

# CFP BOARD REPORT

News From Financial Planning's Professional Regulatory Organization

FEBRUARY 7, 2008

## FOCUS ON ETHICS:

### “ACTING IN THE CLIENT’S BEST INTEREST”

CFP Board’s revised *Standards of Professional Conduct*, which becomes effective July 1, 2008, introduces new duty of care standards for CFP® professionals. Rule 1.4 of the new *Rules of Conduct* requires that a CFP® professional “shall at all times place the interest of the client ahead of his or her own.” That same rule requires CFP® professionals who provide financial planning services or material elements of the financial planning process to do so with the “duty of care of a fiduciary,” defined as “one who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.” Acting in a client’s best interest requires a CFP® professional to understand the individual client’s goals, needs and current financial situation, to make recommendations based on the best available options, and to exercise professional judgment in determining the best of those options.

Understanding a client’s goals and objectives is the foundation of the practice of financial planning and a key factor in determining the client’s interest. Practice Standard 200-1 of CFP Board’s *Financial Planning Practice Standards* establishes the level of professional practice CFP® professionals are expected to follow when determining a client’s personal and financial goals, needs and priorities:

The financial planning practitioner and the client shall mutually define the client’s personal and financial needs and priorities that are relevant to the scope of the engagement before any recommendation is made and/or implemented.

A CFP® professional’s initial meetings with a client include discussions that establish a focus, purpose and direction for the services to be provided to that client. In addition to obtaining documentation of the client’s current financial situation, the CFP® professional will also pay attention to the client’s values, attitudes and expectations and determine the client’s time horizons.

After the CFP® professional and client have mutually defined the factors that establish the client’s interest, the CFP® professional may, as part of the financial planning process, provide recommendations that include strategies, services and/or products. With the ever-increasing range of choices available in the financial services industry, there can be nearly infinite options when one brings together an individual’s situation and goals. CFP Board does not expect a CFP® professional to undertake the impossible task of reviewing all possible options in the search for the best. Rather, CFP Board expects any financial planning services provided to be the best services and recommendations available, given the CFP® professional’s reasonable professional judgment and any limitations placed on the

CFP® professional by business or regulatory requirements. A CFP® professional may work in a setting where business or regulatory requirements limit the services or investments that can be made available to clients. In such situations, the CFP® professional providing financial planning services would be expected to disclose the limitations to the client – including any contractual or agency relationships that have potential to affect the client (see Rule 2.2) and any terms under which proprietary products may be offered (see Rule 1.2) – and then offer recommendations that he or she reasonably believes to be the best for that client’s situation.

What one CFP® professional determines is best for a client will include some subjective considerations of the client’s goals, values, attitudes and experience. Another CFP® professional may in a similar situation make a different determination. CFP Board’s ethical standards have always emphasized the importance of professional judgment, and the importance of a CFP® professional’s professional judgment is highlighted in CFP Board’s definition of “fiduciary”: “One who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.” CFP Board expects CFP® professionals to provide only financial planning recommendations that they reasonably believe to be the best options available to their clients.

CFP Board does not advocate any particular business or compensation structures. The updated *Standards* are compensation-neutral and require CFP® professionals with all types of practices and business structures to at all times place the interest of the client ahead of their own, regardless of whether they provide financial planning or material elements of the financial planning process.

Questions about the revised *Standards* may be sent to [standards@CFPBoard.org](mailto:standards@CFPBoard.org).

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### **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](http://www.CFP.net/aboutus/Standards.asp). They become effective July 1, 2008 and apply to the more than 57,000 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](mailto: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.



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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.