CFP BOARD

FIDUCIARY STANDARD

What is the "fiduciary standard of care?"

The fiduciary standard of care requires that a financial adviser act solely in the client's best interest when offering personalized financial advice.

Who follows the fiduciary standard?

Under federal law, in particular the Investment Advisers Act of 1940, investment advisers are regulated by the Securities and Exchange Commission (SEC) or appropriate state authorities and are required to provide services to their customers under the fiduciary standard. CERTIFIED FINANCIAL PLANNER™ professionals providing financial planning services also must abide by the fiduciary standard, as defined by CFP Board.

Broker-dealers are also regulated under federal law, including under the Securities Exchange Act of 1934, but are not required to provide services to their clients under the fiduciary standard of care. Instead, broker-dealers provide services under the "suitability standard of care," which generally requires only the broker-dealer's reasonable belief that any recommendation is suitable for the client. It is important to recognize that a financial recommendation that is "suitable" for a client (as legally required for broker-dealers) may or may not be a financial recommendation that is in the client's best interest (as legally required for investment advisers).

Why is the fiduciary standard of care an issue of concern?

Consumers are harmed by the absence of a uniform fiduciary standard that applies to all financial professionals who provide personalized investment advice, from paying excessive fees and commissions to receiving substandard performance. Consumers are exposed to even greater and unnecessary risks from products that may be deemed suitable for them but are inferior to other available options and not necessarily in their best interests.

Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd–Frank Act) directed the SEC to evaluate gaps in existing regulations for investment advisers and broker-dealers when providing personalized advice to consumers. Today, more than four years since Congress passed the Dodd-Frank Act, the SEC continues to evaluate whether or not to move forward with fiduciary rulemaking.

What needs to be done?

CFP board is working with the Financial Planning Coalition to urge the SEC to adopt a uniform fiduciary standard, for both investment advisers and broker-dealers, which is no less stringent than the existing fiduciary standard for investment advisers.

What would the adoption of the fiduciary standard mean for moderate- and low-income consumers?

Adoption of a uniform fiduciary standard will bring substantial practical benefits and additional investor protections for consumers of all incomes. This will ensure that the personalized advice consumers receive is, first and foremost, in their best interest. Adoption of a fiduciary standard of care will not negatively affect the availability of investment advice or the range of products for moderate- and low-income consumers.

Wouldn't the adoption of a uniform fiduciary standard create additional costs for broker-dealers?

Research shows that the costs to broker-dealers to implement a fiduciary standard would be minimal, and that broker-dealers and investment advisers who provide financial services under a fiduciary standard experience stronger asset and revenue growth than those under a suitability standard.