

This help sheet is to help you understand both your legal and ethical obligations when making referrals and how to deal with any commission or introductory fees earned. We may have regard to it when exercising our regulatory function.

Introduction

Before making a referral, you must ensure that:

- It is a referral you are authorised to make.
- It meets the requirement to give objective advice.
- You are able to deal open and honestly with any commission or introductory fees received.

1. Are you authorised to make the referral?

As an AAT member, you can make a referral in the following ways:

- a) You are permitted to provide a client with details of an independent financial adviser (IFA) for that client to contact the IFA themselves, for any investment product (client approach).
- b) You can only be involved in contacting an IFA (firm approach) to help set up a meeting with a client if you make clear that the referral is for general investment business advice only.

It cannot be for specific regulated products such as personal pensions, or other [Insurance based investment products](#) or designated investment products, such as [securities](#) or [contractually-based investments](#) as defined by the UK [Financial Conduct Authority \(FCA\)](#).

If you are making general referrals, you should retain evidence of this (such as email/other correspondence, file notes).

If you want to do anything outside of the above, you need a separate registration (DPB (Investment Business) licence or FCA authorisation). Please contact AAT if you are unsure.

2. Does the introduction meet the requirement to give objective advice?

When referring to a financial adviser, if permitted to do so, you must ensure that you adhere to the requirement to give objective advice.

The requirements, along with supporting guidance, are set out in *AAT's Code of Professional Ethics (COPE)*.

a) Independent financial adviser (IFA)

If you are making a referral to such an adviser, you are likely to meet the requirement to give objective advice.

b) Restricted financial adviser

If you want to do this you must address the ethical threat to objectivity, in that clients may be materially disadvantaged by not being offered the most appropriate choice of product (e.g., because the restricted products being offered by the adviser may include higher than average management fees).

To address this risk, you must **assess a client's individual requirements** and then assess whether the restricted adviser places business with the product providers that account for a large majority of the relevant market or offer the sector of the market that is most suitable for the client's needs. You must also **document your assessment of suitability on a client-by-client basis**.

Note that this assessment is looking at the products that the adviser may place with your clients, and not just at the initial advice they may offer.

You cannot justify making a referral to a restricted adviser on the basis that FCA Regulations require all advisers to give suitable advice. It is highly unlikely in a meeting between an adviser and a client that the adviser will not look to suggest some of their restricted products, so by referring to that adviser you may be exposing your client to unnecessary risk.

3. Dealing with commission

The underlying principle in all cases is that you need to ensure your clients fully understand the nature and amount of such income, to then give you informed consent to retain such monies. This is outlined in [AAT's Code of Professional Ethics](#).

Reference to 'commission' includes any form of income linked to a referral made by you or your team. Alternative terms include (but are not limited to) referral fees/income, introductory fees, profit-share.

A member who receives a commission as a result of referring a client will be accountable for the commission or reward to the client. UK legislation requires you pass over the commission or reward to the client unless, **having been informed of the nature and amount of the commission or reward**, they agree you can keep it. This includes those who are no longer clients by the time you receive such income.

If the individual is not a client, you are accountable to them for the income if you have a fiduciary relationship with them. However, it is considered best practice just to let them know of the arrangement and that you will receive some income if they invest with the referred party.

Income from introductions gives rise to self-interest threats to your *objectivity* and *professional competence and due care*. Important safeguards **must** include **two elements**:

1. Informing a client as to how much income you have received, or will receive, in relation to any referral you make.

- a) you may do this by email or other correspondence stating the amount and the duration of the arrangement. For example, 'Following your recent meeting with [IFA], we have received a fee of £ [200] as a result of their providing new services to you. We will also receive a fee of £ [2.50 a month] going forwards for renewal of ongoing services provided by [the IFA].'
- b) While the information in (a) above may be included in documentation provided by the IFA to the client, **it remains your responsibility to ensure the client has been fully informed** as to how much you receive of any total fees, and it is clear who is receiving what. You should obtain your own copies of this documentation as it may be requested as part of a regulatory review.

2. Obtain informed consent from a client to retain such income. This can be in the following ways:

- a) By way of explaining the fee structure in your engagement letter, including relevant examples.

You must ensure that a client understands the amount and frequency of any such income i.e., that they are in a position to give informed consent. General blanket consent is not sufficient. See AAT's Engagement Letter Template Guidance paragraphs 55-57 for notes on this, and section 4 below for example disclosure.

- b) By writing to the relevant clients involved on a case-by-case basis. This could also include notification of the amounts received.

For example, 'We are required to account to you for this income, and to request your permission to retain it. Please confirm you agree for us to keep this income by [reply/signing and returning a copy of this letter].

You cannot rely on correspondence from an adviser to show this permission as given. This is irrespective of the operations of the adviser or their application of FCA regulations in this matter.

Until you have such permission to retain, the income is clients' money and must be treated as such under [*AAT's Clients' Money Policy*](#)

Alternatively, you may pay the whole commission amount to the client or deduct it from fees payable by the client. If you do the latter, you must still disclose the amount, for example by showing the deduction as a separate item on the face of an invoice/statement of account.

4. Example engagement letter disclosure

In some circumstances we may receive commissions and/or other benefits for introductions to other professionals or in respect of transactions that we arrange for you. Where this happens, we will notify you in writing of the amount and terms of payment and receipt of any such commissions or benefits.

[The same will apply where the payment is made to, or the transactions are arranged by a person or business connected with ours.] [The fees you would otherwise pay will [not] be reduced by the amount of the commissions or benefits.] [When we reduce the fees that we would otherwise charge by the amount of commission retained, we will apply the HMRC concession, which allows VAT to be calculated on the net fee after deduction of the commission]

The following are examples of likely income that we may receive following referral to a third party. These are examples only and may not cover all receipts in the future.

Provided service	Name or type of firm paying commission	Basis of commission	Rate of commission	Frequency
[Service name]	[firm name or type]	[Fixed]	£[x]	[One-off]
[Service name]	[firm name or type]	[Variable]	[x]% of annual fee	[Monthly for life of contract]

Detailed wording examples to use:

If you were to invest £50,000 with our referred independent financial adviser A, you would be charged an initial fee of £1,000 (2%), of which we would receive as commission £225 (22.5%), with ongoing fees being £500 (1%) of which we would receive commission £150 (30%).

If you increased your investment to £200,000, we would receive an initial commission of £900 (£200,000 x 2% x 22.5%), with ongoing commission being £600 (£200,000 x 1% x 30%).

5. Terms and definitions

Term used	Definition
Securities or contractually based investments	Securities include shares, debentures, government and public securities, warrants and units in collective investment schemes. Contractually based investments include options, future or contracts for differences, funeral plan contracts or rights in relation to the above.
Contracts of insurance (excluding insurance-based investment products and large risks)	Any contract of insurance which is a contract of long-term insurance (e.g., life policies such as endowments and pensions) or a contract of general insurance (e.g., motor vehicle, buildings and legal expenses insurance) except those falling within the below category.
Insurance based investment products or insurance for large risks	Insurance based investment products are contracts of insurance which offer a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations. Insurance for large risks include insurance of railway rolling stock, aircraft and ships.
independent adviser	An adviser who provides independent advice across all markets and all retail investment products.
restricted adviser	An adviser who provides restricted advice (being advice which is not independent as described above).
firm approach	where the firm approaches the financial adviser either to provide the client's contact details or arrange a meeting between the client

	and the financial adviser. This includes copying in the client when emailing the adviser.
client approach	where the firm gives the client the contact details of the financial adviser and leaves the client to approach the adviser.
unregulated	a firm does not require a DPB (Investment Business) licence or FCA authorisation to make the introduction.
objectivity	where the member is required to exercise professional or business judgement without being compromised by: (a) Bias; (b) Conflict of interest; or (c) Undue influence of, or undue reliance on, individuals, organisations, technology or other factors.
professional competence and due care	where the member is required to have professional knowledge and skill at the level required to ensure the provision of competent professional service, and to act diligently in accordance with applicable standards, laws and regulations

Ethical Helpline

AAT members can contact our ethical helpline to discuss any specific situations on [+44 \(0\)20 7397 3014](tel:+442073973014) or email ethics@aat.org.uk.