

PARAGRAPHS 100.17-.18, SECTIONS 220 AND 310

Track Changes Version (Edits Included from June 2011 Board Meeting):

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.

~~The conflict may be such that the professional activity shall not be undertaken.~~

- 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 220

Conflicts of Interest

- 220.1 A professional accountant in public practice may be faced with a conflict of interest when performing a professional service. 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 clients; or
- Conflicts between the interests of the professional accountant ~~in public practice including the firm~~ and the interests of the client.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

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

- Advising two shareholders in dispute ~~over~~ the distribution of assets on the dissolution of the company;
- Preparing a valuation of assets 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 with each other;
- ~~Possessing information about one client obtained under a duty of confidentiality that is important to the fulfillment of an assurance engagement for another client;~~
- Recommending a client to invest in a business in which the professional accountant in public practice or firm has a financial interest; or

- Advising a client on the purchase of an information system while having a license agreement with a potential software vendor.

220.3 A professional accountant in public practice, ~~including the firm,~~ shall take reasonable steps to identify circumstances that might ~~create 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~~ is asked to conduct an engagement that is potentially adversarial, even though the parties who engage the professional accountant may not initially be ~~involved in a dispute in contention.~~

220.4 When identifying and evaluating the interests and relationships that might ~~create give rise to~~ a conflict of interest and implementing safeguards, when ~~ne~~ necessary, the professional accountant in public practice, ~~including the firm,~~ shall take into account whether 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, ~~would be likely to conclude~~ that compliance with the fundamental principles is ~~not~~ compromised.

220.5 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, in particular before accepting a new client relationship, engagement or business relationship, a professional accountant in public practice, ~~including the firm,~~ shall:

- Understand the nature of the relationships between the parties involved and any relevant interests;
- Understand the nature of the service and its implication to relevant parties;
- Evaluate the significance ~~or materiality~~ of relevant interests or relationships;
- Evaluate the extent to which any professional service performed for more than one client ~~may result in a conflict of interest subject to a conflicting interest is related to that interest.~~ In general, the more direct the relationship between the professional service and the matter on which the clients' interests are in conflict, the more significant the threats ~~may be arising;~~ and
- Evaluate any potential conflicts ~~of interest~~ that the professional accountant ~~in public practice~~ has reason to believe may ~~be created by the exist due to~~ interests and relationships of a network firm, ~~taking into account factors such as the structure of the network, the geographic location of its firms and the nature of the clients served.~~

The professional accountant in public practice shall be alert to ~~potential~~ conflicts of interest that may arise during the course of an engagement.

220.6 An effective conflict identification process assists a professional accountant in public practice to identify potential conflicts prior to accepting an engagement and throughout an engagement. The earlier a potential conflict is identified, the greater the chance the professional accountant ~~in public practice~~ will be able to ~~apply implement~~ safeguards, ~~when necessary,~~ to eliminate the threat or reduce it to an acceptable level. The process

by which a firm shares information in order to identify conflicts of interest will vary and depend on such factors as:

- The nature of the professional services provided;
- The size of the firm;
- The size and nature of the client base; and
- The structure of the firm, for example the number and geographic location of offices, ~~locations~~, and whether the firm is a member of a network ~~and whether or not the firm is multi-national~~.

220.7 The professional accountant in public practice, ~~including the firm~~, shall evaluate the significance of the threat to objectivity and any threat to compliance with other fundamental principles created by a conflict of interest and shall apply safeguards, when necessary, to eliminate the threat or reduce it to an acceptable level. ~~A safeguard that It~~ is generally necessary ~~is~~ to disclose the nature of the conflict to the client and all known relevant parties and to obtain written consent from the client and such parties to perform the professional service. ~~If the consent is obtained verbally, the professional accountant is encouraged to document such consent.~~ In certain circumstances the consent obtained from any relevant party may be implied by the party's conduct in keeping with common commercial practice. If the consent is obtained verbally or is implied by the party's conduct, the professional accountant is encouraged to document such consent. Examples of other safeguards include:

- Use of separate engagement teams when performing professional services for two or more clients with conflicting interests;
- Implementing institutional mechanisms to prevent unauthorized disclosure of information when performing professional services for two or more clients with conflicting interests. This could include the creation of separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm. This could also include establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information; and,
- Seeking guidance of third parties such, as consulting with a professional regulatory body or another professional accountant.

~~220.8 A professional accountant in public practice may be requested to undertake a professional engagement for a client in circumstances where the professional accountant, including the firm, has confidential information that might be relevant to the engagement which has been obtained in the course of providing another professional service to another client (including a former client). Particular care is needed where the clients' interests are opposed in the subject of the new engagement and disclosure of the confidential information held by the firm to the engagement team undertaking the new engagement could prejudice the interests of the other client. Such a situation might arise, for example, in the following circumstances:~~

- ~~• Where the professional accountant is requested to perform a transaction-related service for a client in connection with a takeover of another client of the firm, in particular where the takeover may become hostile;~~

- ~~• Where the professional accountant is requested to perform a forensic investigation for a client and the firm has confidential information obtained through having performed another professional service for one of the parties who would be the subject of the investigation.~~

~~In these circumstances, disclosure to both clients would normally be a necessary safeguard before accepting the new engagement, for example where the professional accountant is to perform services to both clients which are relevant to the subject of the adverse interests between the clients.~~

~~However, disclosure to one party in these circumstances would frequently breach a duty of confidentiality to the other party. In the specific circumstance where the potential conflict that arises is solely with respect to a duty of confidentiality, the professional accountant may be able to accept the new engagement without disclosure to the other party if, in the professional accountant's judgment, weighing all the specific facts and circumstances, a reasonable and informed third party would nevertheless conclude that it is reasonable for the professional accountant to accept the engagement. Such may be the case where the inability of the professional accountant to perform the new service might compromise the ability of one client to pursue a legitimate commercial interest against another client (or former client) of the firm, for example because it is not practicable in the time available to make arrangements for another firm to undertake the engagement. In such circumstances, as a minimum, the professional accountant in public practice shall ensure that institutional mechanisms are in place to eliminate the risk of a breach of confidentiality, including the risk that the confidential information of one party could be used to the detriment of the other party.~~

220.89 If safeguards cannot eliminate or reduce the threat to an acceptable level, the professional accountant in public practice shall decline to perform or discontinue professional services that could result in the conflict of interests; or terminate certain relationships or dispose of certain interests to eliminate the conflict.

220.910 ~~When identifying and evaluating conflicts of interest and applying implementing appropriate safeguard~~conflict management techniques~~, including making disclosures or sharing information within the firm or network and, seeking guidance of third parties, the professional accountant in public practice shall remain alert to be mindful of the fundamental principle of confidentiality.~~

220.10 A firm may hold confidential information received from a client which could potentially damage that client's interests if disclosed to another client of the firm. In deciding whether to accept an engagement for the other client where such information might be relevant to the engagement, it is generally necessary for the firm to seek the consent of both clients. If the consent cannot be obtained because requesting the consent would in itself be a breach of confidentiality, the firm shall not accept the engagement unless the following conditions are met:

- The firm will not act in an advocacy role for one client against the other client pursuant to the engagement;

- Institutional mechanisms are in place to eliminate the threat to confidentiality, including to prevent disclosure of information between the engagement teams serving the two clients; and,
- The firm is satisfied, weighing all the specific facts and circumstances, that a reasonable and informed third party would conclude that it is appropriate for the firm to accept the engagement in the particular circumstances.

For example, a firm might have two clients, one of which (the offeror) proposes to launch a takeover bid for the other (the offeree) where local regulation requires the offeror to obtain from the firm certain accounting reports with respect to the takeover bid. If the firm holds confidential information in respect of the offeree that could be relevant to the engagement for the offeror, consent of the offeree would normally be required as to the arrangements to maintain the confidentiality of the information, but the firm might not be authorized to seek such consent where the offeror's intentions cannot be disclosed to the offeree. In some cases, however, it may be impossible (for example due to time constraints) for another firm to undertake the engagement for the offeror, thus preventing the offeror from proceeding with its takeover plan.

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.

~~The conflict may be such that the professional activity shall not be undertaken. A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.~~

310.2 Examples of situations in which conflicts of interest may arise for a professional accountant in business include:

- ~~Serving A professional accountant in business serves~~ on the Board of Directors of two companies and ~~acquiring is privy to~~ confidential information ~~from~~ 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;~~

- ~~Undertaking A professional accountant in business undertakes~~ a professional activity for each of two parties to assist them to dissolve their partnership;
- ~~Being 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;
- ~~Being 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
- ~~Serving A professional accountant in business serves~~ on a Board of Directors that is approving certain investments for the company where one of those specific investments. ~~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 ~~that 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, that might compliance with the fundamental principles is compromised ~~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;
- Understand the nature of the activity and its implications to relevant parties;
- Evaluate the significance or materiality of relevant interests or relationships;
- Evaluate the extent to which the professional activity for more than one party may result in a conflict of interest ~~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 more significant ~~greater the~~ threats may be 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 professional~~ body.

310.5 The professional accountant in business shall evaluate the significance of the threat to objectivity and any threat to compliance with other fundamental principles created by a conflict of interest and 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 both more of the ~~following conflict management techniques safeguards~~ may ~~serve as an~~ be appropriate ~~safeguard~~:

- 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
- 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 decline to undertake or discontinue ~~refuse oneself from undertaking~~ the professional activity or terminate the interest or relationship that ~~would create~~ s the conflict of interest.

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

310.8 A professional accountant in business may encounter other threats to compliance with the fundamental principles. ~~This which~~ This may occur, for example, when preparing or reporting financial information as a result of ~~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~~ is covered by, see Sections 320 and 340 of the Code.

Clean Version (Edits Accepted):

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.

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- Conflicts between the interests of two or more clients; or

- Conflicts between the interests of the professional accountant and the interests of the client.

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

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

- Advising two shareholders in dispute over the distribution of assets on the dissolution of the company;
- Preparing a valuation of assets 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 company;
- Representing two clients who are in a legal dispute with each other;
- Recommending a client to invest in a business in which the professional accountant in public practice has a financial interest; or
- Advising a client on the purchase of an information system while having a license agreement with a potential software vendor.

220.3 A professional accountant in public practice shall take reasonable steps to identify circumstances that might create 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. The nature of an engagement may change during the course of the engagement. This is particularly true when a professional accountant is asked to conduct an engagement that is potentially adversarial, even though the parties who engage the professional accountant may not initially be involved in a dispute.

220.4 When identifying and evaluating the interests and relationships that might create a conflict of interest and implementing safeguards, when necessary, the professional accountant in public practice shall take into account whether 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, that compliance with the fundamental principles is compromised.

220.5 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, in particular before accepting a new client relationship, engagement, or business relationship, a professional accountant in public practice shall:

- Understand the nature of the relationships between the parties involved and any relevant interests;
- Understand the nature of the service and its implication to relevant parties;
- Evaluate the significance of relevant interests or relationships;
- Evaluate the extent to which a professional service performed for more than one client may result in a conflict of interest. In general, the more direct the relationship

between the professional service and the matter on which the clients' interests are in conflict, the more significant the threats may be; and

- Evaluate any potential conflicts of interest that the professional accountant has reason to believe may exist due to interests and relationships of a network firm, taking into account factors such as the structure of the network, the geographic location of its firms and the nature of the clients served.

The professional accountant shall be alert to conflicts of interest that may arise during the course of an engagement.

220.6 An effective conflict identification process assists a professional accountant in public practice to identify potential conflicts prior to accepting an engagement and throughout an engagement. The earlier a potential conflict is identified, the greater the chance the professional accountant will be able to apply safeguards, when necessary, to eliminate the threat or reduce it to an acceptable level. The process by which a firm shares information in order to identify conflicts of interest will vary and depend on such factors as:

- The nature of the professional services provided;
- The size of the firm;
- The size and nature of the client base; and
- The structure of the firm, for example the number and geographic location of offices, and whether the firm is a member of a network.

220.7 The professional accountant in public practice shall evaluate the significance of the threat to objectivity and any threat to compliance with other fundamental principles created by a conflict of interest and shall apply safeguards, when necessary, to eliminate the threat or reduce it to an acceptable level. It is generally necessary to disclose the nature of the conflict to the client and all known relevant parties and to obtain written consent from the client and such parties to perform the professional service. In certain circumstances the consent obtained from any relevant party may be implied by the party's conduct in keeping with common commercial practice. If the consent is obtained verbally or is implied by the party's conduct, the professional accountant is encouraged to document such consent. Examples of other safeguards include:

- Use of separate engagement teams when performing professional services for two or more clients with conflicting interests;
- Implementing institutional mechanisms to prevent unauthorized disclosure of information when performing professional services for two or more clients with conflicting interests. This could include the creation of separate areas of practice for specialty functions within the firm, which may act as a barrier to the passing of confidential client information from one practice area to another within a firm. This could also include establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and/or the physical and electronic separation of confidential information; and,
- Seeking guidance of third parties, such as consulting with a professional regulatory body or another professional accountant.

- 220.8 If safeguards cannot eliminate the threat or reduce it to an acceptable level, the professional accountant in public practice shall decline to perform or discontinue professional services that could result in the conflict of interests; or terminate certain relationships or dispose of certain interests to eliminate the conflict.
- 220.9 When identifying and evaluating conflicts of interest and applying appropriate safeguards, including making disclosures or sharing information within the firm or network and seeking guidance of third parties, the professional accountant in public practice shall remain alert to the fundamental principle of confidentiality.
- 220.10 A firm may hold confidential information received from a client which could potentially damage that client's interests if disclosed to another client of the firm. In deciding whether to accept an engagement for the other client where such information might be relevant to the engagement, it is generally necessary for the firm to seek the consent of both clients. If the consent cannot be obtained because requesting the consent would in itself be a breach of confidentiality, the firm shall not accept the engagement unless the following conditions are met:
- The firm will not act in an advocacy role for one client against the other client pursuant to the engagement;
 - Institutional mechanisms are in place to eliminate the threat to confidentiality, including to prevent disclosure of information between the engagement teams serving the two clients; and,
 - The firm is satisfied, weighing all the specific facts and circumstances, that a reasonable and informed third party would conclude that it is appropriate for the firm to accept the engagement in the particular circumstances.

For example, a firm might have two clients, one of which (the offeror) proposes to launch a takeover bid for the other (the offeree) where local regulation requires the offeror to obtain from the firm certain accounting reports with respect to the takeover bid. If the firm holds confidential information in respect of the offeree that could be relevant to the engagement for the offeror, consent of the offeree would normally be required as to the arrangements to maintain the confidentiality of the information, but the firm might not be authorized to seek such consent where the offeror's intentions cannot be disclosed to the offeree. In some cases, however, it may be impossible (for example due to time constraints) for another firm to undertake the engagement for the offeror, thus preventing the offeror from proceeding with its takeover plan.

SECTION 310

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- Conflicts between the interests of two or more parties for whom the professional accountant undertakes a professional activity; or
- Conflicts between the interests of the professional accountant and the interests of a party for whom the professional accountant undertakes a professional activity.

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

A professional accountant shall not allow a conflict of interest to compromise professional or business judgment.

310.2 Examples of situations in which conflicts of interest may arise for a professional accountant in business include:

- Serving on the Board of Directors of two companies and acquiring confidential information from one company that could be used by the professional accountant to the advantage or disadvantage of the other company;
- Undertaking a professional activity for each of two parties to assist them to dissolve their partnership;
- Being asked to prepare financial information for certain members of management who are seeking to undertake a management buy-out;
- Being 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
- Serving on a Board of Directors that is approving certain investments for the company where one of those specific investments 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 that 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, that compliance with the fundamental principles is compromised.

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 in business shall:

- Understand the nature of the relationships between the parties involved and their relevant interests;
- Understand the nature of the activity and its implications to relevant parties;
- Evaluate the significance or materiality of relevant interests or relationships;
- Evaluate the extent to which a professional activity for more than one party may result in a conflict of interest. In general, the more direct the relationship between the professional activity and the matter on which the parties' interests are in conflict, the more significant the threats may be.

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

- 310.5 The professional accountant in business shall evaluate the significance of the threat to objectivity and any threat to compliance with other fundamental principles created by a conflict of interest and shall apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. The professional accountant shall determine whether to discuss the nature of the conflict of interest at the appropriate levels within the employing organization, where relevant. Depending on the circumstances giving rise to the conflict of interest, application of one or both of the following safeguards may be appropriate:
- Disclosing the nature of the conflict of interest to the relevant parties and obtaining their consent to undertake the professional activity. In certain circumstances consent may be implied by a party's conduct; or
 - 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 the threat or reduce it to an acceptable level, the professional accountant in business shall decline to undertake or discontinue the professional activity or terminate the interest or relationship that creates the conflict of interest.
- 310.7 When identifying and evaluating conflicts of interest and applying appropriate safeguards, the professional accountant in business shall remain alert to the fundamental principle of confidentiality.
- 310.8 A professional accountant in business may encounter other threats to compliance with the fundamental principles. This may occur, for example, when preparing or reporting financial information as a result of undue pressure from others within the employing organization or financial, business or personal relationships that close or immediate family members of the professional accountant have with the employing organization. Guidance on managing such threats is covered by Sections 320 and 340 of the Code.