STANDARDS IN PERSONAL FINANCIAL PLANNING SERVICES

COMPLIANCE MANUAL

TAX ESTATE RISK MANAGEMENT RETIREMENT INVESTMENT
Personal Financial Planning
PFP
aicpa.org/PFP

AICPA® Personal Financial Planning Section

STANDARDS IN PERSONAL FINANCIAL PLANNING SERVICES

COMPLIANCE MANUAL

Personal Financial Planning
PFP
aicpa.org/PFP
TAX
ESTATE
RISK MANAGEMENT
RETIREMENT
INVESTMENT

14369-349

AICPA® Personal Financial Planning Section

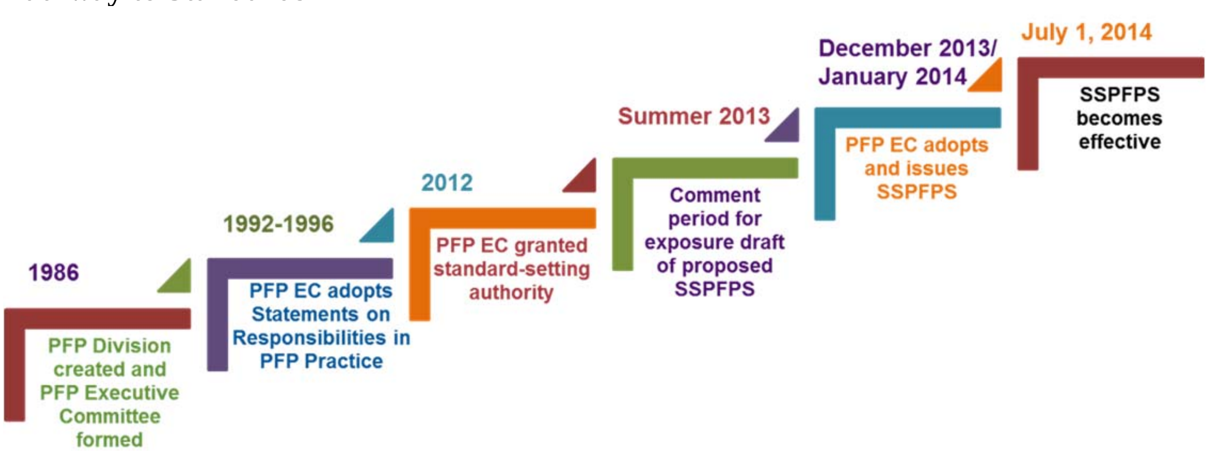
Pathway to Standards

More than 25 years ago, a group of passionate AICPA member volunteers came together with staff, council members, and the board of directors to form the Personal Financial Planning (PFP) Division for the purpose of representing and giving voice to CPAs providing personal financial planning services. Soon after, the board of directors created the PFP Executive Committee (PFP EC) to serve as the senior committee responsible for supporting the AICPA by providing its members with information, advocacy, and leadership. This committee determines the Institute's technical policies and serves as the Institute's official voice on those matters.

Between 1992 and 1996, the PFP EC issued five statements of substantive guidance for members providing PFP services. These statements were named the *Statements on Responsibilities in Personal Financial Planning Practice* (SORs). The primary objective of the SORs was to provide CPAs with best practices in the delivery of what was then an emerging practice area. The SORs provided CPAs with a roadmap for delivering these services in a manner consistent with the responsibilities of a long-established profession.[1]

Over the past three decades, a growing number of CPAs have expanded into providing personal financial planning services to individuals and families. The increased demand and projected growth of PFP services in areas such as estate, retirement, risk management, and investments have brought the accounting profession to an important crossroad. To adapt to an evolving profession and regulatory landscape, in addition to the existing regulatory framework[1] for CPAs, the AICPA is promulgating the *Statement on Standards in Personal Financial Planning Services No. 1*[2] (the statement), which was unanimously adopted by the PFP EC in December 2013. The statement becomes effective on July 1, 2014.

Pathway to Standards



[1]CPAs are licensed and regulated by their state boards of accountancy. Additionally, all AICPA members are required to follow a rigorous Code of Professional Conduct which requires that they act with integrity, objectivity, due care, competence, fully disclose any conflicts of interest (and obtain client consent if a conflict exists), maintain client confidentiality, disclose to the client any commission or referral fees, and serve the public interest when providing financial services. The vast majority of state boards of accountancy have adopted the AICPA Code of Professional Conduct within their state accountancy laws or have created their own.

[2]To supersede the *Statement on Responsibilities in Personal Financial Planning Practice* (AICPA, *Professional Standards,* PFP sec. 100).

CPAs need to prepare for the increased societal demand for PFP services. If your client base includes individuals and families, it is inevitable that you will get questions such as the following:

- What should I be doing about college funding for my kids?
- How will I ever be able to retire? How much should I be saving?
- Should I have life insurance? How much? Where should the cash come from to pay the premiums? Who should own it? Should it be in a trust?
- How do I balance our family charitable giving goals with my retirement objectives?
- Beyond the potential tax cost of exercising my company stock options, how should I incorporate them into my long-term personal planning?

These questions must be addressed intelligently and with prudent care.

Why Should Members Care about the Statement?

“Standards,” to quote Lawrence Busch,[3] "are recipes for reality.” They provide order. Standards are the ways in which a professional seeks to express the values held most important for professional conduct. Standards are intended to answer the questions that every professional should ask: “What is this profession about?” “How should I conduct myself in my relationships with clients?”

Standards play a consequential role in nearly every aspect of life. They introduce predictability. The statement defines the expectations of minimum required behavior in the CPA-client relationship. Standards can and should hold that relationship together. The statement provides a framework within which professional judgments and relationships can be conducted.

Standards, and the statement in particular, provide a common lens through which proper professional conduct can be examined. Taken together, the statement provides essential guidelines for one appropriate broad avenue of action. Use your professional judgment and experience as you proceed along that road, but stay within the guidelines of the statement. Do so and your professional integrity will be protected and enhanced.

The statement is designed to generate predictable outcomes. The outcome sought by the statement is a desirable and proper professional relationship between CPA and client. The statement provides a recipe for performance and is intimately connected with ethical behavior. Adherence creates a strong presumption of trustworthiness in the CPA-client relationship. The value of such a presumption cannot be overstated. Without standards, there is an unlimited universe of possible acceptable behaviors. Market yourself as someone who adheres to the statement. Affirmatively inform clients that standards exist and that they are an integral part of

[3] Lawrence Busch is a University Distinguished Professor in the Center for the Study of Standards in Society in the Department of Sociology at Michigan State University, Professor of Standards and Society in the Centre for Economic and Social Aspects of Genomics at Lancaster University, U.K., and author of *Standards: Recipes for Reality*.

your practice. Follow that route and proper ethical behavior and trust become presumptions in your favor.

Compliance with the statement will culminate in a professional and public perception of real differences between those who follow the statement and those who do not.

Adhering to the statement helps to protect your clients and your business. Federal and state monitoring and regulation of financial activities is increasing. In this very litigious society, any misstep can result in a lawsuit. In many instances, it is both necessary and appropriate to engage in a *defensive practice*, in which you take steps to protect yourself, while at the same time advancing the interests of your clients. Lawyers litigating conflicting claims of parties in many adversarial contexts often cite what is known as the “best evidence” rule. Clear documentation communicated to and acknowledged by both parties to a dispute always trumps the undocumented recollection regarding one party or the other of what was or was not said.

It is essential that professional standards and responsibilities be clearly stated and meticulously observed to ensure that members subject to the standards continue to earn the trust and respect of clients. With the growing importance of standards and the increased demand and growth in PFP services comes the need to formalize the CPA’s responsibilities in the conduct of his or her practice. That is the genesis of the statement described below.

Foundation of the Statement

The statement has been developed to assist all AICPA members in delivering personal financial planning services with competence and confidence. Seasoned, experienced practitioners and those new to the service area will benefit from having a framework to guide their work with clients in the development of their personal financial plan. The framework of the statement covers the following topics:

- General professional responsibilities
- Responsibilities of members in PFP engagements
- Planning the PFP engagement
- Obtaining and analyzing information
- Developing and communicating recommendations
- Implementation engagements
- Monitoring and updating engagements
- Working with other service providers
- Using advice provided by other service providers

In thinking about the activities covered by the statement, it is helpful to consider the foundation on which the statement is built. The cornerstone of the statement is the AICPA Code of Professional Conduct (the Code), which all members are required to follow. The Code lays out a high level of professional responsibility centered on the core values of the CPA profession—in the performance of any professional service, a member must maintain objectivity and integrity, shall be free of undisclosed conflicts of interest, and shall not knowingly misrepresent facts.

Furthermore, courts will likely hold members to the fiduciary standard of conduct when performing personal financial planning services. Generally, if the following three elements are present in a client relationship, a member may be deemed to be a fiduciary to his or her client: (*a*) the member holds himself or herself out as an expert in an aspect of business, (*b*) the client places a high degree of trust and confidence in the member, and (*c*) the client is heavily dependent upon the member's advice. The Code embodies standards of conduct that are analogous to the fiduciary standard of behavior.

Scope of the Statement

With this as a backdrop, the statement captures the essence and spirit of the Code and other considerations in defining appropriate minimum behavior for members providing PFP services. The intention of the statement is to provide CPAs with a framework of what would be reflective of good and competent practice. The statement is *not* in any way designed or intended to instruct a member how to undertake a financial plan or perform a financial analysis. There is *no* suggestion in the statement that "one size fits all" in the personal financial planning services arena. The statement is *not* saying that there is only one set way to undertake a financial plan. Instead, it establishes a process of how to maintain an appropriately ethical and competent personal financial planning services practice. It presents a model of how a practice should be conducted so as to preserve the respect of clients and the public, and avoid claims of impropriety.

The fundamental aspects of interacting and communicating with a client are delineated in the statement to provide a roadmap for members in performing these services with appropriate professional behavior.

Objective of the Statement

The statement is intended to provide authoritative guidance and establish enforceable standards for members. The objective of the statement is to ensure the appropriate delivery of personal financial planning services. It addresses the key areas of communication, disclosures, and documentation as it relates to the basics of planning the engagement, developing recommendations, and working with and recommending other professionals and service providers. It ensures that the client receives the information he or she needs to make sound financial decisions. It ensures that the member is meeting minimum standards of behavior expected of a trusted advisor in the delivery of PFP services. And it sets forth a clear path for the member to deliver the level of PFP services that clients need in today's dynamic environment.

What Are Personal Financial Planning Services?

The term *personal financial planning services* refers to the process of identifying an individual client's personal financial planning goals, evaluating the individual's existing resources, designing appropriate financial strategies, and making personalized recommendations (both written and oral) that, when implemented, will assist in the client achieving the desired goals. This process may include not only providing the recommendations, but also implementing, monitoring, or updating the original personal financial planning services engagement.

When Does the Statement Apply to a Member?

The first test to determine if the statement is applicable to a member is to see if the member makes personalized recommendations in one or more of a broad list of planning activities, broadly grouped under the description of personal financial planning services. This list of activities includes the following areas:

- Cash flow planning
- Risk management and insurance planning
- Retirement planning
- Investment planning
- Estate, gift, and wealth transfer planning
- Elder planning
- Charitable planning
- Education planning
- Tax planning

The term *personalized recommendations* refers to financial advice directing a client to take action based on the personal financial information of the client known to the member.

If the member makes personalized recommendations in one or more of the above activities, the next inquiry is whether the member represents to the public or to clients that he or she provides personal financial planning services. Note that this representation may come under other pseudonyms such as *personal financial consulting*, *personal financial services* , *comprehensive personal advisory services*, *holistic financial advisory services*, *investment advisory services*, *trusted personal advisor*, *wealth management advisor*, *personal financial advisor*, *fee only financial advisor*, or other similar terms. If the member makes such representations, the statement applies.

If the member does not represent that personal financial planning services are provided, but engages in activities that would require the member to register as an investment adviser under federal or state security laws, the statement applies.

If the member does not represent to the public or to clients that personal financial planning services are provided, and does not engage in activities that would require registration as an investment adviser under federal or state security laws, but might sell a product (such as a life insurance policy) as a result of a personal financial planning engagement, the statement applies.

If the member does not make personalized recommendations in one or more of the nine categories of activities listed above, and does not represent to the public or to clients that personal financial planning services are provided, does not engage in activities that would require federal or state registration as an investment adviser, and does not sell a product as the result of a personal financial planning engagement, then the statement does *not* apply. Nevertheless, the Code does apply to the member's activities.

If the aforementioned applicability test leads you to determine that you are not covered by the statement, then there is absolutely nothing that should deter you from being aware of, understanding, and to the extent appropriate, adhering to the requirements of the statement if you engage in any of the nine activities listed above, because it is truly reflective of appropriate personal financial planning practice and serves to protect your clients and your practice.

The member should also be aware of the possibility that he or she may be required to register with the Securities and Exchange Commission as an investment adviser under the Investment Advisers Act (the Act). Release No. IA-1092 defines when the accountant's exemption of the Advisers Act of 1940 does not apply. It provides that the Act applies to financial planners, pension consultants, and other persons who provide investment advisory services as a component of other financial services. The statute defines an investment adviser as any person who, "for compensation, engages in the business of advising others, either directly or through publications or writings, as to the value of securities or as to the advisability of investing in, purchasing, or selling securities, or who, for compensation and as part of a regular business, issues or promulgates analyses or reports concerning securities."

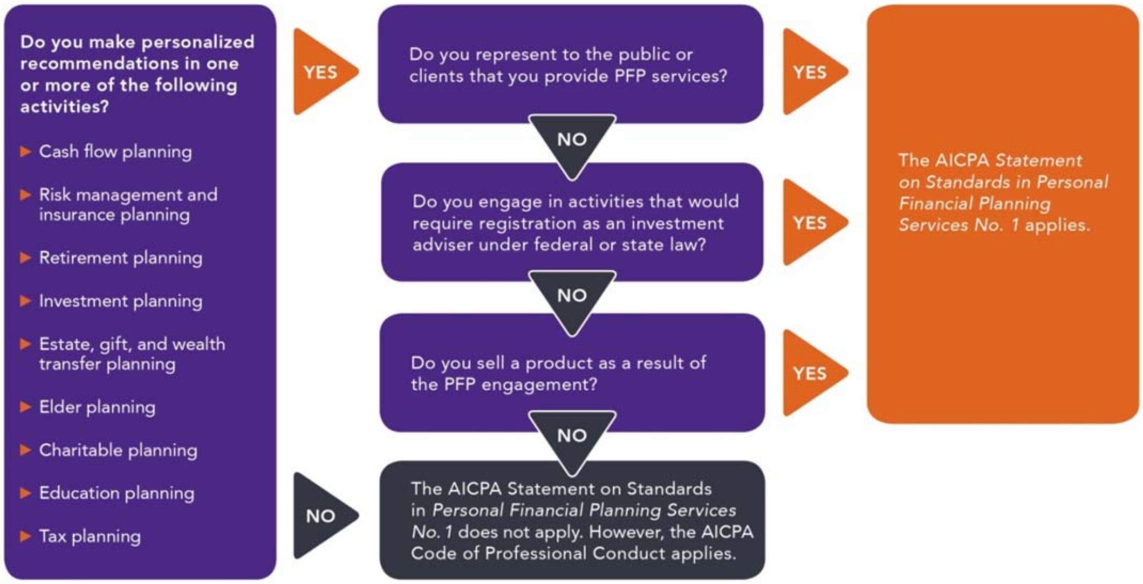
Whether a person providing financially related services of the type requiring registration as an investment adviser within the meaning of the Act must register depends upon all the relevant facts and circumstances. As a general matter, if the activities of any person providing integrated advisory services satisfy the elements of the definition, then the person would be an investment adviser within the meaning of the Advisers Act, unless entitled to rely on one of the exclusions from the definition of investment adviser. There is an exclusion from the Act for any accountant whose performance of such advisory services is solely incidental to the practice of his or her profession. However, this exclusion will not apply if the accountant holds himself or herself out to the public as providing financial planning, pension consulting, or other financial advisory services.

The majority of states have adopted rules similar to the federal rule requiring registration as an investment adviser.

For guidance on understanding when you are deemed to be providing investment advice such that registration as an investment adviser is required, reference *The CPA's Guide to Investment Advisory Business Models*, published by AICPA.

To understand the specifics of when the statement is applicable, reference the statement in conjunction with the flowchart and list of frequently asked questions provided as part of the compliance toolkit.

When Does the AICPA *Statement on Standards in Personal Financial Planning Services No. 1* Apply to a Member?



Conclusion

In the final analysis, the statement is about behavior. It is aimed at ensuring that members conduct themselves at the highest level of professionalism when performing personal financial planning services. If members adhere to the requirements of the statement, the individual members and the profession will be protected on many levels. Having standards in place can accomplish many highly desirable goals. They can be cited by litigants in a judicial setting as a benchmark measure of proper conduct—follow them, you win; ignore them, you lose. They can be used by professional groups such as the AICPA and state boards of accountancy as a way to make certain that members and licensees are maintaining the highest professional standards as conditions for ongoing membership and licensure.

Special acknowledgment and sincere thanks are due to Steve Siegel for his contributions to the compliance manual and other parts of this toolkit. AICPA would also like to thank Dirk Edwards, Clark M. Blackman II, and Susan Tillery for their contributions.

Statement on Standards in Personal Financial Planning Services No. 1

(To supersede the Statement on Responsibilities in Personal Financial Planning Practice [AICPA, *Professional Standards*, PFP sec. 100])

AICPA®

Acknowledgments

Responsibilities in Personal Financial Planning Services Task Force

Clark Blackman II, *Past Chair–PFP Executive Committee and Past Chair–Task Force*

Dirk Edwards, *Past Chair–PFP Executive Committee and Chair–Task Force*

Richard Fohn, *Past Chair–PFP Executive Committee*

Charles Kowal, *Past Member–PFP Executive Committee*

Personal Financial Planning Services Standards Advisory Task Force

Dirk Edwards, *Chair*

Nancy Hyde, *Past Member–Tax Practice Responsibilities Committee*

Anthony King, *Past Member–PCPS Executive Committee*

David McIntee, *Past Member–PCPS Executive Committee*

William Pirolli, *Past Chair–PCPS Executive Committee*

Thomas Purcell, *Tax Practice Responsibilities Committee*

Norma Schrock, *Chair–Tax Practice Responsibilities Committee*

AICPA Staff

Anthony Pugliese, *Senior Vice President and Chief Operating Officer*

Michael Buddendeck, *General Counsel*

Edward Karl, *Vice President, Taxation*

James Metzler, *Vice President, Small Firm Interests; Public Practice and Global Alliances*

Jeannette Koger, *Vice President, Member Specialization & Credentialing*

Andrea Millar, *Senior Technical Manager, Personal Financial Planning*

Sarah Bradley, *Technical Manager, Personal Financial Planning*

Contents

Foreword

The Personal Financial Planning Executive Committee (PFP EC) has issued *Statement on Standards in Personal Financial Planning Services No. 1* (the 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 his or her clients and the public. The PFP EC is the senior committee of the AICPA designated to promulgate enforceable standards of PFP practice.[1]

The statement applies to all members providing PFP services regardless of the jurisdictions in which they practice. Interpretations of the 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 the statement. 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* as well as Rule 91, *Applicability* (AICPA, *Professional Standards*, and ET sec.91 par. .02, 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, *Implementing Resolutions Under Section 3.6 Committees*, 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*, ET section 201 par. 01 and section 202 par. 01).

Statement on Standards in Personal Financial Planning Services No. 1

Scope

1. The *Statement on Standards in Personal Financial Planning Services No. 1* (the statement) addresses the responsibilities of AICPA members (members) who are described in paragraph 4 that follows. The statement applies when personal financial planning (PFP) services are provided, even if part of another engagement.
2. The statement establishes the applicable standards for members with regard to PFP engagements. **(Ref: par. A1)**

Nature of PFP Services

3. PFP is the process of identifying personal financial goals and resources, designing financial strategies, and making personalized recommendations **(Ref: par. 12)** (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 activities:

   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. The statement applies when a member provides PFP services as defined in paragraph 12, and **(Ref: par. A2)**

   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 law[1], or

c. sells a product as a result of an engagement.

5. The statement does not supersede other applicable AICPA professional standards, such as **(Ref: par. A2–A3, A11)**

   a. the Statement on Standards for Accounting and Review Services (SSARS) No. 6, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans* (AICPA, *Professional Standards,* AR sec. 600) with regard to the compilation of personal financial statements;

   b. the Statements on Standards for Tax Services (SSTSs) with regard to tax services; and

   c. 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) with regard to valuation services.

Objective

6. The statement provides authoritative guidance and establishes enforceable standards for members who provide PFP services to assist them in fulfilling their professional responsibilities.

Authority of the Statement

7. The 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 the statement and definitions.

8. The requirements of the 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 the statement are to be understood and applied in the context of the explanatory material that provides guidance for their application.

9. The "Application" section and other explanatory material provide further explanation of the requirements and guidance for carrying them out.

10. 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.

[1] Reference *The CPA's Guide to Investment Advisory Business Models* published by AICPA.

11. The statement includes, under the heading “Definitions,” a description of the meanings attributed to certain terms for purposes of the statement. These are provided to assist with the consistent application and interpretation of the statement and are not intended to override definitions that may be established for other purposes, whether by law or regulation.

Definitions

12. For purposes of the statement, the following terms have the meanings attributed:

    Personal financial planning services. The process of identifying personal financial goals and 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 engagement.

    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. **(Ref: par. 3)**

Requirements

General Professional Responsibilities

13. The member should read the entire statement, including its application and other explanatory material, to understand its objective and apply its requirements properly.

14. The proper application of the requirements established by the 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 the statement are needed to meet the stated objective.

15. The member must comply with each requirement of the statement unless,

    a. in the circumstances of the engagement, the requirement is not relevant because it is conditional, and the condition does not exist.

b. 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.

16. The member should consider applicable interpretive publications when providing PFP services. **(Ref: par. A5)**

INDEPENDENCE AND PFP SERVICES

17. 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

18. The member should comply with relevant ethical requirements. **(Ref: par. A7)**

19. 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. A8)**

    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.

20. The member should evaluate whether any conflicts of interest exist with regard to the engagement as follows: **(Ref: par. A9–A10)**

    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.

21. The member should comply with applicable 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 the statement and laws or regulations, the laws or regulations will prevail unless less stringent than the statement. **(Ref: par. A11–A12)**

22. 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 **(Ref: par. A6)**. The disclosure should include

    a. the method of compensation, including the impact of indirect compensation;

    b. the amount of compensation;

    c. the time period over which compensation will be received; and

    d. the compensation, including noncash benefits, received by the member for referrals to other providers

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

Planning the PFP Engagement ***(Ref: par. A14–A15)***

24. 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:

    a. Engagement objectives

    b. Scope of services to be provided

    c. Roles and responsibilities of the member, client, and other service providers

    d. Timing of the engagement

    e. Scope limitations and other constraints

    f. Conflicts of interest **(Ref: par. 20)**

    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

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

26. 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.

27. If the client declines to engage another service provider for services identified in **paragraph 26**, the member should consider whether this limitation impairs the ability to provide PFP services:

   a. If the member determines that the ability to meet the standards established by the statement is impaired, the member should terminate the engagement in writing.

   b. If the member determines that the ability to meet the standards established by the 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

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

29. If the member is unable to collect sufficient relevant information to establish 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**)

30. 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.

31. When analyzing information obtained while 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 activities **(Ref: par. 3)**.

*Developing and Communicating Recommendations **(Ref: par. A16–A20)***

32. The member should establish a reasonable basis for PFP recommendations.

33. 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.

34. The nature and extent of analyses and other procedures performed when establishing a basis for recommendations are affected by the scope and objectives of the engagement and should be documented.

35. 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 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

Implementation Engagements ***(Ref: par. A21–A24)***

36. 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:

    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

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

    a. Selecting and acquiring products

    b. Selecting service providers

    c. Establishing selection criteria

    d. Coordinating or reviewing the delivery of services or products by other service providers

38. 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.

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

a. gather information that establishes a reasonable basis for determining whether a product meets the selection criteria.

b. communicate this evaluation in writing, along with product recommendations.

c. disclose in writing any compensation received for recommending products.

40. 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.

41. All other relevant guidance under the statement relating to providing PFP services should be followed in an implementation engagement.

*Monitoring and Updating Engagements **(Ref: par. A25–A28)***

42. In a monitoring engagement, the member should document the nature and extent of the member's services, including

    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.

43. 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.

44. All other relevant guidance under the statement relating to providing PFP services should be followed in a monitoring or an updating engagement.

Working With Other Service Providers

45. When referring another service provider to a client, the member should

    a. consider 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

46. 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.

47. 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 non-concurrence to the client in writing.

Application Material

SCOPE

A1. ET section 202, *Compliance with 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 statements, and a formal vote. The statements are codified in AICPA *Professional Standards*. **(Ref: par. 2)**

APPLICABILITY **(REF: PAR. 3–5)**

A2. If any of the activities listed in paragraph 3 are provided as part of a PFP engagement, the activity is covered by the statement and should be considered in conjunction with the requirements set forth in the "Applicability" section **(Ref: par. 4)**. In addition, depending on the nature of the service, other standards may apply **(Ref: par. 5)**. For example, any personal income tax services provided as part of a PFP engagement are covered by the statement and are subject to the SSTSs.

A3. Examples of activities not covered by the statement include the following: **(Ref: par. 3–5)**

- *a.* Tax advice: Advising a client regarding his or her income tax matters or gift and estate tax matters when PFP services as defined in paragraph 3 are not provided. These services are, however, subject to the SSTSs.
- *b.* Valuation services: Any engagement that would be considered a valuation service under SSVS No. 1 when PFP services as defined in paragraph 3 are not provided. These services are, however, subject to SSVS No. 1.
- *c.* Business succession planning
    - i. Planning to prepare for a vacancy in a key position resulting from a sudden departure, disability, or death and no advice is given to an individual.
    - ii. Planning to prepare for the sale to another firm and no advice is given to an individual.
- *d.* Educational discussions or presentations covering PFP
    - i. A workshop presented to a group of company employees on a PFP activity **(Ref: par. 3)** that does not include personalized recommendations.
    - ii. A discussion with an individual that covers one or more PFP activities **(Ref: par. 3)** that does not result in a personalized recommendation.

e. 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 an asset.

A4. 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 PFP services. However, extension of this analysis to future periods based on the judgment of the member that entails the use of assumptions and personalized recommendations regarding investing would be considered PFP services.

GENERAL PROFESSIONAL RESPONSIBILITIES

A5. 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 interpretive publication is consistent with the statement. **(Ref: par. 16)**

RESPONSIBILITIES OF MEMBERS IN PFP ENGAGEMENTS **(REF: PAR. 18–23)**

A6. The member is required to comply with Rule 503, *Commissions and referral fees* (AICPA, *Professional Standards*, ET sec. 503). **(Ref: par. 22)**

A7. The member is subject to relevant ethical requirements relating to PFP engagements **(Ref: par. 18)**. Ethical requirements consist of the AICPA Code of Professional Conduct, rules of state boards of accountancy from which the member holds a license, and applicable regulatory agencies that are more stringent. 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

A8. 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. 19)**

A9. 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. 20)**

A10. The member is required to comply with AICPA's Code of Professional Conduct Interpretation No. 102-2, *Conflicts of Interest*. **(Ref: par. 20)**

A11. Laws, regulations, and professional standards applicable to engagements to perform PFP services include, but are not necessarily limited to, the following: **(Ref: par. 21, A5)**

- *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.* Statements on Standards for Tax Services (SSTSs)
- *f.* Statement on Standards for Valuation Services (SSVS) No. 1
- *g.* Statement on Standards for Consulting Services No. 1
- *h.* Statements on Standards for Accounting and Review Services (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

A12. Compliance with the AICPA Code of Professional Conduct depends primarily on the member's 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. **(Ref: par. 21)**

A13. The member is not required to follow a standard format when communicating or documenting communication.

PLANNING THE ENGAGEMENT **(REF: PAR. 24–27)**

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

DEVELOPING AND COMMUNICATING RECOMMENDATIONS **(REF: PAR. 32–35)**

A16. Developing a reasonable basis for recommendations involves the following **(Ref: par. 29)**:

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 after due consideration of appropriate alternatives.

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. 36–41)**

A21. Implementation may include such activities as assisting the client in 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.

A22. In those situations in which the member may be functioning in a fiduciary or agency relationship, state law will control.

A23. 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 products[2]

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

A24. Implementation is typically completed when products are acquired or services are rendered based on the recommendations developed during the PFP engagement.

MONITORING AND UPDATING ENGAGEMENTS **(REF: PAR. 42–44)**

A25. 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.

A26. 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 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.

A27. Monitoring and updating engagements are typically undertaken after implementation of actions and recommendations developed during a PFP engagement. Monitoring and updating engagements may be either separate or combined engagements.

A28. 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.

---

[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.