The Fiduciary Standard

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A Standard Not Well-Understood

Not long ago, *Financial Advisor* magazine and the Boston Research Group conducted the "*Fiduciary Impact Survey*" and the results were both surprising and disappointing. The big surprise was the industry-wide overwhelming support for the standard; the disappointment arose when it came to the adoption and understanding of fiduciary best practices. The survey revealed that the median advisor/broker has only minimal knowledge of the practices associated with the standard.

While better than 95% of all industry respondents claimed they (1) put their clients' best interests ahead of their own, (2) avoided conflicts of interest, (3) claimed their advice was objective, and (4) felt it was important to work with people who are ethical and have integrity, their practices didn't reflect fiduciary standards.

What Are the Best Practices?

Here are just some of the best practices, appropriate to the individual investor, a fiduciary advisor should follow, each of which is fully substantiated by existing fiduciary acts, legislation, regulations, regulatory opinion letters, and case law.[1]

A fiduciary should:

1. Accept fiduciary status in writing
2. State a client's goals and objectives;
3. Identify sources and levels of client risk parameters
4. Identify client assets and asset class preferences
5. Identify client time horizons and expected outcomes
6. Define a strategy consistent with the client's risk, assets, time horizon, and expected outcomes;
7. Ensure that the client's strategy is consistent with implementation and monitoring constraints;
8. Formalize the client's strategy in detail and communicate it in writing (prepare an investment policy statement (IPS).
9. Define the process for selecting key management personnel to implement the client's strategy;
10. Define the process for selecting the tools, methodologies, and budgets to implement the client's strategy;
11. Ensure that the service agreements and contracts do not contain provisions that conflict with client objectives;
12. Conduct periodic examinations for conflicts of interest and self-dealing and breaches of code of conduct; and
13. Prepare periodic qualitative and quantitative reviews of service providers for decision-makers.

[1] *Thanks to Donald B. Trone, AIFA® is President of the Foundation for Fiduciary Studies and fi360. He is also on the Board of Directors for CEFEX (Centre for Fiduciary Excellence), which was established to serve as the global certifying body for Investment Stewards, Investment Advisors, and Investment Managers.*