



# Statement on Standards in Personal Financial Planning Services:

Compliance manual



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# Pathway to standards

More than 30 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.

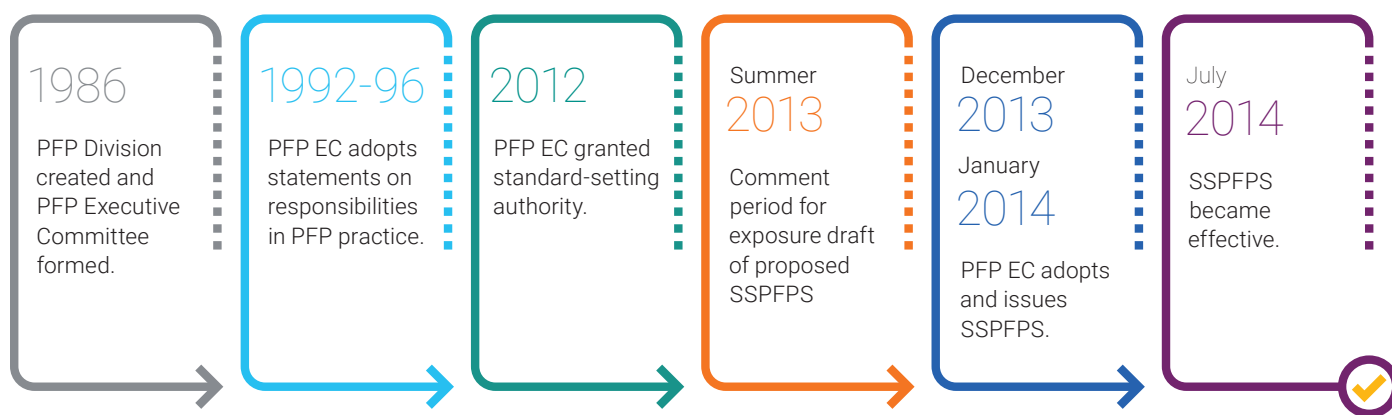
Between 1992 and 1996, the PFP EC issued five statements of substantive guidance for members providing PFP services. These statements were named the *Statements on Responsibilities in Personal Financial Planning Practice* (SORs). The primary objective of the SORs was to provide CPAs with best practices 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.<sup>1</sup>

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 brought the need to adapt to an evolving profession and regulatory landscape. In addition to the [existing regulatory framework](#)<sup>1</sup> for CPAs, the AICPA promulgated the Statement on Standards in Personal Financial Planning Services No. 1<sup>2</sup> (the statement), which was unanimously adopted by the PFP EC in December 2013. The statement became effective on July 1, 2014.

<sup>1</sup> 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.

<sup>2</sup> To supersede the *Statement on Responsibilities in Personal Financial Planning Practice* (AICPA, *Professional Standards*, PFP sec. 100).

Figure 1: Pathway to standards



CPAs need to prepare for the increased societal demand for PFP services. If your client base includes individuals and families, you will inevitably 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,<sup>3</sup> “are recipes for reality.” They provide order. Standards are how 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 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.

<sup>3</sup> 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*.



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 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 the statement covers, 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.

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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 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.

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## 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 they need to make sound financial decisions. It ensures that the member is meeting minimum standards of behavior expected of a trusted adviser 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.

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## 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 applies 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:

- 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 adviser*, *wealth management adviser*, *personal financial adviser*, *fee only financial adviser*, 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. Generally, 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 themselves out to the public as providing financial planning, pension consulting, or other financial advisory services.

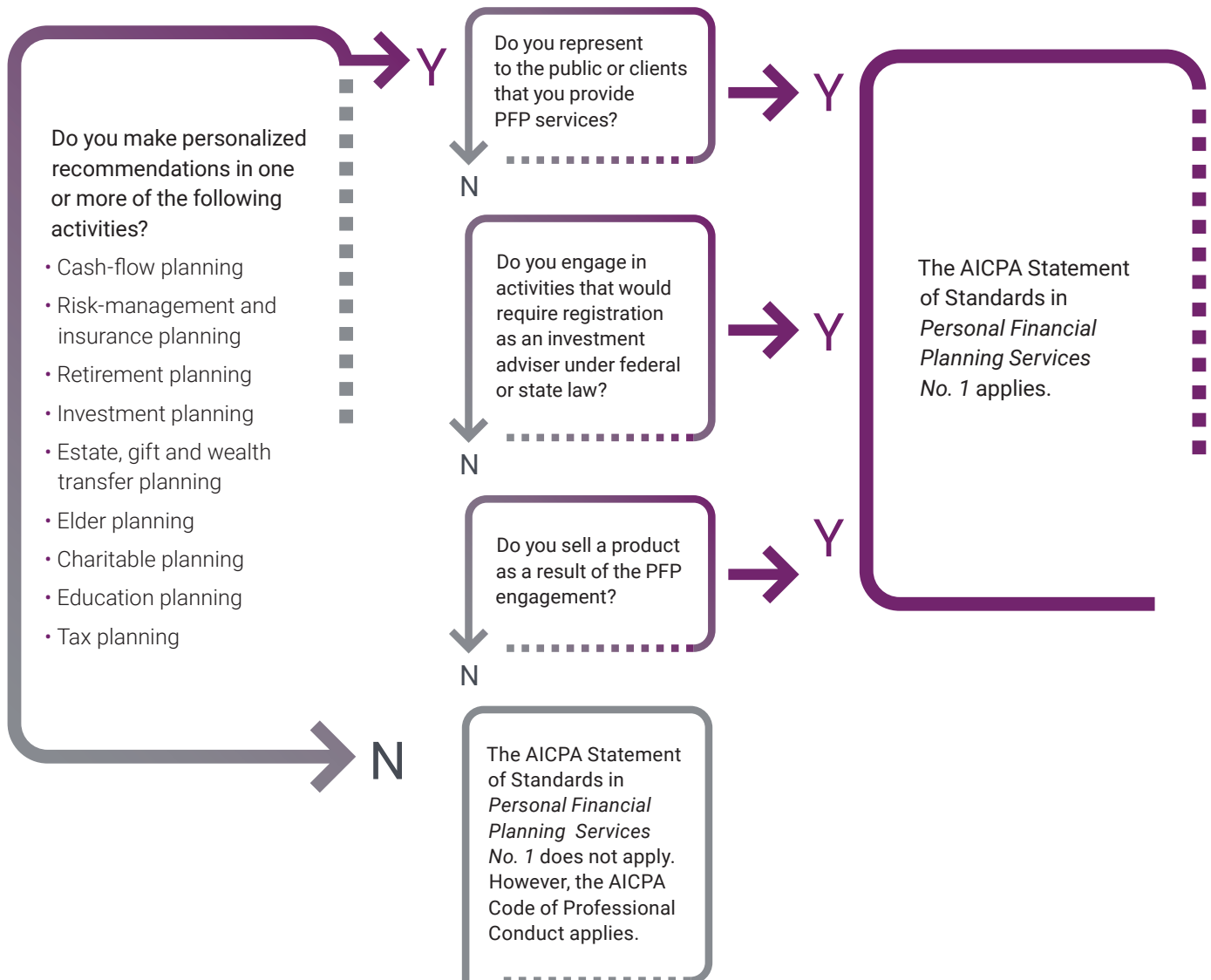
The majority of states have adopted rules similar to the federal rule requiring registration as an investment adviser.

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 statement apply to a member?

Figure 2: 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. Litigants in a judicial setting can cite them as a benchmark measure of proper conduct — follow them, you win; ignore them, you lose. Professional groups such as the AICPA and state boards of accountancy can also use them 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. The AICPA would also like to thank Dirk Edwards, Clark M. Blackman II and Susan Tillery for their contributions.







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