

COMMISSION OR SIMILAR COMPENSATION ARRANGEMENTS

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As a CPA providing professional services,¹ you may be asked to refer clients to the products or services of others, or you may obtain clients through referrals. Receiving and paying commissions or similar compensation² in these instances can represent a threat to the fundamental principle of objectivity.

This article aims to help CPAs understand the requirements in the CPA Code related to commissions and similar compensation arrangements, through various scenario analyses.

Understanding the rules

It is important to understand the basic prohibition in the CPA Code on commissions and similar compensation arrangements.

The CPA Code **prohibits** you and your firm from directly or indirectly paying or receiving any compensation for:

- obtaining an assurance client,³
- referring an assurance client to others,
- referring the products or services of others to your assurance client, or
- providing *other professional services*⁴ to your assurance clients.⁵

As an exception, if you are engaged in the practice of public accounting,⁶ **you can**:

- pay compensation for referrals of clients or assurance clients to your firm from partners, owners and employees of your practice, or from other members or firms engaged or employed in the practice of public accounting;⁷ and
- pay or receive compensation for the sale or purchase of a public accounting practice.⁸

1 Professional services apply to all members and firms and are not restricted only to those who are engaged in the practice of public accounting. It includes those of a member's or firm's activities, whether undertaken for remuneration or not, where clients, employers, the public or professional colleagues are entitled to rely on membership or registration with the Chartered Professional Accountants of Ontario ("CPA Ontario") as giving the member or firm particular competence and requiring due care, integrity and an objective state of mind.

2 Compensation includes, but is not limited to, a commission, rebate, preference, discount, benefit or other consideration, whether monetary or non-monetary, but does not include a fee for services; Rule 216.

3 An assurance client is an entity in respect of which a member or firm has been engaged to perform an assurance engagement as contemplated in the CPA Canada Handbook-Assurance. In the application of Rule 216, "assurance client" includes its related entities, and the reference to an assurance client, a client or an entity that is an assurance client shall be read as including all related entities of the assurance client, client or entity as the case may be; Rule 216.

4 Other professional services include the sale of products or services of a third party, including software, investment or insurance products and wealth management services. Third parties could include an investment dealer, portfolio manager, insurance broker or software provider; Rule 216 guidance paragraph 2.

5 Rule 216.2

6 Public accounting refers to both the "practice of public accounting" and "providing accounting services to the public", as defined in the By-law

7 Rule 216.3

8 Rule 216.4

Relevant rules in the [CPA Code of Professional Conduct \(CPA Code\):](#)

- Rule 214, *Fee Quotations and billings*
- Rule 216, *Commission or similar compensation arrangements*
- Rule 217, *Advertising, Solicitation and Endorsements*
- Rule 409, *Practice of public accounting in corporate form*

[CPA Ontario By-Law](#) (By-law):

- 1.1.48, practice of public accounting
- 1.1.53, providing accounting services to the public



Where it is not prohibited, you can pay or receive compensation related to obtaining a client or referring the products or services of others, as long as you identify the threats to your objectivity and evaluate their significance. If the threats are other than clearly insignificant, you must:

- disclose the compensation to the client in writing,
- obtain consent of the client prior to receipt of the compensation, and
- identify and apply any additional safeguards as appropriate to reduce the threats to an acceptable level.⁹

Additional safeguards include:

- prior disclosure of the relationship between you or your firm and the provider of the product or service;
- ongoing disclosure of the compensation to the client, including any periodic fees to you or your firm after the initial purchase/referral; and
- presenting your client with alternative products, service providers or compensation structures, allowing them to make the final choice as to the products or services to be provided and the basis for your or your firm's compensation.¹⁰

If appropriate safeguards are not available to reduce threats to an acceptable level, you or your firm cannot pay or accept the compensation.

Note that transactions giving rise to the payment or receipt of compensation for the referral of the products or services of others are frequently governed by statutes or regulations that set out specific additional licensing, registration, disclosure and other requirements.

⁹ Rule 216.1

¹⁰ Rule 216, guidance paragraph 3

Scenarios

These scenarios illustrate the application of the commission and other compensation rules in the CPA Code:

Scenario	Application of Rule 216	Explanation and additional considerations
<p>Your firm performs an assurance engagement and provides wealth management services to the same client.</p> <p>As part of the wealth management services provided (which are considered other professional services), can your firm receive commissions for referring products or services of others (such as mutual funds) to your assurance client?</p>	<p>Your firm is prohibited from receiving any compensation for referring the products or services of others, or for providing other professional services, to your assurance client.</p>	<p>To provide other professional services to assurance clients, your firm must bill for those services in a manner that does not involve receipt of commissions or other compensation. Alternative compensation structures may include:¹¹</p> <ul style="list-style-type: none"> • billing the client at an hourly rate for service, • charging a fee based on a percentage of the assets under your administration, • value billing¹² if the other professional services provided involve specialized knowledge or expertise. <p>Remember to always render billings on a fair and reasonable basis and only quote a fee for any professional engagement after you have adequate information about the engagement.¹³ Document all fee arrangements, obtain the client's approval and ensure fees are paid directly by the client using client funds, and not by a third party.</p>
<p>Your firm performs an audit engagement for a client.</p> <p>Rather than pay your firm directly for the audit, can your client have their wealth management company pay you using the client's funds?</p>	<p>This type of payment arrangement is not prohibited since the funds are coming from your client's account.</p>	<p>For convenience, the assurance client may expressly and in writing direct the wealth management company to pay your fees related to assurance services from their funds held with the wealth manager.</p> <p>However, if you receive a commission or other compensation from a third party for the referral of investment products or services to an assurance client, the full amount of the payment should be paid or credited to the client or returned to the wealth manager.</p>
<p>Your firm provides compilation and taxation services and sells insurance products to the same client.</p> <p>Can your firm receive commissions on the sale of insurance products?</p>	<p>Receiving commissions on the sale of insurance products to a non-assurance client is not prohibited.</p>	<p>Although receiving commissions is not prohibited in this situation, you are required to apply the threats and safeguards approach as mentioned above.</p> <p>If you are recommending that the client purchase the insurance products or services of others, ensure you have sufficient knowledge or expertise to make an informed and considered assessment of the product or service. Consider requirements in the CPA Code Rule.¹⁴</p>

¹¹ Rule 216, guidance paragraph 6

¹² Rule 214 permits value billings based on certain criteria.

¹³ Rule 214

¹⁴ Rule 217.3



Scenario	Application of Rule 216	Explanation and additional considerations
<p>You work for a company that provides wealth management services.</p> <p>In your role, you sell life insurance products to clients for which you also provide taxation services involving advice, counsel or interpretation. You have confirmed that the provision of tax services on an incidental basis through the wealth management business is allowed under the rules in the CPA Code.¹⁵</p> <p>Can you receive commissions on the life insurance products you refer to clients?</p>	<p>Receiving commissions on the sale of life insurance products to your non-assurance clients is not prohibited.</p>	<p>Although receiving commissions is not prohibited in this situation, you are required to apply the threats and safeguards approach as mentioned above.</p>
<p>You run a business with your wife that provides wealth management services. You also own an accounting practice that has assurance clients.</p> <p>Can the wealth management business receive commissions from providing wealth management services to your assurance clients?</p>	<p>The wealth management business cannot receive commissions from providing wealth management services to your assurance clients since you and your firm are prohibited from <i>directly or indirectly</i> paying or receiving any compensation for referring the products or services of others, or for providing other professional services, to your assurance clients.</p>	<p>As the wealth management business and the accounting practice are related businesses, compensation received by the wealth management business is considered to be indirectly received by the accounting practice.¹⁶</p>

As no two situations are identical, you are responsible for ensuring that your own situation complies with the [CPA Code of Professional Conduct](#), [By-law](#) and [Regulations](#). Please note that this article is considered to be non-authoritative guidance only.

¹⁵ Rule 409(b) and rule 216, guidance paragraph 5
¹⁶ Rule 216.2 and guidance paragraph 6

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