

PROPOSED PARAGRAPHS 100.17 – 100.18 & SECTION 310

Conflicts of Interest

- 100.17 A professional accountant may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to other fundamental principles. Such threats may be created by:
- Conflicts between the interests of two or more parties for whom the professional accountant undertakes professional activities; or
 - Conflicts between the interests of the professional accountant and the interests of a party for whom the professional accountant undertakes a professional activity.
- 100.18 Parts B and C of this Code discuss conflicts of interest for professional accountants in public practice and professional accountants in business, respectively.

SECTION 310

Conflicts of Interest

- 310.1 A professional accountant in business may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to other fundamental principles. Such threats may be created by:
- Conflicts between the interests of two or more parties for whom the professional accountant in business undertakes a professional activity; or
 - Conflicts between the interests of the professional accountant in business and the interests of a party for whom the professional accountant in business undertakes a professional activity.

A party may include an employing organization, a vendor, a customer, a lender, a shareholder or another party.

- 310.2 Examples of situations in which conflicts of interest may arise include:
- A professional accountant in business serves on the Board of Directors of two companies and is privy to confidential information of one company that impairs the professional accountant's ability to make decisions objectively with respect to the other company due to the fact that such information could be used by the professional accountant to the advantage or disadvantage of the other company;
 - A professional accountant in business undertakes a professional activity for each of two parties to assist them to dissolve their partnership;

- A professional accountant in business is asked to prepare financial information for certain members of management who are seeking to undertake a management buy-out;
- A professional accountant in business is responsible for selecting a vendor for the accountant's employing organization and an immediate family member of the professional accountant owns one of the potential vendors; and
- A professional accountant in business serves on a Board of Directors that is approving certain investments for the company. If the Board approves a specific investment it will increase the value of the professional accountant's own personal investment portfolio.

310.3 A professional accountant in business 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 at that time, might give rise to a conflict of interest.

310.4 In identifying whether a conflict of interest exists or may be created and evaluating the significance of any threat to objectivity or compliance with other fundamental principles, the professional accountant shall:

- Understand the nature of the relationships between the parties involved and their relevant interests;
- Evaluate the significance or materiality of relevant interests or relationships;
- Evaluate the extent to which the professional activity is relevant to the competing or conflicting interests. In general, the more direct the relationship between the professional activity and the matter on which the parties' interests are competing or in conflict, the greater the threats created.

When identifying and evaluating a conflict of interest, the professional accountant in business may wish to consult within the employing organization or with others such as another professional accountant or a member body.

310.5 The professional accountant in business shall apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. The professional accountant in business shall determine whether to discuss the nature of the conflict of interest at the appropriate levels within the employing organization, where relevant, and may consult with others such as another professional accountant or a member body. Depending on the circumstances giving rise to the conflict of interest, application of one or more of the following conflict management techniques may serve as an appropriate safeguard:

- (a) Disclosing the nature of the conflict of interest to the relevant parties and obtaining their consent to undertake the professional activity. In certain circumstances a consent may be implied by a party's conduct; or
- (b) Structuring certain responsibilities and duties to reduce the threat to an acceptable level. This could include segregation of duties or obtaining appropriate oversight.

310.6 If safeguards cannot eliminate or reduce the threat to an acceptable level, the professional accountant in business shall recuse oneself from undertaking the professional activity or terminate the interest or relationship that would create the conflict of interest.

310.7 When identifying and evaluating conflicts of interest and implementing appropriate conflict management techniques, the professional accountant in business shall be mindful of the fundamental principle of confidentiality.

310.8 A professional accountant in business may encounter other threats to compliance with the fundamental principles which may occur when preparing or reporting financial information due to undue pressure from others within the employing organization or due to financial, business or personal relationships that close or immediate family members of the professional accountant may have with the employing organization. For guidance on managing such threats, see Sections 320 and 340 of the Code.