

CERTIFIED FINANCIAL PLANNER
BOARD OF STANDARDS, INC.

FINANCIAL PLANNING PRACTICE STANDARDS



CERTIFIED FINANCIAL PLANNER™



The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

Terminology in this Booklet

“Client” denotes a person, persons, or entity who engages a practitioner and for whom professional services are rendered. For purposes of this definition, a practitioner is engaged when an individual, based upon the relevant facts and circumstances, reasonably relies upon information or service provided by that practitioner. Where the services of the practitioner are provided to an entity (corporation, trust, partnership, estate, etc.), the client is the entity acting through its legally authorized representative.

“CFP Board designee” denotes current certificants, candidates for certification, and individuals that have any entitlement, direct or indirect, to the CFP certification marks.

“Commission” denotes the compensation received by an agent or broker when the same is calculated as a percentage on the amount of his or her sales or purchase transactions.

“Compensation” is any economic benefit a CFP Board designee or related party receives from performing his or her professional activities.

“Conflict(s) of interest” exists when a CFP Board designee's financial, business, property and/or personal interests, relationships or circumstances reasonably may impair his/her ability to offer objective advice, recommendations or services.

“Fee-only” denotes a method of compensation in which compensation is received solely from a client with neither the personal financial planning practitioner nor any related party receiving compensation which is contingent upon the purchase or sale of any financial product. A “related party” for this purpose shall mean an individual or entity from whom any direct or indirect economic benefit is derived by the personal financial planning practitioner as a result of implementing a recommendation made by the personal financial planning practitioner.

A **“financial planning engagement”** exists when a client, based on the relevant facts and circumstances, reasonably relies upon information or services provided by a CFP Board designee using the financial planning process.

“Personal financial planning” or **“financial planning”** denotes the process of determining whether and how an individual can meet life goals through the proper management of financial resources.

“Personal financial planning process” or **“financial planning process”** denotes the process which typically includes, but is not limited to, the six elements of establishing and defining the client-planner relationship, gathering client data including goals, analyzing and evaluating the client's financial status, developing and presenting financial planning recommendations and/or alternatives, implementing the financial planning recommendations and monitoring the financial planning recommendations.

“Personal financial planning subject areas” or **“financial planning subject areas”** denotes the basic subject fields covered in the financial planning process which typically include, but are not limited to, financial statement preparation and analysis (including cash flow analysis/planning and budgeting), investment planning (including portfolio design, i.e., asset allocation and portfolio management), income tax planning, education planning, risk management, retirement planning and estate planning.

“Personal financial planning professional” or **“financial planning professional”** denotes a person who is capable and qualified to offer objective, integrated and comprehensive financial advice to or for the benefit of individuals to help them achieve their financial objectives. A financial planning professional must have the ability to provide financial planning services to clients, using the financial planning process covering the basic financial planning subjects.

“Personal financial planning practitioner” or **“financial planning practitioner”** denotes a person who is capable and qualified to offer objective, integrated and comprehensive financial advice to or for the benefit of clients to help them achieve their financial objectives and who engages in financial planning using the financial planning process in working with clients.

Financial Planning Practice Standards

Statement of Purpose for <i>Financial Planning Practice Standards</i>	4
History of <i>Practice Standards</i>	4
Description of <i>Practice Standards</i>	4
Format of <i>Practice Standards</i>	5
Compliance with <i>Practice Standards</i>	35
100 SERIES: Establishing and Defining the Relationship with the Client	
100-1 Defining the Scope of the Engagement	6
200 SERIES: Gathering Client Data	
200-1 Determining a Client's Personal and Financial Goals, Needs and Priorities ..	8
200-2 Obtaining Quantitative Information and Documents	9
300 SERIES: Analyzing and Evaluating the Client's Financial Status	
300-1 Analyzing and Evaluating the Client's Information	11
400 SERIES: Developing and Presenting the Financial Planning Recommendation(s)	
Preface to the 400 Series	13
400-1 Identifying and Evaluating Financial Planning Alternative(s)	13
400-2 Developing the Financial Planning Recommendation(s)	14
400-3 Presenting the Financial Planning Recommendation(s)	15
500 SERIES: Implementing the Financial Planning Recommendation(s)	
500-1 Agreeing on Implementation Responsibilities	18
500-2 Selecting Products and Services for Implementation	19
600 SERIES: Monitoring	
600-1 Defining Monitoring Responsibilities	21

STATEMENT OF PURPOSE FOR FINANCIAL PLANNING PRACTICE STANDARDS

Financial Planning Practice Standards are developed and promulgated by Certified Financial Planner Board of Standards Inc. (CFP Board) for the ultimate benefit of consumers of financial planning services.

These *Practice Standards* are intended to:

- (1) Assure that the practice of financial planning by CERTIFIED FINANCIAL PLANNER™ professionals is based on established norms of practice;
- (2) Advance professionalism in financial planning; and
- (3) Enhance the value of the financial planning process.

HISTORY OF PRACTICE STANDARDS

CFP Board is a professional regulatory organization founded in 1985 to benefit the public by establishing and enforcing education, examination, experience and ethics requirements for CFP® professionals. Through its certification process, CFP Board established fundamental criteria necessary for competency in the financial planning profession. Through its *Code of Ethics and Professional Responsibility (Code of Ethics)*, CFP Board has identified the ethics standards to which financial planning professionals should adhere.

In 1995, CFP Board established its Board of Practice Standards composed exclusively of CFP practitioners, to draft standards of practice for financial planning. The Board of Practice Standards drafted and revised the standards considering input from CFP certificants, consumers, regulators and other organizations. CFP Board's Board of Governors adopted the revised standards.

DESCRIPTION OF PRACTICE STANDARDS

A *Practice Standard* establishes the level of professional practice that is expected of CFP Board designees engaged in financial planning.

Practice Standards apply to CFP Board designees in performing the tasks of financial planning regardless of the person's title, job position, type of employment or method of compensation. Compliance with the *Practice Standards* is mandatory for CFP Board designees, but all financial planning professionals are encouraged to use the *Practice Standards* when performing financial planning tasks or activities addressed by a *Practice Standard*.

Conduct inconsistent with a *Practice Standard* in and of itself is neither intended to give rise to a cause of action nor to create any presumption that a legal duty has been breached. The *Practice Standards* are designed to provide CFP Board designees a framework for the professional practice of financial planning. They are not designed to be a basis for legal liability.

Practice Standards are not intended to prescribe the services to be provided or step-by-step procedures for providing any particular service. Such procedures may be provided in practice aids developed by various financial planning organizations and other sources.

Practice Standards were developed for selected financial planning activities identified in a financial planner job analysis first conducted by CFP Board in 1987, updated in 1994 by CTB/McGraw-Hill, an independent consulting firm, and again in 1999 by the Chauncey Group. The financial planning process is defined as follows:

FINANCIAL PLANNING PROCESS	RELATED <i>PRACTICE STANDARD</i>
1. Establishing and defining the relationship with a client	100-1 Defining the Scope of the Engagement
2. Gathering client data	200-1 Determining a Client's Personal and Financial Goals, Needs and Priorities 200-2 Obtaining Quantitative Information and Documents
3. Analyzing and evaluating the client's financial status	300-1 Analyzing and Evaluating the Client's Information
4. Developing and presenting financial planning recommendations	400-1 Identifying and Evaluating Financial Planning Alternative(s) 400-2 Developing the Financial Planning Recommendation(s) 400-3 Presenting the Financial Planning Recommendation(s)
5. Implementing the financial planning recommendations	500-1 Agreeing on Implementation Responsibilities 500-2 Selecting Products and Services for Implementation
6. Monitoring	600-1 Defining Monitoring Responsibilities

FORMAT OF *PRACTICE STANDARDS*

Each *Practice Standard* is a statement regarding an element of the financial planning process. It is followed by an explanation of the Standard, its relationship to the *Code of Ethics*, and its expected impact on the public, the profession and the practitioner.

The Explanation accompanying each *Practice Standard* explains and illustrates the meaning and purpose of the *Practice Standard*. The text of each *Practice Standard* is authoritative and directive. The related Explanation is a guide to interpretation and application of the *Practice Standard* based, where indicated, on a standard of reasonableness, a recurring theme throughout the *Practice Standards*. The Explanation is not intended to establish a professional standard or duty beyond what is contained in the *Practice Standard* itself.

COMPLIANCE WITH *PRACTICE STANDARDS*

The practice of financial planning consistent with these *Practice Standards* is required for CFP Board designees. Enforcement is based on the disciplinary rules and procedures established by CFP Board and administered by CFP Board's Board of Professional Review and Board of Appeals.

Practice Standards 100 Series

ESTABLISHING AND DEFINING THE RELATIONSHIP WITH THE CLIENT

100-1: Defining the Scope of the Engagement

The financial planning practitioner and the client shall mutually define the scope of the engagement before any financial planning service is provided.

Explanation of this Practice Standard

Prior to providing any financial planning service, the financial planning practitioner and the client shall mutually define the scope of the engagement. The process of “mutually-defining” is essential in determining what activities may be necessary to proceed with the engagement.

This process is accomplished in financial planning engagements by:

- Identifying the service(s) to be provided;
- Disclosing the practitioner’s material conflict(s) of interest;
- Disclosing the practitioner’s compensation arrangement(s);
- Determining the client’s and the practitioner’s responsibilities;
- Establishing the duration of the engagement; and
- Providing any additional information necessary to define or limit the scope.

The scope of the engagement may include one or more financial planning subject areas. It is acceptable to mutually define engagements in which the scope is limited to specific activities. Mutually defining the scope of the engagement serves to establish realistic expectations for both the client and the practitioner.

This *Practice Standard* does not require the scope of the engagement to be in writing. However, as noted in the “Relationship” section, which follows, there may be certain disclosures that are required to be in writing.

As the relationship proceeds, the scope may change by mutual agreement.

This *Practice Standard* shall not be considered alone, but in conjunction with all other *Practice Standards*.

Effective Date

Original version effective January 1, 1999. Updated version effective January 1, 2002.

Relationship of this Practice Standard to CFP Board’s Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board’s *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics’* Principle 4 – Fairness and Rule 402; and Principle 7 – Diligence and Rule 702.

Principle 4 states “A CFP Board designee shall perform professional services in a manner that is fair and reasonable to clients....” Although, as stated earlier, there is no requirement that the scope of the engagement be in writing, Rule 402 in the *Code of Ethics* requires a financial planning practitioner to make “timely written disclosure of all material information relative to the professional relationship. In all circumstances and prior to the engagement, a

CFP Board designee shall, in writing: (a) Disclose conflict(s) of interest and sources of compensation; and (b) Inform the client or prospective client of his/her right to ask at any time for information about the compensation of the CFP Board designee.”

Principle 7 states “A CFP Board designee shall act diligently in providing professional services.” Rule 702 requires that financial planning practitioners enter into an engagement only after obtaining sufficient information to satisfy that “the relationship is warranted by the individual’s needs and objectives; and the CFP Board designee has the ability to either provide requisite competent services or to involve other professionals who can provide such services.”

Anticipated Impact of this *Practice Standard*

Upon the Public

The public is served when the relationship is based upon a mutual understanding of the engagement. Clarity of the scope of the engagement enhances the likelihood of achieving client expectations.

Upon the Financial Planning Profession

The profession benefits when clients are satisfied. This is more likely to take place when clients have expectations of the process, which are both realistic and clear, before services are provided.

Upon the Financial Planning Practitioner

A mutually defined scope of the engagement provides a framework for the financial planning process by focusing both the client and the practitioner on the agreed upon tasks. This enhances the potential for positive results.

Practice Standards 200 Series

GATHERING CLIENT DATA

200-1: 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 goals, needs and priorities that are relevant to the scope of the engagement before any recommendation is made and/or implemented.

Explanation of this Practice Standard

Prior to making recommendations to the client, the financial planning practitioner and the client shall mutually define the client's personal and financial goals, needs and priorities. In order to arrive at such a definition, the practitioner will need to explore the client's values, attitudes, expectations, and time horizons as they affect the client's goals, needs and priorities. The process of "mutually-defining" is essential in determining what activities may be necessary to proceed with the client engagement. Personal values and attitudes shape the client's goals and objectives and the priority placed on them. Accordingly, these goals and objectives must be consistent with the client's values and attitudes in order for the client to make the commitment necessary to accomplish them.

Goals and objectives provide focus, purpose, vision and direction for the financial planning process. It is important to determine clear, and measurable objectives that are relevant to the scope of the engagement. The role of the practitioner is to facilitate the goal-setting process in order to clarify, with the client, goals and objectives. When appropriate, the practitioner shall try to assist clients in recognizing the implications of unrealistic goals and objectives.

This *Practice Standard* addresses only the tasks of determining the client's personal and financial goals, needs and priorities; assessing the client's values, attitudes and expectations; and determining the client's time horizons. These areas are subjective and the practitioner's interpretation is limited by what the client reveals.

This *Practice Standard* shall not be considered alone, but in conjunction with all other *Practice Standards*.

Effective Date

Original version effective January 1, 1999. Updated version effective January 1, 2002.

Relationship of this Practice Standard to CFP Board's Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 7 – Diligence, and Rules 701 through 703. Rule 701 states that "A CFP Board designee shall provide services diligently." Rule 702 requires a financial planning practitioner to "enter into an engagement only after securing sufficient information to satisfy the CFP Board designee that ... the relationship is warranted by the individual's needs and objectives..." In addition, Rule 703 requires a financial planning practitioner to "make and/or implement only recommendations which are suitable for the client."

Anticipated Impact of this Practice Standard*Upon the Public*

The public is served when the relationship is based upon mutually defined goals, needs and priorities. This *Practice Standard* reinforces the practice of putting the client's interests first which is intended to increase the likelihood of achieving the client's goals and objectives.

Upon the Financial Planning Profession

Compliance with this *Practice Standard* emphasizes to the public that the client's goals, needs and priorities are the focus of the financial planning process. This encourages the public to seek out the services of a financial planning practitioner who uses such an approach.

Upon the Financial Planning Practitioner

The client's goals, needs and priorities help determine the direction of the financial planning process. This focuses the practitioner on the specific tasks that need to be accomplished. Ultimately, this will facilitate the development of appropriate recommendations.

200-2: Obtaining Quantitative Information and Documents

The financial planning practitioner shall obtain sufficient quantitative information and documents about a client relevant to the scope of the engagement before any recommendation is made and/or implemented.

Explanation of this Practice Standard

Prior to making recommendations to the client and depending on the scope of the engagement, the financial planning practitioner shall determine what quantitative information and documents are sufficient and relevant.

The practitioner shall obtain sufficient and relevant quantitative information and documents pertaining to the client's financial resources, obligations and personal situation. This information may be obtained directly from the client or other sources such as interview(s), questionnaire(s), client records and documents.

The practitioner shall communicate to the client a reliance on the completeness and accuracy of the information provided and that incomplete or inaccurate information will impact conclusions and recommendations.

If the practitioner is unable to obtain sufficient and relevant quantitative information and documents to form a basis for recommendations, the practitioner shall either:

- (a) Restrict the scope of the engagement to those matters for which sufficient and relevant information is available; or
- (b) Terminate the engagement.

The practitioner shall communicate to the client any limitations on the scope of the engagement, as well as the fact that this limitation could affect the conclusions and recommendations.

This *Practice Standard* shall not be considered alone, but in conjunction with all other *Practice Standards*.

Effective Date

Original version effective January 1, 1999. Updated version effective January 1, 2002.

Relationship of this *Practice Standard* to CFP Board's *Code of Ethics and Professional Responsibility*

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 7 – Diligence and Rules 701 through 703. Rule 701 states “A CFP Board designee shall provide services diligently.” Rule 702 requires a financial planning practitioner to “enter into an engagement only after securing sufficient information to satisfy the CFP Board designee that ... the relationship is warranted by the individual's needs and objectives...” In addition, Rule 703 requires a financial planning practitioner to “make and/or implement only recommendations which are suitable for the client.”

Anticipated Impact of this *Practice Standard**Upon the Public*

The public is served when financial planning recommendations are based upon sufficient and relevant quantitative information and documents. This *Practice Standard* is intended to increase the likelihood of achieving the client's goals and objectives.

Upon the Financial Planning Profession

The financial planning process requires that recommendations be made based on sufficient and relevant quantitative data. Therefore, compliance with this *Practice Standard* encourages the public to seek financial planning practitioners who use the financial planning process.

Upon the Financial Planning Practitioner

Sufficient and relevant quantitative information and documents provide the foundation for analysis. Ultimately, this will facilitate the development of appropriate recommendations.

Practice Standards 300 Series

ANALYZING AND EVALUATING THE CLIENT'S FINANCIAL STATUS

300-1: Analyzing and Evaluating the Client's Information

A financial planning practitioner shall analyze the information to gain an understanding of the client's financial situation and then evaluate to what extent the client's goals, needs and priorities can be met by the client's resources and current course of action.

Explanation of this Practice Standard

Prior to making recommendations to a client, it is necessary for the financial planning practitioner to assess the client's financial situation and to determine the likelihood of reaching the stated objectives by continuing present activities.

The practitioner will utilize client-specified, mutually agreed upon, and/or other reasonable assumptions. Both personal and economic assumptions must be considered in this step of the process. These assumptions may include, but are not limited to, the following:

- Personal assumptions, such as: retirement age(s), life expectancy(ies), income needs, risk factors, time horizon and special needs; and
- Economic assumptions, such as: inflation rates, tax rates and investment returns.

Analysis and evaluation are critical to the financial planning process. These activities form the foundation for determining strengths and weaknesses of the client's financial situation and current course of action. These activities may also identify other issues that should be addressed. As a result, it may be appropriate to amend the scope of the engagement and/or to obtain additional information.

Effective Date

Original version effective January 1, 2000. Updated version effective January 1, 2002.

Relationship of this Practice Standard to CFP Board's Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 2 - Objectivity and Rules 201 and 202; Principle 3 - Competence and Rule 302, and Principle 7 - Diligence and Rule 701.

Principle 2 states "A CFP Board designee shall be objective in providing professional services to clients." Rule 201 states "A CFP Board designee shall exercise reasonable and prudent professional judgment in providing professional services" and Rule 202 states "A financial planning practitioner shall act in the interest of the client."

Principle 3 states "A CFP Board designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged." Rule 302 states "A CFP Board designee shall offer advice only in those areas in which the CFP Board designee has competence. In areas where the CFP Board designee is not professionally competent, the CFP Board designee shall seek the counsel of qualified individuals and/or refer clients to such parties."

Under Principle 7, Rule 701 states "A CFP Board designee shall provide services diligently."

Anticipated Impact of this *Practice Standard**Upon the Public*

The public is served when objective analysis and evaluation by a financial planning practitioner results in the client's heightened awareness of specific financial planning issues. This *Practice Standard* is intended to increase the likelihood of achieving the client's goals and objectives.

Upon the Financial Planning Profession

Objective analysis and evaluation enhances the public's recognition of and appreciation for the financial planning process and increases the confidence in financial planning practitioners who provide this service.

Upon the Financial Planning Practitioner

Analysis and evaluation helps the practitioner establish the foundation from which recommendations can be made that are specific to the client's financial planning goals, needs and priorities.

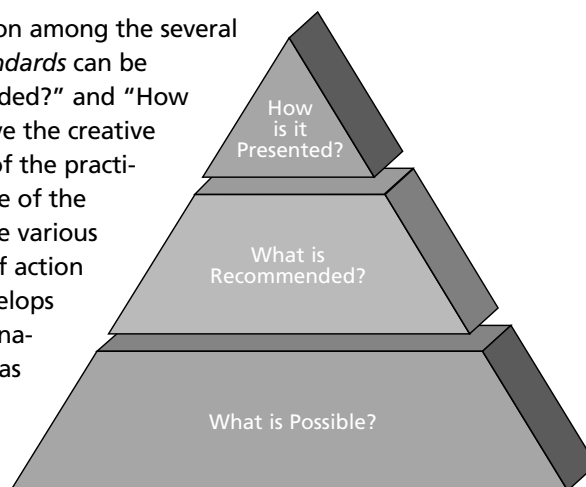
Practice Standards 400 Series

DEVELOPING AND PRESENTING THE FINANCIAL PLANNING RECOMMENDATION(S)

PREFACE TO THE 400 SERIES

The 400 Series, “Developing and Presenting the Financial Planning Recommendation(s),” represents the very heart of the financial planning process. It is at this point that the financial planning practitioner, using both science and art, formulates the recommendations designed to achieve the client’s goals, needs and priorities. Experienced financial planning practitioners may view this process as one action or task. However, in reality, it is a series of distinct but interrelated tasks.

These three *Practice Standards* emphasize the distinction among the several tasks which are part of this process. These *Practice Standards* can be described as, “What is Possible?,” “What is Recommended?” and “How is it Presented?” The first two *Practice Standards* involve the creative thought, the analysis, and the professional judgment of the practitioner, which are often performed outside the presence of the client. First, the practitioner identifies and considers the various alternatives, including continuing the present course of action (*Practice Standard 400-1*). Second, the practitioner develops the recommendation(s) from among the selected alternatives (*Practice Standard 400-2*). Once the practitioner has determined what to recommend, the final task is to communicate the recommendation(s) to the client (*Practice Standard 400-3*).



The three *Practice Standards* that comprise the 400 series should not be considered alone, but in conjunction with all other *Practice Standards*.

400-1: Identifying and Evaluating Financial Planning Alternative(s)

The financial planning practitioner shall consider sufficient and relevant alternatives to the client’s current course of action in an effort to reasonably meet the client’s goals, needs and priorities.

Explanation of this *Practice Standard*

After analyzing the client’s current situation (*Practice Standard 300-1*) and prior to developing and presenting the recommendation(s) (*Practice Standards 400-2 and 400-3*) the financial planning practitioner shall identify alternative actions. The practitioner shall evaluate the effectiveness of such actions in reasonably meeting the client’s goals, needs and priorities.

This evaluation may involve, but is not limited to, considering multiple assumptions, conducting research or consulting with other professionals. This process may result in a single alternative, multiple alternatives or no alternative to the client’s current course of action.

In considering alternative actions, the practitioner shall recognize and, as appropriate, take into account his or her legal and/or regulatory limitations and level of competency in properly addressing each of the client’s financial planning issues.

More than one alternative may reasonably meet the client’s goals, needs and priorities. Alternatives identified by the practitioner may differ from those of other practitioners or advisers, illustrating the subjective nature of exercising professional judgment.

Effective Date

Original version effective January 1, 2001. Updated version effective January 1, 2002.

Relationship of this *Practice Standard* to CFP Board's *Code of Ethics and Professional Responsibility*

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 2 – Objectivity and Rules 201 and 202; Principle 3 – Competence and Rule 302; Principle 6 – Professionalism and Rule 609; and Principle 7 – Diligence and Rules 701 and 703.

Principle 2 states “A CFP Board designee shall be objective in providing professional services to clients.” Rule 201 states “A CFP Board designee shall exercise reasonable and prudent professional judgment in providing professional services.” Rule 202 states “A financial planning practitioner shall act in the interest of the client.”

Principle 3 states “A CFP Board designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged.” Rule 302 states “A CFP Board designee shall offer advice only in those areas in which the CFP Board designee has competence. In areas where the CFP Board designee is not professionally competent, the CFP Board designee shall seek the counsel of qualified individuals and/or refer clients to such parties.”

Principle 6 states “A CFP Board designee's conduct in all matters shall reflect credit upon the profession.” Rule 609 states “A CFP Board designee shall not practice any other profession or offer to provide such services unless the CFP Board designee is qualified ... and is licensed as required by state law.”

Principle 7 states “A CFP Board designee shall act diligently in providing professional services.” Rule 701 states “A CFP Board designee shall provide services diligently.” Rule 703 states “A financial planner practitioner shall make and/or implement only recommendations which are suitable for the client.”

400-2: Developing the Financial Planning Recommendation(s)

The financial planning practitioner shall develop the recommendation(s) based on the selected alternative(s) and the current course of action in an effort to reasonably meet the client's goals, needs and priorities.

Explanation of this *Practice Standard*

After identifying and evaluating the alternative(s) and the client's current course of action, the practitioner shall develop the recommendation(s) expected to reasonably meet the client's goals, needs and priorities. A recommendation may be an independent action or a combination of actions which may need to be implemented collectively.

The recommendation(s) shall be consistent with and will be directly affected by the following:

- Mutually defined scope of the engagement;
- Mutually defined client goals, needs and priorities;
- Quantitative data provided by the client;
- Personal and economic assumptions;
- Practitioner's analysis and evaluation of client's current situation; and
- Alternative(s) selected by the practitioner.

A recommendation may be to continue the current course of action. If a change is recommended, it may be specific and/or detailed or provide a general direction. In some instances, it may be necessary for the practitioner to recommend that the client modify a goal.

The recommendations developed by the practitioner may differ from those of other practitioners or advisers, yet each may reasonably meet the client's goals, needs and priorities.

Effective Date

Original version effective January 1, 2001. Updated version effective January 1, 2002.

Relationship of this *Practice Standard* to CFP Board's *Code of Ethics and Professional Responsibility*

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 2 – Objectivity and Rules 201 and 202; Principle 3 – Competence and Rule 302; Principle 6 – Professionalism and Rule 609; and Principle 7 – Diligence and Rules 701, 703 and 704.

Principle 2 states "A CFP Board designee shall be objective in providing professional services to clients." Rule 201 states "A CFP Board designee shall exercise reasonable and prudent professional judgment in providing professional services." Rule 202 states "A financial planning practitioner shall act in the interest of the client."

Principle 3 states "A CFP Board designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged." Rule 302 states "A CFP Board designee shall offer advice only in those areas in which the CFP Board designee has competence. In areas where the CFP Board designee is not professionally competent, the CFP Board designee shall seek the counsel of qualified individuals and/or refer clients to such parties."

Principle 6 states "A CFP Board designee's conduct in all matters shall reflect credit upon the profession." Rule 609 states "A CFP Board designee shall not practice any other profession or offer to provide such services unless the CFP Board designee is qualified ... and is licensed as required by state law."

Principle 7 states "A CFP Board designee shall act diligently in providing professional services." Rule 701 states "A CFP Board designee shall provide services diligently." Rule 703 states "A financial planner practitioner shall make and/or implement only recommendations which are suitable for the client." Rule 704 states "... a CFP Board designee shall make a reasonable investigation regarding the financial products recommended to clients. Such an investigation may be made by the CFP Board designee or by others provided the CFP Board designee acts reasonably in relying upon such investigation."

400-3: Presenting the Financial Planning Recommendation(s)

The financial planning practitioner shall communicate the recommendation(s) in a manner and to an extent reasonably necessary to assist the client in making an informed decision.

Explanation of this Practice Standard

When presenting a recommendation, the practitioner shall make a reasonable effort to assist the client in understanding the client's current situation, the recommendation itself, and its impact on the ability to meet the client's goals, needs and priorities. In doing so, the practitioner shall avoid presenting the practitioner's opinion as fact.

The practitioner shall communicate the factors critical to the client's understanding of the recommendations. These factors may include but are not limited to material:

- Personal and economic assumptions;
- Interdependence of recommendations;
- Advantages and disadvantages;
- Risks; and/or
- Time sensitivity.

The practitioner should indicate that even though the recommendations may meet the client's goals, needs and priorities, changes in personal and economic conditions could alter the intended outcome. Changes may include, but are not limited to: legislative, family status, career, investment performance and/or health.

If there are conflicts of interest that have not been previously disclosed, such conflicts and how they may impact the recommendations should be addressed at this time.

Presenting recommendations provides the practitioner an opportunity to further assess whether the recommendations meet client expectations, whether the client is willing to act on the recommendations, and whether modifications are necessary.

Effective Date

Original version effective January 1, 2001. Updated version effective January 1, 2002.

Relationship of this Practice Standard to CFP Board's Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 1 – Integrity and Rule 102; Principle 2 – Objectivity and Rule 201; and Principle 6 – Professionalism and Rule 607.

Principle 1 states "A CFP Board designee shall offer and provide professional services with integrity." Rule 102 states "... a CFP Board designee shall not ... knowingly make a false or misleading statement to a client...."

Principle 2 states "A CFP Board designee shall be objective in providing professional services to clients." Rule 201 states "A CFP Board designee shall exercise reasonable and prudent professional judgment in providing professional services."

Principle 6 states "A CFP Board designee's conduct in all matters shall reflect credit upon the profession." Rule 607 states "A CFP Board designee shall not engage in any conduct which reflects adversely on his or her integrity or fitness as a CFP Board designee...."

Anticipated Impact of these *Practice Standards**Upon the Public*

The public is served when strategies and objective recommendations are developed and are communicated clearly to specifically meet each client's individual financial planning goals, needs and priorities.

Upon the Financial Planning Profession

A commitment to a systematic process for the development and presentation of the financial planning recommendations advances the financial planning profession. Development of customized strategies and recommendations enhances the public's perception of the objectivity and value of the financial planning process. The public will seek out those professionals who embrace these *Practice Standards*.

Upon the Financial Planning Practitioner

Customizing strategies and recommendations forms a foundation to communicate meaningful and responsive solutions. This increases the likelihood that a client will accept the recommendations and act upon them. These actions will contribute to client satisfaction.

Practice Standards 500 Series

IMPLEMENTING THE FINANCIAL PLANNING RECOMMENDATION(S):

500-1: Agreeing on Implementation Responsibilities

The financial planning practitioner and the client shall mutually agree on the implementation responsibilities consistent with the scope of the engagement.

Explanation of this Practice Standard

The client is responsible for accepting or rejecting recommendations and for retaining and/or delegating implementation responsibilities. The financial planning practitioner and the client shall mutually agree on the services, if any, to be provided by the practitioner. The scope of the engagement, as originally defined, may need to be modified.

The practitioner's responsibilities may include, but are not limited to the following:

- Identifying activities necessary for implementation;
- Determining division of activities between the practitioner and the client;
- Referring to other professionals;
- Coordinating with other professionals;
- Sharing of information as authorized; and
- Selecting and securing products and/or services.

If there are conflicts of interest, sources of compensation or material relationships with other professionals or advisers that have not been previously disclosed, such conflicts, sources or relationships shall be disclosed at this time.

When referring the client to other professionals or advisers, the financial planning practitioner shall indicate the basis on which the practitioner believes the other professional or adviser may be qualified.

If the practitioner is engaged by the client to provide only implementation activities, the scope of the engagement shall be mutually defined, orally or in writing, in accordance with *Practice Standard* 100-1. This scope may include such matters as the extent to which the practitioner will rely on information, analysis or recommendations provided by others.

Effective Date

Effective January 1, 2002.

Relationship of this Practice Standard to CFP Board's Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 3 – Competence and Rule 302; Principle 4 – Fairness and Rule 402; Principle 6 – Professionalism and Rules 606 and 609; and Principle 7 – Diligence and Rule 701.

Principle 3 states "A CFP Board designee shall provide services to clients competently and maintain the necessary knowledge and skill to continue to do so in those areas in which the designee is engaged." Rule 302 states "A CFP Board designee shall offer advice only in those areas in which the CFP Board designee has competence. In areas where the CFP Board

designee is not professionally competent, the CFP Board designee shall seek the counsel of qualified individuals and/or refer clients to such parties.”

Principle 4 states “A CFP Board designee shall perform professional services in a manner that is fair and reasonable to clients ... and shall disclose conflict(s) of interest in providing such services.” Rule 402 states “A CFP Board designee in a financial planning engagement shall make timely written disclosure of all material information relative to the professional relationship. In all circumstances and prior to the engagement, a CFP Board designee shall, in writing: (a) Disclose conflict(s) of interest and sources of compensation; and (b) Inform the client or prospective client of his/her right to ask at any time for information about the compensation of the CFP Board designee.”

Principle 6 states “A CFP Board designee’s conduct in all matters shall reflect credit upon the profession.” Rule 606 states “... a CFP Board designee shall perform services in accordance with: (a) Applicable laws, rules, and regulations of governmental agencies and other applicable authorities....” Rule 609 states “A CFP Board designee shall not practice any other profession or offer to provide such services unless the CFP Board designee is qualified ... and is licensed as required by state law.”

Under Principle 7, Rule 701 states “A CFP Board designee shall provide services diligently.”

500-2: Selecting Products and Services for Implementation

The financial planning practitioner shall select appropriate products and services that are consistent with the client’s goals, needs and priorities.

Explanation of this Practice Standard

The financial planning practitioner shall investigate products or services that reasonably address the client’s needs. The products or services selected to implement the recommendation(s) must be suitable to the client’s financial situation and consistent with the client’s goals, needs and priorities.

The financial planning practitioner uses professional judgment in selecting the products and services that are in the client’s interest. Professional judgment incorporates both qualitative and quantitative information.

Products and services selected by the practitioner may differ from those of other practitioners or advisers. More than one product or service may exist that can reasonably meet the client’s goals, needs and priorities.

The practitioner shall make all disclosures required by applicable regulations.

Effective Date

Effective January 1, 2002.

Relationship of this Practice Standard to CFP Board’s Code of Ethics and Professional Responsibility

This Practice Standard relates to CFP Board’s Code of Ethics and Professional Responsibility (Code of Ethics) through the Code of Ethics’ Principle 2 – Objectivity and Rule 202; Principle 4 – Fairness and Rules 402 and 409; Principle 6 – Professionalism and Rule 606; and Principle 7 – Diligence and Rules 701, 703 and 704.

Principle 2 states "A CFP Board designee shall be objective in providing professional services to clients." Rule 202 states "A financial planning practitioner shall act in the interest of the client."

Principle 4 states "A CFP Board designee shall perform professional services in a manner that is fair and reasonable to clients ... and shall disclose conflict(s) of interest in providing such services." Rule 402 states "A CFP Board designee in a financial planning engagement shall make timely written disclosure of all material information relative to the professional relationship. In all circumstances and prior to the engagement, a CFP Board designee shall, in writing: (a) Disclose conflict(s) of interest and sources of compensation; and (b) Inform the client or prospective client of his/her right to ask at any time for information about the compensation of the CFP Board designee."

Rule 409 states "If a CFP Board designee enters into a personal business transaction with a client, separate from regular professional services provided to that client ... the CFP Board designee shall disclose, in writing, the risks of the transaction, conflict(s) of interest of the CFP Board designee, and other relevant information ... necessary to make the transaction fair to the client."

Principle 6 states "A CFP Board designee's conduct in all matters shall reflect credit upon the profession." Rule 606 states "In all professional activities a CFP Board designee shall perform services in accordance with: (a) Applicable laws, rules and regulations of governmental agencies and other applicable authorities; and (b) Applicable rules, regulations and other established policies of CFP Board."

Principle 7 states "A CFP Board designee shall act diligently in providing professional services." Rule 701 states "A CFP Board designee shall provide services diligently." Rule 703 states "A financial planning practitioner shall make and/or implement only recommendations which are suitable for the client." Rule 704 states "... a CFP Board designee shall make a reasonable investigation regarding the financial products recommended to clients."

Anticipated Impact of these *Practice Standards*

Upon the Public

The public is served when the appropriate products and services are used to implement recommendations; thus increasing the likelihood that the client's goals will be achieved.

Upon the Financial Planning Profession

Over time, implementing recommendations using appropriate products and services for the client increases the credibility of the profession in the eyes of the public.

Upon the Financial Planning Practitioner

It is for the long-term benefit of the practitioner to put the interest of the client before that of others in the selection of products and services.

Practice Standards 600 Series

MONITORING

600-1: Defining Monitoring Responsibilities

The financial planning practitioner and client shall mutually define monitoring responsibilities.

Explanation of this Practice Standard

The purpose of this *Practice Standard* is to clarify the role, if any, of the practitioner in the monitoring process. By clarifying this responsibility, the client's expectations are more likely to be in alignment with the level of monitoring services which the practitioner intends to provide.

If engaged for monitoring services, the practitioner shall make a reasonable effort to define and communicate to the client those monitoring activities the practitioner is able and willing to provide. By explaining what is to be monitored, the frequency of monitoring and the communication method, the client is more likely to understand the monitoring service to be provided by the practitioner.

The monitoring process may reveal the need to reinitiate steps of the financial planning process. The current scope of the engagement may need to be modified.

Effective Date

Effective January 1, 2002.

Relationship of this Practice Standard to CFP Board's Code of Ethics and Professional Responsibility

This *Practice Standard* relates to CFP Board's *Code of Ethics and Professional Responsibility (Code of Ethics)* through the *Code of Ethics'* Principle 7 – Diligence and Rule 702.

Principle 7 states "A CFP Board designee shall act diligently in providing professional services." Rule 702 requires that financial planning practitioners enter into an engagement only after obtaining sufficient information to satisfy that "the relationship is warranted by the individual's goals and objectives; and the CFP Board designee has the ability to either provide requisite competent services or to involve other professionals who can provide such services."

Anticipated Impact of this Practice Standard

Upon the Public

The public is served when the practitioner and client have similar perceptions and a mutual understanding about the responsibilities for monitoring the recommendation(s).

Upon the Financial Planning Profession

The profession benefits when clients are satisfied. Clients are more likely to be satisfied when expectations of the monitoring process are both realistic and clear. This *Practice Standard* promotes awareness that financial planning is a dynamic process rather than a single action.

Upon the Financial Planning Practitioner

A mutually defined agreement of the monitoring responsibilities increases the potential for client satisfaction and clarifies the practitioner's responsibilities.

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