
EXPOSURE DRAFT

PROPOSED STATEMENT ON STANDARDS IN PERSONAL FINANCIAL PLANNING SERVICES

June 11, 2013

Comments are requested by September 9, 2013

Prepared by the AICPA PFP Division Staff and Responsibilities in Personal Financial Planning Services Subcommittee under the PFP Executive Committee for comment from persons providing personal financial planning services

Comments should be addressed to Sarah Bradley at financialplanning@aicpa.org



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CONTENTS

	Page
Explanatory Memorandum	
Introduction	4
Background	4
Effective Date.....	4
Guidelines for Responses.....	4
Supplement to the Exposure Draft	5
Comment Period.....	5
 Acknowledgments	 6
 Exposure Draft	
Proposed Statement on Standards in Personal Financial Planning Services	9
 Supplement to the Exposure Draft	
Frequently Asked Questions	22

Explanatory Memorandum

Introduction

This memorandum provides background to the proposed *Statement on Standards in Personal Financial Planning Services* and serves as a framework for members who wish to respond to this exposure draft. As described in the “Applicability” section, this standard is intended to apply to the delivery of personal financial planning (PFP) services and not to those services covered by other standards, such as the *Statements on Standards for Tax Services*.

Background

Substantive guidance and minimum guidelines for professional behavior were issued initially from 1992–1996 by the PFP Executive Committee as five separate statements, *Statements on Responsibilities in Personal Financial Planning Practice* (SORs). These statements were vetted by the membership through the exposure process prior to being issued. The primary objective of the SORs was, and is, to provide process-based guidance when planning, developing, presenting, implementing, monitoring, and updating a financial plan to protect both the public and the CPA planner.

On October 22, 2012, AICPA's governing council granted the PFP Executive Committee standard-setting authority, paving the way for the creation of enforceable PFP professional standards. These new professional standards will provide AICPA members who offer financial planning services with practice and competency guidelines.

Effective Date

The proposed statement would be effective for members who meet the applicability requirements outlined in paragraphs 4–6 of the statement itself as of January 1, 2014. This effective date is provisional but will not be earlier than the date of adoption by the PFP Executive Committee.

Guidelines for Responses

The PFP Division staff and PFP Executive Committee are seeking comments on this proposed standard for the CPA financial planning profession. Comments should be submitted using the following format:

- Paragraph number
- Comment description
- Reason for the comment
- Proposed changes to wording, if applicable

Comment submissions will become part of the public record of the AICPA and will be available for public inspection at the offices of the AICPA after September 9, 2013, for one year. Responses should be sent to Sarah Bradley at financialplanning@aicpa.org and received by September 9, 2013.

Supplement to the Exposure Draft

To assist respondents replying to this request to comment on the proposed *Statement on Standards in Personal Financial Planning Services*, a section of frequently asked questions has been prepared.

Comment Period

The 90-day comment period for this exposure draft begins on June 11, 2013 and ends on September 9, 2013.

ACKNOWLEDGMENTS

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Contents

Foreword.....	8
<i>Proposed Statement on Standards in Personal Financial Planning Services</i>	9
Scope	9
Applicability	9
Objective.....	10
Authority of This Statement	10
Definitions.....	11
Requirements	11
General Professional Responsibilities.....	11
Responsibilities of Members in PFP Engagements	12
Planning the PFP Engagement	13
Obtaining and Analyzing Information.....	13
Developing and Communicating Recommendations	14
Implementation Engagements	14
Monitoring and Updating Engagements.....	15
Working With Other Service Providers.....	16
Using Advice Provided By Other Service Providers.....	16
Documentation.....	16
Application Material	17

Foreword

The Personal Financial Planning Executive Committee (PFP EC) has issued this Statement on Standards in Personal Financial Planning Services (statement) to provide guidance to members and a framework for delivering PFP services with the highest levels of integrity, professionalism, objectivity, and competence so that a CPA financial planner can serve the best interests of their clients and the public. The PFP EC is the senior committee of the AICPA designated to promulgate enforceable standards of PFP practice.¹

This proposed statement applies to all members providing PFP services regardless of the jurisdictions in which they practice. Interpretations of this statement may be issued by the PFP EC as guidance to assist in understanding and applying the statement. The PFP EC interpretations are recommendations on the application of these standards. The statement and its interpretations are intended to complement other laws, regulations, and professional standards of PFP practice.

The statement is written in as simple and objective a manner as possible. However, by their nature, practice standards provide for an appropriate range of behaviors and need to be interpreted to address a broad range of personal and professional situations. Accordingly, enforcement of these rules, as part of the AICPA's Code of Professional Conduct Rules 201, *General Standards*, and 202, *Compliance With Standards* (AICPA, *Professional Standards*, ET sec. 201 par. .01 and ET sec. 202 par. .01), will be undertaken on a case-by-case basis.

¹ Per AICPA Bylaw Section 360R, the Personal Financial Planning Executive Committee (PFP EC) is an AICPA senior committee. The PFP EC is designated as a body that may promulgate technical standards under Rules 201, *General Standards* and 202, *Compliance With Standards* (AICPA, *Professional Standards*).

Proposed Statement on Standards in Personal Financial Planning Services

Scope

1. The proposed Statement on Standards in Personal Financial Planning Services (statement) addresses the responsibilities of AICPA members (members) who are described in paragraph 4 that follows. This statement applies when personal financial planning (PFP) services are provided, even if part of another engagement, unless otherwise excluded by paragraph 5.
2. The statement establishes requirements of the member applicable to PFP engagements.

Nature of PFP Services

3. PFP is the process of identifying personal financial goals and resources, designing financial strategies, and making personalized recommendations (whether written or oral) that, when implemented, assist the client in achieving these goals. This process may include implementation of recommendations or monitoring or updating the engagement. PFP services encompass one or more of the following:
 - a. Cash flow planning
 - b. Risk management and insurance planning
 - c. Retirement planning
 - d. Investment planning
 - e. Estate, gift, and wealth transfer planning
 - f. Elder planning
 - g. Charitable planning
 - h. Education planning
 - i. Tax planning

Applicability

4. This statement applies when a member provides PFP services and does any of the following: (Ref: par. A1)
 - a. Represents to the public or clients that the member provides PFP services
 - b. Engages in activities that would require registration as an investment adviser under federal or state law¹
 - c. Sells a product as a result of the engagement

¹ Reference [The CPA's Guide to Investment Advisory Business Models](#).

5. This statement does not apply, regardless of whether it is provided as part of a PFP engagement, to professional services subject to other professional standards, such as (Ref: par. A2–A3, A9)
 - a. compilation of personal financial statements subject to the Statement on Standards for Accounting and Review Services No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards*, AR sec. 600);
 - b. tax services subject to the Statements on Standards for Tax Services (SSTSs);
 - c. valuation services subject to the Statement on Standards for Valuation Services (SSVS) No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*, VS sec. 100).
6. When this statement does apply to a member, its application is only to the PFP services provided and not for those services covered by other professional standards.

Objective

7. This statement provides authoritative guidance and establishes enforceable standards for members, the objective of which is to ensure the appropriate delivery of PFP services.

Authority of This Statement

8. This statement contains requirements designed to enable the member to meet the stated objective. It also includes related guidance in the form of application and other explanatory material that provides context relevant to a proper understanding of this statement and definitions.
9. The requirements of this statement are expressed using the word *should*. If a standard provides that a member “should” perform an action, then unless prevailing facts and circumstances dictate otherwise, this action is required. If a standard provides that a procedure or action is one that the member “should consider,” the consideration of the procedure or action is required, whereas carrying out the specified procedure or action is not. The professional requirements of this statement are to be understood and applied in the context of the explanatory material that provides guidance for their application.
10. The “Application” section and other explanatory material provide further explanation of the requirements and guidance for carrying them out.
11. The words *may*, *might*, and *could*, among others, are used to describe actions and procedures that are recommended but not required. Although such guidance does not, in itself, impose a requirement, it is relevant to the proper application of the requirements.
12. This statement includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of this statement. These are provided to assist with the consistent application and interpretation of this statement and are not intended to override definitions that may be established for other purposes, whether by law or regulation.

Definitions

- 13.** For purposes of this statement, the following terms have the meanings attributed:

Personal financial planning services. The process of identifying personal financial goals, evaluating existing resources, designing financial strategies, and making personalized recommendations that, when implemented, assist the client in achieving these goals. (Ref: par. 3)

Personal financial planning engagement. An engagement in which a member provides PFP services and the statement applies. (Ref: par. 3–4)

Implementation engagement. A PFP engagement that involves assisting the client in taking action on recommendations developed during the PFP services engagement. Implementation includes such activities as selecting other advisors, restructuring debt, obtaining new or updated estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products.

Monitoring engagement. A PFP engagement that involves tracking and communicating the client's progress in achieving established PFP goals.

Updating engagement. A PFP engagement that involves revising the client's existing financial plan and financial planning recommendations as the member and client agree upon.

Personalized recommendation. Financial advice directing a client to take action based on the client's personal financial information disclosed to the member.

Requirements

General Professional Responsibilities

- 14.** The member should read the entire statement, including its application and other explanatory material, to understand its objective and apply its requirements properly.
- 15.** The proper application of the requirements established by this statement is expected to provide a sufficient basis for the achievement of the objective. However, because circumstances vary widely and all such circumstances cannot be anticipated, the member should consider whether, due to the existence of particular matters or circumstances, procedures in addition to those required by this statement are needed to meet the stated objective.
- 16.** The member should comply with each requirement of this statement unless,
- in the circumstances of the engagement, the requirement is not relevant because it is conditional, and the condition does not exist.
 - the member judges it necessary to depart from a requirement. In such circumstances, the member should perform alternative procedures to achieve the intent of that requirement and document the justification for that departure.
- 17.** The member should consider applicable interpretive publications when providing PFP services. (Ref: par. A13)

Independence and PFP Services

- 18.** If PFP services are performed for a client for which the member or member's firm also performs an attest engagement (defined by ET section 92, *Definitions* [AICPA, *Professional Standards*] of the AICPA Code of Professional Conduct), the member should meet the requirements of Interpretation No. 101-3, "Nonattest Services," under Rule 101, *Independence* (AICPA, *Professional Standards*, ET sec. 101 par. .05), so as not to impair the member's independence with respect to the client.

Responsibilities of Members in PFP Engagements

- 19.** The member should comply with relevant ethical requirements. (Ref: par. A4–A5)
- 20.** The member should possess a level of knowledge of PFP principles and theory, and a level of skill in the application of such principles, that will enable him or her to (Ref: par. A6)
- a. identify client goals and objectives;
 - b. gather and analyze relevant information;
 - c. consider and apply appropriate planning approaches and methods; and
 - d. use professional judgment when developing financial recommendations.
- 21.** The member should evaluate whether any conflicts of interest exist with regard to the engagement as follows: (Ref: par. A7–A8)
- a. If the member determines conflicts of interest exist, the member should determine whether the engagement can be performed objectively.
 - b. If the member determines the engagement can be performed objectively, the member should disclose all known conflicts of interest and obtain consent as required under Interpretation No. 102-2, "Conflicts of Interest," under Rule 102, *Integrity and Objectivity* (AICPA, *Professional Standards*, ET sec. 102 par. .03).
 - c. If the member determines that the engagement cannot be performed objectively, the engagement should be terminated.
- 22.** The member should comply with federal, state, and other laws and regulations. The member should comply with professional standards applicable to the PFP engagement unless superseded by laws or regulations. When there is a conflict between this statement and laws or regulations, the laws or regulations will prevail. (Ref: par. A9–A10)
- 23.** Prior to beginning the engagement, and throughout the engagement as circumstances dictate, the member should disclose in writing all compensation the member and the member's firm or affiliates will receive for services rendered or products sold. The disclosure should include
- a. method of compensation, including the impact of indirect compensation;
 - b. amount of compensation;
 - c. time period over which compensation will be received; and
 - d. compensation, including noncash benefits, received by the member for referrals to other providers.

24. If compensation alternatives are offered, the member should disclose the differences in these alternatives in writing.

Planning the PFP Engagement

25. The member should document and communicate to the client the scope and nature of services to be provided and disclose the member's agreed upon compensation for such services. This communication should be documented in the file and include descriptions of the following when applicable to the engagement: (Ref: par. A14–A15)

- a.* Engagement objectives
- b.* Scope of services to be provided (Ref: par. A15)
- c.* Roles and responsibilities of the member, client, and other service providers in the PFP process
- d.* Timing of the engagement
- e.* Scope limitations and other constraints
- f.* Conflicts of interest (Ref: par. 21)
- g.* Responsibility, or lack thereof, for helping the client implement planning decisions
- h.* Responsibility, or lack thereof, for monitoring the client's progress in achieving goals
- i.* Responsibility, or lack thereof, for updating the plan and proposing new action

26. The member should evaluate the appropriateness of the original engagement as the engagement proceeds and document and communicate needed changes to the client.

27. If the member is aware of a service needed to complete the engagement and does not, or will not, provide that service, the member should limit the scope of the engagement accordingly and recommend that the client engage another service provider for that service in writing.

28. If the client declines to engage another service provider for services identified in paragraph 27, the member should consider whether this limitation impairs the ability to provide PFP services that meet this statement as follows:

- a.* If the member determines that the ability to meet this statement is impaired, the member should terminate the engagement in writing.
- b.* If the member determines that the ability to meet this statement is not impaired, the member should communicate in writing that this limitation could affect the conclusions and recommendations developed in the engagement.

Obtaining and Analyzing Information

29. The member should use professional judgment when obtaining and analyzing relevant information necessary to develop recommendations based on the stated engagement objectives.

30. If the member is unable to collect sufficient relevant information to form a reasonable basis for recommendations, the engagement scope may be restricted to those matters for which sufficient information is available. This scope limitation should be communicated to the client

in writing, including that this limitation should be taken into account in the assessment of conclusions and recommendations developed. (Ref: par. A16)

31. If sufficient information does not exist to proceed as agreed, the member should terminate or modify the engagement through mutual agreement with the client. This engagement modification or termination should be communicated in writing.
32. When analyzing information obtained when performing the engagement, the member should
 - a. evaluate the reasonableness of estimates and assumptions that are significant to the plan;
 - b. use assumptions that are appropriate and consistent with each other; and
 - c. consider the interrelationship of various PFP areas..

Developing and Communicating Recommendations

33. The member should establish a reasonable basis for PFP recommendations. (Ref: par. A16–A20)
34. The member should develop recommendations derived from analyses of relevant information, client goals, and the client's overall financial circumstances. Even when an engagement addresses a limited number of personal financial goals, the member should consider the client's overall known financial circumstances.
35. The nature and extent of analyses and other procedures performed when developing a basis for recommendations are affected by the scope and objectives of the engagement and should be documented.
36. The member should communicate to the client the assumptions and estimates that are significant to the recommendations. This should be documented and include the following:
 - a. A summary of the client's goals.
 - b. Significant assumptions.
 - c. Estimates.
 - d. Recommendations.
 - e. A description of any limitations on the work performed.
 - f. The recommendations in the engagement should contain qualifications to the recommendations if the effects of certain planning areas on the client's overall financial picture were not considered.
 - g. Requirements of IRS Circular 230, if recommendations contain tax advice.

Implementation Engagements

37. An implementation engagement involves assisting the client in taking action on decisions and recommendations developed during the PFP engagement.

38. The member should document his or her understanding of the implementation engagement, including the roles and responsibilities of the member, the client, and other service providers. This documentation should include the following: (Ref: par. A21–A23)

- a. A summary of the planning decisions being implemented
- b. A summary of recommended actions to be taken
- c. A description of limitations on the work performed in the implementation engagement

39. The member should communicate in writing the level of responsibility, if any, for the following:

- a. The selection and acquisition of products
- b. The selection of service providers
- c. Establishing selection criteria
- d. Coordinating or reviewing the delivery of services or products by other service providers

40. A member who is engaged to establish selection criteria should

- a. identify those criteria that are required to accomplish the client's objectives, subject to any constraints that result from the client's circumstances or as identified by the client.
- b. assist the client in evaluating the relative importance of criteria so that available alternatives can be compared.

41. A member who is engaged to participate in recommending products should

- a. gather information that provides a reasonable basis for determining whether a product meets the selection criteria and
- b. communicate this evaluation in writing, along with product recommendations.

42. A member who is engaged to assist the client in taking action on planning decisions developed in a PFP engagement in which the member did not participate should obtain an understanding of the planning decisions made.

Monitoring and Updating Engagements

43. A member may be engaged to assist the client in tracking progress in achieving established PFP goals or revising an existing personal financial plan, or both.

44. In a monitoring engagement, the member should document the nature and extent of the member's services, including (Ref: par. A24–A26)

- a. the frequency and time period of measuring the client's progress toward reaching the stated goals.
- b. utilization of monitoring criteria that are appropriate to, and consistent with, the criteria used to establish the goals being monitored.

- c. the criteria that are important to the achievement of the financial planning goals being monitored.
 - d. the member's evaluation of progress toward achieving the client's financial planning goals, including whether the client's existing financial plan and specific financial planning recommendations should be updated.
- 45.** In an updating engagement, the member should document the nature and extent of the member's services, including
- a. the determination of whether the goals, objectives, information, and assumptions used as a basis for existing planning recommendations are still valid.
 - b. the evaluation of the impact of revising recommendations on the client's ability to achieve other financial planning goals.
- 46.** All other relevant guidance under this statement relating to providing PFP services should be followed in a monitoring or an updating engagement.

Working With Other Service Providers

- 47.** When referring another service provider to a client, the member should
- a. evaluate the professional qualifications of another service provider before referring the client to that service provider;
 - b. disclose, in writing, any compensation received for making such referrals; and
 - c. communicate, in writing, the extent to which the member will or will not evaluate the work performed by the service provider.

Using Advice Provided By Other Service Providers

- 48.** When the member uses the advice of another service provider when carrying out the PFP engagement, the member should understand the impact of the service provider's advice.
- 49.** If the member has evaluated the advice of the other service provider, and
- a. if the member concurs with the other service provider's advice, the member need not communicate this concurrence to the client because concurrence is implied by its use, or
 - b. if the member does not concur with the other service provider's advice, the member should communicate this nonconcurrence to the client in writing.

Documentation

- 50.** The member should document the following:
- a. Planning of the engagement
 - b. Analyses and procedures performed
 - c. Recommendations
 - d. Communications to the client

Application Material

Applicability (Ref: par. 3–6)

A1. Unless otherwise excluded, if any of the services listed in paragraph 3 are provided as part of a PFP services engagement, the service is covered by this statement and should be considered in conjunction with the requirements set forth in the “Applicability” section (Ref. par: 4–6). In addition, depending on the nature of the service, other standards will apply. For example, any personal income tax services provided as part of a PFP services engagement are excluded from this statement because they are subject to the SSTSSs.

A2. Examples of services not covered by this statement include the following: (Ref: par. 5)

- a. Tax advice
 - i. Advising a client regarding his or her income tax matters that are subject to the SSTSSs
 - ii. Advising a client regarding gift and estate tax matters that are otherwise subject to the SSTSSs
- b. Valuation services: Any engagement that would be considered a valuation service under SSVS No. 1
- c. Sale of financial products
 - i. Selling a term life insurance policy when no PFP advice is given
 - ii. Brokering the sale of a limited partnership interest when no PFP advice is given
- d. Business succession planning
 - i. Planning to prepare for an unexpected vacancy in a key position resulting from a sudden departure, disability, or death when no PFP advice is given to an individual
 - ii. Planning to prepare for the sale to another firm when no PFP advice is given to an individual
- e. Educational discussions or presentations covering PFP areas
 - i. A workshop presented to a group of company employees on a PFP topic (Ref: par. 3) that does not include personalized recommendations
 - ii. A discussion with an individual that covers one or more PFP topics (Ref: par. 3) that does not result in a personalized recommendation
- f. Mechanical computations
 - i. Computation of the current income tax deduction for a client’s contribution of assets to a charitable remainder trust
 - ii. Computation of the current yield on a client’s investment portfolio
 - iii. Computation of the gift tax on a transfer of a partnership interest

A3. A member may identify, and create an analysis of, historical spending and income activity for a client as a purely mechanical computation, which would not be considered part of a PFP process. However, extension of this analysis to future periods based on the judgment of the member that entails the use of assumptions and recommendations regarding investing would be considered part of a financial planning process and PFP engagement.

Responsibilities of Members in PFP Engagements (Ref: par. 19–24)

A4. The member is subject to relevant ethical requirements relating to PFP engagements. Ethical requirements consist of the AICPA Code of Professional Conduct together with rules of state boards of accountancy and applicable regulatory agencies that are more restrictive.

A5. The AICPA Code of Professional Conduct establishes the fundamental principles of professional ethics, which include the following:

- a. Responsibilities
- b. The public interest
- c. Integrity
- d. Objectivity and independence
- e. Due care
- f. Scope and nature of services

A6. Rule 201A, *Professional Competence* (AICPA, *Professional Standards*, ET sec. 201 par. .01), states that a member shall “undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.” (Ref: par. 20)

A7. Paragraph .01 of ET section 55, *Article IV—Objectivity and Independence* (AICPA, *Professional Standards*), states that objectivity is a state of mind. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free from conflicts of interest. (Ref: par. 21)

A8. Members are required to comply with Interpretation No. 102-2.

A9. Laws, regulations, and professional standards applicable to engagements to perform PFP services include, but are not necessarily limited to, the following: (Ref: par. 22)

- a. Investment Advisers Act of 1940; see Securities and Exchange Commission Interpretive Release IA-1092
- b. Treasury Department Circular No. 230
- c. State boards of accountancy
- d. AICPA Code of Professional Conduct
- e. SSTSS
- f. SSVS No. 1
- g. Statement on Standards for Consulting Services No. 1, *Consulting Services: Definitions and Standards*

- h. SSARS No. 6
 - i. Maintaining adequate data protection safeguards regarding a client's nonpublic personal information
 - j. Maintaining client confidentiality in accordance with the applicable rules of professional conduct and federal and state laws and regulations

A10. Compliance with the AICPA Code of Professional Conduct, as with all standards in an open society, depends primarily on members' understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the rules.

A11. A member is not required to follow a standard format when communicating or documenting communication.

Conduct of an Engagement in Accordance With This Statement

Nature of PFP Engagement (Ref: par. 3)

A12. ET section 202, *Compliance With Standards* (AICPA, *Professional Standards*), requires an AICPA member who performs a PFP engagement to comply with standards promulgated by the Personal Financial Planning Executive Committee (PFP EC). The PFP EC develops and issues standards in the form of statements through a process that includes deliberation in meetings open to the public, public exposure of proposed statements, and a formal vote. The statements are codified in AICPA *Professional Standards*.

Interpretive Publications (Ref: par. 17)

A13. Interpretive publications are not standards on PFP practice. *Interpretive publications* are recommendations on the application of the statement in specific circumstances. An interpretive publication is issued under the authority of the PFP EC after all members have been provided an opportunity to consider and comment on whether the proposed interpretive publication is consistent with this statement.

Planning the Engagement (Ref: par. 25–28)

A14. An understanding of the client may include understanding matters such as the client's family situation, commitment to the planning process, current cash flow and assets available, personal preferences, and relationships with other professionals. This understanding may be obtained through comprehensive information gathering or may result from knowledge gained during a long-term relationship with the client.

A15. Additional services that require understanding and agreement by the client include the following:

- a. Implementing plan recommendations
- b. Monitoring the client's progress in achieving goals

- c. Updating recommendations

Obtaining and Analyzing Information (Ref: par. 29–32)

A16. Developing a basis for recommendations involves the following:

- a. Collecting relevant quantitative and qualitative information. The nature and amount of information will depend on the scope and complexity of the engagement. This information may include, but is not limited to
 - i. the client's goals, existing financial situation, and available resources;
 - ii. nonfinancial factors, such as client attitudes, risk tolerance, family considerations, age, health, and life expectancy;
 - iii. external factors, such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates; and
 - iv. reasonable estimates, projections, and assumptions furnished by the client, provided by other service providers, or developed by the member.
- b. Analyzing the client's current situation as it relates to the client's goals and objectives and identifying strengths and weaknesses of the existing financial situation.
- c. Formulating, evaluating, and recommending appropriate strategies for achieving the client's goals.

A17. The member's knowledge and experience also contribute to the basis for recommendations.

A18. PFP recommendations are suggested actions developed to help the client achieve personal financial goals.

A19. Recommendations are based on analyses and other procedures conducted prior to, and in preparation for, developing suggested actions.

A20. The member should help the client prioritize recommended tasks that are essential to enabling the client to act on planning decisions.

Implementation Engagements (Ref: par. 37–42)

A21. In those situations in which the member may be functioning in a fiduciary or agency relationship, state law will control.

A22. The member may be engaged to assist the client in taking action on planning decisions, which may include the member doing one or more of the following:

- a. Taking responsibility for the selection and acquisition of products²

² Members advising clients on the selection or acquisition of products (such as investments or insurance policies) should determine whether they meet the qualifications and licensing requirements established by applicable federal and state laws.

- b.* Taking responsibility for the selection of service providers
- c.* Establishing selection criteria
- d.* Coordinating or reviewing the delivery of services or products by other service providers

A23. Implementation is typically completed when products are acquired or services are rendered based on the recommendations developed during the PFP services engagement.

Monitoring and Updating Engagements (Ref: par. 43–46)

A24. The member may be specifically engaged by a client to provide monitoring services, updating services, or both. The member would typically have informed the client during a PFP services engagement, in which planning recommendations are developed, that monitoring and updating are important elements of the financial planning process and that the member is not responsible for undertaking these services except by specific agreement with the client.

A25. Monitoring and updating activities are typically undertaken after implementation of actions and recommendations developed during a PFP services engagement. Monitoring and updating services may be either separate or combined engagements.

A26. Monitoring engagements vary in complexity, scope, and the nature and extent of assistance to be provided by the member. In other words, the member may undertake some or all of the monitoring services, coordinate or review monitoring services performed by other service providers, or monitor progress toward goals in a financial plan developed by other service providers.

Supplemental Material: Frequently Asked Questions

Scope

1. Why are the services outlined in paragraph 5 of the proposed Statement on Standards in Personal Financial Planning Services (statement) excluded?

A: The services outlined in paragraph 5 of the statement are excluded because these activities are covered by other AICPA standards.

Applicability

2. When does the statement apply to me?

A: Generally, this statement is meant to apply to members who provide personalized financial advice or consultation to individual clients on a more than incidental basis when other AICPA standards do not otherwise apply.

3. If a member does not have the CPA Personal Financial Specialist (CPA/PFS) credential or other financial planning designation, does this statement apply to them?

A: Yes, this statement applies regardless of certifications held or not held by the member. Members should determine whether the statement applies by referring to paragraphs 4–5 of the statement. A member's certification has no bearing on the application of this statement other than as a consideration when determining whether or not the member is "holding out" as providing personal financial planning (PFP) related services.

4. In connection with paragraph 4(b) of the statement, how do I know if I need to register as an investment adviser under federal or state law?

A: Reference [The CPA's Guide to Investment Advisory Business Models](#). It provides guidance about when you are deemed to be providing investment advice by the Investment Advisers Act of 1940 and similar laws adopted by the various states.

5. Does the statement apply to a CPA who works for a non-CPA firm that does PFP or family office work?

A: The statement applies to the member, not a firm or organization. Therefore, the application of this statement must be considered at the individual member level. It does not matter in what form or in what organization the member practices.

6. If I do not put together a formal PFP engagement, have I provided PFP services subject to the statement?

A: A formal engagement is not necessary to be deemed to have provided PFP services. If you have made a personalized recommendation, then you may have provided PFP services

regardless of the formality of the engagement and whether or not a plan or similar document is the result.

7. If I am presenting a PFP seminar and I make a statement that I recommend everyone present should have some type of investment plan and their assets allocated to diverse investment strategies, is this considered a personalized recommendation subject to the standards?

A: This is not a personalized recommendation, as set forth by the statement, and, therefore, is not covered by this statement. In general, broad recommendations involving generally accepted investment theories do not constitute "personalized" advice.

8. I have written an article, newsletter, or other publication on a PFP topic. Does the statement apply in this case?

A: This is not a personalized recommendation, as set forth by the statement, and, therefore, is not covered by this statement.

9. Am I subject to this statement when I calculate and illustrate to a client what the taxable gift amount might be if my client implemented a qualified personal residence trust (QPRT) and then show what the future estate tax liability may be in 10 years with and without a QPRT?

A: This statement does not apply because this activity is covered by the Statements on Standards for Tax Services.

10. I provide guidance to a business owner in the preparation of business budgets in the operations of the business(es). The business owner routinely moves cash to and from his various entities and his personal accounts for a variety of cyclical business reasons. If I provide guidance on personal budgeting in conjunction with business budgets, does the statement apply?

A: If the information is furnished by the client and is merely a mechanical computation of the data and information and does not require professional judgment regarding assumptions, estimates, or recommendations, then this statement does not apply.

11. I am a CPA who has obtained the CPA/PFS credential from the AICPA. On my letterhead, under my name, are the words "Certified Public Accountant – Personal Financial Specialist". I advise clients that their assets should be diversified among various categories, including real estate, stocks, bonds, and mutual funds, with recommendations for specific allocations in each asset category, tailored for each client. I charge for this advice on an hourly basis. Does the statement apply?

A: The statement will apply to any PFP service provided regardless of how you charge for this advice because you are holding out as a CPA financial planner. In addition, it appears that you are holding yourself out as an investment adviser, and because your investment advisory services do not appear to be incidental to your accounting services (but, rather, an integral

part of your business), you probably will need to register as an investment adviser, regardless of the compensation arrangement.

When Am I Providing PFP Services?

12. The statement says it applies when I represent to the public or clients that I provide PFP services. What constitutes examples of “representing to the public (or a client)” that I provide PFP services?

A: *Representing to the public or a client* takes place when a member (rather than a firm) takes an action that a client or the public could reasonably rely on to conclude that you provide financial planning services (Ref: question 17). Examples would include the following:

- Advertisement that you provide financial planning services or in which you solicit financial planning engagements
- Reference on your business card to financial planning services
- Placement of brochures or other client educational materials in your office describing financial planning services
- Including in an engagement letter a description of financial planning services
- Classification in telephone book yellow pages under financial planning categories using your name
- Oral representation to a client or prospective client that you personally provide financial planning services
- Solicitation of financial planning engagements in any marketing materials that you use
- Indication of providing PFP services in client proposals that you execute

13. Does the statement apply only if I specifically use the phrase “personal financial planning” services? (Ref: question 17)

A: The intent of the statement is to be applicable when a member represents to the public or to clients that he or she provides financial planning services, in whole or in part, regardless of the terms used. This would include, but is not limited to, using other similar terms such as *personal financial consulting, personal financial services, comprehensive personal advisory services, holistic financial advisory services, investment advisory services, wealth adviser, personal financial advisor, fee only financial advisor*, or other similar terms.

14. I am a CPA who utilizes a software program that summarizes the performance of mutual funds over various periods; categorizes funds by objective, performance, sales charges, and risk levels to inform accounting clients about mutual funds; provides them with a list of funds that meet their investment objectives; and provides monthly performance reports. I charge each client who asks for advice on mutual fund investments a fee of \$250 per quarter to render a report generated by the software. I do not describe the service as “personal financial planning.” Does the statement apply?

A: Because the activity described previously is considered a PFP service (mutual fund performance analysis), you are holding yourself out to the public as providing financial planning services, and the statement will apply to any PFP service provided. In addition, it

appears you are providing investment advice for a fee, and you probably will need to register as an investment adviser.¹

15. I am a CPA who advertises on my website that I provide “accounting and investment consulting.” From time to time, and for a fee, I will assist clients who are considering investing in real estate limited partnerships by discussing with them the merits and risks of investing in the limited partnership, including advising on the past performance of the general partner in similar partnerships. I do not describe the service as “personal financial planning.” Does the statement apply?

A: Because you are holding yourself out to the public as providing PFP services (investment-related services), the statement will apply to any PFP service provided. In addition, it appears you are rendering advice on securities (limited partnership interests) for a fee as a regular part of your business, and you probably will need to register as an investment adviser.²

16. I do not represent to the public or clients that I provide financial planning related services. Can I provide PFP-type services (the activities described in paragraph 3 of the statement) without being subject to this statement?

A: Under those circumstances, this statement would not apply unless you are required to register as an investment adviser under federal or state law or if you sell a product as a result of the engagement. Note that if you describe your end product as a financial plan or something equivalent, you are representing that you do provide financial planning services.

17. While preparing a tax return for a client, the client asks for help with financial planning, and I am engaged to assist in cash flow planning. I do not otherwise represent to the public or to clients that I do financial planning. Would this constitute representing that I am providing PFP services?

A: While the client may describe requested services as “financial planning,” you have not held out as providing PFP services. The client’s terminology alone will not cause you to be subject to this statement.

18. If a CPA firm promotes itself as providing PFP services, how is the member affected as it relates to the statement?

A: The statement is applied at the individual member level. When a firm represents that they provide PFP services, the member is not considered to be representing that they themselves are providing those services, unless the member individually represents, or otherwise holds out, that they are providing PFP services to the client. If a sole practitioner firm represents that it provides PFP services, it is reasonable for the public to assume this representation is applicable to the member.

¹ See Hungerford, Aldrin, Nichols & Carter, Securities and Exchange Commission (SEC) No-Action Letter, 1991 WL 290535 (Dec. 10, 1991).

² See Jan L. Warner, SEC No-Action Letter (Dec. 27, 1988).

Sale of a Product

19. A member who sells products is subject to this statement with regard to any PFP service provided. When is a member deemed to be selling a product?
- A: The mere possibility of receipt of compensation or remuneration, contingent upon client or related party decisions resulting from the engagement, constitutes “selling a product” for purposes of applying this statement. This includes, for example, referral fees and commissions or any other remuneration in cash or in kind.
20. I recommend to clients that they invest in a particular investment program; however, I do not receive “commissions” from this recommendation. I do receive fees from the firm that markets that investment. Am I deemed to be selling a product?
- A: Yes. Regardless of the terminology used, any remuneration received from a third party that directly or indirectly results from your referral constitutes selling a product. This remuneration is subject to disclosure requirements.
21. I perform estate planning services and send clients to several attorneys that compensate me for referrals, sometimes in cash and other times in noncash compensation. Am I deemed to be selling a product for purposes of this statement?
- A: No. A referral to another professional is not generally considered selling a product. However, the AICPA Code of Professional Conduct would apply, and full and clear disclosure of potential conflict of interest is required to be made to the client in writing.
22. I perform retirement planning services and refer clients to insurance brokers who compensate me, sometimes in cash and other times in noncash compensation. Am I deemed to be selling a product for purposes of this statement?
- A: Yes. Compensation received for referrals to those who sell products, regardless of the form of remuneration, is deemed to be selling a product for purposes of this statement. Fees received for referrals to professionals who do not sell products do not constitute selling a product. In both cases, however, full and clear disclosure of the fees to be received is required under the AICPA Code of Professional Conduct.
23. I am a captive agent for a large insurance and investment products company. My customers know that I am an agent for the company and that I do not provide, nor represent that I provide, financial planning advice. I only do this for the money. Am I subject to this statement?
- A: No. Although you are receiving remuneration from the firm for which you are selling products, you are not subject to this statement because no PFP services are being provided. The AICPA Code of Professional Conduct would apply, and full and clear disclosure of potential conflict of interest is required to be made to the client in writing.

24. I sell insurance and get new customers over the phone. During the course of the initial phone call, I offer to send information on my background, which includes that I am a CPA/PFS credential holder and that I provide PFP services. Am I subject to this statement?

A: Yes. By either referring to your CPA/PFS credential or mentioning that you provide PFP services, you are holding out to be a personal financial planner for purposes of this statement. However, if you do not send the background information, and the customer is not aware of this information from other sources (for example, a website or Google search), then for this customer, you would not be considered to be representing yourself as providing PFP services, and this statement would not apply, unless you verbally tell the client you will do financial planning for them. You would then be subject to all the requisite disclosure rules required of this statement.

25. I do not use my CPA/PFS credential in any way nor include this fact in any advertising. I do not display my certificate in my office where I meet customers. I am an agent for an independent general agency that sells life, disability, health, and property and casualty insurance. I provide PFP services to my customers and then implement the recommendations with various products that pay me a commission. Am I subject to this statement?

A: Yes, this statement does apply to you, and you would be required to follow all the rules therein, including those requiring full and fair disclosure of compensation, whether paid directly or indirectly by the client.

26. My client has asked me to assist with the securing of a risk management product. Am I subject to the statement as a service not provided as part of a broader PFP engagement?

A: The statement will apply if the member makes a personalized recommendation in conjunction with securing the risk management product. If the member only assists with securing the product and does not make a personalized recommendation, then the statement will not apply, regardless of how compensated. The AICPA Code of Professional Conduct would apply, and full and clear disclosure of potential conflict of interest is required to be made to the client in writing.

Tax Services

27. In addition to providing financial planning for clients, I also provide tax planning and compliance work for a number of tax-only clients. During these tax planning engagements, I often run present value computations to determine the impact of various alternatives (for example, depreciation methods, timing of tax deductions between years). Is this work subject to this statement?

A: No. Tax planning and compliance services are already subject to the Statements on Standards for Tax Services (SSTSs), and, as such, are not subject to this statement. This is true regardless of whether the tax planning or tax advice is part of a PFP engagement.

28. We recommend that clients contribute to an IRA or qualified plan. We provide guidance to business owners on the tax impact of setting up a retirement plan. Does this statement apply to these services?

A: The recommendation that a client avail themselves of a tax deduction using an IRA does not fall under the scope of this statement.

The recommendation that a business owner client seek counsel and guidance on the appropriate plan to use is a customary conversation between a member and a client and is not considered a PFP service that would be subject to the statement. Tax planning and compliance services are already subject to the SSTSSs, and, as such, are not subject to this statement.

29. A client asks for your input regarding her potential deferred compensation choices. Does the statement apply?

A: If the member merely provides a summary of the various tax rules and other educational materials to assist the client in understanding the deferred compensation topic, this statement would not be applicable. However, the SSTSSs may be applicable and should be consulted. Note that if personalized recommendations are made, and this advice is not covered by other AICPA standards, then this statement will apply.

The tax advice component of making a deferred compensation recommendation is covered by the SSTSSs and not by this statement. The financial planning recommendations (for example, the current and future cash requirements and funding requirements, investment implications of the clients overall investment strategy) are covered by this statement but only if you hold yourself out as providing PFP services.

30. The client forwards a summary of the employer-provided deferred compensation plan and asks for guidance when evaluating the potential tax implications of the alternative plan choices.

A: If the member merely performs a mechanical computation of the potential tax implications using the assumption alternatives contained in the employer plan document, the statement would not apply. The SSTSSs may be applicable and should be consulted. However, if the member uses these deferred compensation alternative outcomes in various cash flow models, which incorporate various other aspects of the client's financial plan, such as budgeting and cash flow planning, retirement planning, investment planning, and so on relating to the various alternative deferred compensation choices, then this statement would apply.

31. As the owner and employee of the company, the client asks the member for assistance in implementing a deferred compensation plan for the firm's employees.

A: If the member is involved in the sale or placement of a product to implement a deferred compensation plan, and PFP-related advice is involved, either directly or indirectly, this statement would apply. If the client-owner was not an employee of the firm, then the presumption would be that no personalized financial planning advice is involved and, thereby,

this statement would not apply. Other areas of the AICPA Code of Professional Conduct would apply, and full and clear disclosure of potential conflict of interest is required to be made to the client in writing.

Valuation Services

32. Much of my practice is in the business valuation area. While performing business valuation services, I am required to use professional judgment to determine appropriate discount and return rates. Are these business valuation engagements subject to this statement?

A: No. Business valuation engagements are subject to Statement on Standards for Valuation Services No. 1, *Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset* (AICPA, *Professional Standards*) and are excluded from this statement.

Working With Other Service Providers

33. I do not provide investment management services as part of my financial planning practice, but I often make referrals to investment managers. Although I do not take any direct compensation for these referrals, these investment managers often reciprocate by referring tax and financial planning clients to me. When referring another service provider, what do I need to do?

A: In these referral situations you should do three things:

First, you should use your professional judgment about the professional qualifications and reputation of the other service provider. Ways in which you may satisfy yourself include having worked with the professional in the past, the individual's general reputation in the community, independent performance evaluations, or other due diligence, such as background checks and Internet searches.

Second, although you do not take any direct compensation, you should disclose any indirect compensation, which would include referrals. You should disclose to the client that you have a mutual referral relationship with the other service provider and whether it is a formal or informal relationship.

Third, you should communicate in writing the extent to which you will or will not evaluate the work performed by the other service provider.

34. When making a recommendation of another service provider to a client, should the member provide several names for consideration by the client?

A: The number of recommendations of other service providers does not mitigate the responsibility of the member to the client for making the recommendation. A member should use his or her professional judgment about whom and how many recommendations to provide to the client.

35. I provide PFP services as part of a firm that also performs attest services. Can I accept commissions and referral fees?

A: Rule 503, *Commissions and Referral Fees* (AICPA, *Professional Standards*), prohibits a member from receiving a commission for recommending or referring certain types of attest clients to any product or service of a third party.

Documentation

36. When the statement requires written documentation or communication to the client, what form should it take?

A: Any form of documentation deemed acceptable for legal purposes as a form of written documentation or communication is acceptable for the engagement.