

ETHICALLY SPEAKING

BY

SANDRA FOSTER, FCSI, CIM,
R.F.P., CRP, CHRP, TEP, Headspring
Consulting Inc., Toronto

SWAP MEET

(April 2008) WE ASK

FCSI designees from coast to coast to help with your ethical conundrums—everything from culling clients to specific fund recommendations and a host of suitability issues.

In this month's column, hear what an FCSI designee suggests for this scenario:

Michael has been a financial advisor with ABC Investments for more than 30 years and plans to retire in 2009. He'll be selling his book to his associate, John. First, he will inform his clients of the change, while reassuring them they'll continue to receive the best service from John. Michael is confident his clients will be accepting of the new arrangement, as they have also been dealing with John for the past five years. However, the financial aspect of the transaction (the fact that Michael will get money for selling his clients to John) will not be disclosed to his

clients. Michael feels disclosing the financial aspects of the transaction are unnecessary.

Is Michael correct to refrain from disclosing the facts surrounding financial compensation?

Response: When a business is sold, most customers assume a business transaction took place that included some financial aspects. Unless the business is a public company, it is not necessary to disclose the financial details of the transaction.

In our business, it can sometimes be difficult to separate the relationship we have with the clients and the book itself. It is important for an effective business person to have a succession plan in place to ensure continuity for their clients. People, including clients, never want to feel that they have been sold.

Michael appears to have an informal plan with John as his successor.

But a significant number of advisors do not have a buy/sell agreement or a succession plan in writing in the event of death, disability or retirement. It's key these business components are in place to maintain the value of the business, and especially to help ensure the clients' financial needs continue to be addressed.

Michael's succession plan is also the greatest referral of his life. Selling a book is not about selling the client. It's about the referral, the opportunity to do business with the clients and people they know, and to earn a revenue stream. More important, it's also a way to provide continuity for an advisor's clients.

However, when Michael assures his clients that they will continue to receive "the best service from John," he also needs to be sure he's not making some sort of guarantee—real or implied.

A better way to deal with the transfer of the clients is to review John's qualifications with them, remind them that they have already been dealing with John and that he, Michael, has personally selected and trained John as his successor.

Further, if your firm's privacy statement is not clear, it may be necessary to obtain a release from the clients so that their information can be passed on to John.

No doubt John has his work cut out for him, too. He needs to ensure each client's information and profile is up-to-date and accurate. And when he is determining the terms and price he is willing to pay, John needs to look closely at the clients in Michael's book, the types of assets they hold and the size of the family account, and the financial needs of the family members.

Lastly, Michael should determine which clients might not accept John as their long-term advisor. These potential conflicts of interest can pit the financial interests of the retiring advisor (or an advisor leaving the business at any age) against the best interests of the clients. ^{AE}

FOSTER

If you have an ethical dilemma that you'd like to pose to one of our FCSIs, please e-mail it to heidi.staseson@advisor.rogers.com