



Frequently Asked Questions (FAQs): NAPFA Membership Standards Update Regarding Trailing Commissions

What has NAPFA changed about its membership standards?

- The NAPFA Board of Directors recently voted to update its membership standards to allow financial advisors with a de minimis amount of trailing commission compensation a pathway to becoming a NAPFA member if there is no other Sales-Related Compensation and if they relinquish said trailing commission through a three-tiered process.

Why did NAPFA make this change to its membership standards?

- NAPFA adjusted its membership requirements to align more closely with CFP Board's updated standards for two primary reasons – our profession and our consumers.
 1. For our profession, the decision provides an opportunity to advisors currently practicing comprehensive, Fee-Only financial planning, but otherwise have been unable to drop their de minimis trailing commissions compensation, a pathway toward membership.
 2. For our consumers, the decision allows NAPFA to continue the advancement of Fee-Only financial planning by aligning with other like-minded financial planning organizations to follow a consistent definition of Fee-Only financial planning. A common definition within the profession promotes greater consumer understanding and transparency of Fee-Only advising and allows NAPFA members to continue to deliver the highest professional and ethical standards to clients.

Will this NAPFA update to its membership standards increase membership?

- NAPFA's Board of Directors does **not** believe the update to its membership standards regarding trailing commissions will substantially affect membership numbers. This policy change allows NAPFA to continue its mission of supporting eligible Fee-Only financial advisors and their clients, who value the transparency and objectivity that come with a Fee-Only compensation structure.

Will these changes affect your high standards for all NAPFA-Registered Financial Advisor designations?

- NAPFA has a rigorous application process and high professional, ethical and fiduciary standards for our advisors to represent themselves as Fee-Only, including the CFP certification and the Fiduciary Oath committing advisors to put the client's interest ahead of their own. This update will not change our rigorous standards.

What are the limited circumstances where NAPFA would find that a potential NAPFA member or their firm's compensation method may be referred to as Fee-Only, notwithstanding the receipt of a trailing commission?

- For an applicant with a de minimis amount of trailing commission compensation to qualify for NAPFA membership, they must:
 - Not receive any other Sales-Related compensation;

- Receive no more than \$2,500 annually in trailing commission compensation;
- Relinquish said trailing commission through a three-tiered process
 - Request a transfer or assignment of the financial assets paying trailing commission to a person or entity that is not a related party;
 - If the assets are unable to be transferred, the applicant must contact the entities paying the trailing commission and request that these entities discontinue paying any trailing commission;
 - If neither of those options is successful, the applicant may donate any remaining trailing commission to a 501 c(3) charity.

Are NAPFA's standards and requirements the same as the CFP Board's Fee-Only requirements regarding trailing commission?

- No, NAPFA's membership requirements regarding trailing commissions are **more stringent** than the CFP Board's, requiring our members to:
 - Receive no more than \$2,500 annually in trailing commission compensation to be eligible for membership.
 - Submit yearly attestations that trailing commissions continue to be donated to a 501 c(3) and submit proof of the donation.

If an advisor exhausts all their options for relinquishing their trailing commission and chooses to donate them, how will NAPFA know?

- For an advisor who donates any trailing compensation to charity to be eligible for membership, NAPFA requires them to submit documentation showing that the total amount of trailing commission compensation they received was donated to a 501 c(3) charity. To be eligible for continued membership with NAPFA, these members are required to attest yearly that they continue to donate any trails compensation to a 501 c(3) charity.

If an advisor donates their trailing commission as their first step in eliminating trails, are they eligible for NAPFA membership?

- No, the advisor must follow the three-tiered process for relinquishing their trailing commission compensation to be eligible for membership.
 - They must first request a transfer or assignment of the financial assets paying trailing commission to a person or entity that is not a related party;
 - If the assets are unable to be transferred, the advisor must contact the entities paying the trailing commission and request that these entities discontinue paying any trailing commission.
- If the advisor is not successful in relinquishing said trailing commission through the other tiers, they may then donate any and all remaining trailing commission to a 501 c(3) charity.

What happens if a NAPFA member is found to be in violation of the requirements for maintaining their charitable donation of trailing commission?

- The advisor's NAPFA membership would be terminated and reported to the CFP Board for violating Fee-Only standards.

Can someone who actively sells insurance now be a NAPFA member?

- No, financial advisors who actively sell insurance are ineligible for NAPFA membership. NAPFA members may hold an insurance license if it is disclosed in their ADV that they are not selling insurance, as some states require an insurance license to provide insurance advice to clients.