

Statement on Responsibilities in Personal Financial Planning Practice



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Statement on Responsibilities in Personal Financial Planning Practice Task Force

Clark Blackman II, *Chair (PFP Executive Committee) and Past Chair*

Dirk Edwards, *Chair*

John Connell

Charles Kowal

Jerry Love

Randy Ryan

Scott Sprinkle

Ken Strauss

AICPA Staff

Mark Koziel, *Director (Specialized Communities)*

Andrea Millar, *Sr. Technical Manager (PFP Division)*

Teighlor March, *Senior Manager (Legal, Legislative & Regulatory Affairs)*

Sarah Bradley, *Project Manager (PFP Division)*

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Foreword

AICPA members provide personal financial planning advice and are often viewed as a client's most trusted advisor. Personal financial planning is the process of identifying individual goals, family goals, or a combination of the two; evaluating existing resources; and designing financial strategies that, when implemented, move the individual toward achieving these goals. In addition, personal financial planning may include implementing, monitoring, and updating a financial plan. Personal financial planning encompasses a broad range of services in a variety of interrelated financial areas, including, but not limited to, the following:

- Budgeting and cash flow planning
- Income tax planning
- Risk management and insurance planning
- Retirement planning
- Investment planning
- Wealth transfer planning

In addition, personal financial planning often addresses more specialized issues such as financial recordkeeping, planning for education costs, philanthropy, divorce, planning for elder issues, and many other issues related to clients' finances.

The Personal Financial Planning Executive Committee has issued this Statement on Responsibilities to provide guidance to the CPA financial planner and to ensure that the highest levels of integrity, professionalism, objectivity, and competence are applied to the delivery of personal financial planning services so that a CPA financial planner can serve the best interests of the public, regardless of the form of his or her practice.¹

AICPA members are bound by the AICPA *Code of Professional Conduct*. Rule 201, *General Standards* (AICPA, *Professional Standards*, vol. 2, ET sec. 201 par. .01), requires that members provide professional services with competency. In the delivery of personal financial planning services, a member shall adhere to the following principles of professional conduct:²

ET Section 52—Article I—Responsibilities

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

ET Section 53—Article II—The Public Interest

¹ Per AICPA Bylaw Section 360R, the Personal Financial Planning Executive Committee is an AICPA Senior Committee; therefore, it is authorized to make statements in matters related to its area of practice.

² Please refer to appendix A, "Excerpts From the AICPA Code of Professional Conduct," for the complete excerpts of the AICPA *Code of Professional Conduct*.

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.

ET Section 54—Article III—Integrity

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

ET Section 55—Article IV—Objectivity and Independence

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

ET Section 56—Article V—Due Care

A member should observe the profession’s technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member’s ability.

The Personal Financial Planning Executive Committee (PFP EC) has issued this Statement on Responsibilities (Statement) as a practice aid for the CPA financial planner. The PFP EC does not have standard setting authority, therefore, this practice aid is meant to provide guidance that is nonauthoritative. The use of the word “should” in this document does not connote required practices but rather is used by the PFP EC to emphasize what may be considered best practices. AICPA members are certified public accountants, licensed by individual state boards of accountancy. All members must comply with the accountancy laws of the state(s) in which they are licensed. Members are also required to comply with the AICPA Code of Professional Conduct, which sets forth the ethical behavior that CPAs must follow in all of their engagements.

Exceptions From This Statement

1. This Statement on Responsibilities will not apply to any of the following services provided as a standalone service and not as part of a personal financial planning process:
 - a. Compilation of personal financial statements;
 - b. Projection of future taxes;
 - c. Tax compliance, including, but not limited to, preparation of tax returns;
 - d. Tax advice or consultations, for example,
 - i. advising a client to re-title real estate in the spouse's name in order to equalize the couple's estate or
 - ii. advising a client to contribute the maximum allowable amount to a 401(k) plan to reduce taxable wages;
 - e. Valuation services, for example,
 - i. performing a valuation of the client's personal residence to determine the gift tax value for a qualified personal residence trust or
 - ii. performing a valuation service on a client's business for the purpose of obtaining refinancing;
 - f. Sale of financial products, for example,
 - i. selling a term life insurance policy or
 - ii. brokering the sale of a limited partnership interest;
 - g. A purely educational discussion or presentation of personal financial planning theory and principles; and
 - h. Mechanical computations in which professional judgment is not applied, for example,
 - i. The member computes the current income tax deduction for a client's contribution of assets to a charitable remainder trust.
 - ii. The member computes the current yield on a client's investment portfolio.

- iii. The member computes the gift tax on a transfer of a partnership interest.
- iv. A member may identify, and create an analysis of, historical spending and income activity for a client as a purely mechanical computation which would not be considered part of a personal financial planning process. However, extension of this analysis to future periods based on the judgment of the member that entails the use of assumptions and recommendations regarding spending or investing, would necessarily need to be part of a financial planning process and engagement.

2. If any of the services listed in paragraph 1 are provided as part of a broader personal financial planning services engagement, the service will be covered by this Statement on Responsibilities. The compilation of personal financial statements is subject to Statements on Standards for Accounting and Review Services (SSARS). Any tax service provided as part of a broader personal financial planning services engagement is subject to Statements on Standards for Tax Services (SSTS) No. 7, *Form and Content of Advice to Taxpayers*. Both of these documents are enforceable standards.

Responsibilities of Members in Personal Financial Planning Services Engagements

3. Before undertaking a personal financial planning engagement, a member should assess his or her ability to perform the services with competency, objectivity, and integrity.

Professional Competence

4. Rule 201A, *Professional Competence*, of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 201 par. .01), states that a member shall “undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.” A member who provides personal financial planning services should possess a level of knowledge of financial planning principles and theory and a level of skill in the application of such principles that will enable him or her to

- a. identify, gather, and analyze data;
- b. consider and apply appropriate planning approaches and methods; and
- c. use professional judgment in developing the financial recommendation.

Objectivity and Disclosure of Conflicts of Interest

5. The AICPA *Code of Professional Conduct* requires objectivity in the performance of all professional services, including financial planning engagements. Objectivity is a state of mind. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free from conflicts of interest.

6. Members are required to comply with Rule 102-2, *Conflicts of Interest*, of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 102 par. .03), with

respect to the disclosure of conflicts of interest. Assuming members can objectively perform these services, they may proceed with the engagement; however, they should disclose all known potential conflicts of interest, including compensation arrangements.

7. The following are examples, not all-inclusive, of situations that should cause a member to consider whether a client, an employer sponsor, or other interested parties could view the relationship as a potential conflict of interest that could impair the member's objectivity:

- a.* A member provides personal financial planning services for several members of a family, in separate engagements or otherwise, who may have differing interests.
- b.* A member has provided personal financial planning services for related clients who have conflicting interests, such as clients divorcing each other, and the member has been asked to provide the services for both parties during the divorce proceedings.
- c.* In connection with a personal financial planning services engagement, a member plans to suggest that a client invest in a business in which the member or another client has a financial interest.
- d.* A member refers a personal financial planning services client to an insurance broker or other service provider who refers clients to the member under a formal or exclusive arrangement to do so.
- e.* A member implements a plan as a "captive" agent or broker with limited access to alternatives.
- f.* A member receives payment from a third party when a client purchases the third party's product or service.
- g.* A member refers a client to a related person or related party.

Privacy and Confidentiality

8. A member has a duty to maintain adequate data protection safeguards to comply with federal and state regulations to guard each client's nonpublic personal information. The member should take into consideration the data type, source, and ownership, as well as third-party sharing of data, when determining applicable laws, regulations, and contractual obligations that may affect compliance requirements. Each member is also obligated to ensure that client confidentiality is maintained in accordance with the applicable rules of professional conduct.

Personal Financial Planning Services

Introduction

9. This Statement on Responsibilities establishes guidance for AICPA members (hereinafter members) who provide personal financial planning services. This guidance applies whether personal financial planning services are provided on a standalone basis or as part of another engagement and whether such services are provided on a comprehensive, segmented, or consultation basis.

10. As referred to in this Statement on Responsibilities, the term *personal financial planning services* refers to the process of identifying individual or family goals, evaluating existing resources and designing financial strategies that, when implemented, move the individual toward achieving these goals.

11. As referred to in this Statement on Responsibilities, the term *comprehensive engagement* refers to an engagement in which the client's entire financial picture is considered. Such engagements include cash flow analysis, income tax planning, risk management, retirement planning, investment planning, and wealth transfer planning. The process involves an analytical approach to these matters and recognizes their interrelationships, but it does not mean every potential situation is considered. The member helps the client establish goals and provides the client with a comprehensive financial plan. When agreed, the member may also assist in implementation, monitoring, and periodic updates.

12. As referred to in this Statement on Responsibilities, a *segmented engagement* is one that involves analyses and recommendations that address one or more of the specific planning concerns of importance to the client. The scope of a segmented engagement is focused and omits one or more planning areas included in a comprehensive engagement. A segmented engagement should include qualifications to the recommendations because the effects of certain planning areas on the client's overall financial picture were not considered.

13. As referred to in this Statement on Responsibilities, a *consultation engagement* is an informal type of service based primarily on the member's knowledge about a client, the client's circumstances, and the technical matters involved. In a consultation, financial objectives and data typically are received through discussion with the client. Based on this information, a member gives written or oral advice. The scope of the engagement and the member's responses to the issues raised may be communicated orally to the client.

14. The member should be aware of any governmental regulations and other professional standards applicable to the engagement and the extent to which these regulations and standards apply to engagements to provide personal financial planning services. Compliance is the responsibility of the member. Such regulations and standards include but are not necessarily limited to the

- a. *AICPA Code of Professional Conduct;*
- b. *Statement on Standards for Tax Services (SSTS) No. 7, Form and Content of Advice to Taxpayers;*
- c. *Statement on Standards for Valuation Services (SSVS) No. 1, Valuation of a Business, Business Ownership Interest, Security, or Intangible Asset;*
- d. *Statement on Standards for Consulting Services (SSCS) No. 1, Consulting Services: Definitions and Standards (AICPA, Professional Standards, vol. 2, CS sec. 100);³*

³ www.aicpa.org/InterestAreas/ForensicAndValuation/Resources/Standards/Pages/Statement%20on%20Standards%20for%20Consulting%20Services%20No.aspx.

- e. Statements on Standards for Accounting and Review Services (SSARS) No. 6, *Reporting on Personal Financial Statements Included in a Written Personal Financial Plan and Its Interpretations*;⁴
- f. Investment Advisers Act of 1940; and
- g. Securities and Exchange Commission (SEC) Interpretive Release IA-1092.⁵

15. Compliance with the AICPA *Code of Professional Conduct*, as with all standards in an open society, depends primarily on members' understanding and voluntary actions, secondarily on reinforcement by peers and public opinion, and ultimately on disciplinary proceedings, when necessary, against members who fail to comply with the rules.

16. In the context of applying this Statement on Responsibilities to personal financial planning services, the member necessarily applies professional judgment in the execution of any personal financial planning services provided.⁶

Planning the Engagement

17. A member should determine the objectives of the personal financial planning engagement and document such understanding with the client. The member should communicate the scope and nature of services to be performed and clearly and adequately disclose the member's compensation for such services.

Definition and Scope

18. The personal financial planning services engagement includes defining objectives of the engagement so the member can identify the services needed. The member should do all the following:

- a. Obtain an understanding of the client's goals and resources to determine the appropriate scope of services that will meet the client's needs.
- b. Reach an understanding with the client concerning the engagement objectives. When the member identifies issues that were not originally considered by the client and may require special attention, those issues should be brought to the client's attention.

⁴ Please refer to appendix B, "Excerpts From AR Section 600 *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*" for a complete reprint of Statement on Standards for Accounting and Review Services No. 6, *Reporting on Personal Financial Statements Included in a Written Personal Financial Plan and Its Interpretations*. www.aicpa.org/RESEARCH/STANDARDS/COMPILATIONREVIEW/Pages/compilation%20and%20review%20standards.aspx

⁵ Securities and Exchange Commission Interpretive Release IA-1092, *Applicability of the Investment Advisers Act to Financial Planners, Pension Consultants, and Other Persons Who Provide Investment Advisory Services as a Component of Other Financial Services*, available at www.sec.gov/rules/interp/1987/ia-1092.pdf.

⁶ The AICPA *Code of Professional Conduct* can be found in its entirety at www.aicpa.org/about/code/index.html.

- c. Evaluate the appropriateness of the original engagement objectives as the engagement proceeds.
- 19.** The member should obtain an understanding of matters such as the client's family situation, commitment to the planning process, current cash flow and assets available, personal preferences, and relationships with other professionals. This understanding can be obtained through comprehensive information gathering or may result from knowledge gained during a long-term relationship with the client.
- 20.** The member is not responsible for additional services, including the following:
 - a. Implementing plan recommendations unless the member has an understanding with the client regarding the specific responsibilities the member will assume for helping the client act upon planning decisions
 - b. Monitoring the client's progress toward achieving goals unless the member undertakes this obligation by specific agreement with the client
 - c. Updating recommendations unless the member undertakes this obligation by specific agreement with the client. The agreement should identify the scope of the member's responsibility for updating the plan and proposing new actions.
- 21.** The member should document his or her understanding of the scope and nature of services to be provided. Such documentation may be in the form of an engagement letter or other written communication to the client, or if there is an oral understanding, a memo to the file.
- 22.** When the member is performing a comprehensive engagement (as defined in paragraph 11), a segmented engagement (as defined in paragraph 12), an implementation engagement (as defined in paragraph 63), or a monitoring engagement (as defined in paragraph 77), the member shall document his or her understanding of the scope and nature of services to be provided. Such documentation should ordinarily be in the form of an engagement letter or other written communication to the client.
- 23.** At a minimum, documentation should include descriptions of the following when applicable to the engagement:
 - a. Engagement objectives
 - b. The scope of services to be provided
 - c. Roles and responsibilities of the member, the client, and other service providers in the personal financial planning process
 - d. Timing of the engagement
 - e. Scope limitations and other constraints (for example, when implementation, monitoring and updating services are not agreed upon or included in the engagement)
 - f. Responsibility, or lack thereof, for helping the client act upon planning decisions

- a. method(s) of compensation (whether a fixed fee, hourly rate, commission, percentage of assets under management, other methods, or a combination of some or all of these methods);
- b. amount of compensation (for example, fee schedules and ranges);
- c. whether compensation is direct or indirect;
- d. duration of compensation; and
- e. compensation, including noncash benefits, received by the member for referrals to other service providers.

32. The following are examples of disclosures that may be appropriate:

- a. *Development of your financial plan will occur over a three-month period at a fixed fee of \$X.*
- b. *In connection with the implementation of the risk management recommendations, we anticipate the acquisition of insurance policies for which we will receive commissions. Depending on the policies that are recommended and you agree to, the commission could vary from x% to y% of the first-year premium. For example, on a \$1,000,000 life insurance policy, the commission could range from \$X to \$Y. Additionally, we may receive ongoing annual commissions between x% and y% of premiums paid over the next 10 years; we reasonably estimate commissions to total approximately \$X.*
- c. *Your investment in the various funds recommended will be subject to a “sales charge” (commission) that will be paid directly from the fund(s) in which you are investing:*
 - i. *Front-loaded shares: A commission of x% will be deducted from your initial investment of \$Y, with the commission equal to \$Z. We have discussed that a “breakpoint” benefit for larger investments is \$Z, which would have reduced the charge to your account to x%. An additional commission of x% will be charged on new investments you make in this (these) fund(s).*
 - ii. *Back-end loaded shares: A commission will be charged to your investment account of x% if you decide to transfer funds out of this investment prior to “DATE”. At the current level of your investment, that would equal \$Y. As the investment grows, the amount of the commission paid, if any, would also grow.*
- d. *In addition to the above fees, we may receive indirect compensation or benefits from investment companies, broker dealers, or other financial*

entities. We anticipate that these will be incidental to the overall fee relationship. We will provide additional information to you at your request.

e. *Assets Under Management:*

Our investment advisory fee is based on the value of your advisory account and is determined at the end of each quarter. The fee for this service is based on the following schedule:

Advisory Account Value	Annualized Fee
<i>Less than \$500,000</i>	<i>x%</i>
<i>\$500,000 to \$999,999</i>	<i>x%</i>
<i>\$1,000,000 to \$2,499,999</i>	<i>x%</i>
<i>\$2,500,000 to \$9,999,999</i>	<i>x%</i>
<i>\$10,000,000 or more</i>	<i>x%</i>

At the estimated asset value of \$X, your fee would be approximately \$Y per year, or \$Z each quarter. Of course, that fee will change each quarter as the quarter end value in the account changes. This fee is charged on all assets in your account regardless of asset class (including cash). Also, understand that our fee fluctuates along with the account balance, and therefore, it must be understood that certain potential conflicts of interest may arise in the course of our advice regarding the addition or subtraction of assets from the account. However, we take our responsibility to be objective and to provide advice that is strictly in your best interest very seriously, and if we believe that we cannot be objective in the advice we give on any matter, we will inform you and suggest you seek advice from other professionals. The mutual funds we recommend do not carry a sales charge or “load,” however, they will charge associated “overhead expenses” (for example, management fees) and brokerage transaction expenses involved in the purchase and sale of the securities they purchase and sell, as will any separate account money managers that we might recommend to you. We will clearly disclose to you any of these additional fees and costs you might incur in the implementation of your investment strategy.

Developing a Financial Plan

33. A member should obtain the necessary information to develop recommendations based on the stated engagement objectives and use professional judgment in the development of such recommendations.

Definition and Scope

34. The member should establish a reasonable basis for personal financial planning recommendations. This involves collecting, analyzing, and integrating sufficient relevant information to develop a basis for recommendations.

35. Developing a basis for recommendations involves:

- a.* Collecting relevant quantitative and qualitative information. The nature and amount of information will depend on the scope and complexity of the engagement. This information may include, but is not limited to
 - i.* the client's goals, existing financial situation, and available resources;
 - ii.* nonfinancial factors, such as client attitudes, risk tolerance, family considerations, age, health and life expectancy;
 - iii.* external factors, such as estimates of inflation, taxes, economic conditions, legislative activity, investment markets, and interest rates; and
 - iv.* reasonable estimates, projections, and assumptions furnished by the client, provided by other service providers, or developed by the member.
- b.* Analyzing the client's current situation as it relates to the client's goals and objectives and identifying strengths and weaknesses of the existing financial situation.
- c.* Formulating, evaluating, and recommending appropriate strategies for achieving the client's goals.

36. The member's knowledge and experience also contribute to the basis for recommendations.

37. Personal financial planning recommendations are suggested actions developed to help the client achieve personal financial goals.

38. Recommendations are based on analyses and other procedures conducted prior to and in preparation for developing suggested actions.

Collecting Information

39. Because personal financial planning recommendations are developed to address the client's overall objectives and specific measurable goals, the member should obtain an understanding of those objectives and goals.

40. If the member is unable to collect sufficient relevant information to form a basis for recommendations, he or she may restrict the scope of the engagement to those matters for which sufficient information is available. The member should communicate, ordinarily in writing, any limitation on the scope of the engagement, as well as the fact that this limitation should be taken into account in the assessment of conclusions and recommendations developed. The following is an example of such communication:

The scope of this engagement will be limited to those matters for which sufficient information is available. For example, the scope of the engagement does not include information about any inheritance you may or may not receive in the future. Such limitations should be taken into account in the assessment of conclusions and recommendations developed.

41. If, in the judgment of the member, sufficient information does not exist to proceed as agreed, the member should terminate or mutually agree to modify the engagement. The member should communicate, ordinarily in writing, such modification or termination of the engagement.

Analyzing Information

42. The nature and extent of analyses and other procedures performed in developing a basis for recommendations are affected by the scope and objectives of the engagement. However, even when an engagement addresses a limited number of specific personal financial goals, the member should consider the client's overall financial circumstances in developing recommendations. For example, in considering ways to achieve the goal of providing for the education of the client's children, other planning areas, such as providing for the client's retirement, tax implications, tolerance for risk, and debt management, may have an impact on that goal.

43. The member should evaluate the reasonableness of estimates and assumptions that are significant to the plan.

44. The member should consider the appropriateness of the assumptions used. For example, the use of the historical rate of return on the Standard & Poor's 500 as a rate of return assumption when calculating the amount of capital needed to fund a short-term goal is inappropriate.

45. The member should use assumptions that are consistent with each other. For example, an assumed low rate of inflation would be consistent with an assumed low rate of return for investments in fixed-income securities.

46. When performing analyses based on estimates, assumptions, and projections, the member may wish to discuss with the client this sensitivity in relation to the overall plan. For example, in a long-range retirement funding projection, a slight change in the assumed rate of return on investments may have a significant impact on the projected result. The member may wish to discuss this with the client.

47. If, during the course of the engagement, the member determines that significant estimates, projections, or assumptions are no longer valid, the member should reevaluate the appropriateness of the engagement objectives and recommendations.

48. The member should give consideration to interrelationships of one financial planning area to other financial planning areas for which the member has been engaged. As a result, analyses performed should recognize these interrelationships. For example, analysis in college funding may affect or be affected by analyses in risk management, retirement funding, cash management, investment planning, or wealth transfer planning.

Formulating, Evaluating, and Recommending Strategies

49. Recommendations are derived in part from analyses of relevant information and client goals.

50. The client may impose a constraint on the engagement that affects the member's recommendations. For example, but not limited to, the client may stipulate limitations on investment options, investment rates of return, or availability of Social Security. These stipulations may affect the personal financial planning recommendations developed, and the client should be notified.

51. The member should give consideration to recommendations to help the client achieve one financial planning goal in relation to recommendations regarding other goals. For example, recommendations for wealth transfer planning may affect or be affected by recommendations in risk management, retirement funding, cash management, or investment planning.

52. The member should refer to appendix B, "Excerpts From AR Section 600, *Reporting on Personal Financial Statements Included in Written Personal Financial Plans*," for guidance on generating personal financial statements in the personal financial planning services engagement.

53. The member should refer to appendix C, "Excerpts From the AICPA's Guide for Prospective Financial Information," for guidance on the use of prospective financial information in the personal financial planning services engagement.

54. The member should refer to appendix D, "Excerpts From the AICPA's Statement on Standards for Tax Services No. 7, *Form and Content of Advice to Taxpayers*," for guidance on the use of tax planning strategies in the personal financial planning services engagement.

55. The member should refer to appendix F, "Excerpts From the AICPA's Statement on Standards for Valuation Services," for guidance on the use of valuations in the personal financial planning services engagement.

Presenting the Financial Plan

Communicating Recommendations

56. The member should communicate to the client the assumptions and estimates that are significant to the recommendations. This communication should ordinarily be in writing.

57. The member should make reasonable efforts to communicate recommendations to the client in a manner that helps the client understand strategies and implement financial planning decisions. Such communication ordinarily should be in writing and include

- a.* a summary of the client's goals,

- b. significant assumptions,
- c. estimates,
- d. recommendations,
- e. a description of any limitations on the work performed (see for example the disclosure of the limitation on use of an independent business valuation in paragraph 30),
- f. a statement that projected results may not be achieved, and
- g. IRS Circular 230,⁷ if recommendations contain tax advice.

58. The following is an example of an appropriate communication when recommendations are made only on selected goals and the member communicates the parameters of the limited engagement:

We have considered ways to achieve your goal of providing for the education of your children. However, you have instructed us not to consider other planning areas that might have an impact on that goal. If we had done so, it is possible that different conclusions or recommendations might have resulted.

59. If the member determines that the client's goals cannot be achieved in a reasonable manner, the member should communicate to the client the need to reconsider the originally stated goals.

Identifying Tasks for Taking Action on Planning Decisions

60. The member should help the client prioritize tasks that are essential to enabling the client to act on planning decisions. The member may also help the client set target dates for the completion of tasks and identify parties responsible for completing them.

61. In certain circumstances, the member may decide to use the advice of other service providers or refer the client to other service providers. For example, the member may need specialized expertise outside the scope of his or her practice or services or products for which the member is not a licensed provider.⁸

Implementation

62. A member who assists a client with the implementation of a personal financial plan should determine and obtain the client's agreement with respect to the objectives of the engagement and identify and obtain the client's agreement with respect to the services and products necessary to achieve those objectives.

⁷ IRS Circular 230, *Regulations Governing the Practice of Attorneys, Certified Public Accountants, Enrolled Agents, Enrolled Actuaries, Enrolled Retirement Plan Agents, and Appraisers before the Internal Revenue Service* (Rev. 4-2008), available at www.irs.gov/pub/irs-utl/pcir230.pdf.

⁸ See paragraphs 95 through 107.

Definition and Scope

63. Implementation engagements go beyond simply referring a service provider and involve assisting the client in taking action on decisions developed during the personal financial planning services engagement. Implementation includes such activities as selecting investment advisors, restructuring debt, obtaining estate documents, establishing cash reserves, preparing budgets, and selecting and acquiring specific investments and insurance products. An implementation engagement can be included as part of a comprehensive financial plan or can be a standalone engagement.

64. In those situations in which the member may be functioning in a fiduciary or agency relationship, state law will control if conflicts with this Statement on Responsibilities exist.

65. The member may be engaged to assist the client in taking action on planning decisions, which may include the member doing one or more of the following:

- a. Taking responsibility for the selection and acquisition of products⁹
- b. Taking responsibility for the selection of service providers
- c. Establishing selection criteria
- d. Coordinating or reviewing the delivery of services or products by other service providers

66. Implementation is typically completed when products are acquired or services are rendered based on the recommendations developed during the personal financial planning services engagement. Members should consider defining completion in the implementation letter to avoid confusion between the member and the client.

Planning the Engagement

67. Implementation engagements vary in complexity and scope and the level of assistance to be provided by the member. The member and client should identify and agree on the level of the member's assistance in implementation. Regardless of the level of assistance, implementation decisions are made by the client, not the member, unless the member has received discretionary authority for such decisions from the client in writing.

68. The member should document his or her understanding of the nature and scope of the implementation services to be provided and the roles and responsibilities of the member, the client, and other service providers. This documentation ordinarily should be in writing.

Communicating With the Client

69. In an implementation engagement, the member should communicate information and recommendations to the client in a manner that helps the client understand the nature and

⁹ Members advising clients on the selection or acquisition of products (such as investments or insurance policies) should determine whether they meet the qualifications and licensing requirements established by applicable federal and state laws.

scope of services performed by the member. Such communications ordinarily should be in writing and include a summary of the planning decisions being implemented, an outline of recommended actions to be taken, a description of limitations on the work performed in the engagement, and documentation of the results of the engagement.

70. The following is an example of an appropriate communication in the event a client instructs a member not to consider certain alternative investment options (in this case, diversification out of a concentrated stock position) in developing implementation recommendations for funding an asset allocation:

We have evaluated investment alternatives available to fund your asset allocation. You have instructed us not to consider the liquidation of your concentrated investment in XYZ Corporation. If we had considered the sale of your XYZ Corporation stock, it is possible that we would have recommended a different asset allocation.

Establishing Selection Criteria

71. The member who is engaged to establish selection criteria should identify those attributes or other specifications that are required to accomplish the client's objectives, subject to any constraints that result from either the client's circumstances or as enumerated by the client or both. Selection criteria may be expressed in ranges if the member and client agree that such practice is useful. Because it is not always possible to secure products or services that exactly match the established selection criteria, the member should assist the client in evaluating the relative importance of attributes so that available alternatives can be compared.

Participating in the Selection Process

72. When the member is engaged to participate in recommending products, the member should gather data that provides a reasonable basis for determining whether the alternatives meet the selection criteria. Upon analyzing this information, the member should communicate to the client his or her evaluation. This communication ordinarily should be in writing.

Implementing Planning Decisions Developed by Others

73. The member may be engaged to assist the client in taking action on planning decisions developed in a personal financial planning services engagement in which the member did not participate. For example, the planning decisions may have been developed by another service provider or by the client acting alone. The member might also be asked to assist the client in developing more specific selection criteria or exploring issues related to each planning decision other than those established in the personal financial planning services engagement.

74. In such situations, the member should obtain a sufficient understanding of the planning decisions to effectively assist in implementation. To obtain such an understanding, the member should consider such factors as the client's goals, the client's existing financial situation, available resources for achieving the goals, nonfinancial factors, and external factors. Relevant information may also include estimates, projections, and assumptions. The member should not

undertake any portion of the engagement in which the member cannot gain sufficient understanding of the planning decisions.

Monitoring and Updating

75. A member who assists a client with the monitoring or updating of a personal financial plan should determine the scope of the services to be performed and determine the frequency and duration of those services.

Definition and Scope

76. The member may be specifically engaged by a client to provide monitoring services, updating services, or both.¹⁰

77. Monitoring engagements are those that involve tracking the client's progress in achieving established personal financial planning goals.

78. Updating engagements are those that involve revising the client's existing financial plan and financial planning recommendations as the member and client agree upon.

79. Monitoring and updating activities are typically undertaken after implementation of actions and recommendations developed during a personal financial planning services engagement. Monitoring and updating services may be either separate or combined engagements.

Monitoring

80. Monitoring engagements vary in complexity, scope, and the nature and extent of assistance to be provided by the member. In other words, the member may undertake some or all the monitoring services, coordinate or review monitoring services performed by other service providers, or monitor progress toward goals in a financial plan developed by other service providers.

81. The member and client should document the nature and extent of the member's services in a monitoring engagement.

82. In assessing the client's progress toward achieving his or her financial goals, the member should

- a.* ascertain whether all recommended actions to achieve the goals were undertaken,
- b.* measure and evaluate the actual progress toward achievement of the goals, and
- c.* identify changes in the client's circumstances and in external factors that affect the financial plan.

¹⁰ The member would typically have informed the client during a personal financial planning services engagement in which planning recommendations are developed that monitoring and updating are important elements of the financial planning process and that the member is not responsible for undertaking these services except by specific agreement with the client.

83. The member and client should agree on how frequently progress toward the client's goals should be monitored. The member should use monitoring criteria that are appropriate to and consistent with the criteria used to establish the goals being monitored. Appropriate monitoring criteria might include, among other things, the client's investment rate of return and annual contributions to savings.

84. The member should focus on criteria and other factors that are important to the ultimate achievement of the financial planning goals being monitored. For example, realizing a targeted investment rate of return may be important for the ultimate achievement of the client's retirement planning goals; however, at a particular time, monitoring the client's level of spending may be more critical.

85. The member should communicate to the client the member's evaluation of progress toward achieving the client's financial planning goals. Such communication ordinarily should be in writing.

86. The following is an example of an appropriate communication in the event the member, during the course of a monitoring engagement, has determined that progress toward achieving the client's financial planning goals varies from what was expected.

Your children's college education funds have not earned the targeted rate of return assumed in your existing financial plan. If this trend continues, you will not accumulate sufficient funds to meet anticipated costs. Therefore, we recommend that your education savings plan be updated.

87. As a result of a monitoring engagement, the member may become aware of variations from the expected progress toward the client's financial planning goals or identify other circumstances that might warrant a review or update of the existing financial plan. In this case, the member should assess whether there should be an update of the client's existing financial plan and financial planning recommendations and advise the client accordingly.

88. The following is an example of an appropriate communication in the event the member, during the course of a monitoring engagement, has identified changes in the client's circumstances that warrant an update of the client's financial plan.

During the course of our monitoring engagement, we learned that you have inherited a large interest in a closely held business. This change in your business circumstances may impact several of the recommendations contained in your financial plan. Accordingly, we recommend that your financial plan be updated.

Updating

89. Updating engagements vary in complexity, scope, and the nature and extent of assistance to be provided by the member.

90. The member should inform the client that updating a personal financial plan affects all aspects of the plan and that all existing financial planning recommendations should be reviewed as part of the updating process.

91. The member and client should agree on the nature and extent of the member's services in updating financial planning recommendations. The member ordinarily should communicate this agreement in writing.

92. An updating engagement generally involves the same functions and responsibilities as an initial engagement. The member should, therefore, determine whether goals, objectives, information, and assumptions used as a basis for existing financial planning recommendations are still valid before developing revised recommendations.

93. In updating a personal financial plan and recommendations, the member should consider the effect of revising recommendations on the client's ability to achieve other financial planning goals. For example, if, as part of updating a client's financial plan, the member revises the amount to be saved each month to fund retirement goals, the member should consider the effect of this recommendation on the client's ability to fund other cash flow needs.

94. The member should communicate to the client any revisions to financial planning recommendations that arise as a result of the updating engagement. Such communication ordinarily should be in writing.

95. The following is an example of an appropriate communication in the event the client has engaged the member to update the client's wealth transfer plan but not to revise recommendations on other financial planning issues.

Updating any portion of your personal financial plan may affect other aspects of the plan. All your financial planning recommendations should be reviewed periodically as part of the updating process. You have asked us to update only those recommendations for achieving your wealth transfer planning goals. Had we addressed all aspects of your financial plan, different recommendations might have resulted.

Working With Other Service Providers

96. A member should determine if other service providers are needed to complete a personal financial planning engagement. The member should consider how the use of the other service providers may affect the overall engagement.

Definition and Scope

97. Working with other service providers may involve interacting with one or more of the following:

- a.* Service providers that the client has worked with in the past or has an existing relationship with. In this case, the member shall have no responsibility for due diligence on the background or expertise of the service provider.
- b.* Service providers that the client seeks out without assistance from the member to implement planning recommendations of the member. In this case, the member shall have no responsibility for due diligence on the background or

expertise of the service provider but may wish to provide at least informal assistance.

- c. Service providers that the client seeks out with assistance from the member whereby the member provides due diligence assistance and direction but does not make a referral recommendation. The member should provide a summary of review and evaluation procedures followed, and this ordinarily would be in writing.
- d. Service providers that the member recommends to the client when no benefit of the referral inures to the member. The member should provide the client with a summary of review and evaluation procedures followed and the reasons these service providers should be considered, and this ordinarily would be in writing.
- e. Service providers that the member recommends to the client whereby some cash or noncash payment or quid pro quo is received by the member, the member's firm, or a "related" party. The member should provide the client with a summary of review and evaluation procedures followed and the reasons these service providers should be considered, and this ordinarily would be in writing. In addition, if the member is aware of any such benefits received, he or she should disclose this information, and this ordinarily would be in writing. The member should always disclose any known potential conflicts of interest,¹¹ and again, this disclosure ordinarily would be in writing.

98. For guidance specific to paragraph 97(d) and (e), please see paragraphs 102–108 in the section titled "Referring Other Service Providers."

Using Advice Provided by Other Service Providers

99. When the member uses the advice of another service provider in carrying out the personal financial planning services engagement, the member should understand the service provider's advice. If the member concurs with the other service provider's advice, the member need not communicate this concurrence to the client. If the member does not concur with the other service provider's advice, the member should communicate this to the client; this communication ordinarily should be in writing.

100. If the member uses the other service provider's advice in the engagement without evaluating such advice, he or she should communicate this fact to the client. Such communication ordinarily should be in writing.

101. The following are examples of communications for instances in which the member uses the advice of another service provider in a personal financial planning services engagement:

- a. An appraisal provided by an outside appraiser is incorporated into a client's personal financial plan and the member has not evaluated the appraiser's opinion.

¹¹ Refer to Rule 102, *Integrity and Objectivity*, of the AICPA Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2, ET sec. 102 par. .01).

We have used the ABC Company's estimate of the value of your real estate in developing your financial plan. We have not evaluated the estimate and do not accept responsibility for it. If a different value had been used, different recommendations might have resulted.

- b. An insurance agent has recommended that the client purchase a specific life insurance policy and the member, by agreement with the client, has not evaluated the agent's recommendation.

Bob Jones, CLU, has recommended that you purchase a specific life insurance policy. As agreed, we have not evaluated this recommendation and do not accept responsibility for it.

Referring Other Service Providers

102. When a member provides a referral to another service provider, the member should assess the qualifications and reputation of the provider and disclose to the client the nature of work to be performed and whether the member is compensated for such referral.

Definition and Scope

103. In the normal course of providing personal financial planning services to clients, it is not unusual for a client to ask for or need a referral to a service provider (for example, an attorney, broker, insurance agent, investment consultant, money manager, business valuation expert, tax preparer, bookkeeper, banker, or trust company). If the member makes a referral of one or more service providers to a client, whether requested by the client or volunteered by the member, this section shall apply.

Referring Other Service Providers

104. The member should become satisfied with the professional qualifications and reputation of another service provider before referring the client to that service provider. The member should consider information such as the following:

- a. The member's previous experience in working with the service provider;
- b. The professional certification or license or other recognition of the competence of the service provider; and
- c. The reputation of the service provider.

105. When referring another service provider to a client, the member should communicate to the client the nature of the work to be performed and the extent to which the member will evaluate that work. Such communication ordinarily should be in writing.

106. The following is an example of a communication in the event the member refers the client to an attorney to take action on recommendations developed in the personal financial planning services engagement, and the member has not agreed to make a specific referral of one particular attorney:

As we discussed, you should consult an attorney to prepare updated will provisions. We have provided you with the names of several attorneys whose professional credentials and reputations are familiar to us. The selection of an attorney is your decision. Our referral does not constitute an endorsement of these attorneys nor can we be responsible for any advice they may provide to you.

Disclosures

107. When no compensation (whether in the form of cash or noncash benefits) inures to the benefit of the member, the following disclosures should be made:

- a. The length of time the service provider has been known to the member.
- b. Reasons that the service provider is being referred, including, but not limited to, specific professional designations and qualifications of the service provider.
- c. Any known complaints, problems, or legal and regulatory sanctions against the service provider of which a client of the service provider should be aware. The member is only responsible for disclosure of such items in the event that legal or regulatory sanctions are known to the member. However, it is good practice to suggest to the client that a background check be initiated.
- d. Conflicts of interest as required in the AICPA's *Code of Professional Conduct*.

108. When compensation (whether in the form of cash or noncash benefits, including known arrangements to provide cross referrals) inures to the benefit of the member, either directly or indirectly, all of the following disclosures should be made:

- a. All disclosures enumerated in paragraph 107(a–d)
- b. If the service provider is a Registered Investment Adviser, the disclosure rules required by the SEC of a “solicitor” must be followed (see “Solicitor’s Rule,” SEC Rule 206(4)-3 of the 1940 Advisers Act)
- c. Conflicts of interest, compensation received (type and amount), and the length of time a relationship has existed between the member and the other service provider should be communicated to the client when recommendations are made or before such time. Such communication ordinarily should be in writing.

Appendix A: Excerpts From the AICPA Code of Professional Conduct

ET Section 52—Article I—Responsibilities

In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

As professionals, certified public accountants perform an essential role in society. Consistent with that role, members of the American Institute of Certified Public Accountants have responsibilities to all those who use their professional services. Members also have a continuing responsibility to cooperate with each other to improve the art of accounting, maintain the public's confidence, and carry out the profession's special responsibilities for self-governance. The collective efforts of all members are required to maintain and enhance the traditions of the profession.

ET Section 53—Article II—The Public Interest

Members should accept the obligation to act in a way that will serve the public interest, honor the public trust, and demonstrate commitment to professionalism.

.01 A distinguishing mark of a profession is acceptance of its responsibility to the public. The accounting profession's public consists of clients, credit grantors, governments, employers, investors, the business and financial community, and others who rely on the objectivity and integrity of certified public accountants to maintain the orderly functioning of commerce. This reliance imposes a public interest responsibility on certified public accountants. The public interest is defined as the collective well-being of the community of people and institutions the profession serves.

.02 In discharging their professional responsibilities, members may encounter conflicting pressures from among each of those groups. In resolving those conflicts, members should act with integrity, guided by the precept that when members fulfill their responsibility to the public, clients' and employers' interests are best served.

.03 Those who rely on certified public accountants expect them to discharge their responsibilities with integrity, objectivity, due professional care, and a genuine interest in serving the public. They are expected to provide quality services, enter into fee arrangements, and offer a range of services—all in a manner that demonstrates a level of professionalism consistent with these Principles of the Code of Professional Conduct.

.04 All who accept membership in the American Institute of Certified Public Accountants commit themselves to honor the public trust. In return for the faith that the public reposes in them, members should seek continually to demonstrate their dedication to professional excellence.

ET Section 54—Article III—Integrity

To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

.01 Integrity is an element of character fundamental to professional recognition. It is the quality from which the public trust derives and the benchmark against which a member must ultimately test all decisions.

.02 Integrity requires a member to be, among other things, honest and candid within the constraints of client confidentiality. Service and the public trust should not be subordinated to personal gain and advantage. Integrity can accommodate the inadvertent error and the honest difference of opinion; it cannot accommodate deceit or subordination of principle.

.03 Integrity is measured in terms of what is right and just. In the absence of specific rules, standards, or guidance, or in the face of conflicting opinions, a member should test decisions and deeds by asking: “Am I doing what a person of integrity would do? Have I retained my integrity?” Integrity requires a member to observe both the form and the spirit of technical and ethical standards; circumvention of those standards constitutes subordination of judgment.

.04 Integrity also requires a member to observe the principles of objectivity and independence and of due care.

ET Section 55—Article IV—Objectivity and Independence

A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.

.01 Objectivity is a state of mind, a quality that lends value to a member’s services. It is a distinguishing feature of the profession. The principle of objectivity imposes the obligation to be impartial, intellectually honest, and free of conflicts of interest. Independence precludes relationships that may appear to impair a member’s objectivity in rendering attestation services.

.02 Members often serve multiple interests in many different capacities and must demonstrate their objectivity in varying circumstances. Members in public practice render attest, tax, and management advisory services. Other members prepare financial statements in the employment of others, perform internal auditing services, and serve in financial and management capacities in industry, education, and government. They also educate and train those who aspire to admission into the profession. Regardless of service or capacity, members should protect the integrity of their work, maintain objectivity, and avoid any subordination of their judgment.

.03 For a member in public practice, the maintenance of objectivity and independence requires a continuing assessment of client relationships and public responsibility. Such a member who provides auditing and other attestation services should be independent in fact and appearance. In providing all other services, a member should maintain objectivity and avoid conflicts of interest.

.04 Although members not in public practice cannot maintain the appearance of independence, they nevertheless have the responsibility to maintain objectivity in rendering professional services. Members employed by others to prepare financial statements or to perform auditing, tax, or consulting services are charged with the same responsibility for objectivity as members in public practice and must be scrupulous in their application of generally accepted accounting principles and candid in all their dealings with members in public practice.

ET Section 56—Article V—Due Care

A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

.01 The quest for excellence is the essence of due care. Due care requires a member to discharge professional responsibilities with competence and diligence. It imposes the obligation to perform professional services to the best of a member's ability with concern for the best interest of those for whom the services are performed and consistent with the profession's responsibility to the public.

.02 Competence is derived from a synthesis of education and experience. It begins with a mastery of the common body of knowledge required for designation as a certified public accountant. The maintenance of competence requires a commitment to learning and professional improvement that must continue throughout a member's professional life. It is a member's individual responsibility. In all engagements and in all responsibilities, each member should undertake to achieve a level of competence that will assure that the quality of the member's services meets the high level of professionalism required by these Principles.

.03 Competence represents the attainment and maintenance of a level of understanding and knowledge that enables a member to render services with facility and acumen. It also establishes the limitations of a member's capabilities by dictating that consultation or referral may be required when a professional engagement exceeds the personal competence of a member or a member's firm. Each member is responsible for assessing his or her own competence—of evaluating whether education, experience, and judgment are adequate for the responsibility to be assumed.

.04 Members should be diligent in discharging responsibilities to clients, employers, and the public. Diligence imposes the responsibility to render services promptly and carefully, to be thorough, and to observe applicable technical and ethical standards.

.05 Due care requires a member to plan and supervise adequately any professional activity for which he or she is responsible.

Appendix B: Excerpts From AR Section 600, Reporting on Personal Financial Statements Included in Written Personal Financial Plans

Issue date, unless otherwise indicated: September 1986

Source: SSARS No. 6

.01 This section provides an exemption from section 80, *Compilation of Financial Statements*, for personal financial statements that are included in written personal financial plans prepared by an accountant, and specifies the form of written report required under the exemption.¹ However, this statement does not preclude an accountant from complying with section 80 in such engagements.

.02 Because the purpose of such financial statements is solely to assist in developing the client's personal financial plan, they frequently omit disclosures required by an applicable financial reporting framework.

.03 An accountant may submit a written personal financial plan containing unaudited personal financial statements to a client without complying with the requirements of section 80 when all of the following conditions exist:

- a. The accountant establishes an understanding with the client and documents the understanding through a written communication with the client that the financial statements
 - i. will be used solely to assist the client and the client's advisers to develop the client's personal financial goals and objectives.
 - ii. will not be used to obtain credit or for any purposes other than developing these goals and objectives.
- b. Nothing comes to the accountant's attention during the engagement that would cause the accountant to believe that the financial statements will be used to obtain credit or for any purposes other than developing the client's financial goals and objectives.

.04 An accountant using the exemption provided by this statement should issue a written report stating that the unaudited financial statements

- a. are designed solely to help develop the financial plan.
- b. may be incomplete or contain other departures from GAAP and should not be used to obtain credit or for any purposes other than developing the personal financial plan.
- c. have not been audited, reviewed, or compiled.

.05 See the [exhibit](#), "Illustrative Report When the Accountant Submits a Written Financial Plan Containing Unaudited Personal Financial Statements That the Accountant Did Not Compile," for an illustration.

.06 Each of the personal financial statements should include a reference to the accountant's report.

¹ For purposes of this statement, personal financial statements are those financial statements of an individual that meet the definition of financial statements in paragraph .04 of section 60, Framework for Performing and Reporting on Compilation and Review Engagements.

Effective Date

.07 This section is effective on September 30, 1986.

Exhibit: Illustrative Report When the Accountant Submits a Written Financial Plan Containing Unaudited Personal Financial Statements That the Accountant Did Not Compile

.08

Accountant's Report

The accompanying Statement of Financial Condition of X, as of December 31, 20XX, was prepared solely to help you develop your personal financial plan. Accordingly, it may be incomplete or contain other departures from accounting principles generally accepted in the United States of America and should not be used to obtain credit or for any purposes other than developing your financial plan. We have not audited, reviewed, or compiled the statement.

Appendix C: Excerpts From the AICPA’s Audit and Accounting Guide *Prospective Financial Information*

This appendix is an excerpt from chapters 1 and 6 of the AICPA’s Audit and Accounting Guide *Prospective Financial Information*.

Chapter 1—Introduction

Structure of the Guide

1.07 The guidance on forecasted financial information contained in chapters 6–23 generally also applies to projected financial information. Certain paragraphs in those chapters, however, do not apply—partially or fully—to projections. In those instances, readers interested in financial projections should refer to the corresponding *italicized* paragraphs (which bear the same paragraph numbers followed by the letter P) and consider the modifications discussed in those paragraphs in conjunction with the paragraphs that precede them.

Chapter 6—Presentation Guidelines

Assumptions used in preparing financial forecasts should be appropriate.

6.30 Assumptions are the essence of developing financial forecasts and are the single most important determinant of such statements. The quality of the underlying assumptions largely determines the quality of financial forecasts.

6.31 The attention devoted to the appropriateness of a particular assumption should be commensurate with the likely relative impact of that assumption on the prospective results. Assumptions with greater impact should receive more attention than those with less impact.

6.32 The assumptions should be reasonable and suitably supported. The level of support should be persuasive, although there are times when a number of assumptions within a narrow range of possibilities may appear equally likely.

6.32P *Hypothetical assumptions need not be reasonable but should be appropriate in light of the purpose for which the financial projection is prepared. All other assumptions should be reasonable, given the hypothetical assumptions, and be consistent with the hypothetical assumptions and with each other. That is, the other assumptions should be developed to depict conditions based on the hypothetical assumptions. For example, if the financial projection is prepared to show the effect of the construction of a new production facility that is partially financed, the presentation should include the effect of the related debt service. Furthermore, hypothetical assumptions need not be supported, as they relate to the special purpose of the presentation. The other assumptions, however, should be suitably supported, given the hypothetical assumptions.*

6.33 The nature of a business enterprise is such that many underlying assumptions are interrelated, and certain of their elements may have multiple effects. For example, a slowdown in economic activity typically will not only cause a slowdown in sales volume, but may also affect sales prices and the availability and cost of resources. The conditions assumed in arriving at the prospective sales or revenue data should be consistent with those assumed in developing the prospective financial data for the cost of operations. The entity should exercise care to ensure that appropriate costs and revenues have been considered, that sufficient capacity and resources would be available to produce the forecasted revenues, that capital expenditures have been recognized as appropriate, that provision has been made for applicable taxes, and that the need for financing has been considered.

6.34 Support for assumptions might include market surveys; general economic indicators; trends and patterns developed from the entity's operating history, such as historical sales trends; and internal data and analyses, such as obligations under union contracts for labor rates.

6.35 In analyzing alternative assumptions, care should be exercised to assess the situation objectively. Relating assumptions to past or present conditions often is a useful approach for checking reasonableness or appropriateness; however, trends are not necessarily reliable indicators of the future. The entity should consider paying particular attention to the possibility of changes in conditions, which must rest mainly on theory and on an understanding of the basic causal factors.

6.36 It is ordinarily not feasible to exhaustively document and support all the assumptions underlying financial forecasts. It is nevertheless necessary to seek out and to identify explicitly the information that forms a basis for the most significant assumptions; although, frequently, the most basic assumptions with enormous potential impact, such as those relating to war or peace conditions, are not addressed explicitly. Despite precautions, hindsight will often reveal assumptions that have been overlooked or that, in light of later circumstances, received inadequate treatment. Furthermore, the nature of developing financial forecasts is such that some assumptions may not materialize, and unanticipated events and circumstances may occur no matter what effort, analysis, or support may be applied.

The process used to develop financial forecasts should provide the means to determine the relative effect of variations in the major underlying assumptions.

6.37 Prospective financial results are relatively more sensitive to certain assumptions and less sensitive to others. Small changes in certain assumed conditions can result in relatively large variations in the prospective results, while relatively large changes in other assumptions cause only minor shifts in the prospective results.

6.38 In developing financial forecasts, an understanding of the relative sensitivity of the results to the assumed conditions permits the allocation of analysis and study, as well as review by persons of higher authority, to those areas with the most significant effects. The entity

should consider paying particular attention to those assumptions (*a*) to which the attainment of forecasted results is particularly sensitive (that is, those in which a small variation in the assumptions would have a large effect on forecasted results) and (*b*) for which the probability of variation is high.

Appendix D: Excerpts From the AICPA’s Statement on Standards for Tax Services No. 7, *Form and Content of Advice to Taxpayers*

Members who provide tax planning services as part of a personal financial planning services engagement should refer to the AICPA’s Statement on Standards for Tax Services.

Introduction

.01 This statement sets forth the applicable standards for members concerning certain aspects of providing advice to a taxpayer and considers the circumstances in which a member has a responsibility to communicate with a taxpayer when subsequent developments affect advice previously provided. The statement does not, however, cover a member’s responsibilities when the expectation is that the advice rendered is likely to be relied on by parties other than the taxpayer.

Statement

.02 A member should use professional judgment to ensure that tax advice provided to a taxpayer reflects competence and appropriately serves the taxpayer’s needs. When communicating tax advice to a taxpayer in writing, a member should comply with relevant taxing authorities’ standards, if any, applicable to written tax advice. A member should use professional judgment about any need to document oral advice. A member is not required to follow a standard format when communicating or documenting oral advice.

.03 A member should assume that tax advice provided to a taxpayer will affect the manner in which the matters or transactions considered would be reported or disclosed on the taxpayer’s tax returns. Therefore, for tax advice given to a taxpayer, a member should consider, when relevant (a) return reporting and disclosure standards applicable to the related tax return position and (b) the potential penalty consequences of the return position. In ascertaining applicable return reporting and disclosure standards, a member should follow the standards in Statement on Standards for Tax Services No. 1, *Tax Return Positions*.

.04 A member has no obligation to communicate with a taxpayer when subsequent developments affect advice previously provided with respect to significant matters, except while assisting a taxpayer in implementing procedures or plans associated with the advice provided or when a member undertakes this obligation by specific agreement.

Explanation

.05 Tax advice is recognized as a valuable service provided by members. The form of advice may be oral or written and the subject matter may range from routine to complex. Because the range of advice is so extensive and because advice should meet the specific needs of a taxpayer, neither a standard format nor guidelines for communicating or documenting advice to the taxpayer can be established to cover all situations.

.06 Although oral advice may serve a taxpayer's needs appropriately in routine matters or in well-defined areas, written communications are recommended in important, unusual, substantial dollar value, or complicated transactions. The member may use professional judgment about whether, subsequently, to document oral advice.

.07 In deciding on the form of advice provided to a taxpayer, a member should exercise professional judgment and should consider such factors as the following:

- a.* The importance of the transaction and amounts involved
- b.* The specific or general nature of the taxpayer's inquiry
- c.* The time available for development and submission of the advice
- d.* The technical complexity involved
- e.* The existence of authorities and precedents
- f.* The tax sophistication of the taxpayer
- g.* The need to seek other professional advice
- h.* The type of transaction and whether it is subject to heightened reporting or disclosure requirements
- i.* The potential penalty consequences of the tax return position for which the advice is rendered
- j.* Whether any potential applicable penalties can be avoided through disclosure
- k.* Whether the member intends for the taxpayer to rely upon the advice to avoid potential penalties

.08 A member may assist a taxpayer in implementing procedures or plans associated with the advice offered. When providing such assistance, the member should review and revise such advice as warranted by new developments and factors affecting the transaction.

.09 Sometimes a member is requested to provide tax advice but does not assist in implementing the plans adopted. Although such developments as legislative or administrative changes or future judicial interpretations may affect the advice previously provided, a member cannot be expected to communicate subsequent developments that affect such advice unless the member undertakes this obligation by specific agreement with the taxpayer.

.10 Taxpayers should be informed that (a) the advice reflects professional judgment based upon the member's understanding of the facts, and the law existing as of the date the advice is rendered and (b) subsequent developments could affect previously rendered professional advice. Members may use precautionary language to the effect that their advice is based on facts as stated and authorities that are subject to change.

.11 In providing tax advice, a member should be cognizant of applicable confidentiality privileges.

Appendix E: Excerpts From the AICPA’s Statements on Standards for Tax Services Interpretation No. 1-2, “Tax Planning,” of Statements on Standards for Tax Services No. 1, *Tax Return Positions*¹

Background

1. SSTSs are enforceable standards that govern the conduct of members of the AICPA in tax practice. A significant area of many members’ tax practices involves assisting taxpayers in tax planning. Two of the eight SSTSs issued as of the date of this Interpretation’s release directly set forth standards that affect the most common activities in tax planning. Several other SSTSs set forth standards related to specific factual situations that may arise while a member is assisting a taxpayer in tax planning. The two SSTSs that are most typically relevant to tax planning are SSTS No. 1, *Tax Return Positions* (AICPA, *Professional Standards*, vol. 2, TS sec. 100), including Interpretation No. 1-1, “Realistic Possibility Standard” (AICPA, *Professional Standards*, vol. 2, TS sec. 9100), and SSTS No. 8, *Form and Content of Advice to Taxpayers* (AICPA, *Professional Standards*, vol. 2, TS sec. 800).

2. Taxing authorities, courts, the AICPA, and other professional organizations have struggled with defining and regulating *tax shelters* and *abusive transactions*. Crucial to the debate is the difficulty of clearly distinguishing between transactions that are abusive and transactions that are legitimate. At the same time, it must be recognized that taxpayers have a legitimate interest in arranging their affairs so as to pay no more than the taxes they owe. It must be recognized that tax professionals, including members, have a role to play in advancing these efforts.

3. This Interpretation is part of the AICPA’s continuing efforts at self-regulation of its members in tax practice. It has its origins in the AICPA’s desire to provide adequate guidance to its members when providing services in connection with tax planning. The Interpretation does not change or elevate any level of conduct prescribed by any standard. Its goal is to clarify existing standards. It was determined that there was a compelling need for a comprehensive Interpretation of a member’s responsibilities in connection with *tax planning*, with the recognition that such guidance would clarify how those standards would apply across the spectrum of tax planning, including those situations involving *tax shelters*, regardless of how that term is defined.

General Interpretation

4. The realistic possibility standard (see SSTS No. 1, TS sec. 100.02(a), and Interpretation No. 1-1) applies to a member when providing professional services that involve *tax planning*. A member may still recommend a nonfrivolous position provided that the member recommends appropriate disclosure (see SSTS No. 1, TS sec. 100.02(c)).

5. For purposes of this Interpretation, *tax planning* includes, both with respect to prospective and completed transactions, recommending or expressing an opinion (whether written or oral) on (a) a tax return position or (b) a specific tax plan developed by the member, the taxpayer, or a third party.

6. When issuing an opinion to reflect the results of the tax planning service, a member should do all of the following:

¹ As of this writing, Statement on Standards for Tax Services No. 1-2, “Tax Planning,” is being updated. The most up-to-date version can be found at www.aicpa.org/RESEARCH/STANDARDS/TAX/Pages/default.aspx.

- Establish the relevant background facts.
- Consider the reasonableness of the assumptions and representations.
- Apply the pertinent authorities to the relevant facts.
- Consider the business purpose and economic substance of the transaction, if relevant to the tax consequences of the transaction.
- Arrive at a conclusion supported by the authorities.

7. In assisting a taxpayer in a tax planning transaction in which the taxpayer has obtained an opinion from a third party, and the taxpayer is looking to the member for an evaluation of the opinion, the member should be satisfied as to the source, relevance, and persuasiveness of the opinion, which would include considering whether the opinion indicates the third party did all of the following:

- Established the relevant background facts
- Considered the reasonableness of the assumptions and representations
- Applied the pertinent authorities to the relevant facts
- Considered the business purpose and economic substance of the transaction, if relevant to the tax consequences of the transaction
- Arrived at a conclusion supported by the authorities

8. In conducting the due diligence necessary to establish the relevant background facts, the member should consider whether it is appropriate to rely on an assumption concerning facts in lieu of either other procedures to support the advice or a representation from the taxpayer or another person. A member should also consider whether the member's tax advice will be communicated to third parties, particularly if those third parties may not be knowledgeable or may not be receiving independent tax advice with respect to a transaction.

9. In tax planning, members often rely on assumptions and representations. Although such reliance is often necessary, the member must take care to assess whether such assumptions and representations are reasonable. In deciding whether an assumption or representation is reasonable, the member should consider its source and consistency with other information known to the member. For example, depending on the circumstances, it may be reasonable for a member to rely on a representation made by the taxpayer, but not on a representation made by a person who is selling or otherwise promoting the transaction to the taxpayer.

10. When engaged in tax planning, the member should understand the business purpose and economic substance of the transaction when relevant to the tax consequences. If a transaction has been proposed by a party other than the taxpayer, the member should consider whether the assumptions made by the third party are consistent with the facts of the taxpayer's situation. If written advice is to be rendered concerning a transaction, the business purpose for the transaction generally should be described. If the business reasons are relevant to the tax consequences, it is insufficient to merely assume that a transaction is entered into for valid business reasons without specifying what those reasons are.

11. The scope of the engagement should be appropriately determined. A member should be diligent in applying such procedures as are appropriate under the circumstances to understand and evaluate the entire transaction. The specific procedures to be performed in this regard will vary with the circumstances and the scope of the engagement.

Specific Illustrations

12. The following illustrations address general fact patterns. Accordingly, the application of the guidance discussed in the “General Interpretation” section to variations in such general facts or to particular facts or circumstances may lead to different conclusions. In each illustration, there is no authority other than that indicated.

13. *Illustration 1.* The relevant tax code imposes penalties on substantial underpayments that are not associated with tax shelters as defined in such code unless the associated positions are supported by substantial authority.

14. *Conclusion.* In assisting the taxpayer in tax planning in which any associated underpayment would be substantial, the member should inform the taxpayer of the penalty risks associated with the tax return position recommended with respect to any plan under consideration that satisfies the realistic possibility of success standard, but does not possess sufficient authority to satisfy the substantial authority standard.

15. *Illustration 2.* The relevant tax code imposes penalties on tax shelters, as defined in such code, unless the taxpayer concludes that a position taken on a tax return associated with such a tax shelter is, more likely than not, the correct position.

16. *Conclusion.* In assisting the taxpayer in tax planning, the member should inform the taxpayer of the penalty risks associated with the tax return position recommended with respect to any plan under consideration that satisfies the realistic possibility of success standard, but does not possess sufficient authority to satisfy the more likely than not standard.

17. *Illustration 3.* The relevant tax regulation provides that the details of (or certain information regarding) a specific transaction are required to be attached to the tax return, regardless of the support for the associated tax return position (for example, even if there is substantial authority or a higher level of comfort for the position). While preparing the taxpayer’s return for the year, the member is aware that an attachment is required.

18. *Conclusion.* In general, if the taxpayer agrees to include the attachment required by the regulation, the member may sign the return if the member concludes the associated tax return position satisfies the realistic possibility standard. However, if the taxpayer refuses to include the attachment, the member should not sign the return, unless the member concludes the associated tax return position satisfies the realistic possibility standard and there are reasonable grounds for the taxpayer’s position with respect to the attachment. In this regard, the member should consider SSTS No. 2, *Answers to Questions on Returns* (AICPA, *Professional Standards*, vol. 2, TS sec. 200.01 and .05), which provides that the term *questions*, as used in the standard, “includes requests for information on the return, in the instructions, or in the regulations, whether or not stated in the form of a question,” and that a “member should not omit an answer merely because it might prove disadvantageous to a taxpayer.”

19. *Illustration 4.* The relevant tax regulations provide that the details of certain potentially abusive transactions that are designated as “listed transactions” are required to be disclosed in attachments to tax returns, regardless of the support for the associated tax return position (for example, even if there is substantial authority or a higher level of support for the position). Under the regulations, if a listed transaction is not disclosed as required, the taxpayer will have additional penalty risks. While researching the tax consequences of a proposed transaction, a member concludes that the transaction is a listed transaction.

20. *Conclusion.* Notwithstanding the member’s conclusion that the transaction is a listed transaction, the member may still recommend a tax return position with respect to the transaction if he or she concludes that the proposed tax return position satisfies the realistic possibility standard. However, the member should inform the taxpayer of the enhanced disclosure requirements of listed transactions and the additional penalty risks for nondisclosure.

21. *Illustration 5.* The same regulations apply as in Illustration 4. The member first becomes aware that a taxpayer entered into a transaction while preparing the taxpayer’s return for the year of the transaction. While researching the tax consequences of the transaction, the member concludes that the taxpayer’s transaction is a listed transaction.

22. *Conclusion.* The member should inform the taxpayer of the enhanced disclosure requirement and the additional penalty risks for nondisclosure. If the taxpayer agrees to make the disclosure required by the regulation, the member may sign the return if the member concludes the associated tax return position satisfies the realistic possibility standard. Reasonable grounds for nondisclosure (see the conclusion to Illustration 3) generally are not present for a listed transaction. The member should not sign the return if the transaction is not disclosed. If the member is a nonsigning preparer of the return, the member should recommend that the taxpayer disclose the transaction.

23. *Illustration 6.* The same regulations apply as in Illustration 4. The member first becomes aware that a taxpayer entered into a transaction while preparing the taxpayer’s return for the year of the transaction. While researching the tax consequences of the transaction, the member concludes that there is uncertainty about whether the taxpayer’s transaction is a listed transaction.

24. *Conclusion.* The member should inform the taxpayer of the enhanced disclosure requirement and the additional penalty risks for nondisclosure. If the taxpayer agrees to make the disclosure required by the relevant regulation, the member may sign the return if the member concludes the associated tax return position satisfies the realistic possibility standard. If the taxpayer does not want to disclose the transaction because of the uncertainty about whether it is a listed transaction, the member may sign the return if the member concludes the associated tax return position satisfies the realistic possibility standard and there are reasonable grounds for the taxpayer’s position with regard to nondisclosure. In this regard, the member should consider SSTS No. 2, TS sec. 200.04, which indicates that the degree of uncertainty regarding the meaning of a question on a return may affect whether there are reasonable grounds for not responding to the question.

25. *Illustration 7.* A member advises a taxpayer concerning the tax consequences of a transaction involving a loan from a U.S. bank. In the process of reviewing documents associated with the proposed transaction, the member uncovers a reference to a deposit that a wholly owned foreign subsidiary of

the taxpayer will make with an overseas branch of the U.S. bank. The transaction documents appear to indicate that this deposit is linked to the U.S. bank's issuance of the loan.

26. *Conclusion.* The member should consider the effect, if any, of the deposit in advising the taxpayer about the tax consequences of the proposed transaction.

27. *Illustration 8.* Under the relevant tax law, the tax consequences of a leasing transaction depend on whether the property to be leased is reasonably expected to have a residual value of 15 percent of its value at the beginning of the lease. The member has relied on a taxpayer's instruction to use a particular assumption concerning the residual value.

28. *Conclusion.* Such reliance on the taxpayer's instructions may be appropriate if the assumption is supported by the expertise of the taxpayer, by the member's review of information provided by the taxpayer or a third party, or through the member's own knowledge or analysis.

29. *Illustration 9.* A member is assisting a taxpayer with evaluating a proposed equipment leasing transaction in which the estimated residual value of the equipment at the end of the lease term is critical to the tax consequences of the lease. The broker arranging the leasing transaction has prepared an analysis that sets out an explicit assumption concerning the equipment's estimated residual value.

30. *Conclusion.* The member should consider whether it is appropriate to rely on the broker's assumption concerning the estimated residual value of the equipment instead of obtaining a representation from the broker concerning estimated residual value or performing other procedures to validate the amount to be used as an estimate of residual value in connection with the member's advice. In considering the appropriateness of the broker's assumption, the member should consider, for example, factors such as the broker's experience in the area, the broker's methodology, and whether alternative sources of information are reasonably available.

31. *Illustration 10.* The tax consequences of a particular reorganization depend, in part, on the majority shareholder of a corporation not disposing of any stock received in the reorganization pursuant to a prearranged agreement to dispose of the stock.

32. *Conclusion.* The member should consider whether it is appropriate in rendering tax advice to assume that such a disposition will not occur or whether, under the circumstances, it is appropriate to request a written representation of the shareholder's intent concerning disposition as a condition to issuing an opinion on the reorganization.

33. *Illustration 11.* A taxpayer is considering a proposed transaction. The taxpayer and the taxpayer's attorney advise the member that the member is responsible for advising the taxpayer on the tax consequences of the transaction.

34. *Conclusion.* In addition to complying with the requirements of paragraph 6, the member generally should review all relevant draft transaction documents in formulating the member's tax advice relating to the transaction.

35. *Illustration 12.* A member is responsible for advising a taxpayer on the tax consequences of the taxpayer's estate plan.

36. *Conclusion.* Under the circumstances, the member should review the will and all other relevant documents to assess whether there appear to be any tax issues raised by the formulation or implementation of the estate plan.

37. *Illustration 13.* A member is assisting a taxpayer in connection with a proposed transaction that has been recommended by an investment bank. To support its recommendation, the investment bank offers a law firm's opinion on the tax consequences. The member reads the opinion, and notes that it is based on a hypothetical statement of facts rather than the taxpayer's facts.

38. *Conclusion.* The member may rely on the law firm's opinion when determining whether the realistic possibility standard has been satisfied with respect to the tax consequences of the hypothetical transaction if the member is satisfied about the source, relevance, and persuasiveness of the opinion. However, the member should be diligent in taking such steps as are appropriate under the circumstances to understand and evaluate the transaction as it applies to the taxpayer's specific situation by:

- Establishing the relevant background facts
- Considering the reasonableness of the assumptions and representations
- Applying the pertinent authorities to the relevant facts
- Considering the business purpose and economic substance of the transaction, if relevant to the tax consequences of the transaction (Mere reliance on a representation that there is business purpose or economic substance is generally insufficient.)
- Arriving at a conclusion supported by the authorities

39. *Illustration 14.* The facts are the same as in Illustration 13 except the member also notes that the law firm that prepared the opinion is one that has a reputation as being knowledgeable about the tax issues associated with the proposed transaction.

40. *Conclusion.* The conclusion is the same as the conclusion to Illustration 13, notwithstanding the expertise of the law firm.

41. *Illustration 15.* A member is assisting a taxpayer in connection with a proposed transaction that has been recommended by an investment bank. To support that recommendation, the investment bank offers a law firm's opinion about the tax consequences. The member reads the opinion, and notes that (unlike the opinions described in Illustrations 13 and 14), it is carefully tailored to the taxpayer's facts.

42. *Conclusion.* The member may rely on the opinion when determining whether the realistic possibility standard has been met with respect to the taxpayer's participation in the transaction if the member is satisfied about the source, relevance, and persuasiveness of the opinion. In making that determination, the member should consider whether the opinion indicates the law firm did all of the following:

- Established the relevant background facts
- Considered the reasonableness of the assumptions and representations
- Applied the pertinent authorities to the relevant facts
- Considered the business purpose and economic substance of the transaction, if relevant to the tax consequences of the transaction (mere reliance on a representation that there is business purpose or economic substance is generally insufficient.)
- Arrived at a conclusion supported by the authorities

43. *Illustration 16.* The facts are the same as in Illustration 15, except the member also notes that the law firm that prepared the opinion is one that has a reputation of being knowledgeable about the tax issues associated with the proposed transaction.

44. *Conclusion.* The conclusion is the same as the conclusion to Illustration 15, notwithstanding the expertise of the law firm.

45. *Illustration 17.* A member is assisting a taxpayer with year-end planning in connection with the taxpayer's proposed contribution of stock in a closely held corporation to a charitable organization. The taxpayer instructs the member to calculate the anticipated tax liability assuming a contribution of 10,000 shares to a tax-exempt organization assuming the stock has a fair market value of \$100 per share. The member is aware that on the taxpayer's gift tax returns for the prior year, the taxpayer indicated that her stock in the corporation was worth \$50 per share.

46. *Conclusion.* The member's calculation of the anticipated tax liability is subject to the general interpretations described in paragraphs 8 and 9. Accordingly, even though this potentially may be a case in which the value of the stock substantially appreciated during the year, the member should consider the reasonableness of the assumption and consistency with other information known to the member in connection with preparing the projection. The member should consider whether to document discussions concerning the increase in value of the stock with the taxpayer.

47. *Illustration 18.* The tax consequences to Target Corporation's shareholders of an acquisition turn in part on Acquiring Corporation's continuance of the trade or business of Target Corporation for some time after the acquisition. The member is preparing a tax opinion addressed to Target's shareholders. A colleague has drafted a tax opinion for the member's review. That opinion makes an explicit assumption that Acquiring will continue Target's business for two years following the acquisition.

48. *Conclusion.* In conducting the due diligence necessary to establish the relevant background facts, the member should consider whether it is appropriate to rely on an assumption concerning facts in lieu of a representation from another person. In this case, the member should make reasonable efforts to obtain a representation from Acquiring Corporation concerning its plan to continue Target's business and further consider whether to request a written representation to that effect.

49. *Illustration 19.* The member receives a telephone call from a taxpayer who is the sole shareholder of a corporation. The taxpayer indicates that he is thinking about exchanging his stock in the

corporation for stock in a publicly traded business. During the call, the member explains how the transaction should be structured so it will qualify as a tax-free acquisition.

50. *Conclusion.* Although oral advice may serve a taxpayer's needs appropriately in routine matters or in well-defined areas, written communications are recommended in important, unusual, or complicated transactions. The member should use professional judgment about the need to document oral advice.

51. *Illustration 20.* The member receives a telephone call from a taxpayer who wants to know whether he or she should lease or purchase a car. During the call, the member explains how the arrangement should be structured so as to help achieve the taxpayer's objectives.

52. *Conclusion.* In this situation, the member's response is in conformity with this Interpretation in view of the routine nature of the inquiry and the well-defined tax issues. However, the member should evaluate whether other considerations, such as avoiding misunderstanding with the taxpayer, suggest that the conversation should be documented.

Appendix F: Excerpts From the AICPA's Statement on Standards for Valuation Services

Members who provide a valuation report as part of a personal financial planning services engagement should refer to the AICPA's Statement on Standards for Valuation Services.

Foreword

Why Issued

Valuations of businesses, business ownership interests, securities, or intangible assets (hereinafter collectively referred to in this Foreword as *business valuations*) may be performed for a wide variety of purposes including the following:

1. Transactions (or potential transactions), such as acquisitions, mergers, leveraged buyouts, initial public offerings, employee stock ownership plans and other share based plans, partner and shareholder buy-ins or buyouts, and stock redemptions.
2. Litigation (or pending litigation) relating to matters such as marital dissolution, bankruptcy, contractual disputes, owner disputes, dissenting shareholder and minority ownership oppression cases, and employment and intellectual property disputes.
3. Compliance-oriented engagements, including (a) financial reporting and (b) tax matters such as corporate reorganizations; S corporation conversions; income, estate, and gift tax compliance; purchase price allocations; and charitable contributions.
4. Planning oriented engagements for income tax, estate tax, gift tax, mergers and acquisitions, and personal financial planning.

In recent years, the need for business valuations has increased significantly. Performing an engagement to estimate value involves special knowledge and skill.

Given the increasing number of members of the AICPA who are performing business valuation engagements or some aspect thereof, the AICPA Consulting Services Executive Committee has written this standard to improve the consistency and quality of practice among AICPA members performing business valuations. AICPA members will be required to follow this standard when they perform engagements to estimate value that culminate in the expression of a conclusion of value or a calculated value.

Introduction and Scope

.01 This Statement establishes standards for AICPA members (hereinafter referred to in this Statement as *members*) who are engaged to, or, as part of another engagement, estimate the value of a **business**, *business ownership interest*, *security*, or **intangible asset** (hereinafter

collectively referred to in this Statement as **subject interest**). For purposes of this Statement, the definition of a *business* includes not-for-profit entities or activities.

.02 As described in this Statement, the term **engagement to estimate value** refers to an engagement or any part of an engagement (for example, a tax, litigation, or acquisition-related engagement) that involves estimating the value of a subject interest. An engagement to estimate value culminates in the expression of either a **conclusion of value** or a **calculated value** (see paragraph .21). A member who performs an engagement to estimate value is referred to, in this Statement, as a **valuation analyst**.

.03 Valuation analysts should be aware of any governmental regulations and other professional standards applicable to the engagement, including the AICPA *Code of Professional Conduct* and the Statement on Standards for Consulting Services (SSCS) No. 1, *Consulting Services: Definitions and Standards* (AICPA, *Professional Standards*, vol. 2, CS sec. 100), and the extent to which they apply to engagements to estimate value. Compliance is the responsibility of the valuation analyst.

.04 In the process of estimating value as part of an engagement, the valuation analyst applies **valuation approaches** and **valuation methods**, as described in this Statement, and uses professional judgment. The use of professional judgment is an essential component of estimating value.

Exceptions From this Statement

.05 This Statement is not applicable to a member who participates in estimating the value of a subject interest as part of performing an attest engagement defined by Rule 101 of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 101.01) (for example, as part of an audit, review, or compilation engagement).

.06 This Statement is not applicable when the value of a subject interest is provided to the member by the client or a third party, and the member does not apply valuation approaches and methods, as discussed in this Statement.

.07 This Statement is not applicable to internal use assignments from employers to employee members not in the *practice of public accounting*, as that term is defined in the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET sec. 92.25). (Interpretation No. 1, "Scope of Applicable Services" of *Statement on Standards for Valuation Services*, Illustrations 24 and 25).

.08 This Statement is not applicable to engagements that are exclusively for the purpose of determining economic damages (for example, lost profits) unless those determinations include an engagement to estimate value. See also Interpretation No. 1, Illustrations 1, 2, and 3.

.09

(a) This Statement is not applicable to mechanical computations that do not rise to the level of an engagement to estimate value; that is, when the member does not apply valuation approaches and methods and does not use professional judgment. See Interpretation No. 1, Illustration 8.

(b) This Statement is not applicable when it is not practical or not reasonable to obtain or use relevant information; as a result, the member is unable to apply valuation approaches and methods that are described in this Statement.¹

Jurisdictional Exception

.10 If any part of this Statement differs from published governmental, judicial, or accounting authority, or such authority specifies valuation development procedures or valuation reporting procedures, then the valuation analyst should follow the applicable published authority or stated procedures with respect to that part applicable to the valuation in which the member is engaged. The other parts of this Statement continue in full force and effect (Valuation Services Interpretation No. 1).

Overall Engagement Considerations

Professional Competence

.11 Rule 201A, *Professional Competence*, of the AICPA *Code of Professional Conduct* (AICPA, *Professional Standards*, vol. 2, ET. sec. 201.01), states that a member shall “undertake only those professional services that the member or the member’s firm can reasonably expect to be completed with professional competence.” Performing a valuation engagement with professional competence involves special knowledge and skill. A valuation analyst should possess a level of knowledge of valuation principles and theory and a level of skill in the application of such principles that will enable him or her to identify, gather, and analyze data, consider and apply appropriate valuation approaches and methods, and use professional judgment in developing the estimate of value (whether a single amount or a range). An in-depth discussion of valuation theory and principles, and how and when to apply them, is not within the scope of this Statement.

Illustrations for PFP-Specific Engagements

These illustrations assume the member has not been engaged to perform a business valuation.

¹ Unless prohibited by statute or by rule, a member may use the client’s estimates for compliance reporting to a third party if the member determines that the estimates are reasonable (based on the facts and circumstances known to the member). See Interpretation No. 1, “Scope of Applicable Services” of *Statement on Standards for Valuation Services* and *Statement for Standards on Tax Services* No. 4.

.82 *Illustration 26.* When does the Statement apply to members who determine values related to personal financial planning engagements?

.83 *Conclusion.* The Statement applies to personal financial planning engagements when the member determines the value of a business, business ownership interest, security, or intangible asset (SSVS paragraph 1) and in the process of determining the value applies valuation approaches and methods and uses professional judgment (SSVS paragraph 4) unless an exception applies (SSVS paragraphs 5–10).

.84 *Illustration 27.* If a member is engaged to provide personal financial planning services to a client and, in the course of the engagement, estimates the proceeds from a hypothetical future sale of the client’s business interest, does the Statement apply?

.85 *Conclusion.* No. The Statement does not apply because estimate of future sales proceeds does not in itself constitute a valuation engagement (SSVS paragraphs 1 and 4).

.86 *Illustration 28.* A member is engaged to provide personal financial planning services to a client and, in the course of the engagement, estimates the proceeds from a hypothetical future sale of the client’s business interest. As part of that engagement, the member shares general industry knowledge to assist the client in estimating the current value of the business interest. Does the Statement apply?

.87 *Conclusion:*

- (a) If, in the process of determining the current value from which the member estimates future sales proceeds, the member applies valuation approaches and methods and uses professional judgment, the Statement applies to the determination of the current value (SSVS paragraph 4). However, the Statement does not apply when the member shares general industry knowledge with the client instead of applying professional judgment.
- (b) If the client or another party provides the current value, and the member does not apply valuation approaches and methods, the Statement does not apply (SSVS paragraphs 4 and 6).
- (c) If the member uses a hypothetical or assumed value as the starting point for the calculation of future sales proceeds and does not apply valuation approaches and methods, the Statement does not apply (SSVS paragraphs 1 and 4). The Statement does not apply to a general discussion with the client of valuation concepts or industry price multiples based on the member’s industry knowledge, which assists the client in determining a hypothetical or assumed value (SSVS paragraphs 4 and 6).

.88 *Illustration 29.* The client has asked the member to prepare a personal financial plan that includes an estimate of future proceeds from a sale of the business interest at retirement. The member estimates the future proceeds based on an estimate of the business’ current value by applying a rule of thumb for the business’ industry, but the member does not consider the

risk factors of the subject interest or exercise other professional judgment in applying the multiple. Does the Statement apply?

.89 *Conclusion.* No, the Statement does not apply because the member did not use professional judgment (SSVS paragraph 4). If the member considers specific risk factors of the business interest in applying the price multiple, the Statement applies

Appendix G: Illustration: Implementation Involving Risk Management

Background

1. The member is engaged to help a client take action on a planning decision that disability insurance be purchased. The member has the qualifications and requisite licenses to advise the client regarding the selection of disability insurance.

Communication

2. To help the client better understand the implementation decision-making process, the member should review with the client the disability coverage identified in the personal financial planning services engagement, including options such as loss of earnings coverage, definition of occupation, coverage amounts, and exclusion periods. The member should reach agreement with the client on the procedures to be performed, which may include some or all the procedures outlined in this appendix. Agreement should also be reached on who is responsible to perform each of the activities.

Strategy Development

Planning the Engagement

3. Identify available insurance products and carriers and clearly define who is responsible for reviewing the proposals provided by the solicited insurance carriers. A schedule of required actions should be developed that includes how and when the actions will take place.

Establishing Selection Criteria

4. Identify the characteristics of disability insurance products that meet the criteria identified in the personal financial planning services engagement. These characteristics generally include the following:

- a. Appropriate protection levels, considering factors such as the amount of coverage needed, how disability is defined, the waiting period to receive benefits, partial disability coverage, and duration of benefits
- b. Optional coverage conditions, such as cost-of-living adjustments, guaranteed insurability riders, and waiver of premium riders
- c. Minimum quality standards for disability coverage, generally based on the insurer's financial stability

Participating in the Selection Process

5. Identify and solicit proposals from insurance carriers whose disability products meet the established criteria.
6. When selecting a specific disability insurance product, review and discuss with the client the financial stability of the company providing coverage and determine that the policy meets the following criteria:
 - a. The client's goals, as identified in the personal financial planning services engagement, are satisfied.
 - b. The policy is cost-effective when compared to other insurance company proposals received.
 - c. The insurance carrier has demonstrated a commitment to servicing the disability market.

Documentation

7. Document meetings, discussions, or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections and the results of reviewing proposals from various insurance carriers. The member may supplement such documentation by indicating when the application was filled out, insurance coverage was bound, and the policy was issued. The member may also document any insurability issues and the ultimate resolution of those issues.

Appendix H: Illustration: Implementation Involving Investment Planning

Background

1. The member is engaged to assist a client in structuring an investment portfolio to provide for the client's postretirement needs. The member has the expertise and requisite licenses to advise the client regarding investment planning.

Communication

2. To help the client understand the implementation decision-making process, the member should discuss the client's risk tolerance, expected rate-of-return goal, tax sensitivity, distribution requirements (time horizon), and investment constraints, as well as the asset allocation model(s) and investment alternatives (if any), identified in the personal financial plan or the investment policy statement.

3. The member should clearly communicate whether discretion for selecting the investment alternatives will be given to the member, as well as all costs associated with the implementation decisions.

Strategy Development and Product Selection

Planning the Engagement

4. The member and the client should agree on whether the member, the client, or another service provider is responsible for identifying available investment alternatives and clearly define who is responsible for reviewing prospectuses, partnership agreements, offering documents, and other relevant documents and reports. A schedule of required actions, including how, when, and where these actions will take place, should be developed.

- a. Other service providers may include money managers (separate account money managers mutual funds), general partners of partnerships, investment bankers, and stockbrokers.
- b. The rest of this illustration assumes that the member is responsible for identifying the appropriate investment alternatives and reviewing the related documents.

Establishing Selection Criteria

5. The member should develop the appropriate investment strategy (if this has not already been done) based on the specific investment criteria (for example, tax sensitivity), rate of return requirements, time horizon, and risk tolerance of the client, as identified in the personal financial planning services engagement. This typically includes the following:

- a. Developing an appropriate investment class allocation, including the amount of investment resources to be invested in traditional assets such as cash equivalents, stocks, or bonds, and the amount of investment resources to be invested in alternative assets such as real estate, timber, commodities, or other nontraditional investments.
- b. Developing an appropriate subclass allocation within each investment class if this has not already been done; for example, allocating the stock allocation to the U.S. versus international, “growth” versus “value,” small-cap versus large-cap, and developed versus emerging markets securities.

6. The member should adequately document the agreed-to investment policy in a formal investment policy statement (IPS) if this has not already been done. The member may want to refer to “Prudent Investment Practices for Investment Advisors”¹ for what an IPS should contain.

Participating in the Selection Process

7. When selecting specific investment assets, if the member does not have discretion over investment decisions, the member should review and discuss with the client the available investment alternatives and identify those investments that are consistent with the client’s IPS.

Documentation

8. The member should document in writing the meetings, discussions or other contacts with the client and indicate the decisions regarding responsibilities for actions and product selections. The member may supplement such documentation by providing the client with an inventory of investment assets in the client’s portfolio along with a description of values, yields, portfolio percentages, and so forth. A formal written investment policy statement should be established if one has not already been created by another service provider.

9. See all previous references in this SOR to disclosures required regarding compensation, conflicts of interest, and responsibilities when working with other service providers.

¹ <http://pfp.aicpa.org/Resources/PFP+Practice+Management/Fiduciary+Responsibility/Prudent+Practices+for+Investment+Advisors.htm>.