

Fiduciary investment practices create emerging assurance services opportunities

by Robert E. Lynn and David J. Bromelkamp

Investment professionals now have an integrated set of standards for all phases of the planning and implementation of their services.

A handbook that identifies twenty-seven practices, which together form a comprehensive, prudent management process for investment fiduciaries, has just been published by the Foundation for Fiduciary Studies (the Foundation). Its intended audience is those who have legal responsibility for managing the investable assets of others, and who, because of the continuous, comprehensive nature of their involvement, must perform these services with a fiduciary standard of care. Investment fiduciaries include, among others, investment committees and trustees of retirement plans, private bankers, financial planners who offer comprehensive investment management, and trustees of private trusts.

Available through the Foundation's web site, www.ffstudies.org, the work is entitled *Prudent Investment Practices: A Handbook for Investment Fiduciaries*. The AICPA Personal Financial Planning Division assisted with technical editing. The AICPA's goal is to promote and protect the interests of the investing public and to perpetuate the delivery of competent, objective investment advice. The AICPA has committed substantial resources to a marketing campaign to make all financial advisers and the public aware of the promulgation of these standards.

Through industry dialogue, publicity campaigns and court tests, the practices may evolve as benchmarks for prudent discharge of fiduciary investment management duties. Acceptance and endorsement by the AICPA, the Certified Financial Planner™ Board of Standards, the American Bar Association, the Financial Planning Association, and other organizations may accelerate this process.

As acceptance of these practice standards develops, CPAs may be able to provide a new assurance service, by examining and reporting on investment advisory firms' adherence to them. An academic program has been developed to systematize this assurance reporting, as well as one for investment professionals who wish to implement the practices. Many different stakeholders will have an interest in this reporting, since the practice standards not only demand the highest level of care, but also provide a framework for realizing the particular investment goals of each client.

The Foundation itself has been soliciting comments from investment professionals about the development of a practice regime since its inception. It has become the

national clearinghouse for this dialogue and the development of integrated fiduciary investment practices. Its board of directors comprises all the disciplines informing prudent investment management, including attorneys, CPAs, investment advisers, and academics. As a result, the Handbook represents a consensus view that should be immediately viewed as authoritative guidance.

Within the Handbook, each of the twenty-seven practices is supported by relevant sections of three major works of fiduciary law: the Employee Retirement Income Security Act (ERISA), the Uniform Prudent Investor Act (UPIA) and the Uniform Management of Public Employee Retirement Systems Act (MPERS). The Foundation retained the law firm of Reisch, Luftman, McDaniel & Reicher to research, interpret and annotate the provisions of these laws that mandate each of the twenty-seven investment practices. To provide comprehensive technical detail, the Foundation has also published Legal Memoranda for Prudent Investment Practices which provides the firm's complete legal analysis for each of the practices.

The Foundation shares its mission with a sister organization, the Center for Fiduciary Studies (the Center). Located at the Katz Graduate School of Business of the University of Pittsburgh, the Center offers academic programs leading to the designations of Accredited Investment Fiduciary™ (AIF), for those who manage investments, and Accredited Investment Fiduciary Auditor™ (AIFA), for those who report on adherence to practice standards. Information about the programs is available at the Center's web site, www.cfstudies.com. These programs offer practical knowledge for the application of the practices in making investment management decisions.

CPAs in public practice should welcome the development of these standards as an emerging assurance services opportunity. To those who offer financial planning services, as well as many CPAs in the private sector, it may also provide a way to limit exposure to various legal claims arising from investment management. All CPAs and all investors should be gratified that specific, rigorous standards can now be used to guide the process. □



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