

Standards of Care

Trusting someone to assist you with financial planning and managing your assets is an honor most financial professionals take very seriously. In addition to the good intentions of professionals there are a multitude of rules and regulations to protect the investor, monitor the investments offered and ensure the advisor meets minimum standards of conduct. While many financial representatives hold themselves to higher standards than the minimum, investors should have a general understanding of these regulations and how they are protected.

Confidence in the investment decisions you make starts with education. With respect to standards of care the first term an investor should understand is the “suitability standard.” The “suitability standard” is the minimum standard that requires investments are appropriate for the investor’s goals, experience, and timeframe. The “suitability standard” is designed to make sure representatives in the industry know their customer’s financial situation and recommend suitable products, but it does not require that “advice” to be in the client’s best interest.

On June 30th, 2020 a new standard was created through “Regulation Best Interest” or “Reg BI.” Part of this new regulation requires financial representatives act in the best interest of the investor at the time the recommendation is made, as well as disclose all conflicts and mitigate representative-level conflicts.ⁱ These new regulations require financial representatives provide additional disclosures when making recommendations and are limited to securities transactions and investment strategies. While these new standards are designed to provide investors with more information and a higher duty of care than the “suitability standard” they still fall short of the “fiduciary standard.”

CERTIFIED FINANCIAL PLANNER™ professionals operate under the “fiduciary standard” for all financial assets, including tax strategies and insurance transactions. This means that in addition to recommending suitable investments, they always put the client’s best interest first, acting with prudence, providing full disclosure, and striving to identify, manage, or eliminate conflicts of interest. A CFP® professional must also follow the “Code and Standards” of the CFP Boardⁱⁱ. These expectations are above and beyond the “suitability standard” and “Regulation Best Interest.” In addition to acting with honesty, integrity, competence and diligence the CFP® professional must also maintain confidentiality and protect the privacy of client information.

The “suitability standard” means you are asked financial questions so the representative can get a clear picture of your financial situation and then determine if the product is appropriate for your

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situation. The “fiduciary standard” is much more involved and takes in to account a great number of considerations. The fiduciary will strive to assure that fees are reasonable and that investments are diversified and consistent with the objective. Under this standard, conflicts of interest are considered, and the recommendations should consider the purpose of the investments. True financial planning usually involves multiple subject areas, such as insurance, budgeting, tax planning, estate planning, and life goals. Understanding the differences in standards may help you find a trusted professional who has your best interest in mind.

This article written by Sandra J. Wagner, CFP®. Sandra has been helping people with their finances since 2001. She is a CERTIFIED FINANCIAL PLANNER™ professional and CEO of Wagner Planning.

ⁱ Comparing CFP Board’s Code of Ethics and Standards of Conduct to the SEC’s Regulation Best Interest. CFP Board, 2020, [cfp.net/-/media/files/cfp-board/standards-and-ethics/Compliance-Resources/CFP-Board-Code-and-Standards-and-Reg-BI-Guidance.pdf](https://www.cfp.net/-/media/files/cfp-board/standards-and-ethics/Compliance-Resources/CFP-Board-Code-and-Standards-and-Reg-BI-Guidance.pdf)

ⁱⁱ Comparing CFP Board’s Code of Ethics and Standards of Conduct to the SEC’s Regulation Best Interest. CFP Board, 2020, [cfp.net/-/media/files/cfp-board/standards-and-ethics/Compliance-Resources/CFP-Board-Code-and-Standards-and-Reg-BI-Guidance.pdf](https://www.cfp.net/-/media/files/cfp-board/standards-and-ethics/Compliance-Resources/CFP-Board-Code-and-Standards-and-Reg-BI-Guidance.pdf)

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