In New Fiduciary World, Should Governance of the CFP Board Be Tweaked?

A veteran planner who spent quality time on the CFP Board and FINRA arb boards suggests CFPs themselves should control the direction of the profession.

By **Bob Clark** | July 06, 2016

To follow up on my last blog, (Professionals and Conflicts of Interest: Not Hard to Gauge (http://www.thinkadvisor.com/2016/06/29/professionals-and-conflicts-of-interest-not-hard-t)), I caught up with financial planner Mike Ross of Cocoa Beach, Florida, who had made the comments I'd referred to. Based on the veteran advisor's 20 years of experience on FINRA arbitration panels and a couple of years on the CFP Board's disciplinary panels, he firmly believes that "financial planners are head and shoulders above brokers when it comes to client care: I couldn't believe some of things that even veteran brokers would try to pull on their clients."

And that difference, he believes, is going to become even more important in coming years: As the financial services industry moves toward fiduciary only. "The world is changing," he said. "I think five years from now America could end up like the United Kingdom [with all advisors required to be fiduciaries for their clients]. We're seeing the same kind of public demand and response from the regulators." And to keep pace, he believes that financial advisors in general—and financial planners in particular—are going to have to become more professional.

In last week's blog, I voiced concerns about both CFPs' ability to be "part time" fiduciaries, and the CFP Board's lack of aggressive enforcement of its own standards: "I don't see how we can ignore the harm or potential harm to clients when financial planners hold themselves out to be "fiduciaries," while in fact, their fiduciary duties apply only to a plan's broad recommendations, and not to the specific "product" recommendations… … As I understand it, the Board has essentially three sources for the "ethics" cases it hears: enforcement actions by other regulators, and complaints brought by clients of CFPs or CFPs themselves…"

And while Ross partially agreed with this assessment, he disagreed that other "financial planners" were an inadequate method of enforcement: "In my career, I've seen a lot of bad advisors. Unfortunately, some of them have been CFPs. But other CFPs have no reason to look the other way. The CFP community is basically honest. Most of us understand that when one financial planner mistreats his/her clients, it reflects badly on all of us. All CFPs have a stake in the integrity of the mark."

In fact, to compete and prosper in the new "fiduciary" world, Ross believes that the CFP Board and CFPs themselves need to go to the next level: become a true profession. "The history of the fiduciary standard is a business decision," he said. "When the CFP Board first adopted a fiduciary standard, they would have lost the Wall Street crowd if they'd required planners to be 'fiduciary only.' But in today's environment, CFPs will need to offer full-time fiduciary services to compete. We need to become a true profession: not just an industry."

Unfortunately, Ross says, the CFP Board, in its present form, may not be up to the task. "The CFP board has become a self-perpetuating monopoly. It answers to no one: it's undemocratic, and has no checks and balances. That was okay 15 years ago, when what they were selling didn't have much value: you could just drop the mark. But not now. Today, the mark is well known: investors want CFPs. Now it's a monopoly."

Ross also doesn't believe in self-regulatory organizations for financial services: "FINRA is failed regulator," he says. But he does believe that with a few modifications, the CFP Board could be upgraded into a professional organization. "We need rules and practice standards that apply to everyone. And real enforcement of those standards," he said. "What's more, the Board needs to be answerable to all CFP professionals: through open elections of all board members. That would be easy to do with electronic nominations and balloting. That would go a long way to ensure that all CFPs get a fair hearing."

Conflicts of interest don't only exist within the ranks of professionals: they can exist in business organizations, too. For instance, "accrediting" organizations can focus on increasing revenues by "selling" the most designations possible, while the growing body of those who hold the designations may be more interested in upholding high standards for those accredited.

As Mike Ross suggests, the way to manage those conflicts in the financial planning profession might be to let financial planners themselves control the direction of their profession. As the financial services industry struggles toward a more client-centered future, the very future of financial planning may depend on it.
