SECTION 520
BUSINESS RELATIONSHIPS

Introduction

520.1 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.

520.2 A close business relationship with an audit sustainability assurance client or its management might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Requirements and Application Material

General

520.3 A1 This section contains references to the “materiality” of a financial interest and the “significance” of a business relationship. In determining whether such a financial 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.

520.3 A2 Examples of a close business relationship arising from a commercial relationship or common financial interest include:

- Having a financial interest in a joint venture with either the client or a controlling owner, director or officer or other individual who performs senior managerial activities for that client.

- Arrangements to combine one or more services or products of the firm or a network firm with one or more services or products of the client and to market the package with reference to both parties.

- Arrangements under which the firm or a network firm sells, resells, distributes or markets the client’s products or services, or the client sells, resells, distributes or markets the firm’s or a network firm’s products or services.

- Arrangements under which the firm or network firm develops jointly with the client, products or services which one or both parties sell or license to third parties.

520.3 A3 An example that might create a close business relationship, depending on the facts and circumstances, is an arrangement under which the firm or a network firm licenses products or solutions to or from a client.

Firm, Network Firm, Audit-Sustainability Assurance Team Member or Immediate Family Business Relationships

R520.4 A firm, a network firm or an audit sustainability assurance team member shall not have a close business relationship with an audit sustainability assurance client or its management unless any financial interest is immaterial and the business relationship is insignificant to the client or its management and the firm, the network firm or the audit sustainability assurance...
A self-interest or intimidation threat might be created if there is a close business relationship between the audit sustainability assurance client or its management and the immediate family of an audit sustainability assurance team member.

**Common Interests in Closely-Held Entities**

A firm, a network firm, an audit sustainability assurance team member, or any of that individual’s immediate family shall not have a business relationship involving the holding of an interest in a closely-held entity when an audit sustainability assurance client or a director or officer of the client, or any group thereof, also holds an interest in that entity, unless:

- (a) The business relationship is insignificant to the firm, the network firm, or the individual as applicable, and the client;
- (b) The financial interest is immaterial to the investor or group of investors; and
- (c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity.

**Buying Goods or Services**

The purchase of goods and services, including the licensing of technology, from an audit sustainability assurance client by a firm, a network firm, an audit sustainability assurance team member, or any of that individual’s immediate family does not usually create a threat to independence if the transaction is in the normal course of business and at arm’s length. However, such transactions might be of such a nature and magnitude that they create a self-interest threat.

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

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit sustainability assurance team.

**Providing, Selling, Reselling or Licensing Technology**

Where a firm or a network firm provides, sells, resells or licenses technology:

- (a) To an audit sustainability assurance client; or
- (b) To an entity that provides services using such technology to audit sustainability assurance clients of the firm or network firm,

depending on the facts and circumstances, the requirements and application material in Section 600 apply.