

Pursuit of Third-Party Accreditation on the Horizon for More Financial Services Designations

By Catherine Newton

The financial services industry took notice in March 2008 when the North American Securities Administrators Association (NASAA) approved a model rule prohibiting the misleading use of senior-specific designations.¹ The aim of the rule is to counter problems with unsuitable investments being sold to older Americans by individuals who tout credentials that imply competence in advising seniors when, in fact, the designations are little more than marketing tools.

Many in the industry see the development as a bellwether for other financial services designations. “Consumers are confused by all of these designations,” said Jim Flinchum, CIMA®, managing principal at Bay Capital Advisors in Virginia Beach, VA. “Even those of us in the industry don’t always know if a credential is legitimate or not. The NASAA model rule is a step in the right direction. It will help the industry lose some designations and improve the quality of others.”

The model rule states that securities administrators may accept the use of certain designations conferred by an organization that has been accredited by a third party. This outside, third-party accreditation can come from the American National Standards Institute

(ANSI), the National Commission for Certifying Agencies (NCCA), or from entities approved by the U.S. Department of Education as qualified to accredit institutions offering designations—as long as the designations and credentials do not apply primarily to sales or marketing.

Direct and Indirect Effects

Maryland Securities Commissioner Melanie Lubin chaired the NASAA task force that developed the model rule.

“As states adopt the rule, we think it will have two effects,” she said. “First, it will provide guidance to individuals using designations on the appropriate use of a senior-specific designation. Second, it will put investors and consumers on notice to pay close attention to an advisor’s designations because they are not always what they appear to be. The requirements to obtain designations and certifications vary greatly, as can the processes for monitoring compliance with a code of conduct or ethics, if any. We want investors to be smart, educated, and skeptical when it comes to choosing an advisor.”

To date, Alabama, California, Florida, Missouri, New Hampshire, Virginia, and Washington have either adopted or proposed legislation or regulation based on the model rule. Massachusetts and

Iowa took similar action prior to the rule’s adoption.

“The model rule provides a clear, bright dividing line between those senior-specific certifications that are permitted and those that are not,” said Patricia Struck, past president of NASAA and administrator of Wisconsin’s Department of Financial Institutions, Division of Securities.

In Nebraska, regulators have gone one step further. All financial services designations, senior-specific or not, must be on Nebraska’s list of reviewed designations before an investment advisor or broker–dealer agent in the state can use the designations on letterhead, business cards, or in advertising. (CIMA® and CIMC® designations are on Nebraska’s reviewed list, and IMCA recently applied to have the CPWASM designation added.)

Edythe (Dede) McClatchy Pahl, IMCA executive director, said that while the model rule does not directly impact the CIMA, CIMC, and CPWA designations because they are not senior-specific, the rule could have an indirect effect. “For example, the compliance departments of financial services firms could very well look at the model rule and apply its criteria to every designation that their employees use,” she said. “And, as we’ve seen in Nebraska, individual

Financial Services Designations: Separating the Wheat from the Chaff

A recent visit to the Web site of the Financial Industry Regulatory Authority (FINRA, www.finra.org) revealed a list of 87 financial services designations, including the CIMA®, CIMC®, and CPWASM designations. But FINRA also includes a strong disclaimer, warning that being included in the list in no way implies FINRA endorsement, nor that either FINRA or state securities regulators consider a listed designation to be acceptable for use by registered persons and investment advisor representatives. In no uncertain terms, the disclaimer states: “The criteria used by organizations that grant professional designations for investment professionals vary greatly....Some require formal certification procedures including examinations and continuing professional education credits. Others may merely signify that membership dues have been paid.”

So how can professionals and consumers separate quality designations from those that exaggerate expertise or are little more than marketing gimmicks? Third-party accreditation is one way, but currently only one certification program in the financial services arena (the Certified Financial Planner designation) has received third-party accreditation. Until other certifying organizations follow suit, do your homework before relying on the quality of a designation, says Roy Swift,

Ph.D., program director for personnel certification accreditation at ANSI.

When investigating a designation or certification, Swift suggests asking the following questions:

- Who are the members of the certification committee that approved the studies leading to the requirements for obtaining the credential? Are they experts in their field?
- Has a job analysis or job study been conducted to validate that the competencies required by the credential are reflective of good practice?
- Does the examination’s blueprint reflect the job study?
- Have test development experts helped design the examination to ensure its fairness, validity, and reliability?
- Does the organization have a code of ethics?
- Are complaint and appeal procedures in place?
- Is there a recertification program to ensure continued competency?
- If the organization sub-contracts to another group, such as a testing agency, is it a recognized entity?
- How long has the organization that awards the designation been in business, and how many individuals have been certified during that time?

states could decide to go beyond senior-specific designations.”

Third-Party Distinction

The model rule’s acceptance of third-party accreditation also has caught the attention of industry insiders, and Ms. Pahl predicts a scramble by certifying organizations to apply for accreditation. In fact, some organizations started considering the pursuit of third-party accreditation well before NASAA adopted the model rule. IMCA is one such organization.

“IMCA’s certification committee started looking at accreditation two years ago as a way to increase the value of the CIMA designation for investment management consultants,” explained Mr. Flinchum, a member of the 10-per-

son certification committee. “Third-party accreditation also would give consumers a benchmark against which to judge the validity of the designation.”

Roy Swift, Ph.D., program director for personnel certification accreditation at ANSI in Washington, D.C., says that “third-party” is the defining distinction when it comes to accreditation. “It ensures the public that accreditation has been granted by an outside organization with no connection to the credential,” he said. “Further, accreditation by an organization like ANSI can have value around the world, because we are part of the International Accreditation Forum (IAF), which works toward worldwide acceptance of accredited certification bodies. In addition, our accreditation standard is not only an American Na-

tional Standard (ANS), but is an international ISO (International Organization for Standardization) Standard.”

Added Ms. Lubin, the Maryland securities commissioner, “ANSI and NCCA are the most well-known of the accrediting bodies and have an established reputation of setting appropriate standards for earning accreditation.”

Steps to Accreditation

According to Dr. Swift, one of the first steps a certifying organization must take to obtain accreditation is to perform a job-analysis study that documents the competencies required to perform the job for which the credential is being awarded. “We want to know what are the required competencies for people to be successful in their job, how



often they do the tasks, and how critical the task is to the performance of the job,” Dr. Swift said.


The job study establishes competency standards for the discipline, which then allows the organization to develop a certification examination that tests those competencies. Then, ANSI reviews the assessment tools against that set of specific criteria. “The assessment must be fair—it must not disenfranchise any culture or population,” Dr. Swift said. “It must be valid—it must measure what it says it measures. And, the examination’s results must be reliable, or consistent, over time.”

Some of the many requirements for third-party accreditation include an independent and impartial organizational structure, procedures for complaints and appeals, and a continuing competency requirement. In addition, the certifying body itself is reviewed for sound operating

procedures and governance policies, as well as for financial stability. “Taken together, these requirements represent best practices in the certification world,” said Gary Diffendaffer, IMCA’s director of certification. “Third-party accreditation provides assurance to consumers, regulators, and those seeking the designation that it is a solid, real certification.”

Mr. Flinchum reported that IMCA completed a job-analysis study in October 2007 and announced the results in February 2008. Those results now are being used by IMCA’s certification committee to evaluate current examination questions and write new ones. “The committee also has reviewed the education requirements for CIMA candidates, and we have established a task force to make sure that IMCA’s ethics oversight process is consistent with the requirements of third-party accreditors,” he said.

Mr. Flinchum declined to speculate about a timeline for the process, noting that many pieces must come together before IMCA submits an application for accreditation. “However, the process is moving along pretty smoothly, and IMCA already is in compliance with many of the third-party accreditation standards,” he said.

“The bottom line is that these efforts will protect and increase the value of the CIMA designation for the nearly 6,000 individuals who have made the commitment to the credential.” 

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Endnote

¹ To read the model rule, visit http://www.nasaa.org/content/Files/Senior_Model_Rule_Adopted.pdf.

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