PART 5 - SECTION 510
FINANCIAL INTERESTS

Introduction

510.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

510.2 Holding a financial interest in an audit sustainability assurance client might create a self-interest threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

510.3 A1 A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust. When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

510.3 A2 This section contains references to the “materiality” of a financial interest. In determining whether such an interest is material to an individual, the combined net worth of the individual and the individual’s immediate family members may be taken into account.

510.3 A3 Factors that are relevant in evaluating the level of a self-interest threat created by holding a financial interest in an audit sustainability assurance client include:

- The role of the individual holding the financial interest.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest.

Financial Interests Held by the Firm, a Network Firm, Audit Sustainability Assurance Team Members and Others

R510.4 Subject to paragraph R510.5, a direct financial interest or a material indirect financial interest in the audit sustainability assurance client shall not be held by:

(a) The firm or a network firm;

(b) An audit sustainability assurance team member, or any of that individual’s immediate family;

(c) Any other partner-service leader in the office in which an engagement partner leader practices in connection with the audit sustainability assurance engagement, or any of that other partner’s engagement service leader’s immediate family; or

(d) Any other partner-service leader or managerial employee who provides non-audit services other than sustainability assurance to the audit sustainability assurance client, except for any whose involvement is minimal, or any of that individual’s immediate
510.4 A1 The office in which the engagement partner leader practices in connection with an audit sustainability assurance engagement is not necessarily the office to which that partner engagement leader is assigned. When the engagement partner leader is located in a different office from that of the other engagement team members, professional judgment is needed to determine the office in which the partner engagement leader practices in connection with the engagement.

R510.5 As an exception to paragraph R510.4, an immediate family member identified in subparagraphs R510.4(c) or (d) may hold a direct or material indirect financial interest in an audit sustainability assurance client, provided that:

(a) The family member received the financial interest because of employment rights, for example through pension or share option plans, and, when necessary, the firm addresses the threat created by the financial interest; and

(b) The family member disposes of or forfeits the financial interest as soon as practicable when the family member has or obtains the right to do so, or in the case of a stock option, when the family member obtains the right to exercise the option.

Matters for IESBA’s Consideration

Using the Term “Engagement Leader”

While developing its overarching standard for sustainability assurance engagements, IAASB noted that the term "engagement partner" is not sufficiently neutral to cover those performing sustainability assurance engagements. The IAASB had concerns that users of the standard would not understand this term outside the accountancy profession. Therefore, IAASB agreed to use the term "engagement leader" in the draft ISSA 5000.

The Task Force proposes that, in line with the draft ISSA 5000, Part 5 also uses the term "engagement leader" instead of "engagement partner" in the context of sustainability assurance engagements (for example, paragraph R5104 (c)). The definitions of engagement partner and engagement leader are equivalent.

However, some provisions of the Code in Part 4A refer not only to the engagement partner but also to other partners in the firm or the office of the engagement partner. The Code does not provide a definition of "partner", but the ISAs and the draft ISSA 5000 define partner as follows:

“Any individual with authority to bind the firm with respect to the performance of a professional services engagement.”

Instead of using the term "partner" in Part 5, for the reasons mentioned above, the Task Force proposes that Part 5 uses the term "service leader" in the context of a sustainability assurance client. The proposed "service leader" definition below is in line with the partner definition and would cover the same circle of individuals as Part 4A does (see Agenda Item 2-B):

“Any individual with authority to bind the firm with respect to the performance of an engagement for a sustainability assurance client.”

It is not necessary that the individual leads or performs engagements in practice as long as they continue to have the authority specified in the definition.
The engagement leader is proposed to be defined – in line with the engagement partner - as follows (see Agenda Item 2-B):

“The service leader or other individual, appointed by the firm, who is responsible for the engagement and its performance, and for the assurance report that is issued on behalf of the firm, and where required, has the appropriate authority from a professional, legal or regulatory body. “Engagement leader” should be read as referring to its public sector equivalents where relevant.”

The engagement leader is proposed to be defined – in line with the key audit partner - as follows (see Agenda Item 2-B):

The engagement leader, the individual responsible for the engagement quality review, and other service leaders, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the sustainability assurance engagement. Depending upon the circumstances and the role of the individuals on the sustainability assurance engagement, “other sustainability engagement leaders” might include, for example, engagement leaders for certain components in a group sustainability assurance engagement such as significant subsidiaries or divisions.

Do IESBA members support that the Code uses the term “engagement leader” and “service leader” instead of “engagement partner” or “other partners” in Part 5?

Financial Interests in an Entity Controlling an Audit Sustainability Assurance Client

R510.6 When an entity has a controlling interest in an audit sustainability assurance client and the client is material to the entity, neither the firm, nor a network firm, nor an audit sustainability assurance team member, nor any of that individual’s immediate family shall hold a direct or material indirect financial interest in that entity.

Financial Interests Held as Trustee

R510.7 Paragraph R510.4 shall also apply to a financial interest in an audit sustainability assurance client held in a trust for which the firm, network firm or individual acts as trustee, unless:

(a) None of the following is a beneficiary of the trust: the trustee, the audit sustainability assurance team member or any of that individual’s immediate family, the firm or a network firm;

(b) The interest in the audit sustainability assurance client held by the trust is not material to the trust;

(c) The trust is not able to exercise significant influence over the audit sustainability assurance client; and

(d) None of the following can significantly influence any investment decision involving a financial interest in the audit sustainability assurance client: the trustee, the audit sustainability assurance team member or any of that individual’s immediate family, the firm or a network firm.

Financial Interests in Common with the Audit Sustainability Assurance Client

R510.8 (a) A firm, or a network firm, or an audit sustainability assurance team member, or any of that individual’s immediate family shall not hold a financial interest in an entity when an audit sustainability assurance client also has a financial interest in that entity, unless:

(i) The financial interests are immaterial to the firm, the network firm, the audit
sustainability assurance team member and that individual’s immediate family member and the audit sustainability assurance client, as applicable; or

(ii) The audit sustainability assurance client cannot exercise significant influence over the entity.

(b) Before an individual who has a financial interest described in paragraph R510.8(a) can become an audit sustainability assurance team member, the individual or that individual’s immediate family member shall either:

(i) Dispose of the interest; or

(ii) Dispose of enough of the interest so that the remaining interest is no longer material.

Financial Interests Received Unintentionally

R510.9 If a firm, a network firm or a partner service leader or employee of the firm or a network firm, or any of that individual’s immediate family, receives a direct financial interest or a material indirect financial interest in an audit sustainability assurance client by way of an inheritance, gift, as a result of a merger or in similar circumstances and the interest would not otherwise be permitted to be held under this section, then:

(a) If the interest is received by the firm or a network firm, or an audit sustainability assurance team member or any of that individual’s immediate family, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or

(b) (i) If the interest is received by an individual who is not an audit sustainability assurance team member, or by any of that individual’s immediate family, the financial interest shall be disposed of as soon as possible, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; and

(ii) Pending the disposal of the financial interest, when necessary the firm shall address the threat created.

Financial Interests – Other Circumstances

Immediate Family

510.10 A1 A self-interest, familiarity, or intimidation threat might be created if an audit sustainability assurance team member, or any of that individual’s immediate family, or the firm or a network firm has a financial interest in an entity when a director or officer or controlling owner of the audit sustainability assurance client is also known to have a financial interest in that entity.

510.10 A2 Factors that are relevant in evaluating the level of such threats include:

- The role of the individual on the audit sustainability assurance team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

510.10 A3 An example of an action that might eliminate such a self-interest, familiarity, or intimidation
threat is removing the audit-sustainability assurance team member with the financial interest from the audit-sustainability assurance team.

510.10 A4 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit-sustainability assurance team member.

Close Family

510.10 A5 A self-interest threat might be created if an audit sustainability assurance team member knows that a close family member has a direct financial interest or a material indirect financial interest in the audit sustainability assurance client.

510.10 A6 Factors that are relevant in evaluating the level of such a threat include:

- The nature of the relationship between the audit sustainability assurance team member and the close family member.
- Whether the financial interest is direct or indirect.
- The materiality of the financial interest to the close family member.

510.10 A7 Examples of actions that might eliminate such a self-interest threat include:

- Having the close family member dispose, as soon as practicable, of all of the financial interest or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.
- Removing the individual from the audit sustainability assurance team.

510.10 A8 An example of an action that might be a safeguard to address such a self-interest threat is having an appropriate reviewer review the work of the audit sustainability assurance team member.

Other Individuals

510.10 A9 A self-interest threat might be created if an audit sustainability assurance team member knows that a financial interest in the audit sustainability assurance client is held by individuals such as:

- Partners Service leaders and professional employees of the firm or network firm, apart from those who are specifically not permitted to hold such financial interests by paragraph R510.4, or their immediate family members.
- Individuals with a close personal relationship with an audit sustainability assurance team member.

510.10 A10 Factors that are relevant in evaluating the level of such a threat include:

- The firm’s organizational, operating and reporting structure.
- The nature of the relationship between the individual and the audit sustainability assurance team member.

510.10 A11 An example of an action that might eliminate such a self-interest threat is removing the audit sustainability assurance team member with the personal relationship from the audit sustainability assurance team.

510.10 A12 Examples of actions that might be safeguards to address such a self-interest threat include:
• Excluding the audit sustainability assurance team member from any significant decision-making concerning the audit sustainability assurance engagement.

• Having an appropriate reviewer review the work of the audit sustainability assurance team member.

Retirement Benefit Plan of a Firm or Network Firm

510.10 A13 A self-interest threat might be created if a retirement benefit plan of a firm or a network firm holds a direct or material indirect financial interest in an audit sustainability assurance client.