



Washington State Board of Accountancy

Policy Number: 2001-1

Title: Compensation Arrangements*

Effective: February 5, 2001

Revised: December 31, 2004

Approved: Barbara J. Adams
Barbara J. Adams, CPA, Chair

*This policy rescinds and supersedes any previous Board policy.

Purpose:

The purpose of this policy is to provide guidance to CPAs, CPA-Inactive certificateholders, CPA firms, CPA firm owners, and others on the application of WAC 4-25-626 What restrictions govern commissions, referral, and contingent fees?

I. Disclosure

In order to ensure continued public protection and consumer awareness, the Board created sound disclosure requirements in WAC 4-25-626. When entering into engagements where the CPA, CPA-Inactive certificateholders, CPA firm, or CPA firm owner will or may be compensated on a commission, referral or contingent fee basis, written disclosure of the following must be provided in advance of the client's acceptance of the engagement:

- A. The fee arrangement
- B. The method of calculating the fee or amount of fee, and
- C. Specify the CPA's, CPA-Inactive certificateholders, CPA firm's, or firm owner's role as the client's advisor.

These are the minimum disclosure requirements. The Board anticipates CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners will provide clients with the required disclosure for each transaction. However, transactions that are recurring (i.e., where there is no change in the fee arrangement) do not require re-disclosure.

In view of the requirement for CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners to comply with the principles and rules of conduct established by Board rule, the Board recommends CPAs, CPA-Inactive

certificateholders, CPA firms, and firm owners consider disclosing all information which the general public or a client may consider relevant to making a decision on whether to engage the CPA, CPA-Inactive certificateholders, CPA firm, or firm owner. This may include disclosing additional facts, if any, surrounding the CPA's, CPA-Inactive certificateholder's, CPA firm's, or firm owner's relationship with the service provider.

II. Client Consent

WAC 4-25-626(7)(d) requires the CPA, CPA-Inactive certificateholders, CPA firm, or firm owner obtain the client's consent to the fee arrangement in writing. The Board anticipates the written consent will be obtain prior to the transaction; however, transactions that are recurring (i.e., where there is no change in the fee arrangement) may be covered the initially written consent if the original consent states that it includes such subsequent transactions.

III. Rules Governing Conduct

Regardless of the fee arrangement, engagement, or industry CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners are required to comply with the rules governing conduct which include the requirements that: (The Board does not intend this listing to be all inclusive.)

- A. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must act in a way that will *serve the public interest, honor the public's trust* and demonstrate a commitment to professionalism.
- B. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must maintain and broaden public confidence by performing all professional responsibilities with the highest sense of *integrity and honesty*. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must not misrepresent facts or subordinate their judgment to others.
- C. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must maintain *objectivity* and specifically they must:
 - Avoid rendering professional services where actual or perceived conflicts of interest exist and *remain free of conflicts of interest* unless such conflicts are specifically permitted by Board rule and professional standards; and
 - Be independent in fact and appearance when providing attestation services.
- D. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must demonstrate *due care* by:

- Complying with all federal and state laws and the profession's technical and ethical standards, maintain competence;
 - Striving to improve the quality of services; and
 - Discharging their professional responsibility to the best of their ability.
- E. The CPA, CPA-Inactive certificateholders, CPA firm, and CPA firm owner must not undertake any endeavor for the performance of services unless they reasonably expect to complete those services with *professional competence*.

IV. Due Care

The Board acknowledges the trend for expanding professional services into non-traditional fields. In this regard, the Board emphasizes that Board rules require all CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners to comply with all applicable Federal and State laws including those governing non-traditional service areas such as: financial advisory services, securities investment services, insurance services, etc.

V. Disclosure Forms and Retention

The addendum to this policy contains disclosure forms, which adequately meet the Board's disclosure requirements contained in WAC 4-25-626.

The Board recommends CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners consider establishing sound records retention procedures to ensure they maintain documentary evidence of meeting the advance, written disclosure requirements of WAC 4-25-626.

VI. Miscellaneous

- A. CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners may accept a markup from the sale of products. However, the Board cautions, if the arrangement meets the definition of a commission or referral fee, then the markup fee arrangement is only allowable with non-attest clients.
- B. CPAs, CPA-Inactive certificateholders, CPA firms, and firm owners may accept stock or other non-cash compensation for services provided to a non-attest client.

APPENDIX A – Disclosure Forms

Statement of Disclosure of Commissions, Referral, and Contingent Fees

WAC 4-25-626(7) requires all Certified Public Accountants (CPAs), CPA-Inactive certificateholders, CPA firms, and CPA firm owners who accept commission, referral and contingent fee arrangements to:

- Disclose the arrangement in writing and in advance of client acceptance;
- Disclose the method of calculating the fee or amount of fee;
- Specify the CPA's, CPA-Inactive certificateholder's, CPA firm's and/or CPA firm owner's role as the client's advisor, and
- Obtain the client's consent to the fee arrangement in writing.

The following form may be used to comply with the disclosure requirements of WAC 4-25-626(7). A licensee may use a form that contains additional information provided the form includes the minimum disclosure requirements.

Certified Public Accountants (CPAs), CPA-Inactive certificateholders, CPA firms, and CPA firm owners are required by law to disclose to clients certain fees and commissions they directly or indirectly are to receive related to goods and services provided to those clients.

The purpose of this disclosure statement is to acknowledge that the disclosure has been made, the client has consented thereto and a copy of this statement has been provided to each of the signatories thereof.

I hereby acknowledge that on this _____ day of _____, 200__.

_____ has disclosed that he/she/the firm will
CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner

receive a commission, contingent fee, or referral fee of:

Commission/Contingent/Referral Fee Percentage, Method of Calculating Fee, or Amount

from: _____
Third Party Paying the Commission/Contingent/Referral Fee to the CPA/Firm

in relation to goods or services he/she/the firm has agreed to provide or recommend and hereby consent to the arrangement.

Client (please print)

Client (signature)

Date

CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner (please print)

CPA/CPA-Inactive certificateholders/CPA Firm/CPA Firm Owner (signature)

Date

DISCLOSURE FORM - STATEMENT OF UNDERSTANDING

Washington rule, WAC 4-25-626(7), requires all Certified Public Accountants (CPAs), CPA-Inactive certificateholders, CPA firms, and CPA firm owners who accept commission, referral and contingent fee arrangements to:

- Disclose the arrangement in writing and in advance of client acceptance;
- Disclose the method of calculating the fee or amount of fee;
- Specify the CPA's, CPA-Inactive certificateholder's, CPA firm's, or CPA firm owner's role as the client's advisor, and
- Obtain the client's consent to the fee arrangement in writing.

As required by the above rule, clients are provided the following information regarding products, services or proposed services offered by _____ (CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner).

The advice you receive may include recommendations to purchase products or services for which the CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner receives additional compensation in the form of commissions, referral or contingent fees. This creates a monetary incentive for the CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner that could bias his/her/their recommendations toward products or services having high commission, referral or contingent fees and to recommend more of such products or services than may be suitable for you. This monetary incentive to make biased recommendations while charging a fee for such recommendations constitutes a substantial conflict of interest.

Nevertheless, CPAs, CPA-Inactive certificateholders CPA firms, and CPA firm owners undertake to provide objective and unbiased recommendations for their customers. Any actual bias in the investment advice would constitute a breach of the undertaking to render objective advice for which the fee is paid.

1. While it may not be possible to ascertain an exact fee for these services until such time as more specific client data has been reviewed, the method or amount of the proposed fee is: \$ _____
2. Stated below is the percentage of clients during the CPA's, the CPA-Inactive certificateholder's, the CPA firm's, or the CPA firm owner's last fiscal year that paid a fee for receiving services/advice that recommended the client purchase products or services offered through the person or firm* rendering the advice, and resulted in additional compensation to such person for firm for the sale of the recommended products or Services.
_____ % *Including any affiliate or associate of such person or firm.

3. If _____ (CPA) or _____ (CPA-Inactive certificateholder) or _____ (CPA firm) or _____ (CPA firm owner) has any ownership or interest in any company offering the recommended products or services, that ownership or interest is described below:

I have read and understand the foregoing and consent to the described fee arrangement this _____ day of _____, 200_____.

Client/Prospective Client (please print)

Client/Prospective Client (signature)

Date

CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner (please print)

CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner (signature)

Date

**DISCLOSURE FORM - STATEMENT OF UNDERSTANDING
SUBSEQUENT TRANSACTIONS INCLUDED**

Washington rule, WAC 4-25-626(7), requires all Certified Public Accountants (CPAs), CPA-Inactive certificateholders, CPA firms, and CPA firm owners who accept commission, referral and contingent fee arrangements to:

- Disclose the arrangement in writing and in advance of client acceptance;
- Disclose the method of calculating the fee or amount of fee;
- Specify the CPA's, CPA-Inactive certificateholder's, CPA firm's, or CPA firm owner's role as the client's advisor, and
- Obtain the client's consent to the fee arrangement in writing.

As required by the above rule, clients are provided the following information regarding products, services or proposed services offered by _____ (CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner).

The advice you receive may include recommendations to purchase products or services for which the CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner receives additional compensation in the form of commissions, referral or contingent fees. This creates a monetary incentive for the CPA, CPA-Inactive certificateholder, CPA firm, or CPA firm owner that could bias his/her/their recommendations toward products or services having high commission, referral or contingent fees and to recommend more of such products or services than may be suitable for you. This monetary incentive to make biased recommendations while charging a fee for such recommendations constitutes a substantial conflict of interest.

Nevertheless, CPAs, CPA-Inactive certificateholders, CPA firms, and CPA firm owners undertake to provide objective and unbiased recommendations for their customers. Any actual bias in the investment advice would constitute a breach of the undertaking to render objective advice for which the fee is paid.

1. While it may not be possible to ascertain an exact fee for these services until such time as more specific client data has been reviewed, the method or amount of the proposed fee is:
\$ _____

2. Stated below is the percentage of clients during the CPA's, the CPA-Inactive certificateholder's, the CPA firm's, or the CPA firm owner's last fiscal year that paid a fee for receiving services/advice that recommended the client purchase products or services offered through the person or firm* rendering the advice, and resulted in additional compensation to such person for firm for the sale of the recommended products or Services.

_____ % *Including any affiliate or associate of such person or firm.

3. If _____ (CPA) or _____ CPA-Inactive certificateholder or _____ (CPA firm) or _____ (CPA firm owner) has any ownership or interest in any company offering the recommended products or services, that ownership or interest is described below:

4. It is anticipated that the parties will engage in similar transactions in the future and that consent to this fee arrangement shall be construed as consent to the same arrangement in such future transactions, unless and until revoked by the undersigned.

I have read and understand the foregoing and consent to the described fee arrangement this _____ day of _____, 200____.

Client/Prospective Client (please print)

Client/Prospective Client (signature)

Date

CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner (please print)

CPA/CPA-Inactive certificateholder/CPA Firm/CPA Firm Owner (signature)

Date