Federation of European Accountants
Fédération des Experts comptables Européens

International Ethics Standards
Board for Accountants (IESBA)
Submitted via the IESBA website
and via e-mail to:
kensiong@ethicsboard.org

20 February 2014

Ref.: PEC/HBL/LBU/NRO/PCO

Dear Mr Siong,

Re: FEE comments on the Consultation Paper on the Proposed Strategy and Work Plan 2014-2018

FEE[1] is pleased to comment on the Consultation Paper on the IESBA Proposed Strategy and Work Plan (SWP), 2014-2018.

As per the SWP's 'Guide for Respondents', this letter includes a number of general comments on the SWP in Section 1, followed by Section 2 stating FEE's views on the particular matters raised in paragraph 60 of the SWP.

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[1] FEE (Fédération des Experts comptables Européens - Federation of European Accountants) is an international non-profit organisation based in Brussels that represents 48 institutes of professional accountants and auditors from 36 European countries, including all of the 28 European Union (EU) Member States.

FEE has a combined membership of more than 800.000 professional accountants, working in different capacities in public practice, small and big accountancy firms, businesses of all sizes, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

1 General Comments

1.1 Focus on Structure, Adoption and Implementation

In both its responses to the IESBA Exposure Draft on the 2010-2012 SWP and in the IESBA 2014-2016 Strategic Review, FEE stressed the **importance of a pause in both ethics and independence standard setting**. After a period of high-quality and high-volume standard-setting, it is time for the IESBA **to focus on adoption and implementation**. Further relentless amendments to the IESBA Code of Ethics for Professional Accountants (the Code) cannot be justified.

We also think that an **improved structure of the Code** is needed to convince stakeholders to adopt and implement this Code. With regard to the structure itself, we would like to reiterate our support to:

- **Aiming to reduce the length of the Code and clarifying its language;**
- **Splitting off the independence section; and**
- **Dividing the whole Code into sections separating requirements and prohibitions from application guidance and examples.**

1.2 Needs of professional accountants in SMP and SME environments

FEE is very supportive of IESBA taking into account perspectives of the small-and medium-sized practice (SMP)/small-and medium-sized entity (SME) constituency when it sets standards as stated in paragraph 10 of the SWP. In this regard, we encourage the IESBA to also integrate the SMP and SME perspectives in its activities **beyond standard setting**, most notably its efforts on adoption and implementation. Making the requirements of the Code more **understandable** and its contents more **accessible** is **especially pressing** for professional accountants working as SMPs or those dealing with SMEs. For this constituency, increased comprehension of the Code is a necessity; the principles to be applied should be the same, but with appropriate guidance on how to apply them in this specific environment. This argument also ties into the reasons why the Code needs to be restructured, as presented by FEE in its letter to Mr Holmquist of 2 October 2013 (see the Appendix to this letter).

1.3 Professional ethics

After the revision of the independence sections in the Code was completed in 2009, FEE has been arguing for the IESBA to **diversify its attention** beyond independence standards to the **wider subject of professional ethics**. Professional ethics namely includes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. **Integrity**, for example, is what FEE considers the **core principle** of professional behaviour.

Not only is this focus on ethical values important to continuously educate the profession and raise awareness among accountants on their professional behaviour. It will also serve to inform the **regulatory and business community** and the **general public** on the ethical standard the profession is required to live up to.

In the aftermath of the financial crisis, topics that carry **potential reputational risk** for professional accountants have become extra apparent and pressing. These topics, such as the role the profession should play in providing tax advice, are interwoven with the ethical requirements for the profession. FEE therefore continues to see a persistent need for the IESBA to draw attention to ethical behaviour in a broader sense.

2 Comments on Specific Aspects

2.1 Do you support the four work streams the Board added to its SWP in 2012, i.e., Long Association, Non-Assurance Services, Review of Part C, and Structure of the Code (See Section II)? If not, please explain why.

Since the IESBA has added these four work streams to the Work Plan in February 2012 and the execution of these has started or is well advanced, we do not necessarily understand the relevance of this question. We wonder if it is worth consulting on these projects while these are on their way to being completed.

The IESBA 2014-2016 Strategic Survey, as responded to by FEE in March 2013, consulted on the importance of two of those work streams. Hereby, FEE classified the Structure of the Code as ‘important’ and Non-Assurance Services as ‘very unimportant’. This classification is still valid.

Both the projects on Long Association and the Review of Part C are in full swing (as per Appendix 3 to the SWP).

We would classify the project on the Review of Part C as ‘important’, also in light of the debate on tax good governance for instance. As far as the project on Long Association is concerned, although we appreciate that the IESBA is working on guidance, this seems to be a matter to be dealt with by laws and regulation rather than by an ethical code, both in general and definitely from the EU perspective, now that a compromise has been reached on such matters.

2.2 Are the strategic themes identified for the period 2014-2018 appropriate? If not, please explain why.

FEE has the following comments on these strategic themes:

(i) Maintaining a high-quality Code of Ethics for application by Professional Accountants globally

FEE commends the increased focus by IESBA on the **accounting profession as a whole**, instead of mostly on professional accountants in public practice. Professional Accountants in Business and those working in SMP and SME environments are a very important part of the profession, with **different needs** that are strategic for the IESBA to address.

In this regard, we would like to refer to the importance for the IESBA to branch out beyond independence standards and **deal with broader issues** of ethical behaviour for all accountants, as set out in Paragraph 1.3 above.

(ii) Promoting and facilitating the adoption and effective implementation of the Code

FEE is generally supportive of the proposal for IESBA to continue promoting and facilitating the adoption and effective implementation of the Code. In this respect, we believe that **especially legislators and regulators** are to be approached as they have become the primary standard setters for ethics and independence. We understand that outreach to stakeholders is needed on regulatory concerns about the enforceability of a principle-based Code as set out in Paragraph 14 of the SWP, but we also think that, as stated in our general comment above, an **improved structure of the Code** is needed to convince these stakeholders.

FEE is among the stakeholders mentioned in section 13 of the SWP which find that the **current structure and drafting conventions** of the Code have been an impediment to its more rapid and wider adoption and its more effective international implementation.

FEE has set out its recommendations in this regard in more detail in its letter to Mr Holmquist of 2 October 2013 (see the Appendix to this letter). On this occasion we would like to once again stress the **urgency** for the IESBA to work towards a Code that is structured and written in a way that will be easier to understand and adopt.

FEE also wholeheartedly agrees with the stakeholders encouraging the IESBA to **focus less on issuing new standards and more on outreach** to promote the revised Code and raise awareness of its robustness among stakeholders as set out in paragraph 14 of the SWP. FEE believes there continues to be a need for a pause in ethics and independence standard setting to allow member bodies and firms an appropriate period of time to implement the Code (see 1.1 above).

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Even though the European Union (EU) has not opted for the use of the Code, or parts thereof such as its independence section, in its compromise on Audit Reform[2], **the Code, or parts thereof, continues to be extremely relevant in the EU**, especially for auditors of entities other than public interest entities (PIEs). For auditors of PIEs, where the requirements on for instance the prohibitions of non-audit services **leave room to EU Member States (through the use of options), the Code, or parts thereof, could be promoted as leading guidance** in implementing these options.

In respect of adoption and implementation, FEE Member Bodies would very much welcome **more educational material** from the IESBA, like for instance the International Auditing and Assurance Standards Board (IAASB) launched upon finalisation of the Clarity Project to revise and redraft its International Standards on Auditing (ISAs).

(iii) Evolving the Code for continued relevance in a changing global environment

As stated before, FEE finds it more important for the IESBA to focus on making the Code more **understandable and accessible to the expanding audience** for whom ethical behaviour of accountants is relevant than to keep amending the Code to deal with the changing global environment. The factors that can impact the Code, namely regulatory developments and globalisation of capital markets, are very vague and can amount to any kind of amendments which would defer the attention from more pressing adoption and implementation issues. An example of this would be the increasing complexity and opacity in the field of collective investment vehicles (CIVs) as stated in paragraph 15 b of the SWP, an area which in fact only affects a small minority of professional accountants.

(iv) Increasing engagement and cooperation with key stakeholders

FEE is very supportive of the growing focus of the IESBA on stakeholder outreach (see above under ii) of Section 2.2). FEE therefore applauds the IESBA for its efforts regarding outreach in recent years. FEE is keen on encouraging any effort leading to more visibility and future oriented actions of the IESBA. Other than engaging stakeholders in the standard setting process, see paragraph 17-19 of the SWP, we also highly encourage more stakeholder involvement regarding adoption and implementation activities.

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[2] For FEE's views on this matter, see: News Release: *FEE comments on the announced agreement on European audit reform* of 18 December 2013.

2.3 Are the actions identified with respect to each strategic theme, and their relative prioritizations, appropriate? If not, please explain why.

Where appropriate, we have already commented on these actions above. We would like to provide further comments as set out below:

- **Structure of the Code** – We would like to stress the importance of this matter and emphasize the need for the **restructuring** project (which is to be rolled out in Q2 2014) to be comprehensive and in line with our recommendations as stated in our letter to Mr Holmquist on this matter (see the Appendix to this letter).

- **Understanding the Extent of Adoption of the Code** - Regarding the IFAC Compliance Advisory Panel's (CAP) work on compliance by member bodies and barriers to convergence, it should be noted this work is often spread out over time. This is **making it hard to measure adoption and implementation at a certain point**. For instance, comparing the results of FEE's stocktaking exercise on the advancement of the adoption of ISAs in Europe with the results of the IFAC CAP's work related to the adoption of ISAs in European countries has indicated a considerable amount of differences, in both directions of further and less advancement.

- **Outreach to Stakeholders and Other Activities in Support of Adoption and Implementation** - As stated in Section 2.2 above, FEE is very much in favour of both extensive **outreach** and the IESBA providing additional **guidance**, such as the staff publications mentioned in paragraph 48 of the SWP, to raise awareness and enhance understanding of the Code among investors and other stakeholders. More **educational material** from IESBA for direct use by professional accountants is also encouraged.

- **Collective Investment Vehicles (CIVs)** - It is not clear why the IESBA would like to consider the application of the related entity concept in audits of CIVs. In many jurisdictions, including in the EU, **CIVs** (as well as mutual funds) **are covered in the IESBA definition of PIEs** (defined as entities of significant public interest), or - if not defined by law and regulation - are treated by the profession as significant PIEs where they are open to investments by the general public. Therefore, the independence rules applicable for auditors or audit firms auditing PIEs are also applicable for auditors and audit firms auditing CIVs (as well as mutual funds). Additionally, the way in which CIVs are structured might differ significantly between different jurisdictions. The development of globally applicable guidance for the application of the related entity concept in audits of CIVs therefore appears particularly complex and difficult. Finally, given the level of legislation and complexity related to CIVs, it appears that it is **too specialist an area** to be dealt with by a global code as only a small minority of professional accountants appears to be commonly confronted with independence issues related to CIVs.

2.4 Are there any actions not included in the proposed SWP that you believe the Board should consider for the 2014-2018 period? If so, please explain why, and indicate which actions identified in proposed SWP should be displaced (i.e., deferred or eliminated).

In addition to the comments above, especially in the General Comments under Section 1 of this letter, FEE would like to stress the importance for the IESBA to **concentrate its outreach activities on regulators**, not in the least the European Institutions including the European Commission. This is needed to promote the much needed convergence in the areas of ethics and especially independence. Recent developments in the EU , as referred to above, might result in **increasing differences between the primary independence requirements in different parts of the world**. A global standard setter cannot sit idle on the side lines and watch this happening, without at least trying with all available means to limit these differences when it comes to implementation in practice and especially help in limiting their extra-territorial effects.

For further information on this FEE letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Noémi Robert at +32 2 285 40 80 or via email at noemi.robert@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Encl.: Letter to Mr Holmquist dated 2 October 2013: 'FEE's recommendations regarding the structure of the Code of Ethics for Professional Accountants'.

Federation of European Accountants
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Appendix: Letter to Mr Holmquist dated 2 October 2013: 'FEE's recommendations regarding the structure of the Code of Ethics for Professional Accountants'.

Mr. Jörgen Holmquist
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Board for Accountants (IESBA)
Email: JorgenHolmquist@ethicsboard.org

CC:
Mr. Don Thomson
Chair, IESBA Structure of the Code
Working Group
Email: Don.Thomson@ca.gt.com

Mr. Chris Jackson
Technical Manager, IESBA
Email: ChrisJackson@ethicsboard.org

2 October 2013

Ref.: ETH/AKI/LBU/PCO

Dear Mr. Holmquist,

Re: FEE's recommendations regarding the structure of the Code of Ethics for Professional Accountants

(1) Last April FEE was asked informally to present ideas on changing the structure of the Code of Ethics for Professional Accountants (the Code) to enhance its adoption and implementation. The IESBA project on the Structure of the Code was in its initial stages at the time, whereas within FEE and especially its Professional Ethics and Competences Working Party there already appeared to be some well-defined ideas on restructuring the Code. These ideas were partially based on experiences with adopting and implementing the Code in different European jurisdictions. It was therefore agreed that FEE would submit its recommendations to the IESBA separately, as is being done via this letter. This letter aims to represent a starting point for our contributions on this subject. It sets out what FEE considers the principles for improving the structure of the Code; we are looking forward to our continued dialogue in this regard.

Why should the Code be restructured?

(2) FEE is very much of the opinion that the Code needs to be restructured, in order to make its requirements more **understandable** and its contents more **accessible**. This seems especially pressing for professional accountants working in small and medium practices or those dealing with small-and medium-sized entities. Their access to resources for the application and implementation of international standards is usually limited, which makes increased comprehension of the Code a necessity.

(3) Not only professional accountants would benefit from this restructuring; **the audience of the Code seems to keep expanding**, especially in the aftermath of the global financial crisis. Politicians, legislators and regulators have become prime addressees, as their role in standard setting for ethics and independence has increased. Restructuring the Code might really aid in reaching these target audiences and helping them understand how the Code commits professional accountants to ethical behaviour. Making the Code widely accessible would not only facilitate adoption and implementation, but also supports its role in restoring the reputation of the profession and the trust of the general public.

How could the Code be restructured?

(4) FEE remains committed to the Code as an internationally robust and comprehensive set of requirements and guidelines for professional accountants. The recommendations below are **not intended to modify the contents of its provisions**. A prerequisite for this project to succeed is actually that the substance of the Code remains unchanged. This coincides with FEE's belief that there continues to be a need for a pause in ethics and independence standards setting to allow legislators, regulators, professional bodies and accountancy firms an appropriate period of time to implement the Code. Taking this into account, we would like to introduce the following three recommendations: 1) aiming to reduce the length of the Code and clarifying its language, 2) splitting off the independence section and 3) dividing the whole Code into sections separating requirements and prohibitions from application guidance and examples.

Recommendation 1: Reduce length and clarify language

(5) At this point the Code is considered to be too long which adds to its complexity and lack of understanding by different stakeholders. Furthermore, clarifying the language of the Code would facilitate translation which would increase the options for adoption and implementation.

(6) Using shorter sentences would make the sentence structure less complex. Additionally, the provisions could benefit from a more **'plain English'** writing style, such as choosing simpler words without needless jargon. In this respect we observe a tendency of the IESBA to define terms (e.g. "routine and mechanical nature") that are commonly well understood by users and the general public. We recommend the IESBA to be very cautious when transforming such terms into specific concepts that bear on the readability and understanding of the Code.

(7) It would also be helpful to scrutinize the text for **duplications**, which cloud the meaning of the provisions. Currently, certain concepts and wordings are frequently repeated, such as the conceptual framework contained in Part A. This model requires a professional accountant to identify, evaluate and address threats to compliance with the fundamental principles. The entire wording of the conceptual framework is then used repeatedly in part B and C of the Code. This reiteration could be circumvented by stating the conceptual framework in one general article and referring back to that provision in all subsequent relevant situations.

(8) Furthermore, translation would be facilitated if the Code's use of **terminology** would take into account the fundamental different approach to some **legal concepts by common law and civil law** jurisdictions. For instance, the Code commonly refers to 'trusts', a concept which as they are understood in common-law jurisdictions, do not exist in most civil-law jurisdictions, where structures such as foundations can be used for similar (but not identical) purposes. Finally, another issue that could be considered is to make sure that each provision clearly indicates who is **exactly addressed by the requirement** therein. For instance, it is currently not always clear if a requirement relates to individual professional accountants, firms or network firms.

Recommendation 2: Split off the independence section

(9) FEE also recommends that sections 290 and 291 on independence should be separated from the rest of the Code, which would reduce its overall length. These sections can be easily made stand-alone and read on their own, which may make the Code easier to digest for professional accountants who are not involved in assurance engagements. A separate independence section will emphasize that all assurance services are subject to the independence requirements, even if those are not statutory audits. This is especially important in light of the increase of external assurance services on non-financial information, such as sustainability reporting. A **focus on independence** may add to the reliability of these services by professional accountants and increase the confidence of the regulators and the public.

(10) **In progressing adoption and implementation** it may be more effective to put the emphasis on a separate independence section, as opposed to the Code as a whole. That is, many European countries have already integrated ethical provisions, other than independence, in their national legal instruments. Therefore attempting to get all provisions, both ethical and independence ones, from the international Code adopted seems a remote objective, whereas independence is an area in which significant progress can be made.

(11) Furthermore, we recommend the IESBA to explore whether a merger of chapter 290 and 291 would be a possibility to reduce the length of the text and prevent repetition. In this respect, however, we recognize that such a merger may not be supported by some European Union (EU) member states. Furthermore, it could be considered to present sections 290 and 291 as International Standards on Independence (with appropriate material from Part A included), differentiating clearly between the requirements for public interest entities (PIEs) and non-PIEs. A last idea would be to rename the Code the 'Ethics and Independence Code' which emphasises the importance of both components. Finally, to create a clear overview of the independence requirements, a summary can be presented in supplemental charts, stating the particular activities or services that are subject to prohibitions, where threats are likely to arise and where safeguards are required, while making the distinction for PIEs and non-PIEs. In this respect, the one pager "IESBA Code of Ethics High Level Summary of Prohibitions Applicable to Audits of Public Interest Entities" as available on the IESBA website has proven extremely valuable in discussions with European Union politicians, national government officials, oversight bodies and regulators, … in relation to independence requirements for Public Interest Entities in the European Commission Audit Reform proposals.

Recommendation 3: Separate requirements and prohibitions from application guidance and examples[1]

(12) The current Code contains **principles, requirements and guidance** for professional accountants. **These elements are mixed** throughout all sections of the Code. The guidance consists of both explanations of the rules and examples of how they should be applied in practice. The interchanged use of these three categories does not align with the approach to standard setting in civil law jurisdictions. Therefore this inhibits adoption and implementation in these jurisdictions. We would thus like to suggest, **without changing their content and meaning, separating the presentation of these three elements of the Code into separate sections**, containing: 1) requirements, 2) explanation of the requirements and 3) further guidance, including examples.[2]

(13) Marking the differentiation between rules and guidance leaves a leaner and therefore clearer set of requirements, whereas separate documentation provides all the explanation and examples needed. This structure should be used consistently by keeping the general provisions which apply at all times in front, followed by the ones relating to a specific circumstance, and then cross referencing between the two. The **enhanced visibility of differentiation of an Introduction, Requirements, Examples and Application Material** (similar to the division used in the ISA clarity project) could inspire the restructuring of the Code, or alternatively, the previous ISA presentation of **using bold text for the requirements** and normal text for the remainder (with possible) cross referencing to guidance, could also be a useful example in this regard. In stating explicit prohibitions (as posed in the current Code), it should be clear that accountants should not follow these blindly, but that these are always to be derived from applying the conceptual framework.[3]

(14) Furthermore, it could be considered to **erase the divide between the types of accountants** (in public practice or in business) and not to base the requirements on their category of professional (who they are) but **on the type of the professional service** they are providing in a specific engagement or under a given work (what they do, whether they provide assurance or non-assurance services, audit services for a PIE or a non-Pie, etc.). The current division between part B and C of the Code, based on the types of accountants, may namely not lead to the desired behavior. For example, paragraph C300.5 states that an accountant in business is expected to encourage an ethics-based culture in an employing organization. We consider this also relevant for an accountant in public practice, whereas this requirement is not included in section C.

(15) Dividing the Code into **sections based on these service types** would further enhance the structure of the Code. Especially when the Code is preceded by an **overview directing users to relevant sections** based on the engagements they will perform, e.g., do you offer audit and/or review – see Section X, do you only offer non-assurance services – see Section Y etc. Another idea would be to regroup provisions according to the following aspects: relations between the accountant and clients, third parties, and peers.

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[1] The Appendix to this letter includes examples of what an ethical or independence standard may look like in case this recommendation is taken into account.

[2] See Appendix, example 1.

[3] See Appendix, example 2.

(16) Reconsidering **the appropriate use of subheadings** would also be useful. For instance, the subheadings of the paragraphs dealing with the provision of non-assurance services to an audit client (paragraph 290.156-290.216.) are inconsistent, since for some services there are one or more paragraphs dealing with 'general provisions', 'audit clients that are not public interest entities', 'audit clients that are public interest entities' and 'emergency situations' etc., whereas for other services no such classification is made.

We thank you for the opportunity to provide recommendations and we hope these may be of help for the IESBA in its work to improve the structure of the Code. We remain at your disposal for continuing our dialogue on this subject and are looking forward to welcoming you to our Members' Assembly meeting on 9 October 2013. Should you wish to discuss any of these points in more details, please contact Laura Buijs, Manager - Corporate Reporting, at the FEE Secretariat on +32 2 285 40 71 or via e-mail at laura.buijs@fee.be.

Sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Appendix: What a standard of ethics or independence may look like?

Example: Independence Standard on Business Relationships (based on Section 290.124 to 290.126 in the IESBA Code of Ethics)

Current Text	Example 1	Example 2	Example 3
Business Relationships 290.124 A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Examples of such relationships include: • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. • Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties. • Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services. Unless any financial interest is immaterial	**Business Relationships** **Introduction** A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. **Requirements** 1. Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated. 2. In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team. 3. If the business relationship is between a	**Business Relationships** A close business relationship between a firm, or a member of the audit team, or a member of that individual's immediate family, and the audit client or its management, arises from a commercial relationship or common financial interest and may create self-interest or intimidation threats. Unless any financial interest is immaterial and the business relationship is insignificant to the firm and the client or its Examples of such relationships include: • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. • Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties. • Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services.	**Business Relationships** **Requirements** 1) A business relationship between the firm and the client or its management shall not be entered into or, if it exists, shall be terminated or reduced to an insignificant level, unless the business relationship is insignificant and any financial interest is immaterial to either party. 2) If there is a business relationship between a member of the audit team and the client or its management, the individual shall be removed from the audit team, unless the relationship is insignificant and any such financial interest is immaterial to that member of the audit team. 3) If there is a business relationship between a member of the immediate family of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied where necessary to eliminate the threat or reduce it to an acceptable level.

and the business relationship is insignificant to the firm and the client or its management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated. In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is significant to that member, the individual shall be removed from the audit team. If the business relationship is between immediate family of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. 290.125 A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds and interest in that entity does not create threats to independence if: a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client; b) The financial interest is immaterial	member of the immediate family of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. **Examples** Examples of such relationships which may create self-interest or intimidation threats include: • Having a financial interest in a joint venture with either the client or a controlling owner, director, officer or other individual who performs senior managerial activities for that client. • Arrangements to combine one or more services or products of the firm with one or more services or products of the client and to market the package with reference to both parties. • Distribution or marketing arrangements under which the firm distributes or markets the client's products or services, or the client distributes or markets the firm's products or services. **Application Material** A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds and interest in that entity	management, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. **Therefore, unless the financial interest is immaterial and the business relationship is insignificant, the business relationship shall not be entered into, or it shall be reduced to an insignificant level or terminated.** **In the case of a member of the audit team, unless any such financial interest is immaterial and the relationship is insignificant to that member, the individual shall be removed from the audit team.** **If the business relationship is between a member of the immediate family of a member of the audit team and the audit client or its management, the significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.** A business relationship involving the holding of an interest by the firm, or a member of the audit team, or a member of that individual's immediate family, in a closely-held entity when the audit client or a director or officer of the client, or any group thereof, also holds and interest in that entity does not create threats to independence if: a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client; b) The financial interest is immaterial	

to the investor or group of investors; and c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity. 290.126 The purchase of goods and services from an audit client by the firm, or a member of the audit team, or a member of that individual's immediate family, does not general create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include: • Eliminating or reducing the magnitude of the transaction; or • Removing the individual from the audit team.	does not create threats to independence if: a) The business relationship is insignificant to the firm, the member of the audit team and the immediate family member, and the client; b) The financial interest is immaterial to the investor or group of investors; and c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity. The purchase of goods and services from an audit client by the firm, or a member of the audit team, or a member of that individual's immediate family, does not general create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. **Examples** Examples of such safeguards include: • Eliminating or reducing the magnitude of the transaction; or • Removing the individual from the audit team.	to the investor or group of investors; and c) The financial interest does not give the investor, or group of investors, the ability to control the closely-held entity. The purchase of goods and services from an audit client by the firm, or a member of the audit team, or a member of that individual's immediate family, does not generally create a threat to independence if the transaction is in the normal course of business and at arm's length. However, such transactions may be of such a nature or magnitude that they create a self-interest threat. The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include: • Eliminating or reducing the magnitude of the transaction; or • Removing the individual from the audit team.	