

Institute for the Fiduciary Standard Best Practices

I commend the Institute for the Fiduciary Standard for this work in producing its set of 11 Best Practices. In my view, education on the meaning, implications and implementation of these Best Practices could do much more for the integrity of our profession than any of the ethics courses I have taken in 30 years as a financial advisor - certainly more than any regulatory compliance procedures I have seen. If these Best Practices become widely recognized and adopted, it seems reasonable to believe a body of thought, knowledge and efficient procedures will develop, to guide interpretation and implementation for virtually any situation that may occur in client/advisor relationships.

No doubt, even some strong supporters of fiduciary standards will likely object to perceived additional work. Those objections are misguided. The resources committed to meeting these Best Practices offer substantial rewards for both our profession and those practitioners who enthusiastically embrace them. The opportunity to proclaim that we meet these standards is in alignment with characteristics the public increasingly demands – a clearer differentiator from those in financial services who do not embrace these Best Practices. The changes we must make are somewhat like the dilemma of environmentalist. If they are going to improve global warming, they will have to help people understand the necessity of colder weather in our neighborhoods and on beaches. If financial advisors want to be recognized and sought after for fiduciary Best Practices, we must understand and embrace whatever it takes to demonstrate we adhere to meaningful Best Practices, not convenient Best Practices.

One sentence in number 5 seems particularly important. “Second, fiduciaries must have a reasonable basis for believing that clients fully understand the implications of the conflicts to the advisor and client.” For much of my time in this profession, I have felt twinges of pain when I hear advisors talk about disclosures of any kind – not just conflicts of interests. For most, delivering a document that describes conflicts of interest, fees and many other important fiduciary issues has been treated as “disclosure.” Too often these documents are not only very difficult to understand by the typical consumer, they are bundled with considerable other difficult material. The verbal message accompanying the delivery is “we are giving you this because we are required to give it to you.” There can easily be an implication the package of documents is not important and/or too hard to understand (put you to sleep). There is no attempt for the advisor to “have a reasonable basis for believing that clients fully understand the implications of the” disclosures.

It seems society’s value from these Best Practices could be significantly strengthened by applying this “reasonable basis for believing clients fully understand” to several of the items.

J. David Lewis, Principal/Founder
Resource Advisory Services
National Board of Directors - NAPFA
NAPFA-Registered Financial Advisor
2099 Thunderhead Road, Suite 201
Knoxville, TN 37922
865-560-0140
<http://www.resourceadv.com/>