

2016

Ethics for Financial Planners Online CE Course

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Rules of Conduct

The *Rules of Conduct* set forth the high standards expected of certificants and explains the level of professionalism required of certificants. All individuals who have the right to use the CFP® marks, regardless of their title, position, type of employment or method of compensation, are obligated to follow the *Rules of Conduct*. This is true whether or not the CFP® marks are actually used. As the activities in which certificants and PERs are involved may vary from certificant to certificant, he may or may not engage in the typical services provided by financial planning professionals. Therefore, some Rules may not be applicable to a certificant's specific activity. As a result, when considering the *Rules of Conduct*, it is the certificant's responsibility to determine whether a specific Rule is applicable to the services he provides. A certificant will be deemed to be in compliance with these Rules if that certificant can demonstrate his or her employer completed the required action.

If certificants or registrants violate the *Rules of Conduct*, they may be subject to discipline. Because CFP Board is a certifying and standards-setting body for those individuals who have met and continue to meet CFP Board's initial and ongoing certification requirements, discipline extends to the rights of PERs and certificants to use the CFP® marks. Therefore, the Rules are not designed to be a basis for legal liability to any third party.

The Rules of Conduct are explained below.

1. Defining the Relationship with the Prospective Client or Client

- 1.1 The certificant and the prospective client or client shall mutually agree upon the services to be provided by the certificant.
- 1.2 If the certificant's services include financial planning or material elements of the financial planning process, prior to entering into an agreement, the certificant shall provide written information and/or discuss with the prospective client or client the following:

- a. The obligations and responsibilities of each party under the agreement with respect to:
 - i. Defining goals, needs and objectives,
 - ii. Gathering and providing appropriate data,
 - iii. Examining the result of the current course of action without changes,
 - iv. The formulation of any recommended actions,
 - v. Implementation responsibilities, and
 - vi. Monitoring responsibilities.
- b. Compensation that any party to the agreement or any legal affiliate to a party to the agreement will or could receive under the terms of the agreement; and factors or terms that determine costs, how decisions benefit the certificant and the relative benefit to the certificant.
- c. Terms under which the agreement permits the certificant to offer proprietary products.
- d. Terms under which the certificant will use other entities to meet any of the agreement's obligations.

If the certificant provides the above information in writing, the certificant shall encourage the prospective client or client to review the information and offer to answer any questions that the prospective client or client may have.

- 1.3 If the services include financial planning or material elements of the financial planning process, the certificant or the certificant's employer shall enter into a written agreement governing the financial planning services ("Agreement"). The Agreement shall specify:
 - a. The parties to the Agreement,
 - b. The date of the Agreement and its duration,
 - c. How and on what terms each party can terminate the Agreement, and
 - d. The services to be provided as part of the Agreement.

The Agreement may consist of multiple written documents. Written documentation that includes the elements above and is used by a certificant or certificant's employer in compliance with state and/or federal law, or the rules or regulations of any applicable self-regulatory organization, such as a Form ADV or other disclosure, shall satisfy the requirements of this Rule.

- 1.4 A certificant shall at all times place the interest of the client ahead of his or her own. When the certificant provides financial planning or material elements of the financial planning process, the certificant owes to the client the duty of care of a fiduciary as defined by CFP Board.

Key Points – Rule 1

Relates to:

Learning Objective 3 – Differentiate between the standards of care set forth in Rules 1.4 and 4.5 of the Rules of Conduct, and apply each standard to specific factual situations.

Learning Objective 5 – Identify the information that must be disclosed to the client in writing by a CFP® professional who is engaged in a financial planning relationship or providing material elements of financial planning.

Learning Objective 6 – Define the required information that must be disclosed to clients and prospective clients, when that information must be disclosed, and apply each disclosure requirement to specific factual situations. (This includes, but is not limited to the compensation and conflict-of-interest disclosure requirements set forth in Rule 2.2 of the Rules of Conduct and Practice Standards 100-1, 400-3, and 500-1.)

Material elements of the financial planning process. Note that CFP Board uses the phrase “material elements of the financial planning process” several times in Rule 1. This wording defines the terms of the client-planner engagement, the requirement that an agreement for this engagement be put in writing, the written disclosures that must be made to clients, and the fiduciary duty planners owe their clients.

Required elements of the financial planning agreement. In this Rule, CFP Board emphasizes the importance of a certificant to provide written information or discuss the duties of the certificant and the client during all steps of the financial planning process. Compensation that may be received by the certificant, any other party to the agreement, or any party legally associated with one of the parties must also be addressed.

If proprietary products are to be presented, terms are to be disclosed. Also, if other professionals are to be consulted as part of the financial planning process, terms of these activities should also be made known. Although these matters can be discussed, CFP Board strongly recommends that these conversations be followed up in writing so clients can review the discussion points and have the opportunity to ask further questions.

Requirement of a written agreement. CFP® certificants are required to enter into a written agreement with clients for any financial planning services or services that include the material elements of the financial planning process. Although this became a requirement in 2008 with the implementation of a revised CFP Board *Standards of Professional Conduct*, many financial planners had already provided clients written documents covering the principal terms mandated by Rule 1.3. The rule is designed to ensure a “meeting of the minds” between planners and their clients, and set appropriate expectations of each party. CFP Board advises that the agreement need not be a single document; separate documents can, say, cover each of the subsections of Rule 1.

Acting in client’s best interest. In Rule 1.4, CFP Board stresses the importance of planners understanding their clients’ goals, needs and financial circumstances so that they can act in the best interest of their clients when they make recommendations. CFP® certificants who provide financial planning services or the material elements of the financial planning process are required to do so with the “duty of care of a fiduciary,” defined as “one who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.” Below is a client scenario that will help with an understanding of the duty of care expected of certificants.

Rule 1 Scenario

After several months of meetings, data gathering, and analysis, Megan, a CFP® certificant, presented several financial planning recommendations to her client, Hannah. One of the recommendations advised Hannah to purchase much-needed life insurance coverage with a face amount of \$150,000. After reviewing Megan’s recommendations, Hannah told Megan she would like to review them again and get back to Megan in about a month. Megan is on track to receive a desperately-needed bonus if she can get an application and premium check from Hannah this week. For over an hour, Megan continues to persuade Hannah to

complete a life insurance application and submit a check before she leaves Megan's office. Because Megan has been so persistent, Hannah completes the application and writes a check. Did Megan act in Hannah's best interest?

Observation

Even though Hannah needed life insurance, Megan's motivation was receiving the bonus for the life insurance sale. Her insistence that Hannah complete the application and write a check led Hannah to do just that. Hannah wanted time to consider her next steps; however, because Megan put her personal interests ahead of those of Hannah, she was not given the time or opportunity to make a decision on her own.

Case History

An actual case history illustrating acting in the client's best interest is presented below.

Causing unauthorized transactions: A candidate for CFP® certification was disciplined for failing to act in the interest of his client after signing the client's name on several financial advisory service agreements and mutual fund redemption forms, causing unauthorized transfers that the client did not request and that were not in the client's best interest. (Anonymous Case History 21744)

2. Information Disclosed To Prospective Clients and Clients

- 2.1 A certificant shall not communicate, directly or indirectly, to clients or prospective clients any false or misleading information directly or indirectly related to the certificant's professional qualifications or services. A certificant shall not mislead any parties about the potential benefits of the certificant's service. A certificant shall not fail to disclose or otherwise omit facts where that disclosure is necessary to avoid misleading clients.
- 2.2 A certificant shall disclose to a prospective client or client the following information:
 - a. An accurate and understandable description of the compensation arrangements being offered. This description must include:
 - i. Information related to costs and compensation to the certificant and/or the certificant's employer, and
 - ii. Terms under which the certificant and/or the certificant's employer may receive any other sources of compensation, and if so, what the sources of these payments are and on what they are based.
 - b. A general summary of likely conflicts of interest between the client and the certificant, the certificant's employer or any affiliates or third parties, including, but not limited to, information about any familial, contractual or agency relationship of the certificant or the certificant's employer that has a potential to materially affect the relationship.
 - c. Any information about the certificant or the certificant's employer that could reasonably be expected to materially affect the client's decision to engage the certificant that the client might reasonably want to know in establishing the scope and nature of the relationship, including but not limited to information about the certificant's areas of expertise.

- d. Contact information for the certificant and, if applicable, the certificant's employer.
- e. If the services include financial planning or material elements of the financial planning process, these disclosures must be in writing. The written disclosures may consist of multiple written documents. Written disclosures used by a certificant or certificant's employer that includes the elements listed above, and are used in compliance with state or federal laws, or the rules or requirements of any applicable self-regulatory organization, such as a Form ADV or other disclosure documents, shall satisfy the requirements of this Rule.

The certificant shall timely disclose to the client any material changes to the above information.

☑ *Key Points – Rule 2*

Relates to:

Learning Objective 5 – Identify the information that must be disclosed to the client in writing by a CFP® professional who is engaged in a financial planning relationship or providing material elements of financial planning.

Learning Objective 6 – Define the required information that must be disclosed to clients and prospective clients, when that information must be disclosed, and apply each disclosure requirement to specific factual situations. (This includes, but is not limited to the compensation and conflict-of-interest disclosure requirements set forth in Rule 2.2 of the Rules of Conduct and Practice Standards 100-1, 400-3, and 500-1.)

Applying the principle of fairness to understand financial planning services. In this Rule, CFP® certificants are expected to disclose information regarding the services clients can expect to receive and the context in which they will receive them. As a result, clients will be able to better understand the certificant's actions throughout the financial planning process, the basis of recommendations made, and the options available to the client to implement the recommendations.

Disclosure is ongoing. Disclosure does not end at the initial client-planner engagement. As the engagement develops and changes over time, certificants must communicate any resulting material changes to the information in the original agreement. This, too, will allow clients to make decisions based on the most up-to-date information.

Compensation disclosure. Certificants are to provide clear and precise information regarding all costs and compensation, both direct and indirect, which might result from a certificants' relationships with clients. This applies to both fee-based and commission-based compensation. CFP Board is aware that certificants provide a diversity of services and products with many types of compensation structures, and it does not endorse any particular structure.

Rule 2 Scenario 1

In her professional brochure, Madelyn, a registered representative and licensed insurance agent listed her compensation method as "fee-only." She was actively involved in the sale of insurance products to clients and earns commissions from these sales.

Observation

Madelyn violated Rules 2.1 and 2.2(a) by inaccurately representing her compensation structure as “fee only” while receiving commissions from insurance sales. She also violated Rule 6.5 (see section titled, “6. Obligations to CFP Board.”)

Rule 2 Scenario 2

James, a CFP® professional, met with Chris and Sarah over a period of six months to analyze and make recommendations regarding Chris and Sarah’s insurance, investments, and retirement plans. Several investments were repositioned to better achieve their objectives and reduce income taxes, and new life insurance contracts were purchased to provide greater protection for Chris and Sarah. James had mentioned in one of the first meetings he had with Chris and Sarah that he earns commissions on investment and insurance products and occasionally bills for his time depending on the extent of the work he does on behalf of a client. Following the last meeting, James sent a \$1,000 invoice to Chris and Sarah for his services. Chris and Sarah objected to paying the fee, saying James should have disclosed his compensation arrangements to them in writing at the onset of the relationship. James reminds Chris and Sarah that he did mention how he is compensated in an earlier meeting and that the details need not be in writing because he had not written a financial plan for them.

Observation

James has engaged in financial planning and the compensation disclosure should have been in writing. Financial planning may occur even if the material elements are not provided to a client simultaneously, are delivered over a period of time, or are delivered as distinct subject areas. Certificants need not provide a written financial plan to engage in financial planning. Under Rule 2.2, the CFP® certificant must disclose an accurate and understandable description of the compensation offered, and if the services include financial planning or material elements of financial planning, these disclosures must be in writing.

Disclosing conflicts of interest. Certificants should always place their client’s interest ahead of their own and, to this end, should reveal any activities that conflict, or even appear to conflict, with those of the client. If there is any doubt, err on the side of caution; in other words, a certificant should disclose the information regarding the transaction.

Case History

An actual case history illustrating, among other issues, the failure to disclose a conflict of interest is presented below.

Failure to disclose conflict of interest; failure to disclose compensation: A CFP® professional failed to act in the interests of his clients when he: 1) failed to disclose in the financial planning agreement that his employer firm had a material conflict of interest because it maintained “preferred supplier” relationships in which the firm received financial bonuses for selling the “preferred suppliers” products that were greater than the financial compensation the firm received for selling other products; 2) failed to provide clients with any sufficient alternatives to his investment recommendations; 3) implemented his investment recommendations prior to presenting clients with their financial plan; and 4) inaccurately conveyed to clients through his Form ADV that he did not receive referral fees from a mortgage broker affiliate of his employer’s firm. (Anonymous Case History 22866)

3. Prospective Client and Client Information and Property

- 3.1 A certificant shall treat information as confidential except as required in response to proper legal process; as necessitated by obligations to a certificant's employer or partners; to defend against charges of wrongdoing; in connection with a civil dispute; or as needed to perform the services.
- 3.2 A certificant shall take prudent steps to protect the security of information and property, including the security of stored information, whether physically or electronically, that is within the certificant's control.
- 3.3 A certificant shall obtain the information necessary to fulfill his or her obligations. If a certificant cannot obtain the necessary information, the certificant shall inform the prospective client or client of any and all material deficiencies.
- 3.4 A certificant shall clearly identify the assets, if any, over which the certificant will take custody, exercise investment discretion, or exercise supervision.
- 3.5 A certificant shall identify and keep complete records of all funds or other property of a client in the custody, or under the discretionary authority, of the certificant.
- 3.6 A certificant shall not borrow money from a client. Exceptions to this Rule include:
- a. The client is a member of the certificant's immediate family, or
 - b. The client is an institution in the business of lending money and the borrowing is unrelated to the professional services performed by the certificant.
- 3.7 A certificant shall not lend money to a client. Exceptions to this Rule include:
- a. The client is a member of the certificant's immediate family, or
 - b. The certificant is an employee of an institution in the business of lending money and the money lent is that of the institution, not the certificant.
- 3.8 A certificant shall not commingle a client's property with the property of the certificant or the certificant's employer, unless the commingling is permitted by law or is explicitly authorized and defined in a written agreement between the parties.
- 3.9 A certificant shall not commingle a client's property with other clients' property unless the commingling is permitted by law or the certificant has both explicit written authorization to do so from each client involved and sufficient record-keeping to track each client's assets accurately.
- 3.10 A certificant shall return a client's property to the client upon request as soon as practicable or consistent with a time frame specified in an agreement with the client.

☑ *Key Points – Rule 3*

Confidentiality is paramount. In this Rule, CFP Board stresses the importance of maintaining the confidentiality of clients' information. The rule also addresses the protection of both physical and electronic information, and emphasizes that certificants should always take wise, practical steps should be taken to provide this security.

Need for information. CFP® certificants should strive to get the information and documentation necessary to provide the best financial planning possible. If the required information cannot be obtained, the certificant is responsible for advising clients of the inadequacy.

Borrowing money. In general, certificants are not allowed to borrow money from clients nor are they allowed to loan clients' money. There are a few exceptions to this directive; they are listed in Rules 3.6 and 3.7.

Client property. CFP Board goes on to assert that certificants should identify and keep record of all client property taking into the possession of the certificant. This property cannot be commingled unless authorized by law or unless clients have given written permission to do so. Certificants should return property to their clients when requested as soon as possible or per the terms of the financial planning agreement.

4. Obligations to Prospective Clients and Clients

- 4.1 A certificant shall treat prospective clients and clients fairly and provide professional services with integrity and objectivity.
- 4.2 A certificant shall offer advice only in those areas in which he or she is competent to do so and shall maintain competence in all areas in which he or she is engaged to provide professional services.
- 4.3 A certificant shall be in compliance with applicable regulatory requirements governing professional services provided to the client.
- 4.4 A certificant shall exercise reasonable and prudent professional judgment in providing professional services to clients.
- 4.5 In addition to the requirements of Rule 1.4, a certificant shall make and/or implement only recommendations that are suitable for the client.
- 4.6 A certificant shall provide reasonable and prudent professional supervision or direction to any subordinate or third party to whom the certificant assigns responsibility for any client services.
- 4.7 A certificant shall advise his or her current clients of any certification suspension or revocation he or she receives from CFP Board.

Key Points – Rule 4

Relates to:

Learning Objective 3 – Differentiate between the standards of care set forth in Rules 1.4 and 4.5 of the Rules of Conduct, and apply each standard to specific factual situations.

Manner in which services are provided. CFP Board follows its discussion of confidentiality in Rule 3 with rules that relate the other six ethical principles with financial planning services. All of these principles, when applied, result in the certificant acting within the standard of fiduciary care, acting in utmost good faith, in a manner believed to be in the best interest of clients. This care is to be extended to both clients and prospective clients and includes the fair treatment of clients, only offering services for which the certificant is competent, meeting regulatory requirements, and exercising sound judgment.

Suitability of recommendations. One important area in which the fiduciary standard applies is in making recommendations for the client. In addition to a certificant's fiduciary duty as outlined in Rule 1.4, Rule 4.5 requires that a CFP® professional must make and implement only recommendations that are suitable. To satisfy this obligation, CFP® professionals are not required to investigate every conceivable product or service that might be available, but they must exercise professional judgment in making recommendations they reasonably believe to be the best possible options for their clients.

Some CFP® professionals, such as captive agents, work in settings in which business or regulatory requirements limit the investments or products they can recommend. In that case, the CFP® professional's recommendations should be the best available, given the CFP® professional's reasonable professional judgment. However, the CFP® professional should disclose any such limitations, including any contractual or agency relationships that might affect the client and any terms under which the CFP® professional might offer proprietary products.

Sometimes more than one product or service might reasonably meet the client's goals, needs, and priorities. As a result, the recommendations developed by a CFP® professional may satisfy the fiduciary standard even if another adviser might recommend something else.

Case Histories

Actual case histories illustrating the failure to recommend suitable investments are presented below.

Recommending unsuitable investments: A CFP® professional failed to act in the interests of his clients when he recommended that they purchase two large whole life insurance policies without first performing adequate investigation and analysis into their insurance needs and without performing adequate cash flow analysis regarding their ability to pay the premiums for the recommended policies. The clients believed that the premiums were to be paid entirely from the proceeds of bond sales and that their cash accounts would not be used for premium payments, but the CFP® professional withdrew funds from their cash account to pay the initial premiums. In addition, the clients believed that they would be required to pay premiums for only 5 years but realized after receiving the policy illustrations that they would be required to pay premiums for the life of each policy. (ACH 23352)

Recommending unsuitable investments: A CFP® professional failed to act in the interest of the clients when he sold them unsuitable partnership interests and alternative investments. The clients were 70 years old and derived their income from Social Security, pensions, and a rental property. When selecting their investment objectives, they checked every box except "aggressive growth," and listed their time horizon as less than 5 years. Nevertheless, the CFP® professional repeatedly recommended unsuitable partnership interests and alternative investments, leading to an unsuitable allocation into these asset classes for the clients. The CFP® professional testified that his financial planning recommendations consisted of a diversified investment portfolio, but the clients were not interested in traditional asset allocation. The CFP® professional continued, however, to purchase illiquid risky investments for the clients. (ACH 26476)

Notification of suspension or revocation. Should a certificant have his certification suspended or revoked by CFP Board, he should inform his clients.

Rule 4 Scenario 1

Lauren, CFP® professional, has engaged in financial planning with Jonathan and Emily, a married couple. Emily is Lauren's close friend. Three years ago, Lauren presented the couple with a financial plan and has monitored it annually since then. One of Lauren's recommendations in the plan was for Jonathan and Emily to open a joint investment account. Yesterday, Emily called Lauren, told Lauren she and Jonathan were filing for divorce, and asked her if there was anything she should do to "protect her interest in the investment account." Lauren advised Emily that she could liquidate the investment account with her sole signature, and that she should do so. Jonathan finds out that Lauren directed Emily to do this, and threatens legal action.

Observation

Lauren favored Emily to Jonathan's detriment; she did not treat Jonathan fairly and provide professional services with integrity and objectivity, thus violating Rule 4.1. She also violated Rule 4.4 because she should have communicated with both Emily and Jonathan regarding the conflict of interest due to their pending divorce. Lauren could no longer represent both Jonathan and Emily fairly.

This scenario is based on Certified Financial Planner Board of Standards Anonymous Case History Number 24706.

Rule 4 Scenario 2

Brian is a CFP® professional employed by First Bank. A wide range of investment products are available through his broker-dealer; however, he favors five mutual funds within the same fund family. He feels he can rely on these funds to provide steady returns for his clients. Additionally, these funds provide higher-than-average commissions, which is an incentive for Brian. He knows these funds well, which helps him streamline the sales process. For these reasons, he recommends these funds to all of his clients.

Observation

Brian has clearly not met the suitability requirement. He makes the same recommendations to all of his clients without regard to the clients' needs and goals. He is not basing his recommendations on his clients' investment objectives, risk tolerance, and other attributes. He also does not satisfy the fiduciary standard of care (Rule 1.4) because he is influenced in part by the higher-than-average commissions offered by these mutual funds, thus putting his personal income before his clients' financial objectives.

5. Obligations to Employers

- 5.1 A certificant who is an employee/agent shall perform professional services with dedication to the lawful objectives of the employer/principal and in accordance with CFP Board's *Code of Ethics*.
- 5.2 A certificant who is an employee/agent shall advise his or her current employer/principal of any certification suspension or revocation he or she receives from CFP Board.

☑ Key Points – Rule 5

Certificants' obligations to employers and principals. In addition to focusing on certificants' obligations to their clients, these certificants also have ethical obligations to their employers and principals. Certificants must be dedicated to the lawful objectives of the employer/principal while adhering to CFP Board's *Code of Ethics*.

CFP Board extent of authority. The authority of CFP Board applies only to CFP® certificants. CFP Board recognizes that many certificants' employers and principals support certificants as they work to maintain the high standards of CFP® certification. CFP Board also offers its assistance in aligning the employers and principal's compliance procedures with the *Standards of Professional Conduct* if they choose to do so.

6. Obligations to CFP Board

- 6.1 A certificant shall abide by the terms of all agreements with CFP Board, including, but not limited to, using the CFP® marks properly and cooperating fully with CFP Board's trademark and professional review operations and requirements.
- 6.2 A certificant shall meet all CFP Board requirements, including continuing education requirements, to retain the right to use the CFP® marks.
- 6.3 A certificant shall notify CFP Board of changes to contact information, including, but not limited to, e-mail address, telephone number(s) and physical address, within forty-five (45) days.
- 6.4 A certificant shall notify CFP Board in writing of any conviction of a crime, except minor traffic offenses, of any professional discipline, or of a change to any matter previously disclosed to CFP Board within thirty (30) calendar days after the date on which the certificant is notified of the conviction or professional discipline.
- 6.5 A certificant shall not engage in conduct which reflects adversely on his or her integrity or fitness as a certificant, upon the CFP® marks, or upon the profession.

☑ *Key Points – Rule 6*

Award of CFP® certification. In order to retain the right to use the CFP® marks, certificants are required to uphold the terms of all agreements with CFP Board. They are also expected to meet all CFP Board requirements to continue using the CFP® marks.

Notification by certificants. Certificants must notify CFP Board of any changes in contact information within 45 days of the changes. CFP Board must also be notified in writing of any conviction of a crime other than minor traffic offenses and any professional discipline.

Conduct of certificants. Certificants need to make sure their behavior reflects the seven Principles of the Code of Ethics for their own sakes, as well as the reputation of their financial planning colleagues and the financial planning profession.

Chapter 3 – Rules of Conduct

RECALL

TO REVIEW Choose the best answer for each of the questions below.

1. Grant, a CFP® certificant, is in the process of preparing a financial plan for Rose, a 72 year-old widow. For Grant to properly evaluate Rose's financial status, Grant is in need of information regarding Rose's IRA. Rose advises Grant that she doesn't have this information. Which of the following are actions Grant should take?
 1. With the help of Rose, try to obtain the information.
 2. Nothing; just proceed with the evaluation without the information.
 3. If the required information cannot be obtained, Grant should advise Rose of the inadequacy.
 4. Discuss with Rose the IRA values of Grant's other clients in similar circumstances and come to an agreement regarding the value to use for evaluation purposes.
 - A. 2 only
 - B. 1 and 3
 - C. 3 and 4
 - D. 1, 3, and 4

Answer: B. Rule 3.3 requires CFP® certificants to strive to get the information and documentation necessary to provide the best financial planning possible. If the required information cannot be obtained, the certificant is responsible for advising clients of the inadequacy. Therefore, Statements 1 and 3 are correct, and Statement 2 is incorrect. Statement 4 is incorrect because Grant may violate Rules 3.1 and 3.2 by violating the confidentiality of his other clients if he shares their IRA information with Rose.

2. Acting in utmost good faith, in a manner reasonably believed to be in the best interest of the client is known as
- fiduciary duty
 - registrant responsibility
 - trustee obligation
 - the financial planning process

Answer: A. Rule 1.4 requires certificants to place the interest of their clients ahead of their own. When the certificant provides financial planning or material elements of the financial planning process, the certificant owes to the client the duty of care of a fiduciary. A fiduciary is defined by CFP Board as one who acts in utmost good faith, in a manner he or she reasonably believes to be in the best interest of the client.

3. Which of the following are required elements of the financial planning agreement are CORRECT?
- Terms of proprietary products, if presented
 - Compensation received by the CFP® certificant
 - Any activity of other professionals consulted by the CFP® certificant
 - Duties of the CFP® certificant and the client during all steps of the financial planning process
- 2 and 4
 - 1, 2, and 3
 - 2, 3, and 4
 - 1, 2, 3, and 4

Answer: D. All of these elements are required. In Rule 1.2, CFP Board emphasizes the importance of a certificant to provide written information or discuss the duties of the certificant and the client during all steps of the financial planning process. Compensation that may be received by the certificant, any other party to the agreement, or any party legally associated with one of the parties must also be addressed. If proprietary products are to be presented, terms are to be disclosed. Also, if other professionals are to be consulted as part of the financial planning process, terms of these activities should also be made known. Although these matters can be discussed, CFP Board strongly recommends that these conversations be followed up in writing so clients can review the discussion points and have the opportunity to ask further questions.