Rule 402 in the *Code of Ethics and Professional Responsibility* requires a financial planning practitioner to make "timely written disclosure of all material information relative to the professional relationship. In all circumstances such disclosure shall include . . . sources of compensation”.

Principle 7 states that “a CFP designee shall act diligently in providing professional services. Rule 702 requires that financial planning practitioners enter into an engagement only after obtaining sufficient information to satisfy that “the relationship is warranted by the individual’s needs and objectives; and the CFP designee has the ability to either provide requisite competent services or to involve other professionals who can provide such services.”

Anticipated Impact of this Practice Standard

Upon the Public. The public is served when the relationship is based upon a mutual understanding of the engagement. Clarity of the scope of the engagement enhances the likelihood of achieving client expectations.

Upon the Financial Planning Profession. The profession benefits when clients are satisfied. This is more likely to take place when clients have expectations of the process, which are both realistic and clear, before services are provided.

Upon the Financial Planning Practitioner. A mutually defined scope of the engagement provides a framework for the financial planning process by focusing both the client and the practitioner on the agreed upon tasks. This enhances the potential for positive results.

Practice Standards 200-2

Gathering Client Data

Determining a Client’s Personal and Financial Goals, Needs and Priorities

A financial planning practitioner shall obtain sufficient and relevant quantitative information and documents about a client applicable to the scope of the engagement and the services being provided prior to making and/or implementing any recommendations.

Explanation of this Practice Standard

Prior to making recommendations to a client and depending upon the type of client engagement and its scope, a financial planning practitioner (practitioner) shall determine what quantitative information and documents are sufficient and relevant.

A practitioner shall obtain sufficient and relevant quantitative information and documents pertaining to the client’s financial resources, obligations, and personal situation. This information may be obtained directly from the client or other sources through interview, questionnaire, client records and documents.

A practitioner shall communicate to the client a reliance on the completeness and accuracy of the information provided and that incomplete or inaccurate information will impact conclusions and recommendations.

If a practitioner is unable to obtain sufficient and relevant quantitative information and documents to form a basis for recommendations, the practitioner shall either:

(a) restrict the scope of the engagement to those matters for which sufficient and relevant information is available; or
(b) terminate the engagement.

A practitioner shall communicate to the client any limitations on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations.

This practice standard shall not be considered alone, but in conjunction with all other practice standards.

Effective Date

This practice standard shall be effective January 1, 1999.

Relationship of this Practice Standard to the CFP Board's Code of Ethics and Professional Responsibility

This practice standard relates to the CFP Board's *Code of Ethics and Professional Responsibility* through the Code's Principle 7—Diligence, and Rules 701 through 703. Rule 701 states that "a CFP designee shall provide services diligently." Rule 702 requires a financial planning practitioner to "enter into an engagement only after securing sufficient information to satisfy the CFP designee that . . . the relationship is warranted by the individual's needs and objectives . . .". In addition, Rule 703 requires a financial planning practitioner to "make and/or implement only recommendations which are suitable for the client."

Anticipated Impact of this Practice Standard

Upon the Public. The public is served when the relationship is based upon mutually defined goals, needs, and priorities. Compliance with this practice standard reinforces the practice of putting the client's interest first which is intended to increase the likelihood of achieving the client's goals and objectives.

Upon the Financial Planning Profession. Compliance with this practice standard emphasizes to the public that the client's goals, needs, and priorities are the focus of the financial planning process. This encourages the public to seek out the services of a financial planning practitioner who uses such an approach.

Upon the Financial Planning Practitioner. The client's goals, needs and priorities help determine the direction of the financial planning process. This focuses the practitioner on the specific tasks that need to be accomplished. Ultimately this will facilitate the development of appropriate recommendations.