

CFP BOARD REPORT

News From Financial Planning's Professional Regulatory Organization

OCTOBER 3, 2007

FOCUS ON ETHICS:

“WRITTEN AGREEMENTS GOVERNING FINANCIAL SERVICES”

Much of the information shared between a CFP® professional and client in the early stages of the financial planning process is likely to take place through conversation, but it is important to memorialize vital pieces of that information in writing. Written documentation helps ensure that both client and planner have a similar understanding of key aspects of the client engagement. CFP Board's ethical standards have long required that certain disclosures be made to financial planning clients in writing, and CFP Board's revised *Standards of Professional Conduct*, which becomes effective July 1, 2008, adds a new requirement that a written agreement accompany any financial planning services or services that include material elements of the financial planning process.

Rule 1.3 of the *Rules of Conduct* states that if a CFP® professional agrees to provide a client or prospective client with services that include financial planning or material elements of the financial planning process, the services shall be accompanied by a written agreement (“Agreement”) that includes the following information:

- a. The parties to the Agreement,
- b. The date of the Agreement and its duration,
- c. How and on what terms each party can terminate the Agreement, and
- d. The services to be provided as part of the Agreement.

Rule 1.3 notes that the parties to the Agreement may be the CFP® professional and the client, or they may be the client and the certificant's employer, depending on the manner in which the certificant's business is structured. Rule 1.3 also notes that the Agreement may be provided to the client by the certificant or the certificant's employer. The four basic terms that Rule 1.3 requires for a written agreement cover essential information about the client relationship that it is important for both parties to understand.

While the Agreement required by Rule 1.3 is a new addition to CFP Board's ethical standards, CFP Board expects that many CFP® professionals

already provide financial planning clients with written documents covering the basic terms required by Rule 1.3. For example, if a certificant provides a Form ADV or other disclosure to a financial planning client in compliance with state and/or federal law, or the rules or regulations of any applicable self-regulatory organization, and if that written disclosure includes the four basic terms required by Rule 1.3, that documentation will satisfy the requirements of Rule 1.3.

Rule 1.3 also states that the Agreement does not need to be a single document. If a CFP® professional provides multiple documents to a financial planning client that cover the four basic terms required by Rule 1.3, those multiple documents will satisfy the requirements of Rule 1.3. Some may find it useful to set up a separate written document covering the requirements of Rule 1.3. Others may find it more convenient to include with the written agreement the written disclosures of compensation, conflicts of interest and other information outlined in Rules 1.2 and 2.2.

A clear, well-defined written agreement with a financial planning client can help a CFP® professional avoid situations where a client may develop unreasonable expectations about the services to be received. If you have questions about Rule 1.3 and its requirement for a written agreement governing financial planning services, or if you have questions about other aspects 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™

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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.