

In this KLIP, we will discuss,

5. Financial Interests

Holding a financial interest in an assurance client might create a self-interest threat.

A financial interest might be held directly or indirectly through an intermediary such as a collective investment vehicle, an estate or a trust.

When a beneficial owner has control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be direct. Conversely, when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect.

A direct financial interest or a material indirect financial interest in the assurance client shall not be held by:

- a) The firm; or
- b) An assurance team member or any of that individual's immediate family.

When an entity has a controlling interest in an assurance client and the client is material to the entity, neither the firm, nor an assurance team member, nor any of that individual's immediate family shall hold a direct or material indirect financial interest in that entity.

Financial interests held as trustee

The Code also applies to a financial interest in an assurance client held in trust for which the firm or individual acts as trustee, unless:

1. None of the following is a beneficiary of the trust: the trustee, the assurance team member or any of that individual's immediate family, or the firm;
2. The interest in the assurance client held by the trust is not material to the trust;
3. The trust is not able to exercise significant influence over the assurance client; and
4. None of those stated above can significantly influence any investment decision involving a financial interest in the assurance client.

What should the firm's do in situations where the financial interests are received unintentionally?

If a firm, an assurance team member, or any of that individual's immediate family, receives a direct financial interest or a material indirect financial interest in an assurance client by way of an inheritance, gift, merger, or interest that would not otherwise be permitted to be held under this section, then:

- i. If the interest is received by the firm, the financial interest shall be disposed of immediately, or enough of an indirect financial interest shall be disposed of so that the remaining interest is no longer material; or
- ii. If the interest is received by an assurance team member, or by any of that individual's immediate family, the individual who received the financial interest shall immediately dispose of the financial interest, or dispose of enough of an indirect financial interest so that the remaining interest is no longer material.

We will continue with the same topic, in our next KLiP.

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