

CFP BOARD REPORT

News From Financial Planning's Professional Regulatory Organization

NOVEMBER 7, 2007

FOCUS ON ETHICS:

“COMPENSATION DISCLOSURE”

Disclosure of compensation and costs is an important part of CFP Board's ethical standards for CFP® professionals, regardless of the type of compensation a CFP® professional receives or the type of services offered to clients. CFP Board's **revised *Standards of Professional Conduct***, which becomes effective July 1, 2008, provides guidance on the type of compensation disclosure CFP® professionals are required to make to clients and prospective clients.

Rule 2.2(a) of the updated *Standards* sets forth the compensation disclosures required of all CFP® professionals when dealing with clients and prospective clients. The rule states that a certificant shall disclose to a prospective client or client “An accurate and understandable description of the compensation arrangements being offered.” Rule 2.2 (a) outlines two general categories of compensation arrangements that must be included in the disclosure of compensation:

- i. Information related to costs and compensation to the certificant and/or the certificant's employer, and
- ii. Terms under which the certificant and/or the certificant's employer may receive any other sources of compensation, and if so, what the sources of these payments are and on what they are based.

These categories cover all costs and compensation, direct and indirect, that might be generated as a result of the CFP® professional's relationship with a client. While the level of detail included in the disclosure of these costs may vary depending on the client's understanding, CFP Board requires that compensation be accurate and presented to clients in ways they can reasonably be expected to understand.

Certain disclosure obligations in the updated *Standards of Professional Conduct* are specific to financial planning engagements. Rule 2.2(e) states that the disclosures required by Rule 2.2(a) and the other sections of Rule 2.2 must be made in writing when the related services include financial planning or **material elements of the financial planning process**. The written disclosures need not be a single document and may be made through multiple documents. Existing

disclosure documents that are used to make disclosures in compliance with state or federal laws, or the rules or requirements of any applicable self-regulatory organization may also cover the compensation disclosure required by Rule 2.2(a).

Two sections of Rule 1.2 address additional disclosure obligations related to compensation. The following items must be disclosed to clients or prospective clients for engagements that include financial planning or material elements of the financial planning process:

- b. Compensation that any party to the agreement or any legal affiliate to a party to the agreement will or could receive under the terms of the agreement; and factors or terms that determine costs, how decisions benefit the certificant and the relative benefit to the certificant.
- c. Terms under which the agreement permits the certificant to offer proprietary products.

Rule 1.2 ends with a note that if the information above is disclosed in writing, the certificant shall also encourage the prospective client or client to review the information and offer to answer any questions that the prospective client or client may have.

As with the **other disclosures required by updated *Standards of Professional Conduct***, disclosure of compensation and costs may not be a one-time event. As a relationship with a client evolves over time, it is important to make ongoing disclosure of any changes or additions to the compensation associated with the services to the client. Rule 2.2 of the updated *Standards* requires timely disclosure of any material changes to compensation information. Ongoing disclosure of compensation and costs allows a client to make informed decisions based on the most current information.

CFP® professionals provide a wide variety of services to clients, with many different compensation structures and costs related to those services. CFP Board does not advocate any particular compensation model, and the disclosure of costs and compensation required by CFP Board's updated *Standards* applies to all CFP® professionals. As CFP® professionals place the interest of their clients ahead of their own, they are expected to provide accurate and understandable information about the impact of their compensation on the services to their clients. If you have questions about compensation disclosure requirements or other aspects of the revised *Standards*, please send them to CFP Board at standards@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 56,000 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.