

## PRELIMINARY STRUCTURE – SECTION 220

Text in normal font has been generally agreed upon by the Task Force and the text in ***bold italics*** indicates explanatory language of the Task Force for further consideration.

### SECTION 220

#### Conflicts of Interest

220.1 A conflict of interest arises if, when performing a professional service for a client, a professional accountant in public practice or a firm has an interest or relationship other than with that client that creates a threat to objectivity and may create threats to compliance with other fundamental principles. Such threats may be created by:

- Conflicts between the interests of two or more clients; or
- Conflicts between the interests of the professional accountant in public practice or the firm and the interests of a client.

220.2 Examples of situations in which conflicts of interests may arise include:

- Settling the distribution of assets between two shareholders whose company is being dissolved;
- Preparing the tax returns for each spouse in a divorce proceeding;
- Performing litigation services for the plaintiff in connection with a lawsuit filed against a client of the professional accountant's firm;
- Representing two clients who are trying to acquire the same target company;
- Representing two clients who are in a legal dispute;
- Possessing information about one client obtained under a duty of confidentiality that is important to the fulfillment of an engagement for another client; or
- Recommending a client to invest in a business in which the professional accountant in public practice or firm has a financial interest.

220.3 A professional accountant in public practice or a firm shall take reasonable steps to identify circumstances that might give rise to a conflict of interest. This includes potential conflicts of interest when accepting a new engagement and conflicts of interest that may arise during the course of an engagement. It is possible that the nature of an engagement may change during the course of the engagement. This is particularly true when a professional accountant in public practice or a firm is asked to conduct an engagement that is potentially adversarial, even though the parties who engage the firm may not initially be in contention. Therefore, the professional accountant in public practice or the firm shall be alert to potential conflicts of interest that may arise during the course of an engagement.

220.4 A professional accountant in public practice or firm shall be alert to all interests and relationships which a reasonable and informed third party would be likely to conclude, weighing all the specific facts and circumstances available to the professional accountant or the firm at that time, might give rise to a conflict of interest.

- 220.5 In identifying and evaluating whether a conflict of interest may exist, and in particular before accepting a new client relationship or a new engagement, a professional accountant in public practice or the firm shall:  
***The Task Force is currently considering factors in identifying and evaluating COI's, this paragraph is still being constructed.***
- 220.6 An effective conflict identification process should allow a firm to identify potential conflicts prior to accepting an engagement and throughout an engagement.  
***This paragraph is intended to describe factors that will affect which identification techniques a firm may implement, including, but not limited to, the size and structure of the firm (and possibly network), the type of clients and the type of services rendered.***
- 220.7 Conflict identification and evaluation techniques that a firm may implement include:  
***The Task Force is currently considering identification and evaluation techniques that a firm may implement and therefore, this paragraph is still being constructed.***
- 220.8 Depending on the significance of the threats and circumstances giving rise to the conflict, application of one or more of the following conflict management techniques by the professional accountant in public practice or the firm may serve as an appropriate safeguard:  
***The Task Force is currently considering COI management techniques, this paragraph is still being constructed.***