

**A. DUTIES OWED TO CLIENTS, 13. DUTIES WHEN RECOMMENDING, ENGAGING, AND WORKING WITH ADDITIONAL PERSONS**

**1: DUTIES WHEN RECOMMENDING ADDITIONAL PERSONS TO PROVIDE FINANCIAL OR PROFESSIONAL SERVICES TO A CLIENT**

Marie is a CFP® professional who works for a financial services firm. She is the relationship manager for Clients Seth and Jennifer, who intend to retire in ten years and are looking for a financial advisor who lives locally and is able to help them address their wealth management needs. More specifically, the Clients seek a financial advisor to provide customized, active portfolio management. Marie's firm does not have a financial advisor who lives locally and is available to help them.

Several local registered investment advisors (RIAs) custody their assets with Marie's firm. The firm established requirements that an RIA must meet for the firm to recommend Clients to the RIA. The requirements set reasonable standards for the reputation, experience, and qualifications of the RIA firm and its investment adviser representatives. Marie's firm recently developed a list of RIA firms that meet the requirements after interviewing RIA firms and evaluating the reputation (including disciplinary history), experience, and qualifications of the firms and their investment adviser representatives. Marie receives a fee for each recommendation that she makes to a Client of a firm-approved RIA. In this instance, Marie arranges for Seth and Jennifer to meet with a local investment adviser representative of the firm-approved RIA who she determines will be the best fit for the Clients given the desire for customized, active portfolio management.

**QUESTION:**

What is Marie required to do when recommending to the Clients the RIA firm's investment adviser representative?

**RESPONSE OPTIONS:**

- A. Marie is not required to take any action because the Clients are not paying her firm a referral fee.
- B. Marie may rely on her firm's vetting process for approving the RIA firm, and must disclose to the Client, at the time of the recommendation, the compensation that she, her firm, and any Related Party will receive for the recommendation if the Clients retain the local RIA.
- C. Marie is required to independently investigate at least three local RIA firms on the firm-approved list to determine the best fit for the Clients.
- D. Marie must enter into a written Engagement with the Clients before recommending an RIA firm.

**Best Response:** Response B is the best response. This case study involves the Duties When Recommending, Engaging, and Working with Additional Persons (Standard A.13.a.).

When recommending the retention of additional persons to provide financial or Professional Services for a Client, a CFP® professional must: (1) have a reasonable basis for the recommendation based on the person's reputation, experience, and qualifications; and (2) disclose to the Client, at the time of the recommendation, any arrangement by which someone who is not the Client will compensate or provide some other material economic benefit to the CFP® professional, the CFP® Professional's Firm, or a Related Party for the recommendation.

A CFP® professional may rely on the CFP® Professional's Firm's list of approved firms if the CFP® professional understands the process the CFP® Professional's Firm used to develop the list and determines that it is reasonably designed and implemented. If a CFP® professional becomes aware of other information that makes the recommendation unreasonable, then the CFP® professional must refrain from making the recommendation.

In this instance, Marie has recommended to the Clients an investment adviser representative of a local RIA firm. Marie has a reasonable basis to make the recommendation because the RIA was on her firm's approved list of RIA referral firms, and she has a reasonable basis to believe that her firm engaged in a diligent process of selecting the RIA firms after conducting an investigation and evaluating the reputation (including disciplinary history), experience, and qualifications of the firm and its professionals against the firm's reasonable standards. Since the RIA firm will pay Marie's firm a referral fee, when Marie recommends the RIA firm to the Clients, she must disclose to the Clients the compensation arrangement that her firm has with the RIA firm.

A is not the best response because a CFP® professional has a duty when recommending an additional person to provide Professional Services for a Client that includes disclosing to the Client any arrangement by which the RIA firm will compensate Marie, Marie's firm, or a Related Party for the recommendation.

C is not the best response because Marie has a reasonable basis for relying on her firm's approved list of RIA referral firms. In selecting RIA firms for the approved list, Marie's firm developed and applied reasonable standards for the reputation (including disciplinary history), experience, and qualifications of the RIA firm and its investment adviser representatives.

D is not the best response because Marie may make the recommendation without entering into a written Engagement with the Clients.

**Relevant Standards and Definitions:** Duties When Recommending, Engaging, and Working with Additional Persons (Standard A.13.a.).