

Draft Consultation Paper

**Collective Investment
Vehicles, Pension Funds
and Investment Company
Complexes**

[MARCH 2025]

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About the IESBA

The [International Ethics Standards Board for Accountants](#)[®] (IESBA[®]) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#)[®] (IAASB[®]) the IESBA is part of the [International Foundation of Ethics and Audit](#). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

REQUEST FOR COMMENTS

This Consultation Paper was developed and approved by the International Ethics Standards Board for Accountants (IESBA) for the purpose of developing its thinking on the independence implications with respect to audits of Collective Investment Vehicles and Pension funds. **Comments are requested by June 13, 2025.**

Respondents are asked to submit their comments electronically through the IESBA website, using the “Submit a Comment” link. Please submit comments in both a PDF and Word file. First-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IESBA website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director at kensiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

EXECUTIVE SUMMARY

The IESBA is issuing this Consultation Paper to solicit feedback from stakeholders regarding independence considerations for audits of collective investment vehicles (CIVs) and pension funds (collectively referred to as Investment Schemes). This feedback will inform the IESBA Project Team's report and recommendations to the IESBA as to whether revisions to the *International Code of Ethics for Professional Accountants™ (including International Independence Standards™)* (the Code) are warranted to ensure that the Code remains robust and fit for purpose in addressing auditor independence in these contexts.

Investment Schemes enable investors to pool their assets to distribute the associated risks and benefits of their investments. Unlike traditional corporate structures, Investment Schemes typically do not employ their own staff and instead rely on third parties. These third parties can range from those offering mechanical and automated services, like bookkeeping, to those with significant responsibilities related to the Scheme's policies and operations, such as making investment decisions and managing financial records. This paper highlights the public interest issues and risks associated with these funds and stresses the significance of auditor independence.

The IESBA Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with third parties. The Project Team found that the Code's definitions of "audit client" and "related entity" would not necessarily capture unrelated third parties that are (a) responsible for decision making and operation of the Scheme, or (b) able to materially impact the performance, success or failure of the Scheme.

The definitions of "audit client" and "related entity" in the Code are fundamental when determining independence from the audit client. If a third party is not a related entity under the Code, it might not be included in the auditor's independence assessment. In such a case, the auditor should apply the conceptual framework set out in Section 120 of the Code to assess independence. Notwithstanding the conceptual framework, the Project Team has identified that a lack of clear guidance in the Code with respect to unrelated third parties may present risks to auditor independence.

Request for Comments

The IESBA is seeking stakeholders' views on provisions in the Code and its application to audits of Investment Schemes involving unrelated third parties to safeguard the public interest and ensure consistent application of the Code's principles. This includes evaluating whether certain interests, relationships, or circumstances between the auditor and unrelated third parties pose any threats to the auditor's independence.

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I. Introduction

1. This Consultation Paper has been issued by the IESBA to solicit feedback from stakeholders regarding independence considerations for audits of collective investment vehicles (CIVs) and pension funds (collectively referred to as Investment Schemes). This consultation addresses longstanding questions about the application of the related entity concept in the [IESBA International Code of Ethics for Professional Accountants](#) (including International Independence Standards) (the Code) with respect to audits of those Investment Schemes.
2. This consultation's emphasis is on Investment Schemes whose financial conditions hold substantial public interest concern, due to the potential implications their financial health may have on a broad range of stakeholders. Although the IESBA's Project Team has not identified an audit failure caused by an auditor's lack of independence when auditing these Schemes, it has noted stakeholders' interest arising from the substantial amount of funds invested in them.
3. The objectives of this work stream¹ are to gain a comprehensive understanding of the relationships between Investment Schemes and their trustees, managers, and advisors. This will help the IESBA determine whether the independence provisions, particularly the definition of a "related entity" in Part 4A of the Code, adequately address the independence implications arising from those relationships. In terms of independence, an auditor should not have the ability, either directly or indirectly, to influence information in the financial statements of the audit client. Otherwise, there is a risk that the auditor's integrity, objectivity, and professional skepticism may be compromised. The work stream's objectives also include reviewing investment company complexes (ICCs) to consider whether the Code should be enhanced to address these structures, such as establishing new terms and definitions, and clarifying which entities or arrangements within an ICC should be considered as related entities of an audit client.² ICCs are derived from the United States regulatory framework and are conceptually the same as other CIV structures (including having trustees, managers, and advisors) except for differences in the terminology used. Accordingly, the Project Team has included ICCs as part of its review of CIVs.
4. To better understand the global context of Investment Schemes, the Project Team conducted comprehensive research across various jurisdictions. In addition to performing extensive desktop research, the Project Team circulated questionnaires to stakeholders and conducted interviews with relevant parties. This approach provided deeper insights into how different jurisdictions address potential auditor independence issues related to the Schemes. Certain jurisdictions, such as the United States with respect to ICCs, have established regulation that includes specific third parties as part of the audit client, thereby scoping them within independence requirements.
5. Upon examining the circumstances further, the Project Team noted that the Code's definitions of "audit client" and "related entity" would not capture *unrelated* third parties³ who undertake significant management responsibilities or have the ability to exert substantial influence over a Scheme's accounting records or financial statements because the relationship lacks the element of control or

¹ See paragraph 4 of the Project Team's [Terms of Reference](#).

² Appendix 2 includes further information on ICCs.

³ Unrelated third parties can comprise an entity and/or individual.

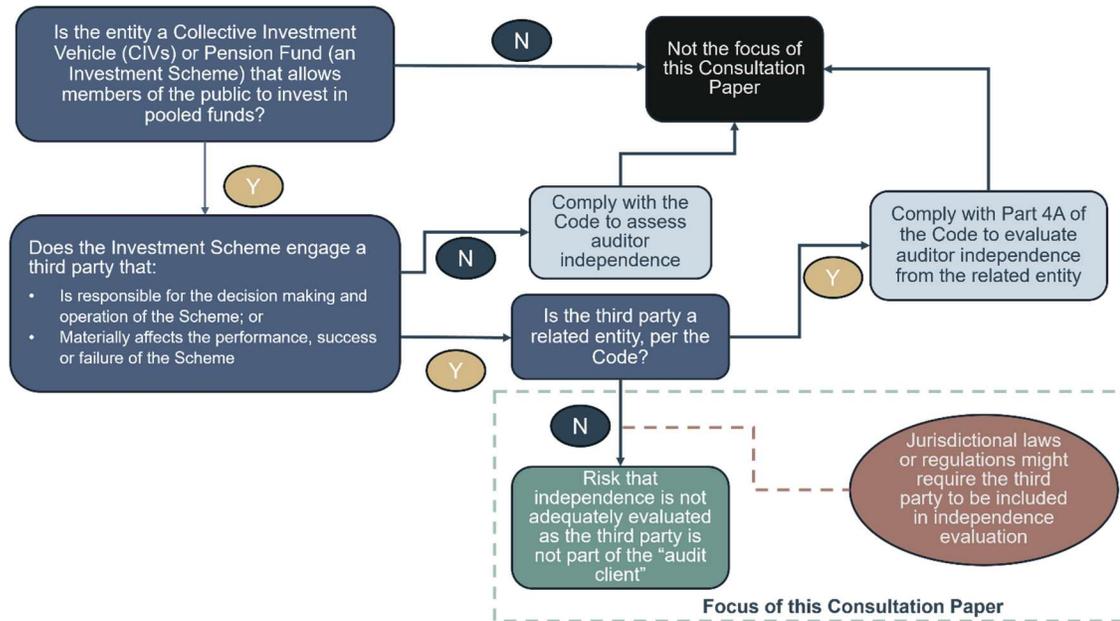
significant influence with respect to the Scheme⁴ and the unrelated third party. Although the Code's Conceptual Framework is designed to guide an auditor in identifying, evaluating and addressing independence threats, the Code does not explicitly include provisions for assessing independence from unrelated third-party providers that substantially impact an audit client's financial operations.

6. This perceived gap may pose threats to independence when auditing Investment Schemes that are serviced by an unrelated third party. The Project Team seeks to analyze the risks associated with these circumstances to determine whether threats to independence are actual or perceived. The following scenarios illustrate factors that may lead to elevated risk due a lack of explicit guidance in the Code:
 - If a CIV's external fund manager engages an auditor⁵ to help develop its compliance policies, the auditor might face a self-review threat when auditing the Investment Scheme that depends on information from the fund manager. This situation could undermine the auditor's ability to objectively evaluate the CIV's financial information due to biases related to the fund manager's data.
 - A self-interest threat might occur when an auditor holds a direct financial interest or material indirect financial interest in an external third-party provider, such as an asset management company. Under these circumstances, the auditor may be motivated to disregard anomalies or deficiencies in the third-party provider's information to safeguard their own financial interest.
7. In addition to those described above, other circumstances impacting independence might arise when auditing Investment Schemes that engage unrelated third parties. They include the following:
 - When the external investment manager controls or influences the governance and financial reporting of the CIV.
 - When the investment manager has a close family relationship with the auditor, they may be able to exert pressure, resulting in influence over the audit opinion or avoidance of reporting unfavorable outcomes.
 - The existence of regulatory oversight applicable to the Investment Scheme, including whether it is subject to industry-specific regulations like those of the U.S. Securities and Exchange Commission (SEC) or local financial market authorities, which may mitigate threats to independence.

⁴ The audit client is an entity for which a firm conducts an audit engagement. When the client is a publicly traded entity (PTE), in accordance with paragraphs R400.22 and R400.23 of the Code, audit client always includes its related entities. When the client is not a PTE, audit client includes those related entities over which the client has direct or indirect control. See *Section III. Application of the Code to Investment Schemes* for discussion on this point. (References to specific paragraphs in the Code are to the 2024 Code.)

⁵ The terms "auditor" and "audit firm" are interchangeable when considering services or interests with respect to third party providers.

8. Recognizing the complexity and diversity of Investment Schemes, the following flowchart (Flowchart 1) illustrates the potential gap in the Code with respect to Investment Schemes.



II. Investment Scheme Structures

9. The entities discussed in this consultation are vehicles that:
- Allow members of the public to invest through pooled funds; and
 - Engage third party providers to perform services for the Investment Schemes, such as making investment decisions, managing investments, or maintaining accounting and financial records.

As highlighted below, the public interest in Investment Schemes is undeniable. Furthermore, the governance structures and third-party relationships with respect to Investment Schemes can vary based on the jurisdiction in which they operate, the investment purpose or strategy, and the structure utilized. These factors contribute to the challenges auditors might face when assessing independence for these types of audits.

CIVs

10. According to the [Investment Company 2024 Factbook](#) as of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled \$257.4 trillion, of which regulated funds' net assets were 27%, or \$68.9 trillion. The International Investment Funds Association (IIFA), which collected data on 46 jurisdictions, typically defines regulated funds as collective investment pools that are substantively regulated, open-end investment funds. In the past decade, the net sales of regulated funds worldwide have totaled \$19.9 trillion from 139,982 regulated funds.

Pension Funds

11. Significant funds are invested in pension plans in the EU and US. According to a report from the European Capital Markets Institute,⁶ EU pension funds' total assets (EUR 2.7 trillion) represent about 25% of the EU's GDP. Allocations are to investment funds (38%), government bonds (22%), equity (18%) and corporate bonds (12%). Further analysis of investment funds reveal they are composed of equity funds (33%), debt funds (26%), real estate funds (14%) and "other" funds (13%). Most of the "other" categories is composed of private equity and venture capital funds if they largely invest in unlisted companies.
12. The Prudent person principle,⁷ as established in EU Directive 2009/138/EC, has led to pension funds allocating a good portion of their money to fixed-income assets. The principle states that, in the case of a conflict of interest, entities who manage the asset portfolios for insurance/reinsurance companies "shall ensure that the investment is made in the best interest of policy holders and beneficiaries." Furthermore, the EU's Institutions for Occupational Retirement Provision (IORP) II's Article 19 encourages pension fund investments to be on regulated markets.
13. With respect to the US, approximately US\$13.1 trillion is held in private sector pension funds, while US\$14.5 trillion is held in pension plans for government employees.⁸ There are more than 5,000 public sector retirement systems totaling US\$5.5 trillion in assets. CalPERS, one of the largest public sector funds, had total contributions of US\$31.3 billion and investment income of US\$44.2 billion for the 2023-2024 financial year.⁹ Meanwhile, due to the significant impact these plans have on the public, there is significant regulation. This allows pension funds to allocate a larger part of their portfolios (than in the EU) to riskier and more illiquid investments, which is allowed under the Employee Retirement Income Security Act (ERISA).¹⁰ Research posits that pension funds are the single most important source for private equity/venture capital funds in the U.S.¹¹

Governance Structures

14. In June 2006, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued its final report on the Examination of Governance for Collective Investment Schemes (CIS).¹² The report highlighted the results of a survey conducted of IOSCO's member jurisdictions, noting the various entities and legal structures that existed and how these might create differences in member jurisdictions' approaches to CIS governance issues. As a result of the differences, it was agreed that the overarching principle of governance would be independent review and oversight of the CIS operator's fiduciary duties. The report specifically noted that auditors of CIS can play a role in the governance framework, resulting in protection of investors' interests.

⁶ https://www.ecmi.eu/sites/default/files/no_90_-_closing_the_gaping_hole_in_the_capital_market_for_eu_start-ups_-_the_role_of_pension_funds.pdf

⁷ https://www.eiopa.europa.eu/rulebook/solvency-ii/article-2219_en

⁸ <https://crsreports.congress.gov/product/pdf/IF/IF12117/2>

⁹ [Facts at a Glance, Finances FY 2023-24](#)

¹⁰ [Information Letter 06-03-2020 | U.S. Department of Labor](#)

¹¹ <https://reason.org/commentary/why-public-pension-systems-invest-in-private-equity-even-when-they-shouldnt/>

¹² Refer page 3 of the Report of the Technical Committee of the IOSCO [Examination of Governance for Collective Investment Funds Final Report Part I](#).

15. In line with the objective of the IESBA's work stream, the Project Team reached out to various jurisdictions to better understand the global context of Investment Schemes and their relationships with parties such as trustees, managers and advisors. This research identified governance and structural differences across jurisdictions, recognizing that Investment Schemes generally do not have their own employees. Instead, day-to-day operations, as well as the investment and management of investors' funds, are typically carried out by, or outsourced to, third parties.
16. Certain oversight and management functions typically associated with corporate governance within an organization are often performed externally to the Investment Scheme itself. This construct is consistent with the IOSCO Technical Committee's definition of governance for CISs, which recognizes "*the differences between the nature and purpose of CIS and the operating companies in which they invest*" and "*the fact that CIS are structured and regulated differently.*"
17. This research highlights that Investment Schemes are established under various legal frameworks and are subject to different jurisdiction-specific legal and regulatory requirements. Consequently, there is considerable variation in the organizations that are responsible for oversight and management of these Schemes. [Appendix 1](#) (Table 1) provides summaries of the different governance models and legal frameworks applicable to CIVs based on this research.

Third Party Roles and Responsibilities

18. The Project Team found that Investment Schemes often engage third parties to participate in activities and make decisions regarding the acquisition, deployment and control of resources, as well as ensuring the effectiveness of internal controls. Actuaries, valuation experts, and fund sponsors may also be engaged as third parties. Certain activities related to these functions may be further outsourced to other third parties.
19. [Appendix 1](#) (Table 2) provides examples of the various roles and responsibilities. It is important to differentiate between third parties that provide mechanical or automated services and those that are involved in decision-making and operations of the CIV or activities that materially affect its performance, success or failure.
20. Given the impact these services have on the Investment Schemes, the Project Team has been evaluating whether certain interests, relationships, or circumstances between the auditor and third parties involved with the Investment Scheme could pose any threats to the auditor's independence when auditing the Scheme. There is an argument that third parties that are performing responsibilities similar to those carried out by in-house management, in a traditional corporate structure, should be included in the auditor's independence assessment.

III. Application of the Code to Investment Schemes

21. The Code provides that it is in the public interest that professional accountants (PAs) be independent when performing audit engagements.¹³ To meet this objective, paragraphs 400.6, R400.18 and R400.19 establish that the Code requires firms to comply with the fundamental principles and apply the conceptual framework.¹⁴ Furthermore, several provisions in Part 1 of the Code require PAs to be straightforward and honest in all professional and business relationships, as well as exercise professional or business judgment without being compromised.
22. Paragraph R112.2 of the Code prohibits a PA from undertaking “a professional activity if a circumstance or relationship unduly influences the accountant’s professional judgment regarding that activity.” Each of these provisions provides a path for auditors to consider facts and circumstances that may present threats to independence when auditing an Investment Scheme. Independence is linked to the principles of objectivity and integrity, which are fundamental to audit quality.
23. Further, Part 4A of the Code outlines how PAs should apply the conceptual framework to maintain independence.¹⁵ The provisions in Part 4A set out considerations relevant to applying the conceptual framework to specific situations or circumstances with respect to the “audit client.” For example, Part 4A establishes:
- Prohibitions for certain services, interests, relationships, or circumstances related to the “audit client” when threats cannot be eliminated, and safeguards cannot be applied to reduce the threats to an acceptable level.
 - Specific provisions to ensure that the auditor maintains their independence from the “audit client,” particularly in relation to the client’s management or employees who have significant influence over the client’s accounting records or financial statements.¹⁶

Related Entities Under the Code

24. The following provides analysis of Investment Scheme third parties that are related entities and, by extension, whether they are part of the audit client¹⁷ for the purpose of assessing independence.

¹³ Paragraphs 400.1 and R400.18 of the Code

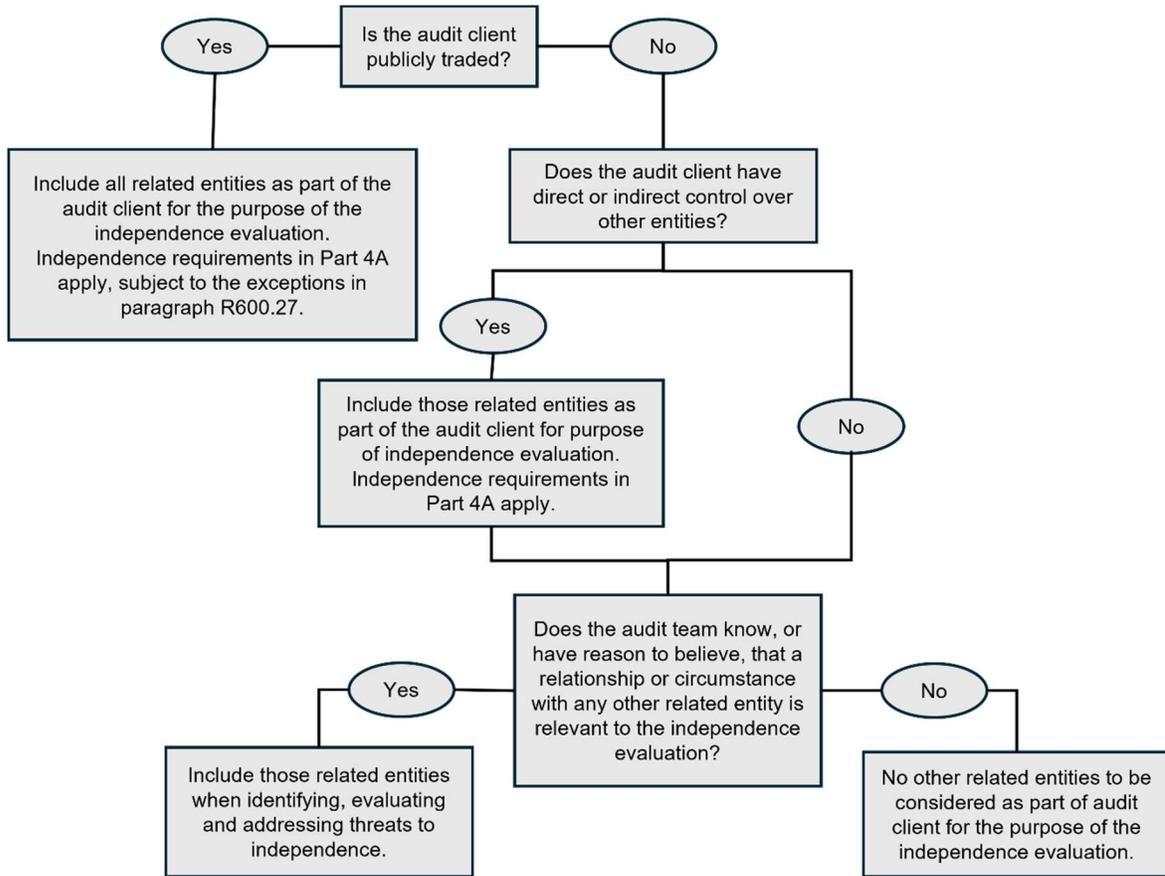
¹⁴ Section 120, *The Conceptual Framework*

¹⁵ Paragraphs 400.6 and R400.19 of the Code

¹⁶ For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others

¹⁷ In accordance with the definition of audit client in the Glossary and paragraph R400.27 of the Code

Flowchart 2: Audit client and related entities under paragraph R400.27 of the Code



25. Before applying the sections of the Code that are applicable to assessing independence, the auditor must determine who the audit client is. To guide this assessment, the scope of application of the independence provisions in Part 4A of the Code is determined by applying the definitions of “audit client” and “related entities,”¹⁸ taking into consideration whether the client is a “publicly traded entity.”¹⁹ Regardless of the audit client’s status as a publicly traded entity, the element of control or

¹⁸ The Code defines *related entity* as: “An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.”

¹⁹ The Code defines *publicly traded entity* as: “An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.”

significant influence²⁰ is fundamental in determining whether an entity should be classified as a related entity. Flowchart 2 (above) sets out the process by which auditors consider whether a related entity should be scoped in with the audit client for the purpose of evaluating independence.

26. All the requirements in Part 4A of the Code apply to the audit client and any relevant “downstream” related entities, including prohibitions from providing certain non-assurance services to, or assuming management responsibility for, those related entities.²¹ However, paragraph R600.27 of the Code allows an auditor to provide certain non-assurance services to, or assume management responsibility for, any relevant “upstream” or “sister” related entities²² of the audit client provided that:
- The auditor does not express an opinion on the related entity’s financial statements;
 - The auditor does not assume management responsibility for the entity on whose financial statements the auditor will express an opinion;
 - The services do not create a self-review threat; and
 - The auditor addresses other threats created by such services that are not an acceptable level.
27. Even if an Investment Scheme is not a publicly traded entity or does not have control over a related entity, that related entity might still need to be included in the auditor’s independence assessment. When the auditor knows or has reason to believe that a relationship or circumstance involving that related entity is relevant to the independence evaluation, the auditor must consider it when identifying, evaluating and addressing threats to independence.

Question 1

With respect to an audit of an Investment Scheme where there is a third party that is a related entity of the Scheme under the Code, does the Code address all the relevant threats to independence with respect to that related entity? If not, please explain why and identify any threats to independence that are not addressed.

Question 2

Does the application of the “knows or has reason to believe” principle and the conceptual framework (per paragraphs R400.27 and 400.6 and Section 120 of the Code) require clarification with respect to a third party that is a related entity of an Investment Scheme audit client? If so, please explain why.

²⁰ Control and significant influence are not defined in the Code. These concepts are generally determined at a jurisdictional level and might be determined by financial reporting frameworks, laws or regulations.

²¹ As per bullets (c) and (d) of the definition of related entity in the Code, where the audit client controls an entity or the audit client (or an entity it controls) has significant influence over an entity that is material and depending on whether the client is a publicly traded entity.

²² As per (a), (b) and (e) of the definition of related entity in the Code, where an entity controls the audit client or has significant influence over the client that is material, or an entity and the client are under common control and both that entity and the client are material to the controlling entity.

IV. Application of the Code to Unrelated Third Parties

28. The focus of this Consultation Paper is on circumstances involving *unrelated third parties* providing services to an Investment Scheme. As noted previously, the Project Team has identified situations in which these parties are not covered by the Code's definitions of "audit client" or "related entity." Additionally, Part 4A of the Code lacks specific provisions directly addressing the issues that auditors should consider in such circumstances.
29. Unlike traditional corporate structures, Investment Schemes typically do not employ their own staff; instead, they rely on third parties. As a result, it is not unusual for an Investment Scheme to engage third parties such as an asset management company or investment advisor (refer to Section II) to carry out vital functions. The services provided by these parties can vary significantly depending on the jurisdictions or Scheme structure.
30. In some cases, third parties might provide mechanical and automated services, like bookkeeping or administrative tasks. Alternatively, they might have significant responsibilities related to the Investment Scheme's policies and operations, such as making investment decisions, maintaining financial records, managing the Scheme's overarching strategy, or selecting other service providers. In these circumstances, the third party might:
- Be responsible for the decision making and operation of the Scheme; or
 - Materially affect the performance, success or failure of the Scheme.
31. If the third party is not a related entity of the Investment Scheme under the Code, it would not be captured by the definition of "audit client" or the related entity provision in paragraph R400.27. Consequently, it would not be included in the scope of the specific independence provisions in Part 4A that apply to the audit client.
32. In these circumstances, the auditor should apply the conceptual framework set out in Section 120 of the Code to independence.²³ By applying the conceptual framework, the auditor might arrive at the same independence conclusions as those guided by the specific provisions in Part 4A. However, the conceptual framework approach may allow for inconsistent interpretation in these types of audit engagements.
33. The IESBA is seeking stakeholders' views on whether incorporating specific independence provisions for audits of Investment Schemes, based on the principles outlined in paragraph 30, would serve the public interest and ensure consistent application of the Code's principles. For example, the IESBA would welcome stakeholders' views as to whether the Code should require auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and unrelated third parties pose any threats to the auditor's independence when conducting the audit of the Investment Scheme.
34. The above considerations align with the Code's current:
- Auditor independence provisions relating to an audit client's management or employees in a position to exert significant influence over the client's accounting records or financial statements.²⁴

²³ Refer to paragraph 400.6 of the Code.

²⁴ For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others

- Requirement on accepting a new client relationship or engagement. This provision requires a PA to take reasonable steps, including identifying the nature of the relevant interests and relationships between the parties involved, to identify circumstances that might create a conflict of interest, and therefore a threat to compliance with one or more of the fundamental principles.²⁵
- Provision on assessing whether services that are provided to a separate entity are “indirectly” provided to an audit client and, therefore, might create threats to independence.²⁶

Question 3

Is it common in your jurisdiction for unrelated third parties to have responsibilities similar to those in paragraph 30 for Investment Schemes? What proportion of Investment Schemes would this apply to? Please explain your response.

Question 4

Is further clarity needed on the application of the Code's conceptual framework with respect to auditor independence in situations where an unrelated third party to an Investment Scheme carries out responsibilities similar to those in paragraph 30? Please provide reasons for your response.

Question 5

With respect to an audit of an Investment Scheme where an unrelated third party has responsibilities similar to those in paragraph 30:

- (a) Do you believe it would be in the public interest if the independence provisions in Part 4A applied to that unrelated third party?
- (b) If so, should all the provisions in Part 4A of the Code apply to that unrelated third party (as they do to “downstream” entities), or should some exceptions apply?

Please provide reasons for your responses.

Question 6

With respect to the threshold described in paragraph 30, where an unrelated third party is responsible for the decision-making and operation or materially affects the performance, success or failure of the Investment Scheme, do you agree this is an appropriate threshold or are the other relevant considerations or factors? Please provide reasons for your responses.

Are there still threats to independence if the threshold described in paragraph 30 is not met, for example, the unrelated third party is a mere service provider which provides mechanical and automated services, such as bookkeeping or administrative tasks? Please provide reasons for your responses.

²⁵ Paragraph R310.5 of the Code

²⁶ For example, paragraph 600.6 of the Code and paragraphs 72-73 of the [Basis for Conclusions](#) for the *Technology-related Revisions to the Code* and the application of the Conceptual Framework in Section 120 of the Code

V. Research Findings on Jurisdictional Responses to Independence

35. The Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with third parties and to obtain insight into how different jurisdictions address potential independence matters involving Schemes.
36. Paragraph 400.23 A2 of the Code anticipates that some jurisdictions may designate CIVs and pension funds to be public interest entities (PIEs).²⁷ The Project Team has also observed that some jurisdictions have enacted regulations that include certain unrelated third parties as part of the audit client, while others require auditors to be independent of certain unrelated third parties.
37. Some stakeholders expressed the view that the principles underlying “control” in accounting frameworks do not work appropriately in respect of third parties to Investment Schemes. Other stakeholders stressed that certain CIV frameworks²⁸ ensure that no single third party “controls” the Scheme. Another stakeholder referred to the importance of the IOSCO principles of securities regulation²⁹ in the design of regulatory frameworks addressing auditor independence in respect of Investment Schemes.
38. The following table includes a high-level summary of the types of jurisdictional responses to auditor independence revealed from this research (refer Appendix 2 for further details).

Response to Auditor Independence	Details and variations
Additional requirements with respect to what the “audit client” encompasses.	<ul style="list-style-type: none"> Legislative requirement to include a CIV’s management company and its directors as part of the audit client for certain independence provisions. Legislation stipulates that the “audit client” consists of the CIV and its management company.
Specifically amending the definition of related entity / affiliate for CIVs.	A rule that includes an additional limb of the definition of affiliate, which among other things, means the CIV’s investment adviser or sponsor is always included as part of the audit client, and therefore within the scope of independence requirements.
Requiring the CIV auditor to be independent of certain third parties to the CIV.	<ul style="list-style-type: none"> Regulation stipulates that the auditor must be independent of a CIV’s management company,

²⁷ [IESBA Staff Releases Database of Public Interest Entity Definitions by Jurisdiction to Support Local Adoption and Implementation Efforts](#)

²⁸ For example, in the European Union, including Luxemburg and Ireland

²⁹ [Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation](#). For example, Principle 20 “Auditors should be independent of the issuing entity that they audit” sets out the critical role of independent auditors in enhancing the reliability of financial information.

Response to Auditor Independence	Details and variations
	trustees/custodians, and for corporate CIVs, the directors of that CIV. <ul style="list-style-type: none"> Legislative requirement that the CIV auditor must be independent of the CIV and its management company.
Stipulating who can undertake the CIV audit.	<ul style="list-style-type: none"> Regulation prevents a CIV auditor to be in any way associated with the auditor of the CIV's management company. Legislation stipulates that the same auditor must audit the CIV and the CIV's management company.

Question 7

Have there been any amendments to the Code specific to Investment Schemes (CIVs and pension funds) and auditor independence in your jurisdiction? If so, please provide details.

Question 8

Are there auditor independence requirements with respect to Investment Schemes (CIVs and pension funds) in your jurisdiction in addition to those in the Code? If so, please provide details.

Question 9

Do you believe any of the jurisdictional responses to independence described above and in Appendix 2 would help to address the potential gap in the Code identified in this Consultation Paper with respect to auditor independence vis-à-vis unrelated third parties to an Investment Scheme? Please provide reasons for your response.

VI. Way Forward

39. The IESBA's issuance of this consultation paper on auditor independence for Investment Schemes underscores the importance of high ethical standards as a basis for public trust in the audit of such Schemes. By seeking stakeholder feedback, the IESBA aims to ensure that the Code remains robust, clear and relevant in addressing the unique challenges posed by these Schemes. The insights gathered from this consultation will help inform the IESBA's deliberations and safeguard the public interest by enhancing the Code. The Project Team will analyze the responses to this consultation paper in Q3 2025, with a view to finalizing a report and recommendations to the IESBA by the end of the year.

Investment Scheme Structures

Collective Investment Vehicles

Table 1: Typical CIV structures:

CIV Structure	Description ³⁰
Corporate	Investors acquire shares in an investment company whose main objective is to invest in a portfolio of securities. These structures operate as a corporate entity, with a Board of Directors that is usually ultimately responsible for corporate governance. The management of the CIV is generally conducted by a management company or an investment advisor that is appointed by the Board of Directors.
Contractual	Investors buy units in the CIV which provides them with an interest in a portfolio of diversified securities. The CIV does not have a legal form or personality of its own, therefore the management of the portfolio is generally entrusted to a management company.
	Another type of contractual model is a unit trust which is established and governed under a trust deed. Investors receive units in the trust in proportion to the amount of money invested.
Hybrid ³¹	A separate independent entity is responsible for certain oversight functions for the CIV.
Limited Partnerships	The fund is constituted in the form of a partnership where a general partner manages the fund on behalf of the other limited partners.

Pension Funds

Pension funds are investment pools that accumulate contributions from employees, employers or both. The invested funds are generally distributed to the respective beneficiary upon retirement. There are two main types of pension funds: defined benefit³² and a defined contribution³³ plans. Typically, professional managers select the investments in the defined benefit plans whereas individual participants in a defined contribution plan might be able to select their investments. Defined benefit plans have an insurance perspective, which focuses on providing guarantees with respect to beneficiaries, while defined contribution plans generally let the beneficiaries decide which investments suit them best.

³⁰ These descriptions are derived from the IOSCO report, [Examination of Governance for Collective Investment Schemes - Part I](#). The typical CIV structures observed through the IESBA Project Team's research are consistent and align with the governance models and descriptions in that IOSCO report.

³¹ Hybrid between the Corporate and Contractual Models listed.

³² A defined benefit plan pays out a guaranteed fixed income to the beneficiary after retiring and for life, regardless of the performance of the underlying investment pool. The benefit is not directly tied to the investment returns and the employer bears the investment risks.

³³ A defined contribution plan is based on employee/employer contributions with a payout based on the fund's performance. The employee bears the investment risks, and the employer is not responsible to make any benefit payment if the fund underperforms.

The IESBA Project Team’s jurisdictional analysis revealed that pension funds can also be structured under different legal frameworks, which subsequently determine the specific legal and regulatory obligations applicable.

Roles and Responsibilities

This section outlines some of the functions, roles, and responsibilities of third parties that are engaged by Investment Schemes.

Table 2: Examples of key roles that are generally undertaken by third parties involved in CIVs, for the most common legal frameworks observed, and their respective responsibilities

Role / Function	Investment / Asset Management Vehicle	Trust	Limited Partnership
Governance and strategic direction	Board of Directors (BOD) of the Investment / Asset Management Vehicle (AMV)	Board of Trustees	General Partner
Management of investments in accordance with founding document	Investment Advisor ³⁴ appointed by BOD of the Investment Company	Investment Advisor appointed by Board of Trustees	Investment Advisor appointed by General Partner
Responsible for day-to-day operations	Investment Advisor / Sub-advisor / AMV	Investment Advisor (or sub-advisor) appointed by Board of Trustees / AMV	General Partner / AMV
Safeguarding of assets	Custodian	Custodian	Custodian

³⁴ An individual or entity that manages a CIV’s investments in various portfolios and can also be responsible for the day-to-day operations of the CIV for certain CIV legal frameworks. Some of the responsibilities of the CIV Manager might include:

- Organizing, managing and controlling the CIV
- Maintaining accounting records of the CIV, including the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Designing, implementing, monitoring or maintaining internal controls

Appendix 2

Research Findings on Jurisdictional Responses to Independence

The discussion below details some responses to auditor independence that have been implemented in certain jurisdictions with respect to CIVs based on the IESBA Project Team’s research. These summaries do not intend to cover all aspects of the relevant framework for CIVs in these jurisdictions but focuses on specific auditor independence aspects. The IESBA Project Team’s research also demonstrates that some jurisdictions have not specifically addressed auditor independence with respect to Investment Schemes.

Australia

The Australian corporation’s legislation³⁵ includes specific provisions on auditor independence in addition to those in the local Code.³⁶ When applying certain provisions, the legislation requires the audit firm to include as part of the “audited body” the “responsible entity” (trustee and manager and a separate legal entity to the CIV) and its directors.³⁷

Hong Kong SAR

There are three main funds in Hong Kong – Securities and Futures Commission (SFC)-regulated mutual funds, Mandatory Provident Funds (MPF) and Limited Partnership Funds.

SFC-regulated funds are unit trusts or open-ended fund companies subject to the SFC Code.³⁸ The SFC Code requires an independent Trustee (for unit trusts) or Custodian (for fund companies) and a management company to be appointed for each fund.³⁹ Due to the role of the Trustee/Custodian (and the directors of fund companies),⁴⁰ the management company is generally considered to be an agent, does not control the fund, and therefore, is generally not a related entity under Hong Kong’s Code of Ethics.⁴¹ However, the SFC Code requires the auditor to “*be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.*”⁴²

India

CIVs in India include mutual funds that are trusts and require a sponsor to set up a trustee company and an asset management company. The asset management company is responsible for day-to-day

³⁵ Australia introduced a new type of investment company called a corporate collective investment vehicle (CCIV) which can be registered from 1 July 2022 – [Corporate collective investment vehicles | ASIC](#). CCIVs are not addressed in this Consultation Paper.

³⁶ APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

³⁷ Section 324CH(1) of the *Corporations Act 2001* sets out a table of relevant relationships for the auditor independence requirements set out in Sections 324CE, CF and CG of that Act. Under Section 324CH(2), if the audited body is a registered scheme (a type of CIV) then the responsible entity for the registered scheme is included as part of the audited body for certain provisions. Note there are similar provisions for a registrable superannuation entity (a type of pension fund).

³⁸ [Section II: Code on Unit Trusts and Mutual Funds](#).

³⁹ Paragraphs 4.1, 4.7, and 5.1 of the SFC Code.

⁴⁰ Chapter 4 and paragraph 5.11 of the SFC Code.

⁴¹ Hong Kong Institute of Certified Public Accountants (HKICPA) *Code of Ethics for Professional Accountants* is based on the IESBA Code and has the same related entity definition.

⁴² Paragraph 5.16 of the SFC Code.

management, compliance with regulatory requirements, accounting and the financial statements for the fund.⁴³ The Securities and Exchange Board of India (SEBI) regulations⁴⁴ stipulate that the fund’s auditor must not be in any way associated with the auditor of the asset management company.

Italy

Italian CIVs are either contractual or statutory based:

- Contractual based Undertakings for Collective Investment management (mutual investment funds) do not have their own legal personality. A separate asset management company acts and owns the fund’s assets and liabilities on the fund’s name and behalf, and the management company’s Board of Directors is the ultimate decision maker for the fund. The asset management company possesses a distinct and separate capital from the fund. Under Italian law,⁴⁵ the “audit client” is the CIV itself and the Italian management company, the fund auditor must be the same as the management company auditor, and the auditor must be independent of both the fund and the management company.
- Statutory based Undertakings for Collective Investment management⁴⁶ are companies with their own legal personality, where the CIV’s investors are also the CIV’s shareholders; assets and liabilities of the CIV are managed directly within the company itself by their managers/directors elected by the shareholders (i.e., the investors) assembled in the general meeting. They can be also externally managed by a designated third asset management company); in this case, managers/directors of the externally managed company must oversee the activities of the designated manager. The “audit client” is the CIV.

⁴³ Obligations of the asset management company are specified in the [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) and the [Master Circular for Mutual Funds](#)

⁴⁴ [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) Clause 55

⁴⁵ Including [Legislative Decree No. 58 of 24 February 1998, TUF](#)

⁴⁶ Called a SICAV (variable capital investment company) or a SICAF (fixed capital investment company)

United States (US) – Securities and Exchange Commission (SEC) Rules on ICCs

Under the US SEC rules and regulations, the “audit client” consists of the entity being audited and its affiliates.⁴⁷ The definition of “affiliate”⁴⁸ is similar to the definition of “related entity” in the Code.⁴⁹ However, the SEC rule includes an additional limb which applies when the entity under audit is an investment company or investment adviser or sponsor, in which case “affiliates” are determined differently than for a traditional corporate structure, and consists of each entity in the ICC.⁵⁰

The ICC rule follows the Independence Standards Board’s (ISB) *Independence Standard No. 2*,⁵¹ which included the “*ISB’s basic conclusion that the unique structure of mutual fund complexes warrants special rules of affiliation*”.⁵² ISB 2 refers to the following principal differences between the organizational structure of a mutual funds complex (now referred to as an ICC) with a mutual fund-adviser relationship, and a typical corporation with a subsidiary-parent relationship:⁵³

- (a) There is no majority ownership in the mutual fund-adviser relationship (unlike parent-subsiary);
- (b) The mutual fund’s net income is distributed to the fund’s shareholders and not the related investment adviser (whereas in a typical corporation it goes to the parent); and
- (c) “[W]hile not having voting control of a fund, the investment adviser usually provides the fund’s officers and performs substantially all services required in its operations, and thus plays an important, even controlling, role in its policies and operations.”

The SEC rule includes the following notable inclusions of affiliates of the entity under audit in an ICC (assuming the entity under audit is an investment company):

- The ICC always includes the investment company’s investment adviser or sponsor,⁵⁴ irrespective of whether the investment adviser or sponsor controls or has significant influence over the investment company.
- The ICC includes an entity controlled by the investment adviser or sponsor if that entity provides administrative, custodial, underwriting, or transfer agent services to the investment company or

⁴⁷ Refer [SEC 17 CFR Parts 210 Final Rule December 11, 2020](#) Section 210.2-01 Qualifications of Accountants – § 210.2-01(f)(6) *Audit client means the entity whose financial statements or other information is being audited, reviewed, or attested to and any affiliates of the audit client, other than, for purposes of paragraph (c)(1)(i) of this section, entities that are affiliates of the audit client only by virtue of paragraphs (f)(4)(iii), (f)(4)(iv), or (f)(14)(i)(E) of this section.*

⁴⁸ § 210.2-01(f)(4) and the meaning of an affiliate of the audit client

⁴⁹ Refer to paragraphs 48 to 61 of the IESBA Staff publication [Benchmarking International Independence Standards: Phase 1 Report: Comparison of IESBA and US/SEC Independence Frameworks](#).

⁵⁰ § 210.2-01(f)(4)(v) *Each entity in the investment company complex as determined in paragraph (f)(14) of this section when the entity under audit is an investment company or investment adviser or sponsor, as those terms are defined in paragraphs (f)(14)(ii), (iii), and (iv) of this section.*

⁵¹ [ISB Standard No. 2, Certain Independence Implications of Audits of Mutual Funds and Related Entities](#)

⁵² Refer to page 76060 of [SEC 17 CFR Parts 210 and 240 Revision of the Commission’s Auditor Independence Requirements December 5, 2000](#).

⁵³ Paragraph 15 of [ISB Standard No. 2, Certain Independence Implications of Audits of Mutual Funds and Related Entities](#)

⁵⁴ SEC Rule 17 CFR § 210.02(f)(14)(i)(B) *The investment adviser or sponsor of any investment company identified in paragraph (f)(14)(i)(A)(1) of this section*

investment adviser or sponsor.⁵⁵

- The ICC includes any entity under common control (sister entity) with the investment company or investment advisor or sponsor if that entity is providing administrative, custodial, underwriting, or transfer agent services to the investment company or investment adviser or sponsor.⁵⁶

⁵⁵ SEC Rule 17 CFR § 210.02(f)(14)(i)(C) (noting it is a sister entity of any affiliate identified in A, B, or C of this section, so not just sister entities of the entity under audit) *Any entity controlled by or controlling:*

- 1) *An entity under audit identified by paragraph (f)(14)(i)(A) of this section, or*
- 2) *An investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section.*

When the entity is controlled by an investment adviser or sponsor identified by paragraph (f)(14)(i)(B), such entity is included within the investment company complex if:

- (i) *The entity and the entity under audit are each material to the investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section; or*
- (ii) *The entity is engaged in the business of providing administrative, custodial, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) or (B) of this section.*

⁵⁶ SEC Rule 17 CFR § 210.02(f)(14)(i)(D) *Any entity under common control with an entity under audit identified by paragraph (f)(14)(i)(A) of this section, any investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section, or any entity identified by paragraph (f)(14)(i)(C) of this section; if the entity:*

- 1) *Is an investment company or an investment adviser or sponsor, when the entity and the entity under audit identified by paragraph (f)(14)(i)(A) of this section are each material to the controlling entity; or*
- 2) *Is engaged in the business of providing administrative, custodian, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) and (f)(14)(i)(B) of this section.*

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