

## FAQs on Commissions

- **What is the difference between a commission and a referral fee?**

A commission is compensation for recommending a product for sale or service to be provided by the CPA or a third party. The commission is always based on whether the product is purchased or the service is provided. A referral fee is compensation paid by a third party to a CPA for referring a client to the third party for the sale of a product or service to be provided by the third party. The referral fee is usually not based on whether the product is purchased or the service is provided to the client.

- **Can I accept a commission or referral fee from an audit or review client?**

Pursuant to 21 NCAC 8N .0303(c), a CPA shall not for a commission recommend or refer to a client any product or service, or for a commission recommend or refer any product or service to be supplied by a client, or receive a commission when the CPA also performs for that client an audit or review of a financial statement. In addition, a CPA or firm cannot receive a commission or referral fee from an audit or review client indirectly through another firm, alternative business structure, or affiliated company. This includes asset management fees, which for the purposes of this rule, the Board considers commissions.

A CPA may receive a commission or referral fee from a client to whom the CPA provides a compilation of a financial statement only when the CPA expects, or reasonably might expect, that a third party will not use the financial statement or if the compilation report prepared by the CPA discloses a lack of independence.

The prohibition of commissions and referral fees applies during the period in which the CPA or firm is engaged to perform the services, as well as the period covered by the historical financial statements involved in the services. Pursuant to 21 NCAC 8N .0303(e), a CPA, when accepting a commission, referral fee, or contingent fee, shall provide the client with a written disclosure regarding the service or product to be rendered or referred with the commission, referral fee, or contingent fee, to be charged or received.

- **I have a friend who is a licensed real estate broker. May I receive a referral fee for referring a client to him? May I receive a commission if my friend sells a house to my client?**

In North Carolina, only individuals licensed by the NC Real Estate Commission (NCREC) may receive a referral fee for the referral of a client or receive a commission for the sale of real estate, so you may not receive a referral fee or commission from your friend.

- **My friend is a licensed insurance agent. May I receive a referral fee for referring a client to her? May I receive a commission if the client purchases a policy from my friend?**

A CPA may receive a referral fee from a licensed agent, agency, or insurance company as long as the fee is not contingent upon the sale of an insurance product or service. The NC Department of Insurance (NCDOI) prohibits referral fees based on a sale. A CPA who is licensed by the NCDOI may be paid a commission by, or split a commission with, a licensed agent, agency, or insurance company for the sale of products or services to a client that is referred to the agent, agency, or insurance company by the CPA.

- **I have a friend who is a stockbroker. May I receive a referral fee for referring a client to him? May I receive a commission if my friend sells stocks or mutual funds to the client?**

A stockbroker may not pay a referral fee to any person other than a licensed employee of the broker/dealer firm. Likewise, a stockbroker may not pay to, or split a commission with, any person other than a licensed employee of the broker/dealer firm.

- **May a CPA receive a referral fee or commission from a registered investment advisory firm?**

A CPA may receive a referral fee for referring a client to a registered investment advisory (RIA) firm only if the CPA is properly registered as an investment advisory representative (IA) with the RIA firm. In some cases, there may be an exception to registering as an IA. The Securities Division of the Office of the NC Secretary of State can provide information on registering as an IA or an RIA firm. A CPA may receive a commission from the RIA firm for placement of a client's funds for asset management by the RIA firm. A CPA may be registered with more than one investment adviser only in the following two situations: 1) all of the investment advisers with whom the investment adviser representative wishes to be associated are under common ownership or control, or 2) the investment adviser representative is acting as a "solicitor" for more than one investment adviser firm. A solicitor is a person who receives compensation for referring business to an investment adviser firm.

- **What, if anything, am I required to disclose to a client if I receive a referral fee or commission?**

A disclosure to a client regarding a referral fee or commission must meet the following requirements:

- The disclosure must be in writing;
- The disclosure must be dated;
- The disclosure must state the scope of the service or product to be rendered or referred, as well as the amount of the referral fee or commission to be charged;
- The disclosure must be made by the CPA and signed by the client within ten business days of the referral, sale, or performance of services;
- The disclosure must be made on every referral, sale, or service to be provided to the client; and
- A copy of the disclosure must be provided to the client.

- **Are there any Board rules that I should read and understand before I accept a referral fee or commission?**

Before accepting a referral fee or commission, you should be familiar with the following Board rules found in 21 NCAC:

- 8N .0202(b)(6)(7)(8) Deceptive Conduct Prohibited
- 8N .0204(a) Discipline by Federal and State Authorities
- 8N .0205(a) Confidentiality
- 8N .0212 Competence
- 8N .0301(a) Professional Judgment
- 8N .0303 Objectivity and Conflicts of Interest
- 8N .0304 Management Consulting Services Standards
- 8N .0305 Retention of Client Records
- 8N .0402 Independence

For more information, contact the agencies as listed below:

Licensed real estate brokers:  
NC Real Estate Commission  
(919) 875-3700

Licensed insurance agents, agencies or companies:  
NC Department of Insurance  
(919) 733-7487

Registered investment advisory representatives and registered investment advisory firms:  
Securities Division Office of the NC Secretary of State  
(919) 733-3924