

IESBA CAG

Conflicts of Interest

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Project Status

- IESBA approved project proposal October 2009
- Task Force met 2010 and 2011
- IESBA discussed proposal February 2011
- Approve Exposure Draft October 2011
- Approve final standard October 2012

Overview

- Description of conflict of interest
- Reasonable and third party test
- Network firms
- Situations where disclosure not possible
- Compensation tied to performance
- Review of drafting

Description of Conflict of Interest

- A professional accountant may be faced with a conflict of interest when undertaking a professional activity. A conflict of interest creates a threats to objectivity and may create threats to other fundamental principles. Such threats may be caused by:
 - Conflicts between the interests of two or more third 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.

Two new definitions

- Professional activity – An activity requiring accountancy or related skills undertaken by a professional accountant, including accounting, auditing, taxation, management consulting and financial management
- Professional services – Professional activities performed for clients

Reasonable and informed third party

- Conceptual framework requires elimination of threats or reduction to acceptable level
 - A level at which a reasonable and informed third party would be likely to conclude that compliance with the fundamental principles is not compromised
- Definition of independence
 - Independence in appearance - avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude ... integrity, objectivity or professional skepticism had been compromised
- Task Force proposes that professional accountant be required to take into account the likely views of a reasonable and informed third party

Reasonable and informed third party

When identifying and evaluating interests and relationships that might give rise to 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, 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 was compromised.

Network Firms

- Evaluate any potential conflicts of interest professional accountant has reason to believe are created by network firm interests or relationships
- Network firm currently only used in independence
- Necessary for reasonable and informed third party test
- Reason to believe threshold consistent with Section 291 and recognizes legal obstacles that would be associated with proactive inquiry

Situations where disclosure not possible

- Current drafting indicates disclosure is generally necessary
- Task Force considering situations where confidentiality may preclude disclosure— such as might be the case in a hostile takeover
- Task Force considering what conditions necessary or safeguards to be applied in such situations:
 - Institutional mechanisms
 - Another firm cannot provide the service

Compensation tied to performance

- Not related to a conflict between interests of two or more competing parties, or interest of accountant and another party
- More related to undue pressure and ethical dilemmas
- Addressed in Section 320 and 340
 - Information to be prepared fairly, honestly and in accordance with relevant professional standards
 - Threat created when accountant holds options the value of which could be directly affected by decisions made by the professional accountant
- Task Force will consider whether additional guidance can be given

Review of drafting and further discussion