

CFP Board Proposed Standards: Too Weak, Too Strong, or Just Right?

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Split Screen of Threats and Opportunities

- Opportunity and change
 - New technology
 - New practices
 - Shifting investor attitudes
 - Outlook for financial planning brighter today than ever in its 48 years!
- Industry opposition to DOL Rule, regulation, any responsibility for financial wrongdoing
 - Investor skepticism and distrust. Investors: Wall Street “Operates by a foreign code of conduct.”

What Do Investors Want?



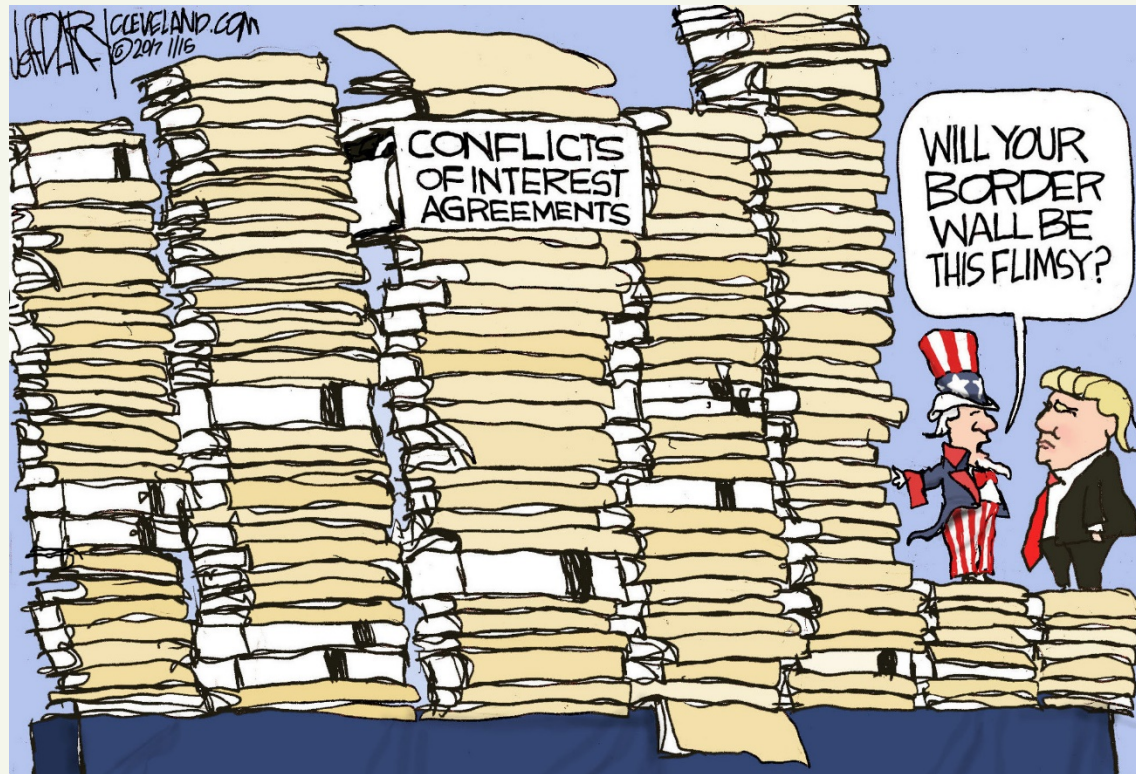
CFA Institute 2016 Survey “From Trust to Loyalty”, finds:
“Transparency and consistent communications ... regular, clear communications on fees; upfront conversations about conflicts”

CFP Board's Revisions Are a Good First Step

The logo for the CFP Board, featuring the words "CFP BOARD" in a bold, yellow, sans-serif font. The text is centered within a white rectangular area that is enclosed by a thick yellow border.

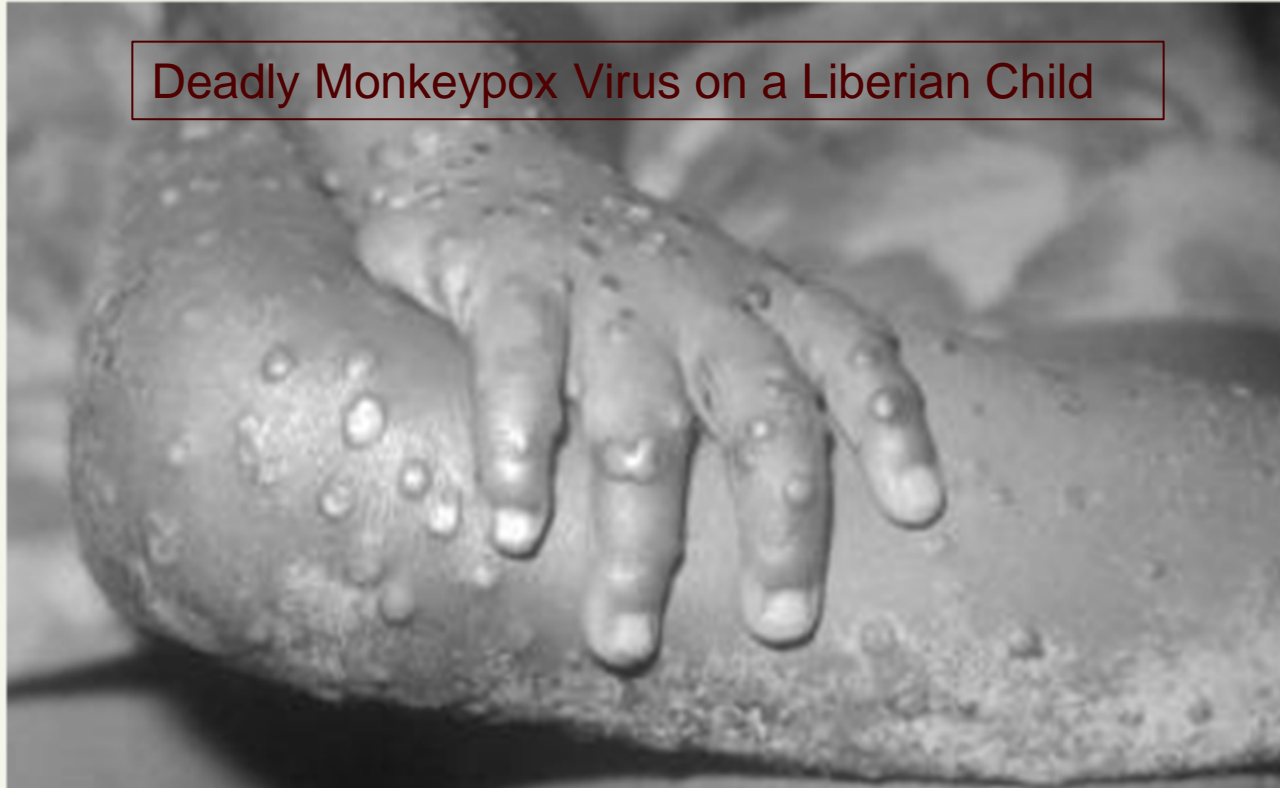
1. All CFPs who render advice must act as fiduciaries.
2. Conflicts begin to be addressed in the proposed standards with disclosure and management being required.

Why Conflicts Matter



Conflicts and the Bully Pulpit in 2017. Why conflicts of interest matter in relationships where information asymmetry vastly favors one party over another.

Understand Conflicts as Viruses



As Carlo V. di Florio, then Director of the SEC Office of Compliance and Inspections put it in 2012, “Conflicts of interest can be thought of as viruses that threaten the organization’s well-being.... And if not eliminated or neutralized, even the simplest virus is a mortal threat to the body.”

Action Step: Acknowledge Conflicts as Potentially Lethal and Deserve to be Avoided



For conflicts not avoided, acknowledge no one believes disclosure alone works. Provide detailed guidance to CFPs on robust conflict mitigation to ensure the virus is neutralized.

‘What’s it cost’? How many investors make a purchase without knowing the cost ?



This is embarrassing. Is there any other product sale or **professional** service where this simple question is often so tough to answer?

Action Step: Complete Disclosure of “What” a Client Pays and “What” a Firm Makes



Put in writing to clients their all-in costs and fees in \$ or %AUM. At minimum, provide a written estimate.

Enforcement Action Step: Affirm on ADV



How will standards be enforced with resource constraints -- and ambiguity in the standards, asks Michael Kitces? One enforcement step: affirm adherence to standards on the ADV.

“Not Practical?” Ask an Investor ‘What’s Practical in the Real World’



Is treating conflicts as potential serious harms, or disclosing complete costs, or credibly enforcing the “highest standard” not practical “in the real world”? Ask an investor.

Recommendations to Strengthen Standards

CFP BOARD

Speak candidly and plainly. Show that CFPs are respected pros who are 100% in and don't skirt the tough stuff. That CFPs earn investor trust by what they do. To include:

1. Mitigate, neutralize conflicts as viruses.
2. Provide written disclosure of all costs.
3. Put a statement of adherence to standards on ADV.