

**THE REVISIONS AND ADDITIONS CONTAINED IN THIS DOCUMENT ARE EXPECTED TO BE EFFECTIVE ON SEPTEMBER 30, 2014, THE LAST DAY OF THE MONTH IN WHICH THEY APPEAR IN THE *JOURNAL OF ACCOUNTANCY*.**

*Ethics interpretations are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the Journal of Accountancy constitutes notice to members. A member who departs from such guidelines shall have the burden of justifying such departure in any disciplinary hearing.*

The Professional Ethics Executive Committee has adopted the following revised Interpretation No. 102-2, “Conflicts of Interest for Members in Public Practice” (AICPA, *Professional Standards*, ET sec. 102 par. .03) under Rule 102, *Integrity and Objectivity*; and new Interpretation No. 102-7, “Conflicts of Interest for Members in Business” (AICPA, *Professional Standards*, ET sec. 102 par. .08) under Rule 102.

In addition, the Professional Ethics Executive Committee has adopted clarifying revisions to ET section 91, *Applicability* (AICPA, *Professional Standards*, ET sec. 91 par. .02).

These revisions have also been incorporated into the revised Code of Professional Conduct that is effective December 15, 2014 under the “Conflicts of Interest for Members in Public Practice” interpretation [1.110.010];<sup>1</sup> “Conflicts of Interest for Members in Business” interpretation [2.110.010] and paragraph .03 of “Application of the AICPA Code” [0.200.020].

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<sup>1</sup> All references to ET sections can be found in AICPA *Professional Standards*.

## **Text of Revised Interpretation 102-2**

(This revision replaces in its entirety the current version of Interpretation 102-2.)

### **102-2—Conflicts of Interest for Members in Public Practice**

A member in public practice or his or her firm may be faced with a conflict of interest when performing a professional service. In determining whether a professional service, relationship or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the *Integrity and Objectivity* rule. For example, threats may be created when

- the member or the member's firm provides a professional service related to a particular matter involving two or more clients whose interests with respect to that matter are in conflict; or
- the interests of the member or the member's firm with respect to a particular matter and the interests of the client for whom the member or the member's firm provides a professional service related to that matter are in conflict.

Certain professional engagements, such as audits, reviews, and other attest services require independence. Independence impairments under the *Independence* rule, its interpretations, and rulings cannot be eliminated by the safeguards provided in this interpretation or by disclosure and consent.

The following are examples of situations in which conflicts of interest may arise:

- Providing corporate finance services to a client seeking to acquire an audit client of the firm, when the firm has obtained confidential information during the course of the audit that may be relevant to the transaction
- Advising two clients at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
- Providing services to both a vendor and a purchaser who are clients of the firm in relation to the same transaction
- Preparing valuations of assets for two clients who are in an adversarial position with respect to the same assets
- Representing two clients at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
- Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
- Advising a client to invest in a business in which, for example, the immediate family member of the member has a financial interest in the business
- Providing strategic advice to a client on its competitive position while having a joint venture or similar interest with a competitor of the client
- Advising a client on the acquisition of a business which the firm is also interested in acquiring
- Advising a client on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service
- Providing forensic investigation services to a client for the purpose of evaluating or supporting contemplated litigation against another client of the firm

- Providing tax or personal financial planning services for several members of a family whom the member knows to have opposing interests
- Referring a personal financial planning or tax client to an insurance broker or other service provider, which refers clients to the member under an exclusive arrangement

### ***Identification of a Conflict of Interest***

Before accepting a new client relationship, engagement, or business relationship, a member should take reasonable steps to identify circumstances that might create a conflict of interest including identification of

- the nature of the relevant interests and relationships between the parties involved, and
- the nature of the service and its implication for relevant parties.

The nature of the relevant interests and relationships and the services may change during the course of the engagement. This is particularly true when a member is asked to conduct an engagement for a client in a situation that may become adversarial with respect to another client or the member or member's firm, even though the parties who engage the member may not initially be involved in a dispute. A member should remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.

For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a member in identifying actual or potential conflicts of interest that may create significant threats to compliance with the *Integrity and Objectivity* rule prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example clients or potential clients. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of a member being able to apply safeguards to eliminate or reduce significant threats to an acceptable level. The process to identify actual or potential conflicts of interest will 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.

If the firm is a member of a network, the member is not required to take specific steps to identify conflicts of interest of other network firms; however, if the member knows or has reason to believe that such conflicts of interest may exist or might arise due to interests and relationships of a network firm, the member should evaluate the significance of the threat created by such conflicts of interest as described below.

### ***Evaluation of a Conflict of Interest***

When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. In evaluating the significance of an identified threat, members should consider both of the following:

- The significance of relevant interests or relationships.
- The significance of the threats created by performing the professional service or services. In general, the more direct the connection between the professional service

and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include the following:

- Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include
  - a. using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality;
  - b. creating 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;
  - c. establishing policies and procedures to limit access to client files, the use of confidentiality agreements signed by employees and partners of the firm and the physical and electronic separation of confidential information.
- Regularly reviewing the application of safeguards by a senior individual not involved with the client engagement or engagements.
- Having a member of the firm who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
- Consulting with third parties, such as a professional body, legal counsel, or another professional accountant.

In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.

### ***Disclosure of a Conflict of Interest and Consent***

When a conflict of interest exists, the member should disclose the nature of the conflict of interest to clients and other appropriate parties affected by the conflict and obtain their consent to perform the professional services. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

Disclosure and consent may take different forms. The following are examples:

- General disclosure to clients of circumstances in which the member, in keeping with common commercial practice, does not provide services exclusively for any one client (for example, in a particular service in a particular market sector) in order for the client to provide general consent accordingly. Such disclosure might be made in a member's standard terms and conditions for the engagement.
- Specific disclosure to affected clients of the circumstances of the particular conflict including an explanation of the situation and any planned safeguards, sufficient to enable the client to make an informed decision with respect to the matter and to provide specific consent.

The member should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general

disclosure and general consent. For this purpose, the member should exercise professional judgment in evaluating the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

When a member has requested specific consent from a client and that consent has been refused by the client, the member should (a) decline to perform or discontinue professional services that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level, such that consent can be obtained, after applying any additional safeguards, if necessary.

The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

When addressing conflicts of interest, including making disclosures and seeking guidance of third parties, a member should remain alert to the requirements of Rule 301, *Confidential Client Information* (AICPA, *Professional Standards*, ET sec. 301 par. .01), and Interpretation 501-9, "Confidential information obtained from employment or volunteer activities," under Rule 501, *Acts Discreditable* (AICPA, *Professional Standards*, ET sec. 501 par. .10). In addition, federal, state, or local statutes, or regulations concerning confidentiality of client information may be more restrictive than the requirements contained in the Code of Professional Conduct.

When practicing before the IRS or other taxing authorities, members should ensure compliance with any requirements that are more restrictive. For example, Treasury Department Circular No. 230, *Regulations Governing Practice before the Internal Revenue Service* provides more restrictive requirements concerning written consent by the client when a conflict of interest exists.

## **Text of New Interpretation 102-7**

### **102-7—Conflicts of Interest for Members in Business**

A member in business may be faced with a conflict of interest when undertaking a professional service. In determining whether a professional service, relationship, or matter would result in a conflict of interest, a member should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.

A conflict of interest creates adverse interest and self-interest threats to the member's compliance with the *Integrity and Objectivity* rule. For example, threats may be created when

- a member undertakes a professional service related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict, or
- the interests of a member with respect to a particular matter and the interests of a party for whom the member undertakes a professional service related to that matter are in conflict.

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

The following are examples of situations in which conflicts of interest may arise:

- Serving in a management or governance position for two employing organizations and acquiring confidential information from one employing organization that could be used by the member to the advantage or disadvantage of the other employing organization
- Undertaking a professional service for each of two parties in a partnership employing the member to assist in dissolving their partnership
- Preparing financial information for certain members of management of the employing organization who are seeking to undertake a management buy-out
- Being responsible for selecting a vendor for the member's employing organization when the member or his or her immediate family member could benefit financially from the transaction
- Serving in a governance capacity or influencing an employing organization that is approving certain investments for the company in which one of those specific investments will increase the value of the personal investment portfolio of the member or his or her immediate family member

#### ***Identification of a Conflict of Interest***

In identifying whether a conflict of interest exists or may be created, a member should take reasonable steps to determine

- the nature of the relevant interests and relationships between the parties involved and
- the nature of the services and its implication for relevant parties.

The nature of the relevant interests and relationships and the services may change over time. The member should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

#### ***Evaluation of a Conflict of Interest***

When an actual conflict of interest has been identified, the member should evaluate the significance of the threat created by the conflict of interest to determine if the threat is at an acceptable level. Members should consider both qualitative and quantitative factors when

evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.

In evaluating the significance of an identified threat, members should consider the following:

- The significance of relevant interests or relationships.
- The significance of the threats created by undertaking the professional service or services. In general, the more direct the connection between the member and the matter on which the parties' interests are in conflict, the more significant the threat to compliance with the rule will be.

If the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. Examples of safeguards include the following:

- Restructuring or segregating certain responsibilities and duties
- Obtaining appropriate oversight
- Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
- Consulting with third parties, such as a professional body, legal counsel, or another professional accountant

In cases where an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member is unable to implement effective safeguards, the member should (a) decline to perform or discontinue the professional services that would result in the conflict of interest or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the threat or reduce it to an acceptable level.

### ***Disclosure of a Conflict of Interest and Consent***

When a conflict of interest exists, the member should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the employing organization and obtain their consent to undertake the professional service. The member should disclose the conflict of interest and obtain consent even if the member concludes that threats are at an acceptable level.

The member is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the safeguards applied to eliminate or reduce the threats to an acceptable level, and the consent obtained.

When addressing a conflict of interest, a member is encouraged to seek guidance from within the employing organization or from others, such as a professional body, legal counsel, or another professional accountant. When making disclosures and seeking guidance of third parties, the member should remain alert to the requirements of Interpretation 501-9, "Confidential information obtained from employment or volunteer activities" under Rule 501, *Acts Discreditable*. In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.

A member may encounter other threats to compliance with the *Integrity and Objectivity* rule. 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 relatives or immediate family members of the member have with the

employing organization. Guidance on managing such threats is covered by Interpretations 102-1, "Knowing misrepresentations in the preparation of financial statements or records," and 102-4, "Subordination of judgment by a member" (AICPA, *Professional Standards*, ET sec. 102 par. .02 and .05) under the *Integrity and Objectivity* rule.



## **Text of Revised Paragraph .02 of ET Section 91, *Applicability***

[Additions appear in boldface and deletions are stricken]

**.02 Interpretation Addressing the Applicability of the AICPA Code of Professional Conduct.** For purposes of the applicability section of the code, a member is a member, an associated member, or an international associate of the AICPA [sec. 92 par.21].

1. The Rules of Conduct that follow apply to all professional services performed except
  - a. when the wording of the rule indicates otherwise
  - b. that a member who is practicing outside the United States will not be ~~subject to discipline~~ **considered in violation of a particular rule** for departing from any of the rules stated herein as long as the member's conduct is in accord with the rules of the organized accounting profession in the country in which he or she is practicing. However, when a member's ~~name~~ is associated with financial statements under circumstances that would ~~entitle~~ **lead** the reader to assume that U.S. practices were followed, the member must comply with the requirements of rules 202, Compliance With Standards [sec. 202 par. 01], and 203, Accounting Principles [sec. 203 par. 01].
  - c. a member who is a member of a group engagement team (see the clarified SAS Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors]) will not be ~~subject to discipline~~ **considered in violation of a particular rule** if a foreign component auditor (accountant) departed from any of the ethics requirements stated herein with respect to the audit or review of group financial statements or other attest engagement, as long as the foreign component auditor's (accountant's) conduct, at a minimum, is in **accordance** with the ethics and independence requirements set forth in the International Ethics Standards Board for Accountants' (IESBA's) Code of Ethics for Professional Accountants, and the members of the group engagement team are in compliance with the rules stated herein.
  - d. **the independence of the member's firm will not be considered impaired** a ~~member who is a member of a network firm (as defined in paragraph .24 of section 92, Definitions)~~ will not be ~~subject to discipline~~ if **another firm or entity** within the network (as defined in paragraph .23 of section 92) that is located outside the United States (~~foreign network firm~~) **that is within the member firm's network** departed from any of the ~~ethics requirements~~ **rules** stated herein, as long as the **other firm or entity's** ~~foreign network firm's~~ conduct, at a minimum, is in **accordance** with the ~~ethics and~~ independence requirements set forth in the IESBA's Code of Ethics for Professional Accountants.

### **Text of Revised Interpretation 1.110.010**

(This revision replaces in its entirety the current version of “Conflicts of Interest for Members in Public Practice” interpretation [1.110.010].<sup>2</sup> Terms in italic are defined terms.)

#### **1.110.010 Conflicts of Interest for Members in Public Practice**

- 01.** A *member* or his or her *firm* may be faced with a conflict of interest when performing a *professional service*. In determining whether a *professional service*, relationship or matter would result in a conflict of interest, a *member* should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.
- 02.** A conflict of interest creates adverse interest and self-interest *threats* to the *member's* compliance with the “Integrity and Objectivity Rule” [ 1.100.001]. For example, *threats* may be created when
  - a.** the *member* or the *member's firm* provides a *professional service* related to a particular matter involving two or more *clients* whose interests with respect to that matter are in conflict, or
  - b.** the interests of the *member* or the *member's firm* with respect to a particular matter and the interests of the *client* for whom the *member* or the *member's firm* provides a *professional service* related to that matter are in conflict.
- 03.** Certain professional engagements, such as audits, reviews and other attest services require *independence*. *Independence* impairments under the “Independence Rule” [ 1.200.001], its *interpretations*, and rulings cannot be eliminated by the *safeguards* provided in this interpretation or by disclosure and consent.
- 04.** The following are examples of situations in which conflicts of interest may arise:
  - a.** Providing corporate finance services to a *client* seeking to acquire an audit *client* of the *firm*, when the *firm* has obtained confidential information during the course of the audit that may be relevant to the transaction
  - b.** Advising two *clients* at the same time who are competing to acquire the same company when the advice might be relevant to the parties' competitive positions
  - c.** Providing services to both a vendor and a purchaser who are *clients* of the *firm* in relation to the same transaction
  - d.** Preparing valuations of assets for two *clients* who are in an adversarial position with respect to the same assets
  - e.** Representing two *clients* at the same time regarding the same matter who are in a legal dispute with each other, such as during divorce proceedings or the dissolution of a partnership
  - f.** Providing a report for a licensor on royalties due under a license agreement while at the same time advising the licensee of the correctness of the amounts payable under the same license agreement
  - g.** Advising a *client* to invest in a business in which, for example, the *immediate family* member of the *member* has a *financial interest* in the business
  - h.** Providing strategic advice to a *client* on its competitive position while having a joint venture or similar interest with a competitor of the *client*
  - i.** Advising a *client* on the acquisition of a business which the *firm* is also interested in acquiring
  - j.** Advising a *client* on the purchase of a product or service while having a royalty or commission agreement with one of the potential vendors of that product or service

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<sup>2</sup> All bracketed section numbers can be found in the ET section of AICPA *Professional Standards*.

- k.* Providing forensic investigation services to a *client* for the purpose of evaluating or supporting contemplated litigation against another *client* of the *firm*
- l.* Providing tax or personal financial planning services for several members of a family whom the *member* knows to have opposing interests
- m.* Referring a personal financial planning or tax *client* to an insurance broker or other service provider, which refers *clients* to the *member* under an exclusive arrangement

### **Identification of a Conflict of Interest**

- 05.** Before accepting a new *client* relationship, engagement, or business relationship, a *member* should take reasonable steps to identify circumstances that might create a conflict of interest including identification of
  - a.* the nature of the relevant interests and relationships between the parties involved and
  - b.* the nature of the service and its implication for relevant parties.
- 06.** The nature of the relevant interests and relationships and the services may change during the course of the engagement. This is particularly true when a *member* is asked to conduct an engagement for a *client* in a situation that may become adversarial with respect to another *client* or the *member* or *member's firm*, even though the parties who engage the *member* may not initially be involved in a dispute. A *member* should remain alert to such changes for the purpose of identifying circumstances that might create a conflict of interest.
- 07.** For the purpose of identifying interests and relationships that might create a conflict of interest, having an effective conflict identification process assists a *member* in identifying actual or potential conflicts of interest that may create significant *threats* to compliance with the "Integrity and Objectivity Rule" [1.100.001] prior to determining whether to accept an engagement and throughout an engagement. This includes matters identified by external parties, for example *clients* or potential *clients*. The earlier an actual or potential conflict of interest is identified, the greater the likelihood of a *member* being able to apply *safeguards* to eliminate or reduce significant *threats* to an *acceptable level*. The process to identify actual or potential conflicts of interest will depend on such factors as
  - a.* the nature of the *professional services* provided,
  - b.* the size of the *firm*,
  - c.* the size and nature of the *client* base, and
  - d.* the structure of the *firm*, for example the number and geographic location of offices.
- 08.** If the *firm* is a member of a *network*, the *member* is not required to take specific steps to identify conflicts of interest of other *network firms*; however, if the *member* knows or has reason to believe that such conflicts of interest may exist or might arise due to interests and relationships of a *network firm*, the *member* should evaluate the significance of the *threat* created by such conflicts of interest as described below.

### **Evaluation of a Conflict of Interest**

- 09.** When an actual conflict of interest has been identified, the *member* should evaluate the significance of the *threat* created by the conflict of interest to determine if the *threat* is at an *acceptable level*. Members should consider both qualitative and quantitative factors when evaluating the significance of the *threat*, including the extent to which existing *safeguards* already reduce the *threat* to an *acceptable level*. In evaluating the significance of an identified *threat*, *members* should consider both of the following:
  - a.* The significance of relevant interests or relationships.
  - b.* The significance of the *threats* created by performing the *professional service* or services. In general, the more direct the connection between the *professional service* and the matter on which the parties' interests are in conflict, the more significant the *threat* to compliance with the rule will be.

10. If the *member* concludes that the *threat* is not at an *acceptable level*, the *member* should apply *safeguards* to eliminate the *threat* or reduce it to an *acceptable level*. Examples of *safeguards* include the following:
- a. Implementing mechanisms to prevent unauthorized disclosure of confidential information when performing *professional services* related to a particular matter for two or more *clients* whose interests with respect to that matter are in conflict. This could include
    - i. using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality;
    - ii. creating 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*;
    - iii. establishing policies and procedures to limit access to *client* files, the use of confidentiality agreements signed by employees and *partners* of the *firm* and the physical and electronic separation of confidential information.
  - b. Regularly reviewing the application of *safeguards* by a senior individual not involved with the *client* engagement or engagements.
  - c. Having a member of the *firm* who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
  - d. Consulting with third parties, such as a professional body, legal counsel, or another professional accountant.
11. In cases where an identified *threat* may be so significant that no *safeguards* will eliminate the *threat* or reduce it to an *acceptable level*, or the *member* is unable to implement effective *safeguards*, the *member* should (a) decline to perform or discontinue the *professional services* that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the *threat* or reduce it to an *acceptable level*.

### ***Disclosure of a Conflict of Interest and Consent***

12. When a conflict of interest exists, the *member* should disclose the nature of the conflict of interest to *clients* and other appropriate parties affected by the conflict and obtain their consent to perform the *professional services*. The *member* should disclose the conflict of interest and obtain consent even if the *member* concludes that *threats* are at an *acceptable level*.
13. Disclosure and consent may take different forms. The following are examples:
- a. General disclosure to *clients* of circumstances in which the *member*, in keeping with common commercial practice, does not provide services exclusively for any one *client* (for example, in a particular service in a particular market sector) in order for the *client* to provide general consent accordingly. Such disclosure might be made in a *member's* standard terms and conditions for the engagement.
  - b. Specific disclosure to affected *clients* of the circumstances of the particular conflict including an explanation of the situation and any planned safeguards, sufficient to enable the *client* to make an informed decision with respect to the matter and to provide specific consent.
14. The *member* should determine whether the nature and significance of the conflict of interest is such that specific disclosure and specific consent are necessary, as opposed to general disclosure and general consent. For this purpose, the *member* should exercise professional judgment in evaluating the circumstances that create a conflict of interest, including the parties that might be affected, the nature of the issues that might arise and the potential for the particular matter to develop in an unexpected manner.

15. When a *member* has requested specific consent from a *client* and that consent has been refused by the *client*, the *member* should (a) decline to perform or discontinue *professional services* that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the *threat* or reduce it to an *acceptable level*, such that consent can be obtained, after applying any additional *safeguards*, if necessary.
16. The *member* is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the *safeguards* applied to eliminate or reduce the *threats* to an *acceptable level*, and the consent obtained.
17. When addressing conflicts of interest, including making disclosures and seeking guidance of third parties, a *member* should remain alert to the requirements of the “Confidential Client Information Rule” [1.700.001] and the “Confidential Information Obtained From Employment or Volunteer Activities” interpretation [1.400.070] of the “Acts Discreditable Rule.” In addition, federal, state, or local statutes, or regulations concerning confidentiality of *client* information may be more restrictive than the requirements contained in the Code of Professional Conduct.
18. When practicing before the IRS or other taxing authorities, *members* should ensure compliance with any requirements that are more restrictive. For example, Treasury Department Circular No. 230, *Regulations Governing Practice before the Internal Revenue Service* provides more restrictive requirements concerning written consent by the *client* when a conflict of interest exists.

### **Text of Revised Interpretation 2.110.010**

(This revision replaces in its entirety the current version of “Conflicts of Interest for Members in Business” interpretation [2.110.010]. Terms in italic are defined terms.)

### **2.110.010 Conflicts of Interest for Members in Business**

- 01.** A *member* may be faced with a conflict of interest when undertaking a *professional service*. In determining whether a *professional service*, relationship, or matter would result in a conflict of interest, a *member* should use professional judgment, taking into account whether a reasonable and informed third party who is aware of the relevant information would conclude that a conflict of interest exists.
- 02.** A conflict of interest creates adverse interest and self-interest *threats* to the *member's* compliance with the “Integrity and Objectivity Rule” [2.100.001]. For example, *threats* may be created when
  - a.** a *member* undertakes a *professional service* related to a particular matter involving two or more parties whose interests with respect to that matter are in conflict, or
  - b.** the interests of a *member* with respect to a particular matter and the interests of a party for whom the *member* undertakes a *professional service* related to that matter are in conflict.
- 03.** A party may include an *employing organization*, a vendor, a customer, a lender, a shareholder, or other party.
- 04.** The following are examples of situations in which conflicts of interest may arise:
  - a.** Serving in a management or governance position for two *employing organizations* and acquiring confidential information from one *employing organization* that could be used by the *member* to the advantage or disadvantage of the other *employing organization*
  - b.** Undertaking a *professional service* for each of two parties in a partnership employing the *member* to assist in dissolving their partnership
  - c.** Preparing financial information for certain *members* of management of the *employing organization* who are seeking to undertake a management buy-out
  - d.** Being responsible for selecting a vendor for the *member's employing organization* when the *member* or his or her *immediate family* member could benefit financially from the transaction
  - e.** Serving in a governance capacity or influencing an *employing organization* that is approving certain investments for the company in which one of those specific investments will increase the value of the personal investment portfolio of the *member* or his or her *immediate family* member

#### **Identification of a Conflict of Interest**

- 05.** In identifying whether a conflict of interest exists or may be created, a *member* should take reasonable steps to determine
  - a.** the nature of the relevant interests and relationships between the parties involved and
  - b.** the nature of the services and its implication for relevant parties.
- 06.** The nature of the relevant interests and relationships and the services may change over time. The *member* should remain alert to such changes for the purposes of identifying circumstances that might create a conflict of interest.

#### **Evaluation of a Conflict of Interest**

- 07.** When an actual conflict of interest has been identified, the *member* should evaluate the significance of the *threat* created by the conflict of interest to determine if the *threat* is at an

*acceptable level. Members should consider both qualitative and quantitative factors when evaluating the significance of the threat, including the extent to which existing safeguards already reduce the threat to an acceptable level.*

08. In evaluating the significance of an identified *threat*, *members* should consider the following:
  - a. The significance of relevant interests or relationships.
  - b. The significance of the *threats* created by undertaking the *professional service* or services. In general, the more direct the connection between the *member* and the matter on which the parties' interests are in conflict, the more significant the *threat* to compliance with the rule will be.
09. If the *member* concludes that the *threat* is not at an *acceptable level*, the *member* should apply *safeguards* to eliminate the *threat* or reduce it to an *acceptable level*. Examples of *safeguards* include the following:
  - a. Restructuring or segregating certain responsibilities and duties
  - b. Obtaining appropriate oversight
  - c. Withdrawing from the decision making process related to the matter giving rise to the conflict of interest
  - d. Consulting with third parties, such as a professional body, legal counsel, or another professional accountant
10. In cases where an identified *threat* may be so significant that no *safeguards* will eliminate the *threat* or reduce it to an *acceptable level*, or the *member* is unable to implement effective *safeguards*, the *member* should (a) decline to perform or discontinue the *professional services* that would result in the conflict of interest; or (b) terminate the relevant relationships or dispose of the relevant interests to eliminate the *threat* or reduce it to an *acceptable level*.

#### ***Disclosure of a Conflict of Interest and Consent***

11. When a conflict of interest exists, the *member* should disclose the nature of the conflict to the relevant parties, including to the appropriate levels within the *employing organization* and obtain their consent to undertake the *professional service*. The *member* should disclose the conflict of interest and obtain consent even if the *member* concludes that *threats* are at an *acceptable level*.
12. The *member* is encouraged to document the nature of the circumstances giving rise to the conflict of interest, the *safeguards* applied to eliminate or reduce the *threats* to an *acceptable level*, and the consent obtained.
13. When addressing a conflict of interest, a *member* is encouraged to seek guidance from within the *employing organization* or from others, such as a professional body, legal counsel, or another professional accountant. When making disclosures and seeking guidance of third parties, the *member* should remain alert to the requirements of the "Confidential Information Obtained From Employment or Volunteer Activities," interpretation [2.400.070] of the "Acts Discreditable Rule." In addition, federal, state, or local statutes, or regulations concerning confidentiality of employer information may be more restrictive than the requirements contained in the Code of Professional Conduct.
14. A *member* may encounter other *threats* to compliance with the "Integrity and Objectivity Rule" [2.100.001]. 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 relatives* or *immediate family* members of the *member* have with the *employing organization*. Guidance on managing such *threats* is covered by the "Knowing Misrepresentations in the Preparation of Financial Statements or Records," interpretation [2.130.010] and the "Subordination of Judgment by a Member" interpretation [2.130.020] under the "Integrity and Objectivity Rule."

**Text of Revised Paragraph .03 of “Application of the AICPA Code” [0.200.020].**

(Additions appear in boldface and deletions are stricken. Terms in italic are defined terms.)

**0.200.020 Application of AICPA Code (in part)**

- .03 The rules of conduct apply to all *professional services* performed, except
- a. when the wording of the rule indicates otherwise.
  - b. that a *member* who is practicing outside the United States will not be ~~subject to discipline~~ **considered in violation of a particular rule** for departing from any of the rules stated herein, as long as the *member's* conduct is in accordance with the rules of the organized accounting profession in the country in which he or she is practicing. However, when a *member's name* is associated with *financial statements* under circumstances that would ~~entirely~~ **lead** the reader to assume that practices of the United States were followed, the *member* must comply with the “Compliance With Standards Rule” [1.310.001 for *members in public practice* and 2.310.001 for *members in business*] and the “Accounting Principles Rule” [1.320.001 for *members in public practice* and 2.320.001 for *members in business*].
  - c. that a *member* who is a member of a group engagement team (see the clarified Statement on Auditing Standards Special Considerations—Audits of Group Financial Statements [Including the Work of Component Auditors] [AICPA, *Professional Standards*, AU-C sec. 600]) will not be ~~subject to discipline~~ **considered in violation of a particular rule** if a foreign component auditor (accountant) departed from any of the rules stated herein with respect to the audit or review of group *financial statements* or other *attest engagement*, as long as the foreign component auditor's (accountant's) conduct, at a minimum, is in accordance with the ethics and *independence* requirements set forth in the International Ethics Standards Board for Accountants' (IESBA's) Code of Ethics for Professional Accountants, and the members of the group engagement team are in compliance with the rules stated therein.
  - d. that **the independence of the member's firm will not be considered impaired** ~~a member who is a member of a network firm will not be subject to discipline if another firm or entity within the network that is located outside the United States that is within the member firm's network (foreign network firm)~~ departed from any of the rules stated herein, as long as the **other firm or entity's** ~~foreign network firm's~~ conduct, at a minimum, is in accordance with the ~~ethics and independence~~ requirements set forth in the IESBA's Code of Ethics for Professional Accountants.