# Code of Professional Responsibility of the Society of Financial Service Professionals

**CANONS**

**CANON 1 *Fairness***

A member shall perform services in a manner that respects the interests of all those he/she serves, including clients, principals, partners, employees, and employers. A member shall disclose conflicts of interests in providing such services.

Fairness requires that a professional treat others as he/she would wish to be treated if in the other's position. A professional also strives to avoid unfairness by inflicting no unnecessary harm on others and, when possible, shielding others from harm.

**RULES**

**R1.1** A member shall not engage in behavior involving concealment or misrepresentation of material facts.

**Applications for Rule 1.1:**

**A1.1a.** In the sale of financial products, the use of product projections that are more aggressive than the company's current assumptions—without offering alternate illustrations/projections using more conservative assumptions—is a form of misrepresentation. It is best to show a range of assumptions for each product to illustrate the impact of changes on the rate of return and other expenses.

**A1.1b.** To avoid misrepresentation, the financial services professional is advised to use unbiased historical illustrations, show past performance, and to educate the consumer on the difference between past results and projections, and actual future results.

**A1.1c.** Improper replacement is a form of misrepresentation. When considering the replacement of one insurance, annuity, or other financial product for another, a thorough comparison of both products, including surrender charges, incontestable clauses, expenses, fees, and tax consequences, should be completed. The Society's Replacement Questionnaire (RQ) provides a tool for the thorough analysis of replacement issues.

**A1.1d.**. Failing to note a preexisting medical condition on an insurance application is a form of concealment.

**R1.2** A member shall respect the rights of others.

**R1.3** A member shall disclose to the client all information material to the professional relationship, including, but not limited to, all actual or potential conflicts of interest. In a conflict of interest situation, the interest of the client must be paramount.

**Applications for Rule 1.3**

**A1.3a.** A potential conflict of interest is inherent in the relationship between the client and the financial service professional when the professional is compensated by commissions on the sale of financial products. In such circumstances, if asked by the client or prospect, the professional should disclose, to the best of his/her knowledge, all forms of compensation, including commissions, expense allowances, bonuses, and any other relevant items.

**A1.3b.** The potential for a conflict of interest exists when a financial service professional receives fees for referring business to another practitioner. The referring professional should disclose this information.

**A1.3c.** A member who serves as a director or trustee of an organization/business faces a conflict of interest when competing to provide product or services to this organization for compensation. For example, Jackie Jones, ChFC, a professional money manager, is on the board of XNet Corporation. XNet is currently interviewing candidates to manage its $10 million investment portfolio. If Jackie decides to seek XNet's account, she is in a conflict of interest situation. Under these circumstances, Jackie should dislcose the conflict to all relevant parties and have the parties acknowledge and accept the conflict. Additionally, Jackie should consider recusing herself from all discussions and decision-making regarding the selection of XNet's money manager. She may also consider resigning from the board or taking her name out of consideration for the money manager position.

**R1.4** A member shall give proper respect to any relationship that may exist between the member and the companies he or she represents.

**Application for Rule 1.4**

**A1.4a.** Society members frequently have contractual relationships with the company whose products they sell. Honoring the terms of these contracts and refraining from negative statements about such companies are examples of giving proper respect to the relationship. Note, however, the need to balance the requirements of Rule 1.4 with the duty to act in the best interest of the client.

**R1.5** A member shall make and/or implement only recommendations that are appropriate for the client and consistent with the client's goals.

**Applications for Rule 1.5**

**A1.5a.** Compliance with Rule 1.5 requires the financial service professional to use his/her best efforts to (1) understand the client's/prospect's personal and financial background and experience; (2) understand the client's/prospect's risk tolerance; and (3) educate the client about the various options available to meet identified needs and goals. This may include utilizing a fact-finding and/or risk assessment tool, one-on-one educational/counseling sessions, sharing newspaper or magazine articles, etc. In these circumstances, the financial service professional is cautioned against providing advice if he or she is not properly licensed or authorized to do so. See also Rule 2.2 and the Application A2.2a.

**A1.5b.** Appropriateness of the recommendation to the client's needs must take precedence over any sales incentives available to the financial service professional, such as conventions, trips, bonuses, etc. For example, Bob Bucks needs to sell just one more policy to qualify for MDRT. He knows he can convince his best client to purchase additional insurance coverage even though Bob knows the current coverage is more than adequate. If Bob makes this sale, he has violated Rule 1.5.

**R1.6** In the rendering of professional services to a client, a member has the duty to maintain the type and degree of professional independence that (a) is required of practitioners in the member's occupation, or (b) is otherwise in the public interest, given the specific nature of the service being rendered.

**Application for Rule 1.6**

**A1.6a.** The requirement of professional independence mandated by Rule 1.6 presents a special challenge for Society members who are contractually bound to sell the products of only one company, or a select group of companies. In such cases, the member must keep paramount his/her ethical duty to act in the best interest of the client, even if this means forgoing a sale.

**CANON 2 *Competence***

A member shall continually improve his/her professional knowledge, skill, and competence.

Professionalism starts with technical competence. The knowledge and skills held by a professional are of a high level, difficult to attain, and, therefore, not held by the general public. Competence not only includes the initial acquisition of this specialized knowledge and skill, but also requires continued learning and practice.

**RULES**

**R2.1** A member shall maintain and advance his/her knowledge in all areas of financial service in which he/she is engaged and shall participate in continuing education programs throughout his/her career.

**Application for Rule 2.1**

**A. 2.1a.** Compliance with Rule 2.1 requires, at a minimum, meeting the applicable continuing education standards set by state licensing authorities, the Society of Financial Service Professionals, the American College, the CFP Board of Standards, and any other entity with appropriate authority over the member's license(s) or other credentials. For example PACE, the joint CE program of the Society of and the American College requires 30 hours of CE every 2 years. The CFP Board of Standards also requires 30 hours of continuing education every 2 years for CFP® licensees.

**R2.2** A member shall refrain from giving advice in areas beyond the member's own expertise.

**Applications for Rule 2.2**

**A2.2a.** A member shall not give tax, legal, insurance, accounting, actuarial, investment, or other advice unless the member has professional training and is properly licensed in these areas. For example, to avoid the unauthorized practice of law, the financial service professional will clearly mark specimen documents, such as living or testamentary trusts or buy-sell agreements, as samples and inform the client that the documents must be reviewed by a licensed attorney.

**A2.2b.** Billy Burke, CFP®, has a specialized financial planning practice that focuses on assisting clients with funding college for their children. When Billy's long-time client and friend, Margaret Hamilton, asks for help in managing the distribution of funds from her defined benefit plan, Billy knows this is beyond his area of expertise, but he doesn't want to let his friend down. Billy proceeds to recommend several investment options to Margaret, but neglects to mention the early withdrawal taxes and penalties. Billy has violated Rule 2.2.

**CANON 3 *Confidentiality***

A member shall respect the confidentiality of any information entrusted to, or obtained in the course of, the member's business or professional activities.

A financial service professional often gains access to client records and company information of a sensitive nature. Each Society member must maintain the highest level of confidentiality with regard to this information.

**RULES**

**R3.1** A member shall respect and safeguard the confidentiality of sensitive client information obtained in the course of professional activities. A member shall not divulge such information without specific consent of the client, unless disclosure of such information is required by law or necessary in order to discharge legitimate professional duties.

**Application for Rule 3.1**

**A3.1a.** Examples of sensitive client information include, but are not limited to, medical data, information about financial status, Social Security or credit card numbers, information about personal relationships, etc. In determining whether information is sensitive, the Society member should take a cautious approach, and if in doubt, discuss the issue with the client.

**R3.2** A member shall respect and safeguard the confidentiality of sensitive company/employer information obtained in the course of professional activities. A member shall not divulge such information without specific consent, unless disclosure of such information is required by law or necessary in order to discharge legitimate professional duties.

**R3.3** A member must ensure that confidentiality practices are established and maintained by staff members so that breaches of confidence are not the result of intentional or unintentional acts or omissions.

**Application for Rule 3.3**

**A3.3a.** A member who employs others who work with sensitive, confidential client information has the responsibility to train these employees in the handling of such information. These employees must be instructed that they will be held responsible for unauthorized disclosure of confidential data. For example, Judy Parker has set up detailed procedures for her staff to follow in safeguarding confidential client information. On three separate occasions, Judy overhead her office manager gossiping with friends about the size of Client X's investment portfolio. Judy has not taken any action in regard to the office manager's behavior. Judy has violated Rule 3.3.

**CANON 4 *Integrity***

A member shall provide professional services with integrity and shall place the client's interest above his/her own..

Integrity involves honesty and trust. A professional's honesty and candor should not be subordinate to personal gain or advantage. To be dishonest with others is to use them for one's own purposes.