

CFP Board Code of Ethics and Practice Standards



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Ethics



- General definition and discussion
- Why ethical problems exist in business
- Financial-related definitions of ethics
- Why?



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Myths About Ethics



1. Ethics only asserts the obvious - "do good!"
2. Our financial planners are ethical so we don't need to worry
 - our organization is not in trouble with the SEC, so we must be ethical




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Myths About Ethics, continued


3. Ethics has little to do with the day-to-day realities of running a financial planning organization
4. ethics can't be managed
5. ethics can't be taught

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Can Ethics be Taught


- Wall Street Journal – NO
- Socrates – YES
- Psychologist James Rest
 - adults can learn ethical problem-solving skills
 - changes are linked to view of society
 - ethical/moral education can influence reasoning
 - behavior influenced by moral perceptions


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Can Ethics be Taught, continued


- Lawrence Kohlberg: stages of development
 - Pre-conventional level
 - authority figures
 - Conventional level
 - group loyalties
 - Post-conventional level
 - universal view


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Discussion


- Identify and discuss items that you would include in a financial-related code of ethics


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Discussion: Considerations


- include topics such as
 - integrity
 - objectivity
 - competence
 - fairness/disclosure
 - confidentiality
 - professionalism: with profession and with community
 - diligence: work ethic

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Discussion: Considerations

- purpose:
 - establish the expected level of professional conduct
 - public relations

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Discussion: Considerations, cont.



- rationale:
 - benefit the public
 - benefit the profession
- focus:
 - basis for legal liability or
 - framework for professional practice



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Discussion: Considerations, cont.



- applicability:
 - for whom
 - under what circumstances
- enforcement:
 - requirement to comply
 - punitive measures for non-compliance

This is exactly the approach taken with the CFP Board
Code of Ethics and Professional Responsibility.



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Ethics



- Attempts to address financial-services ethical concerns
 - SEC
 - NYSE, NASD, NAIC
 - CFP Board
 - Certificant requirements
 - Penalties and process
 - Forms of discipline





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Code of Ethics


- Introduction and Applicability
 - Principles and Rules
 - Does not define standards of conduct for civil liability purposes
 - Adherence is required
 - Lack of compliance: disciplinary proceedings

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Code of Ethics, continued


- Key terms
 - Client
 - CFP Board designee
 - Commission
 - Conflicts of interest
 - Fee only
 - Personal financial planning (pfp)


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COE: Principles


- Principles: apply to all
 - Integrity
 - Objectivity
 - Competence
 - Fairness
 - Confidentiality
 - Professionalism
 - Diligence


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COE: Rules


- Rules
- General description
 - Directly relate to, and expound upon, each Principle
 - Describe the standards of ethical and professionally responsible conduct expected of CFP Board designees in particular situations


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COE: Selected Rules


- Rule 101: A CFP Board designee shall not solicit clients through false or misleading communications or advertisements
- Rule 102: In the course of professional activities, a CFP Board designee shall not engage in conduct involving dishonesty, fraud, deceit or misrepresentation, or knowingly make a false or misleading statement.

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COE: Selected Rules, cont.


- Rule 202: A financial planning practitioner shall act in the interest of the client.
- Rule 302: Offer advice only in those areas in which the CFP Board designee has competence. In [other] areas, seek qualified counsel or make referrals

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COE: Selected Rules, cont.


- Rule 401: Disclose to the client: material information relevant to the professional relationship . . . and the information required by all laws applicable to the relationship.

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COE: Selected Rules, cont.


- Rule 402: Make timely written disclosure of all material information
 - disclose conflicts of interest and sources of compensation
 - inform of the right to ask for information about the compensation

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SELECTED BOARD DISCIPLINE CASES


- Let's take a look at several cases released by the CFP Board to see how the Principles and Rules are applied in situations where complaints are made against CFP certificants. Each of these cases is from the Anonymous Case History: October 2004, released by the Board.

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Practice Standards


- Introduction and definition
- Rationale and what they attempt to do
- Based on six steps of Financial Planning process
 - identification of the six steps
 - relation of Practice Standards to each step

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Case Discussion

- Discuss the following scenario and determine which of the Code of Ethics' Principles are applicable to the situation.

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Case Discussion, cont.

You are an investment advisor for a large financial services firm. As part of your job, you make decisions on where to invest millions of dollars in people's retirement funds. In the process, you have become very successful, and your clients really seem to trust you.

About six months ago you made, at least you thought at the time, a brilliant investment choice that should provide a sizeable return for your clients. Your boss let you make the call, but recommended caution.

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Case Discussion, cont.



As it turns out, your boss was probably right. You have just received information that indicates an important patent application that the company was really counting on is going to be rejected.

A friend at the company told you the news. The information is not yet public, and you are afraid that when the news hits the street, the several million dollars you invested in the company will only be worth hundreds of thousands.



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Case Discussion, cont.



If you sell the stock holdings right now, you should at least break even, and might even have a slight gain.

What do you do?



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Case Discussion: Considerations



- **What are the problems?**
 - people will lose money if you don't act
 - you may be breaking the law if you do act
 - your reputation is on the line
 - your job may be on the line
 - you really hate to lose



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Case Discussion: Considerations



- *What contributed to them?*
 - you made a financial call that went bad
 - you probably overcommitted or overweighted the portfolio
 - you wanted a 10-bagger and the associated prestige
 - the market worked against your decision



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Case Discussion: Considerations, cont.



- *Is there an applicable standard of right and wrong here?*
 - insider trading = illegal (so, is it insider trading)
 - fiduciary responsibility: work in the best interest of your clients
- *What are the options?*
 - sell
 - don't sell
 - leave the country



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Case Discussion: Considerations, cont.



- What are the consequences of each option?*
- sell
 - people break-even &/or profit
 - you look like a genius
 - if you are not investigated, nobody gets hurt
 - if you are investigated, you could lose your job and/or go to jail
 - you may not be able to work in the industry



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Case Discussion: Considerations, cont.



What are the consequences of each option?

- don't sell
 - people lose money (probably)
 - you may lose your job
 - you probably lose prestige (face)
 - if you keep your job, you may lose clients
 - you may face arbitration &/or civil suits
- leave the country: enough said



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Impact of Code



- Consumer expectations and trust
- Federal regulation
 - SEC/congressional legislation/oversight
 - fiduciary requirements



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When All is Said and Done



- Look out for best interest of client
- "Golden Rule" works for business
- Is it possible to legislate ethics from outside the individual?
 - The government, many companies, and a number of organizations, have attempted to legislate ethical behavior
 - codes are valuable and necessary
 - consider the greater good



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In the End . . .

. . . it may come down to whether you can look at yourself in a mirror and know you have done the right thing.



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