

CFP BOARD REPORT

News From Financial Planning's Professional Regulatory Organization

AUGUST 9, 2007

FOCUS ON ETHICS:

“OBLIGATIONS TO PROSPECTIVE CLIENTS”

Financial planning places great emphasis on the importance of goal-setting, and it's no surprise that many believe the most important parts of the financial planning process are implementation and results. Those who use the financial planning process, however, know that the best outcomes can't be reached without the early steps of the process. Those early steps may in fact be the most important. Even in situations where a first meeting with a potential client does not involve detailed data-gathering or analysis of the person's financial status, that meeting will set the foundation of a business relationship and create expectations for both the planner and client. Initial meetings may also be the most important time for a CFP® professional to embody the high ethical standards represented by CFP® certification. CFP Board's revised *Standards of Professional Conduct*, which becomes effective July 1, 2008, includes many ethical standards that apply to contact with prospective clients.

Ethical standards for working with prospective clients are not a new addition to CFP Board's *Standards of Professional Conduct*. CFP Board's current *Code of Ethics and Professional Responsibility* contains many Rules that apply to work with potential clients and three that specifically mention prospective clients: Rules 402(b), 402(c) and 403. Each of these requirements appears in the group of rules related to the principle of Fairness and describes certain disclosures a CFP® professional is expected to provide to a potential client. The revised *Standards* retain these required disclosures for potential clients, and they make clear that other principles from CFP Board's *Code of Ethics* also apply to prospective clients, including the principles of Integrity, Objectivity, Competence, Confidentiality, Professionalism and Diligence.

Prospective clients are mentioned specifically not only in five Rules contained in the new *Rules of Conduct*, but they also are made part of the headings for the first four sections of the *Rules of Conduct*:

1. Defining the Relationship with the Prospective Client or Client
2. Information Disclosed to Prospective Clients and Clients

3. Prospective Client and Client Information and Property
4. Obligations to Prospective Clients and Clients

Rules 1.1, 1.2 and 2.2 of the *Rules of Conduct* set forth the ethical obligations for the first step of the financial planning process. Rule 1.1 states, “The certificant and the prospective client or client shall mutually agree upon the services to be provided by the certificant,” and Rules 1.2 and 2.2 outline information that is important for the potential client to understand in order to make an educated agreement with the financial planner. That information includes such things as the obligations of each party, compensation arrangements, an identification of all parties that will be involved in delivering the services made part of the agreement, and conflicts of interest. Those disclosures are currently required by CFP Board’s current *Code of Ethics*.

Rule 1.2 also introduces several important elements not contained in the current *Code of Ethics*. Some of these new elements require CFP® professionals to inform a potential client of the following:

- Examining the result of the current course of action without changes.
- Factors or terms that determine costs, how decisions benefit the certificant and the relative benefit to the certificant.
- Terms under which the agreement permits the certificant to offer proprietary products.

Rule 2.1 of the revised *Standards* also introduces the requirement that a certificant “not mislead any parties about the potential benefits of the certificant’s service.” The revised *Standards* also make clear that CFP® professionals have an ethical duty to inform a potential client if they believe circumstances will prevent them from providing a certain service. As Rule 3.3 states, “A certificant shall obtain the information necessary to fulfill his or her obligations. If a certificant cannot obtain the necessary information, the certificant shall inform the prospective client or client of any and all material deficiencies.”

Each of these new requirements and restatements of existing requirements are designed to increase the ability of prospective clients to make educated decisions about whether they stand to benefit from the services of a CFP® professional. These standards also provide prospective clients with guidance on how to evaluate the recommendations they will receive as clients. CFP Board’s *Standards of Professional Conduct* requires that CFP® certificants display ethical conduct and professionalism even from the start of their relationships with clients.

If you have questions about “obligations to prospective clients” or any aspect of the revised *Standards*, please send them to CFP Board at mail@CFPBoard.org.

About the Revised *Standards of Professional Conduct*:

On May 31, 2007, CFP Board’s Board of Directors announced the adoption of a revised version of CFP Board’s *Standards of Professional Conduct*, which sets forth the ethical standards for CERTIFIED FINANCIAL PLANNER™ professionals. The revised standards are available online at www.CFP.net/aboutus/Standards.asp. They become effective July 1, 2008 and apply to the more than 55,000 financial planners in the U.S. who are authorized by CFP Board to use the CFP® certification marks. Questions about the revised Standards may be sent to mail@CFPBoard.org. CFP Board encourages CFP® professionals to begin applying the revised *Standards* to their daily practice well in advance of the July 1, 2008 effective date.



CERTIFIED FINANCIAL PLANNER™

CFP®

Certified Financial Planner Board of Standards Inc. owns these certification marks in the U.S., which it awards to individuals who successfully complete CFP Board's initial and ongoing certification requirements.