

1983

Proposed interpretations of Rule 503,
Commissions proposed interpretation 503-2 :
definition of the word "client" as used in Rule 503
and ; Proposed interpretation 503-3 : definition of
"products or services of others" as used in Rule 503
; Proposed interpretation 503-2 : definition of the
word "client" as used in Rule 503; Proposed
interpretation 503-3 : definition of "products or
services of others" as used in Rule 503; Definition of
the word "client" as used in Rule 503; Definition of
"products or services of others" as used in Rule 503;
Exposure draft (American Institute of Certified
Public Accountants), 1983, Sept. 6

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EXPOSURE DRAFT

PROPOSED INTERPRETATIONS OF RULE 503 — COMMISSIONS

PROPOSED INTERPRETATION 503-2

**Definition of the Word "Client"
as Used in Rule 503**

and

PROPOSED INTERPRETATION 503-3

**Definition of "Products or Services
of Others" as Used in Rule 503**

SEPTEMBER 6, 1983

**Prepared by the AICPA Professional Ethics Executive Committee
For comments from persons interested in behavioral standards matters**

**Comments should be received by December 6, 1983, and addressed to
Herbert A. Finkston, Professional Ethics Division
AICPA, 1211 Avenue of the Americas, New York, N.Y. 10036-8775**

This exposure draft has been sent to

- *practice offices of CPA firms*
 - *members of AICPA Council and technical committee chairmen*
 - *state society and chapter presidents, directors, and committee chairmen*
 - *organizations concerned with regulatory, supervisory, or other public disclosure of financial activities*
 - *persons who have requested copies*
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September 6, 1983

During the past several years, the AICPA Professional Ethics Division has received a large number of inquiries from members who were uncertain as to the scope of rule 503 and its application to specific business transactions. Uncertainty exists regarding the scope and application of the terms "client" and "products or services of others" as found in the rule. This uncertainty has resulted, in part, because the provisions of rule 503 are susceptible to overly broad application.

The Professional Ethics Division has developed two proposed interpretations under Rule 503 — Commissions, to clarify the rule and thereby assist members in applying its provisions. The proposed interpretations are 503-2, "Definition of the Word 'Client' as Used in Rule 503," and 503-3, "Definition of 'Products or Services of Others' as Used in Rule 503."

Proposed Interpretation 503-2, "Definition of the Word 'Client' as Used in Rule 503," narrows the term "client" to a person or entity that has retained a member or his firm engaged in the practice of public accounting to perform audit, accounting, review, compilation, tax, or management advisory services. Proposed Interpretation 503-3, "Definition of 'Products or Services of Others' as Used in Rule 503," limits the application of rule 503 to the referral of those products or services with respect to which CPAs can reasonably be expected by clients to have professional skill or knowledge as a result of education or experience as CPAs.

In applying the two proposed interpretations to determine whether receipt of a commission is proscribed under rule 503, the first consideration is whether the product or service of another is referred to a client as defined by the proposed Interpretation 503-2. The second consideration is whether the member can reasonably be expected by clients to have professional skill or knowledge regarding the referred product or service as a result of education or experience as a CPA.

As an example, members may not accept a commission for referring clients who invest in a tax shelter. A member may, however, accept a commission for the referral of nonclients who invest in a tax shelter. A member's acceptance of a commission for referral of a nonclient who invests in a tax shelter does not mean that, based solely on these facts, the member has been retained for the performance of services as specified in the proposed Interpretation 503-2.

As another example, members may accept a commission for referral to either clients or nonclients of products or services of others, such as furniture, which referral does not require professional skill or knowledge that is a result of education or experience as CPAs.

It should be noted that under the proposed interpretations, a member is not precluded by rule 503 from accepting commissions for referral to an audit client of products or services of others even though in a given set of circumstances the amount of the commissions received from the audit client was material to the member's net worth. However, the Professional Ethics Executive Committee would consider that under rule 101-A-1a those facts indicate an impairment of independence with respect to such audit client because the acceptance of the commissions would be considered a "material indirect financial interest in the enterprise (client)."

If the two proposed interpretations are approved for publication by the Professional Ethics Executive Committee after the exposure period is concluded and comments are considered, they will be effective on the last day of the month in which they are published in the Journal of Accountancy.

Comments or suggestions on any aspect of this exposure draft will be appreciated. Responses should be typed, and a separate sheet should be used for each proposed interpretation to which comments apply. Comments on this exposure draft should be sent to

Herbert A. Finkston
Professional Ethics Division
AICPA
1211 Avenue of the Americas
New York, New York 10036


Comments should be sent in time to be received by December 1, 1983.

Written comments on the exposure draft will become part of the public record of the AICPA and will be available for inspection at the office of the AICPA after January 1, 1984, for one year.

Sincerely,



Herman J. Lowe
Chairman
AICPA Professional Ethics Executive Committee



Herbert A. Finkston
Director
AICPA Professional Ethics Division

PROPOSED INTERPRETATION 503-2
DEFINITION OF THE
WORD "CLIENT" AS USED IN RULE 503

The word "client" as used in rule 503 means a person or entity that retains a member or his firm to perform—for that person or entity—audit, accounting, review, compilation, tax, or management advisory services. Acceptance of a commission by a member for the referral of products or services of others does not in and of itself mean that the member has been retained for the performance of the services specified above.

PROPOSED INTERPRETATION 503-3
DEFINITION OF
"PRODUCTS OR SERVICES OF OTHERS" AS USED
IN RULE 503

As used in rule 503, the term "products or services of others" means those products or services with respect to which members can reasonably be expected by clients to have special skill or knowledge as a result of education or experience as CPAs.