Remarks of Knut A. Rostad
Release of the Best Practices for Financial Advisors
September 30, 2015

Good morning. I am Knut Rostad, president of the Institute for the Fiduciary Standard.

Today is September 30 -- the last day of Fiduciary September 2015.
Fiduciary September is sponsored exclusively by TD Ameritrade Institutional.
Thank you, TD!

Today's briefing is the final of four Fiduciary September events, two whitepapers and one research survey we have produced this Fiduciary September.

Today the Institute, in Association with NAPFA, releases its Best Practices for Financial Advisors. NAPFA, the National Association of Personal Financial Advisors, is a partner with the Institute on Best Practices.

The Best Practices have been developed by the Best Practices Board four practitioners and myself: Bryan Beatty, Clark Blackman, Chris Cannon and Bill Prewitt. The Best Practices Board has labored conscientiously over the past 18 months to meet the objectives set by the Institute Board of Directors. For that the Board is appreciative.

Vanguard Founder Jack Bogle will provide some opening remarks. I will then highlight why the Institute developed Best Practices. We will then hear from Brian Hamburger about what Best Practices require and the development of a self-assessment tool. Following Brian, we will hear from three practitioners who have been involved in the development of the Best Practices – but from different perspectives.

Why we Need Best Practices

The reason why investors, the industry and the markets need Best Practices is straight forward. Best Practices are needed to fulfill a fiduciary promise to investors. That is the promise to be competent and ethical, to be professional. The promise to *defend and protect and to serve investors, first.*

Many investors believe this promise has been broken.

Broken by conflicted advice and ill will and distrust brought on by public displays of bad behavior from financial firms. Ill will continues to mark the post crisis era.

This ill will has not been mitigated by federal regulations or by good faith industry efforts. Efforts which provide important guidance technically, but do not do enough and have not kept up with the demands of the post crisis era on the ethical side. They do not address what the new, skeptical investor today demands.

Historic 2015

We are at an historic moment. 2015 is the 75th anniversary of the Investment Advisers Act. We see stalled SEC rulemaking on a uniform standard as the DOL pushes ahead to update ERISA. We see persistent and historically high levels of investor distrust. Investor distrust in 2015 reminiscent of the 1930s, according to Boston University fiduciary scholar, Tamar Frankel.

The CFA 2015 Global MarketSentiment Survey of more than 3,500 CFA holders finds 96% agree the investment industry has a “trust problem” and 63% agree the greatest contributing factor is a “lack of an ethical culture within financial firms.”

CFA Charterholders’ most often-mentioned solution to address the problem (30%) is a better alignment of compensation practices with investor objectives. This is followed by, “Zero tolerance policy by top management for ethical breaches.”

Then, just last week, the CFP Board released a survey further documenting the magnitude of investor distrust, where, by a margin of 60% to 25% investors said that “financial advisors act in their companies’ best interest” over “financial advisors act in consumer’s best interest.”

“Show me” Best Practices

What can advisors do? Harris Interactive researcher, Robert Fronk says, “The public is screaming loud and clear …. Be more sincere, honest,… transparent.”

Fronk is correct to focus on the importance of transparency to restore investor trust. And no other than the leader of the thundering herd agrees. Merrill Lynch’s John Thiel told Investment News that industry practices on fee and expense opaqueness fall short and aggravate investor skepticism and distrust. He suggested this is why Merrill’s own clients don’t trust Merrill.

Distrustful investors demand more information. They ask more questions and they look at the company behind the advisor. Most of all, they seek action. Language expert Michael Maslansky says, “Words in the absence of deeds will fail.”

The Institute's Best Practices address this challenge. They seek to help investors evaluate advisors -- and whether they offer objective, competent and transparent advice. Practices are crafted to be concrete, understandable and verifiable, and stress the ethical side of fiduciary advice. Practices focus on the importance of avoiding conflict, transparency, and improving communications.

Advisors should embrace Best Practices and the high standard investors expect. *Stating* adherence to Best Practices is important, but it is not enough. We must do more. Advisors must *demonstrate* adherence to the practices. Provide evidence that our deeds match our words. Only then will trust in Advisors be restored.

Further, advisors should speak out in the public square about Best Practices and why they matter to investors. We can no longer let bad behavior of some financial firms splashed in the media dominate the public square and define advisors. When competent and ethical advisors do nothing we lose. So, kudos to CFA Institute for its Future of Finance campaign and for calling for ‘Naming and Shaming.’ And kudos to FPA President, Ed Gjertsen, for urging FPA members to speak out.

The Institute calls on Merrill Lynch … to embrace Best Practices

Advisors must demonstrate our commitment to achieving excellence. This morning the Institute calls on Merrill Lynch to help lead the industry as it has done for generations. By increasing fee and expense transparency, as John Thiel has suggested. Embracing Best Practices. Helping restore investor trust & confidence.

Our next step is to help advisors meet the practices. The Institute will work with Market Counsel to develop a self-assessment tool for advisors to measure their adherence to Best Practices. Brian Hamburger will highlight this initiative.

Also, in the weeks ahead the Institute will announce an initiative to craft an Investor Bill of Rights. An initiative aimed to translate Best Practices into key ideas around which investors can appreciate what best defines ‘excellent advisors’.

In summary the Institute urges that advisors raise the bar and adopt Best Practices; demonstrate doing so in their actions; and clearly communicate their actions to investors. Essential steps to defending and protecting and serving investors, first.