

CIVs and Pension Funds

Question 1 – Does the Code's definition of related entity capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs or pension funds? Please provide reasons for your response.

Yes, with comments

Investors and Analysts

Association of the Luxembourg Fund Industry (ALFI)

ALFI welcomes the opportunity to comment on the application of the IESBA's Code's conceptual framework on independence, particularly as it relates to the identification of “related and connected parties” in the context of CIVs and pension fund structures.

ALFI believes that the existing Luxembourg framework captures the relevant parties necessary to assess auditor independence in CIV and pension fund structures. The framework defined in the Code is applied in combination with EU and national regulation under the supervision of the national competent authority (see further below reg. CSSF). It enables a principles-based approach that allows auditors and national competent authorities to assess threats to independence in a way that reflects the actual roles, influence, and risks posed by different parties within an investment fund structure.

We would like to underline that in Luxembourg, investment funds for CIVs and pension funds are often complex, involving a range of parties performing specialised and distinct services for these funds. These typically include the investment managers, management companies of funds, fund administrators, custodians, and other third-party service providers (lawyers, advisers etc.).

For this reason, changes to the definition of “related and connected parties” in the Code need to be carefully considered, as hundreds of already supervised entities such as third-party management companies, administrators and others would lead to having to apply overly broad or uniform restrictions on the provision of non-audit services to such third-party service providers, especially where there is no direct relationship or influence. This would result in limiting market access to audit firm's expertise without significantly enhancing investor protection.

ALFI believes the Code should continue to support a principles-based assessment of independence threats. The Code already requires auditors to assess who the true beneficiaries of non-audit services are, which is key to evaluating independence threats.

European Fund and Asset Management Association (EFAMA)

Yes. For EFAMA, the Audit Directive and existing flexibility should be maintained, with no amendments to the definition of related entity. To the best of our knowledge, the current definition of “related entity” in the IESBA Code, when applied through the conceptual framework, should be adequate to capture the relevant parties that should be considered in the assessment of auditor's independence for audits of CIVs and Pension Funds. At the level of the EU, Member States' regulatory framework, enforced by local authorities responsible for securities markets (under the authority and supervision of ESMA), already ensures the roles of fund managers, depositaries, investment advisors, and other service providers are clearly regulated and supervised.

These third parties are commonly involved in the structure and governance of investment schemes and are appropriately identified as relevant in the context of independence assessments. It should also be mentioned that

some markets reflect a model in which investment schemes delegate key functions to external parties, which reinforces the need to apply a principles-based assessment of independence, as foreseen in the IESBA Code.

In practice, auditors already assess relationships and risks involving all materially influential parties. We therefore believe that the current framework of the Code, supported by national regulation and professional standards, is sufficiently robust and flexible to address the independence considerations involving all relevant parties in the audit of investment funds and pension schemes.

Accounting Firms

Deloitte

Deloitte Global considers that the Code's definition of Related Entity captures all relevant parties. Based on our experience, this definition is well understood and sufficiently flexible to apply across various scenarios, including audits of Investment Schemes. The concepts of control and significant influence remain appropriate, regardless of the nature of the relevant party. Whether another party's role results in control or significant influence over an Investment Scheme depends on the specific facts and circumstances, as well as the laws and regulations in each jurisdiction. For this reason, local regulators or standard setting bodies are best positioned to provide additional guidance, if necessary, within their respective environments.

Forvis Mazars

As noted in our general comments, we believe that the IESBA should restrict this project to providing non-authoritative guidance material only and not add more provisions to the Code.

We believe that the current definition of related entity is well understood and consistently applied, and we do not recommend any changes to the existing definition. It is likely that there will be different interpretations which would reflect different jurisdictional requirements etc., and this is an appropriate outcome for a principles-based code and application of the conceptual framework by auditors when assessing their independence.

Grant Thornton International (GTIL)

As discussed in our 'overarching comments' above under Conceptual Framework and R400.27, we believe the Code's definition of related entity captures all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs and PFs.

KPMG

We believe the current definition of "related entity" remains appropriate as it specifically captures the entities to which the prescriptive independence requirements and prohibitions in the Code apply. Expanding the related entity definition and requirements without a clearly established need would lead to overly complicated situations, making the Code harder to apply consistently, limiting service provider choice and raising costs that would be passed on to investors and pensioners. Similarly, creating a new term within the Code to capture "connected" parties for a narrow use case does not seem to be naturally aligned to the overarching purpose of a global code. Introduction of this new term will also increase complexity of the Code as it is translated and incorporated into local professional standards globally.

CIVs, pension funds and other investment schemes differ substantially by jurisdiction and the related jurisdictional regulators and standard setters are best placed to understand and address independence concerns with such

schemes in their jurisdictions. For the IESBA to embark on a global initiative without a clearly defined problem or benefit or a resulting impact analysis can lead to unnecessary complexity and unintended consequences.

Pitcher Partners

The extant code is sufficient in its definition of a related entity and is currently applied consistently. The Board's own research suggests they have not identified any instances where this is an issue “..the Project Team has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor”.

IFAC Member Bodies and Other Professional Accountancy Organizations

American Institute of Certified Public Accountants (AICPA) PEEC

For the reasons outlined in the “Overarching considerations” section of this letter we believe the related entity definition and guidance in R400.27 is sufficient. If there are other entities the professional accountant (PA) believes should be included in their independence evaluation, the conceptual framework would be used.

The diverse and complex organizational structures across jurisdictions necessitate a flexible, principle-based approach; therefore, it is essential to allow local bodies to determine the entities that are required to be considered by auditors. Each jurisdiction should have the latitude to determine which relationships should be included in the PA's independence assessment based on the legal structure, governance, regulatory oversight and types of arrangements that exist in that jurisdiction. For example, in the AICPA Code of Professional Conduct (AICPA code), PEEC determined the measurement criteria for determining whether an entity should be an affiliate (analogous to IESBA's “related entity”) based on the specific entities that exist in the United States that are relevant to our members. For this reason, any additional guidance from IESBA would cause confusion in the United States considering the standards that already exist.

As IESBA determined in adopting the PIE standard, to retain the fundamental condition of global operability, “it is the role of local bodies to determine which entities should be treated as PIEs whereas the IESBA's role rests more with setting the appropriate additional independence requirements for PIEs”.

Assirevi

Yes, Assirevi believes that the definition of 'related entities' currently provided by the Code is appropriate for capturing all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds.

In our view, changing the current approach in the Code of Ethics without considering the specific framework regarding CIVs/pension funds applicable in each jurisdiction could have a negative impact, as it may impose the same rules, in an undifferentiated manner, on cases that are different in nature and subject to different legal and regulatory regimes. For example, similar terms, like “asset management company” may refer to roles with different functions, responsibilities, and oversight.

As far as Italy is concerned, the most common form of CIVs is mutual investment funds (contractual schemes). In participating in a mutual investment fund, investors entrust the professional management of their savings to a separate entity from the fund itself: the asset management company (in Italy, SGR).

According to the prevailing approach of Italian academics and case law, the CIV is an autonomous asset, without legal personality, intended to be managed within the limits conventionally provided for in the contractual

relationship between the SGR and the investors. On this basis, the SGR is recognized as the formal owner, on behalf of others, of the assets and liabilities that make up the managed fund, including its portfolio companies (those entities/companies in which the fund holds controlling interests).

In summary, the SGR possesses a distinct and separate capital from the fund. The mutual investment fund managed by the SGR does not have its own legal personality.

The SGR is the sole legal entity acting in the name and on behalf of the fund.

With specific reference to audit regulations, the CIV's auditor is the same as the auditor of the SGR. Therefore, the auditor must be independent of both the mutual fund and the SGR. The independence rules also apply, to some extent, to those entities/companies in which the fund holds controlling interests (so called portfolio companies), in execution of the defined investment policy and as a result of investment transactions carried out by the SGR for management purposes and in the interest of the fund.

With regard to pension funds accessible to the general public (so-called open pension funds), it should be noted that - similarly to mutual investment funds - they do not have their own legal personality and are structured as separate assets of the management company in accordance with Article 2117 of the Italian Civil Code, by resolution of the management company's administrative body.

In this context, the auditor of the pension fund is generally the same as the auditor of the management company. Consequently, the auditor must be independent of both the management company and the pension fund.

For more detailed information on the nature and the legal framework of Italian CIVs and pension funds, see below our response to question 6 and relevant annexes.

For the reasons outlined above, considering that in the Italian context:

CIVs/pension funds do not possess legal personality and are fully managed by the management company;

the auditor of the CIV/pension fund is the same as that of the management company,

Assirevi believes that the definition of 'related entities' currently provided by the Code is appropriate for capturing all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds. Therefore, the definition does not need to be revised.

Furthermore, it should be noted that the application of the conceptual framework set out in Section 120 would allow the auditor to identify other entities, if any, that should be included in the independence assessment.

In any case, according to Assirevi, the issue cannot be addressed by simply creating a baseline of rules that ignores the fundamental differences between regulatory frameworks across jurisdictions.

Chartered Accountants Ireland (CAI)

The definition of related entities is long established and widely understood. It relies on concepts of control and significant influence which are clearly defined in financial reporting frameworks and corporate legislation in most jurisdictions.

The funds industry, unlike corporate entities, relies on outsourced service providers to operate. The service providers are usually unrelated parties so the administrator, the custodian and the investment manager will not normally be related parties. Thus, while in continental Europe the administrator, custodian, and the investment manager are usually part of the same corporate group, in Ireland and the UK the administrator and investment manager are not normally in the same corporate group but rather are unrelated parties. Instead, each party will provide services in accordance with a contract and will usually be capable of being removed by the CIV/pension scheme by the giving of notice without cause.

Legislation and regulation in Europe govern the operation of funds available to the public, so that the fund is required to issue a prospectus. That prospectus sets out the governance arrangements for the fund, as well as the range of investments that the fund may invest in and the risk profile. The range of investments limits the powers of the investment manager to investing in that type of entity and governs the risk profile.

Further protections for investors are enshrined in Irish company law establishing requirements to have an independent board of directors and providing voting rights linked to the number of shares or units held. Company law requires the board of directors to meet regularly and gives the board meaningful oversight of the investment manager and the service providers to the fund.

The consistent application of the definition of related entities ensures that the auditor of the CIV/Pension fund is independent of any parties with control or significant influence over the fund. The current definition is sufficiently broad. It should be noted that CIV and pensions funds are not the only types of entity that operate under a series of outsourced service provider arrangements. There are other industries where this may be a typical operational arrangement. For example, in Ireland, other entities in other industries such as Owners Management Companies (OMC) typically employ a range of external service providers, e.g. for property maintenance, property management, etc. The current Code sufficiently addresses the considerations required for this industry, as it does for the CIV and Pensions fund industry. We believe the strength and effectiveness of its Code is the ability to apply its principles and requirements in the context of professional accountants working in or providing services to many sectors and industries. There is no evidence to suggest that the current Code's conceptual framework does not sufficiently address the required considerations for auditor independence for CIV and pension funds.

While not all CIVs and Pension funds are considered Public Interest Entities (PIEs), for those that are classified as PIEs (applying EU PIE criteria) there is the additional consideration of the impact of the proposals on the audited entity (i.e. the PIE) and the audit firms that must comply with both the IESBA Code and EU Audit Regulations. The audit firm has to be independent of the audited entity under both requirements. Given that the EU PIE rules require the board of the audited entity to obtain two credible tenders when appointing an auditor further to the mandatory firm rotation requirements (Article 16 (2) of Regulation (EU) No 537/2014), situations may arise whereby the incumbent audit firm cannot tender and where other available audit firms in the marketplace are not independent of the audited entity. Any proposal to extend the parties that the audit firm has to be independent of would have the unintended consequences by further restricting the entity's ability to source an audit firm that would be in a position to tender.

Furthermore, given that no definition of CIV/Pension funds is provided in the proposals and as there are many different structures available in the market, it is difficult to ascertain what is in scope for the proposals. For example, is it intended to cover only Defined Contribution and Defined Benefit schemes or other pension funds? Or has there been any consideration of the fact that local regulators may already define connected parties?

Compagnie Nationale des Commissaires aux Comptes (CNCC)

We believe that the current definitions in the Code already cover the auditor's independence assessment when auditing CIVs/pension funds, in particular Section 120 "The Conceptual Framework". Indeed, the Code clearly covers the following points: identifying, evaluating and addressing threats. Consequently, we believe that it is not necessary to modify the current definitions of the Code, particularly the notion of "related entity". Indeed, the analysis of the collective investment environment as described in annex n°2 to this letter, clearly demonstrates that operations related to fund management are split between different actors in order to secure the sector. These actors are often regulated by a supervisory authority and/or independent of the asset manager.

Furthermore, we believe that an expanded definition of "related entity" would render the audit exercise impracticable as the collective investment market is already highly concentrated around a few asset managers.

Institut des réviseurs d'entreprises in Luxembourg (IRE)

Response 1 - The Code effectively incorporates relevant parties essential to the auditor's independence assessment for audits involving Collective Investment Vehicles (CIVs) and pension funds. This comprehensive capture is attributable to several key provisions:

Definition of Related Entities: The Code's definition operationalized by paragraph 400.27 explicitly includes any relationship or circumstance related to a firm's independence evaluation concerning other related entities. This reference ensures all pertinent parties are accounted for.

Fundamental Principles Application: Although the definition of related parties under section 4A does not explicitly cover "Connected Parties", the application of the fundamental principles—Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, and Professional Behavior—is assured by R112.2.

Independence Threats Under R112.2: Paragraph R112.2 prohibits professional activities where a circumstance or relationship might unduly influence the accountant's professional judgment. This provision requires auditors to evaluate potential threats, including self-interest and self-review, that might arise from interactions with Connected Parties. Appropriate safeguards are determined and applied to mitigate such threats.

Specific Requirements Under Part 4A: Part 4A addresses financial interests, close business relationships, and non-audit services, with consideration given to individuals or parties exerting significant influence over financial reporting processes. This ensures a robust framework for evaluating independence.

Conceptual Approach to Diverse Landscapes: The Code adopts a conceptual framework to address the varied and dynamic landscape of third-party service provider involvement in fund management. By focusing on the entities exerting economic control over investment vehicles or pension funds, the provisions remain adaptable and effective.

Luxembourg Contextual Observations:

Luxembourg's position as the second-ranked country globally in terms of assets under management reflects its prominence in international fund distribution.

A bifurcation exists between corporate model funds with distinct governance bodies and contractual model funds lacking legal personality. Regulatory oversight is integral to these frameworks, ensuring measures to safeguard assets and mitigate conflicts of interest, for example, through investment restrictions, segregation of duties, and various reporting obligations to the regulator in relation to conflict of interests, risk reporting, best execution policies, etc..

In conclusion, we concur that the current provisions of the Code, supported by application material, adequately address auditor independence assessment requirements, offering a comprehensive and sufficient framework.

Institute of Chartered Accountants Ghana (ICAG)

We believe that the Code's definition of related parties captures all relevant parties that need to be included in auditor's independence assessment when auditing CIVs/pension funds. 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.”

We believe that these definitions adequately capture all the required features of related parties that need to be considered in assessing auditor independence when auditing CIVs/pension funds.

Institute of Chartered Accountants of Pakistan (ICAP)

The IESBA Code's definition of related entity is generally sufficient to capture all relevant parties for assessing auditor independence in CIVs and pension fund audits. However, due to the complexity of these structures, auditors must apply professional judgment and consider the substance of relationships, not just their legal form. In certain cases, this may require expanding the scope of independence considerations beyond what is strictly defined as a "related entity" under the current Code.

Paragraph 400.20 explains that when the audit team knows/ has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

Entities that might be considered while evaluating the CIV's related entity might include the following:

Fund manager

Sponsor or trustee – depending on the level of control or influence

Investee entities – depending on the control and significance of the Fund over them

Multiple CIVs managed by the same fund manager

Pennsylvania Institute of CPAs (PICPA)

We believe that the related-entity guidance at R400.27 and the conceptual framework are adequate to determine whether entities should be included in a firm's independence evaluation. We therefore do not believe that additional guidance on related entities is necessary.

No, with comments

Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

We believe that the Code's definition of “related entity” is sufficiently broad to consider all relevant parties based on financial interest relationships, including entities with control or significant influence over the audited entity, as well as entities controlled or significantly influenced by the audited entity.

While the definition uses financial interest as a basis, the Code also recognises the importance of including related entities in the auditor's independence assessment when the auditor knows or has reason to believe that a relationship or circumstance involving that entity is relevant to the assessment. This principles-based approach is fundamental to assessing the unique external relationships which CIVs and pension funds often involve.

We are of the view that the definition may still not fully capture all relevant parties, meaning that it may not capture relationships with Connected Parties whereby control or significant influence over the CIV may be present by virtue of contractual agreements or by performing key management functions, without holding a financial interest. These relationships could still pose significant threats to auditor independence.

Investors and Analysts

Better Finance (BF)

Not quite, we believe that the current definition of "related entity" in the Code does not sufficiently capture all relevant parties that should be included in the auditor's independence assessment for CIVs and pension funds. Investors rely heavily on the independence of auditors to provide objective, high-quality assurance, and the failure to explicitly capture key external decision-makers and service providers—such as investment managers, sponsors, and advisors—as related entities presents a material gap in investor protection. Investment Schemes often outsource critical functions to entities that are legally distinct but operationally central. For example, external fund managers and investment advisors make key decisions that shape the financial outcomes of the scheme, yet they may fall outside the related entity scope. This creates a blind spot in the independence assessment, especially if the auditor has business or personal relationships with those parties. Investors require a holistic view of independence threats, not one limited to entities with formal control or financial ownership ties. By omitting entities with functional influence, the Code risks undermining trust in audit quality. Investors would strongly support either an expansion of the related entity definition or the creation of an "extended independence perimeter" around CIVs and pension funds to cover such connected parties.

Impax Asset Management

Yes, the Code's definition of "related entity" is quite comprehensive in capturing relevant parties for auditor independence assessments. According to the IESBA Code of Ethics, the definition ensures that entities with direct financial, operational or governance influence over the Investment Scheme are considered. However, given the unique structure of CIVs and pension funds, there may be instances where certain Connected Parties are not explicitly covered under the definition.

The Consultation Paper acknowledges that Investment Schemes often rely on external parties for functions traditionally managed internally in corporate structures. These Connected Parties may exert influence over financial reporting, investment decisions or operational management, which could pose independence risks. While the conceptual framework allows auditors to assess threats to independence, additional guidance may be beneficial to ensure consistent application across jurisdictions.

Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

The Code's definition of related entity does not capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds. The code defines related entity in relation to control (direct or indirect, common) and material financial interest and significant influence over a client). The Code's definition of related entity does not capture connected parties for example Fund Managers.

Financial Reporting Council (UK FRC)

We consider that the current definition of “related entity” within the Code is, in general, sufficiently broadly framed and generally effective in identifying, based on financial interest relationships, the key parties that should be included in an auditor’s independence assessment when auditing collective investment vehicles (CIVs) and pension funds. The definition appropriately captures entities that have control or significant influence over the audited entity, as well as those that are controlled or significantly influenced by it.

Importantly, the Code’s principles-based framework also recognises that independence considerations may extend beyond financial interest relationships. It requires auditors to consider other relationships or circumstances involving entities where the auditor is aware, or has reason to believe, that such factors are relevant to the independence assessment. This principles-based approach is particularly valuable in the context of CIVs and pension funds, which often involve complex and multi-layered external relationships, and which continue to develop and change over time. It is important that the Code also remains sufficiently principles-based and flexible, to be able to address ethical and independence issues arising from new structures. In the UK for instance, the government has announced legislation which is likely to result in a significant expansion of collective defined contribution schemes.

However, we note that the current definition may not fully encompass all relevant relationships. In particular, it may not adequately address situations involving Connected Parties who exert control or significant influence through contractual arrangements or by performing key management functions, without holding a direct financial interest. These types of relationships can still give rise to significant threats to auditor independence and, in our view, merit further consideration by the IESBA.

Hellenic Accounting and Auditing Standards Oversight Board (HAASOB)

The definition of related entity in the Code is general. There could be a third party that among others:

Is responsible for the decision making for the fund including decisions related to retaining or changing service providers including investment advisors, fund managers, sponsors, custodians, recordkeepers, etc., day to day operations and performance of the fund.

Influences the success or failure of the fund,

Materially affects the performance of the fund

A third party could be a (un)related party that the auditor should assess. The above examples could exist by contracting and therefore could control the fund. Eventually there could be a potential risk that independence is not adequately assessed as the third party is not part of “audit client”.

A proposal would be to publish guidance to capture all relevant parties and connected parties that need to be included in the auditor’s independence assessment when auditing CIVs/pension funds.

Independent Regulatory Board for Auditors (IRBA)

We believe that the current definition of “related entity” does not fully capture all relevant parties that need to be included in the auditor’s independence assessment when auditing CIVs and/or pension funds. The definition relies on the concept of control, which is not clearly defined in the Code. This ambiguity can lead to inconsistent interpretation and application across different jurisdictions and audit firms. We understand that the Code is designed to be framework-neutral and that entities across various jurisdictions may employ differing reporting frameworks. However, it would be helpful if guidance on control could be provided with reference to the specific accounting standard/framework being applied.

CIVs and pension funds often rely on external service providers, and the definition does not specifically capture these parties, which include management companies, asset managers, service organisations, custodians, brokers, investment advisors or trustees. These external parties may have roles and responsibilities for decision-making and the operation of the scheme, be able to substantially affect its financial performance, or be in a position to exert significant influence over the preparation of its accounting records or financial statements. It would be helpful to articulate these aspects from a principled-based perspective rather than by specific designations, as these may vary across different jurisdictions.

For example, a Collective Investment Scheme's (CIS) external asset manager might not be a "related entity" under the Code, if there is no formal control or significant financial interest, yet its role in managing investments and pricing significant unlisted investments (significant to the fund) can directly impact the scheme's financial statements, posing potential threats to auditor independence if the auditor is not sufficiently independent from the external asset manager (e.g. self-review or self-interest threats).

Although the definition does not fully capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs and/or pension funds, it is noteworthy that many jurisdictions may have already established independence rules and legal requirements to address this matter.

National Association of State Boards of Accountancy (NASBA)

Item (d) of the definition of related entity includes "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 related entity." NASBA believes that the definition should include relationships in which the client or related entity has a direct financial interest that gives it significant influence or the financial interest is material. NASBA would also recommend clarification such that the reference to all relevant parties captures the entity and its management.

Jurisdictional Standard Setters

Accounting Professional & Ethical Standards Board (APESB)

The definition of related parties in the IESBA Code is based upon the premise of control (whether direct or indirect) in conjunction with the concept of significant influence. APESB is of the view that this definition may not capture key relationships, roles or entities connected to CIVs, especially in the instance that the CIV is not a listed entity or a related party of a listed entity.

In Australia, measures are in place to establish independence considerations for Managed Investment Schemes (MISs) that are subject to the requirements of the Corporations Act 2001, as well as superannuation funds (e.g., pension funds).

In addition to the auditor needing to comply with the auditor independence requirements in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (APES 110), the Corporations Act 2001 (the Act) sets out specific independence requirements for auditors of responsible entities that operate registered managed investment schemes and Registered Superannuation Entities (RSEs) in Divisions 3, 4 and 5 of Chapter 2M. These requirements broaden the 'audited body' to include connected parties such as responsible entities (Section 324CH(2)) and RSE licensees (Section 324CH(2A)).

The prudential regulator, the Australian Prudential Regulatory Authority (APRA), which oversees superannuation funds, imposes specific regulations for these funds, including requirements related to audits and independence.

Since 1 January 2013, APES 110 has mandated that a broader range of entities must be determined to be PIEs as compared to the IESBA definition. In Australia, this means that entities, or certain categories of entities, are PIEs if they are deposit-taking institutions, insurers, superannuation entities (including the RSE and the RSE Licensees), disclosing entities, and other entities that issue debt or equity instruments to the public. As such, the PIE independence considerations apply to superannuation funds and disclosing entities (which include registered MISs).

The key considerations for auditor independence in Australia are well established and clear for superannuation funds. However, issues may arise if MISs or their structures obscure the parties responsible for management of the scheme's investments and operations.

While Australia has established auditor independence considerations for MISs and superannuation funds, the increasing and significant investments managed through these types of entities create a public interest imperative for globally consistent auditor independence requirements. Separate jurisdictional legislation may not establish a globally consistent approach to independence. Therefore, we support the IESBA in considering whether the current definitions and provisions in the IESBA Code clearly identify the relevant parties of CIVs and Pension Funds to be included in the auditor's independence assessment.

Stakeholder views

Stakeholders provided mixed views on whether the definition of a related party and the IESBA Code capture all relevant parties for CIVs and related entities. Some stakeholders believed that the conceptual framework in the Code provides an adequate framework for considering independence threats arising from these relationships.

Other stakeholders noted that these types of entities may not be captured within the definition of related entities and that it was not explicitly clear how the conceptual framework would apply. These stakeholders believed that further consideration of the provisions in the Code was warranted, and they would support the issuance of guidance on independence considerations for auditors of such entities.

All stakeholders noted that these types of entities are highly regulated in Australia, and there is no evidence of ethical failings related to auditor independence for CIVs and pension funds.

New Zealand External Reporting Board (XRB)

No, we do not believe that the current definition of related entity captures all relevant parties given the limited number of personnel usually employed by investment schemes and the functions that are outsourced to other parties. An open question exists as to whether there is any need for all these parties, particularly the potentially unique supervisor and custodian roles relevant to New Zealand described below, to be included within the independence considerations.

Collective investment schemes are known in New Zealand as managed investment schemes (MIS). Our response is specific to the unique structures and requirements for MIS that are available to the general public in New Zealand.

In New Zealand, the Financial Markets Conducts Act 2013 (FMC Act) includes the requirements for MIS to have certain roles with specified responsibilities as detailed below. The KiwiSaver Act 2006 contain additional requirements on KiwiSaver schemes (a type of MIS). MIS are regulated by the Financial Markets Authority.

The definition of audit client in Professional Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) requires all clients that are FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs) to include their related entities in the consideration of independence. This includes the MIS and the licensed managers of these schemes (in respect of the financial statements of the MIS they manage).

The MIS and MIS manager (in respect of the financial statements of the MIS they manage) are also included in the New Zealand Public Interest Entity (PIE) definition and are subject to the PIE independence requirements under PES 1.

The FMC Act requires all MIS to have the following roles with the following responsibilities:

The MIS Manager (S142):

is responsible for the management of the MIS including offering and issuing managed investment products

does not hold or look after investors' money or property

is responsible for the administrative functions of the MIS

is an FMC HLP and is therefore treated as a PIE and auditors are required to include all related entities in the assessment of independence under PES 1.

The Supervisor or Trustee (S152):

is an independent party responsible for ensuring the MIS Manager complies with the scheme trust deed

or other independent person is required to be the custodian under Legislation (S156 of the FMC Act)

acts on behalf of members (like Directors do for shareholders).

Custodian (this could be the same entity as the supervisor):

is an entity appointed to hold investors property of a registered MIS "on trust" on behalf of members

has the legal responsibility for holding investors securities

is responsible for keeping MIS records and reporting on MIS property.

Depending on the legal form and structure of the MIS, some of these parties may not necessarily be seen as a related entity in the current definition in the Code and may therefore not be considered by the auditor in their assessment of independence. Some of these roles including the supervisor and custodian are fiduciary in nature. The auditor's consideration of who the related entities are may also differ when the MIS is established as a group of companies versus a limited partnership.

The supervisor and custodian roles, as described above, may not fall within the current definition of a related entity because the definition is based on control, direct financial interest and significant influence and the supervisor may not have control. The supervisor's role is to act on behalf of investors and members of the scheme.

However, based on our current New Zealand environment, we have not heard concerns that the supervisor or custodian roles need to fall within the definition of a related entity or that independence issues arise based on these roles.

Accounting Firms

BDO International (BDO)

It is BDO's view that the related entity definition taken alone does not guarantee that all relevant parties who warrant inclusion in an auditor's independence assessment, would be captured.

In some jurisdictions, the local applicable Relevant Ethical Requirements (RERs) do not contain a clear concept of 'control' within the context of CIVs / pension funds, and it is not easily attributable to any one entity. It is likely that in such cases no entity has control over the fund, but several parties are instead responsible for discrete elements of the fund's operations, which in turn may also not meet the threshold for having 'significant influence'.

Similarly, for CIVs/pension funds not classified as publicly traded entities, parties ‘upstream’ of the fund would never come into the scope of the audit client definition. In addition, the application of materiality to those upstream entities is not defined and differs in the context of CIVs / pension funds compared to a normal corporate structure.

By relying solely on this definition, there is a risk that relationships between the audit firm and the connected parties may not be adequately evaluated. It is for this reason that the conceptual framework is important in helping firms consider these relationships and why we believe non-authoritative guidance to support this is the best approach.

Ernst & Young Global (EY)

The elements of “control” and “financial interest” are explicitly contemplated in the Code’s definition of Related Entity. It is unlikely that these two elements will be present in relationships between an Investment Scheme and an entity captured within the Connected Party concept. As such, it is possible that such Connected Parties will not in all circumstances meet the Code’s definition of Related Entity. However, we believe that the Code’s Conceptual Framework is sufficiently robust and is capable of guiding PAs to consider whether professional services, interests, or relationships with entities that the IESBA contemplates under the Connected Party concept might create threats to the independence of Investment Schemes’ auditors. Specifically, as described in paragraph R112.2, the fundamental principle of objectivity requires that a PA not undertake a professional activity if a circumstance or relationship unduly influences the accountant’s professional judgment regarding that activity. Further, when auditing Investment Schemes, we believe the application of the Conceptual Framework, as required by the Code, will guide a PA to:

Identify threats: Paragraph 120.6 A1 notes that: “An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the [PA’s] identification of threats to such compliance.” We believe this sufficiently guides a PA to consider professional activities, interests and relationships with entities within the Connected Party concept.

Evaluate threats: Paragraph 120.8 A1 notes that: “The consideration of qualitative as well as quantitative factors is relevant in the [PA’s] evaluation of threats [. . .].” We believe this sufficiently guides a PA to consider qualitative factors in evaluating relationships between an Investment Scheme and its service providers, such as: responsibility for decision-making and operation of the Investment Scheme; whether the service provider is able to substantially affect the financial performance of the Investment Scheme; or if the service provider can exert significant influence over the preparation of the accounting records or financial statements of the Investment Scheme.

Address threats: Paragraph R120.10 requires: “If the [PA] determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the [PA] shall address the threats by eliminating them or reducing them to an acceptable level.” We believe that it is sufficiently clear that if a PA identifies threats to independence arising from professional services, interests or relationships with Connected Parties that are not at an acceptable level when auditing an Investments Scheme, the PA will need to eliminate the circumstances that are creating the threats, apply safeguards to reduce the threats to an acceptable level, or decline or end the specific professional activity.

Have an inquiring mind: By applying the application material in paragraphs 120.5 A1 through 120.5 A3, we believe a PA is sufficiently guided to obtain the necessary understanding of facts and circumstances regarding the Investment Scheme and its Connected Parties to be able to appropriately apply the Conceptual Framework.

Exercise professional judgement: As described in paragraphs 120.5 A4 and 120.5 A5, the PA is guided to take into account the nature and scope of professional activities, interests and relationships when making informed decisions about the courses of action available, and to determine whether such decisions are appropriate in the

circumstances. We believe this sufficiently guides the PA in making decisions as to the appropriateness of professional activities, interests and relationships with Connected Parties when auditing Investment Schemes.

Consider the reasonable and informed third party test: We believe that if a reasonable and informed third party would reach a conclusion that a professional service, interest or relationship with a Connected Party would impair the independence of the Investment Scheme's auditor, the PA would, in complying with the Code, give this appropriate consideration.

PwC network (PwC)

In some jurisdictions, certain relevant parties, such as an advisor or management company are deemed (by the regulatory framework) to have an actual or an implied control relationship with the investment scheme and accordingly will be covered by the local definition of a related entity (or affiliate) and, by implication, the definition of a related entity in the Code. Application of the related entity definition in the Code would then depend on whether the entity is a Publicly Traded Entity or not (based on R400.27).

In other jurisdictions, the principles of the related entity definition are not clearly applicable to funds and to entities that are service providers to such investment schemes. As a general observation, the defined term in the Code is not currently drafted to explicitly refer to other parties, such as advisors or other paid service provider roles, which might have decision making or operational responsibilities in relation to management of the fund, its performance, or the preparation of its financial statements. These parties are generally outside the entity's organisational boundary and might not be deemed under the local framework to have a control relationship with the CIV (such as is generally the case in the EU).

We acknowledge though that relevant interests and relationships with certain "connected parties" (which are not related entities) should be included in the assessment of independence, and in many cases the auditor will already consider such relationships through existing mechanisms (application of the conceptual framework and the 'look-through' principle described in our response to Question #4).

Should the Board decide to move forward with this initiative, enhancing clarity through non-authoritative guidance or additional application material could offer more precision. However, see our responses to Questions 2-5 below in which set out our view that the existing conceptual framework in the Code provides an effective framework for dealing with the identification and response to independence threats that might arise.

RSM International (RSM)

We do not believe the definition of 'related entity' in the International Ethics Standards Board for Accountants' (IESBA's) International Code of Ethics for Professional Accountants (including International Independence Standards) (Code of Ethics) captures all relevant parties that need to be included in the auditor's independence assessment when auditing collective investment vehicles (CIVs) or pension funds. The IESBA Code of Ethics includes the following definition of related parties:

An entity that has any of the following relationships with the client:

An entity that has direct or indirect control over the client if the client is material to such entity;

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;

An entity over which the client has direct or indirect control;

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

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.

We have the following comments on the definition of 'related party' in relation to CIVs and pension plans:

CIVs can have complex structures that can involve a variety of parties that may influence auditor independence.

The definition does not appear to capture individuals as related parties, and 'entity' does not appear to be defined in the IESBA Code of Ethics. Elsewhere in the IESBA Code of Ethics, it refers to 'individuals and entities'. Accordingly, it appears that an individual is not considered an entity and, thus, would not be considered a related party for purposes of applying the IESBA Code of Ethics. In addition, the definition does not appear to include entities that have operational or managerial control of the client without a financial interest (e.g., an investment advisor).

In Appendix 2 of the Consultation Paper, 'Research Findings on Jurisdictional Responses to Independence', it appears that the six jurisdictions listed included other Connected Parties as part of their respective independence requirements, including asset management companies or investment advisor/sponsor, which do not appear in the definition of 'related party' in the IESBA Code of Ethics.

The definition of 'related party' in IESBA Code of Ethics includes 'control'. It is unclear what is meant by control. Control could mean financial/ownership, operational or managerial. Generally, unless explicitly specified otherwise, 'control' is assumed to mean financial or ownership control. A 'direct financial interest' is defined as the following in the IESBA Code of Ethics:

A financial interest:

Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or

Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

The definition of 'direct financial interest' includes a financial interest beneficially owned through the ability to influence investment decisions. Certain Connected Parties could be scoped into (b) in the definition of 'related party' as the definition of 'direct financial interest' includes a financial interest beneficially owned through a CIV when the individual or entity has the ability to influence investment decisions of the CIV. However, this would only apply to Connected Parties that are entities as the definition of 'related party' does not appear to include individuals.

It is unclear that 'direct financial interest' includes some 'beneficial interests' without referring to the definition of 'direct financial interest'. This leaves room for misapplication and a risk that the auditor may assume 'direct financial interest' means direct financial ownership of the client.

Connected Party is not defined in the IESBA Code of Ethics. We believe it would be beneficial for consistent application if IESBA defines 'Connected Party' in the Code of Ethics.

An asset manager that has employees, maintains the books and records of a CIV and makes managerial decisions would generally not meet the definition of an audit client or related party. This could result in a situation where an engagement to improve the asset manager's systems is performed that includes the books and records of the CIV. Thus, this engagement may effectively be considered a non-audit service under the conceptual framework because if a firm is hired as auditor of the CIV, the auditor could end up auditing the reports they

created during the engagement with the asset manager. We believe that it is conceivable that this service may not be considered if a firm does not consider situations other than those identified.

We have the following recommendations:

Consider defining 'control' as used in determining a 'related party' in line with the IESBA Code of Ethics.

Consider defining 'Connected Party' that is specific to CIVs and pension plans and includes an individual or entity with a beneficial interest in the client through the ability to influence investment decisions.

Either (1) add a requirement that the auditor should be independent from Connected Parties with significant influence over the client, when the interest in the client is material to such entity or (2) add another category in the definition of 'related entity' depending on if the extant definition of related party for CIVs and pension plans would be used without including the Connected Party.

IFAC Member Bodies and Other Professional Accountancy Organizations

Accountancy Europe (AE)

Context and Importance of the Conceptual Framework

We agree that CIVs and pension funds often operate through the provision of functions or services by other parties who don't own financial interests that would give them control or significant influence over the CIVs and pension funds. Some of these parties may nonetheless bear significant responsibilities related to their policies and operations. Therefore, it may appear that the current definition of "related entity" which focuses on control and significant influence, does not reflect the full range of stakeholders whose involvement could be relevant to an auditor's independence assessment in the context of CIVs and pension funds.

However, the definition of "related entity" is not applied in isolation by professional accountants in public practice. The broader conceptual framework within the IESBA Code requires that practitioners consider all threats to independence, including those arising from entities or individuals that may not meet the formal definition of "related entity," but who nevertheless exert influence on the financial statements or make key decisions for the CIVs and pension funds.

We believe the Code is sufficiently robust when applied holistically. The threats and safeguards approach appropriately captures the nature of independence risks in these structures.

Risks and Practical Challenges

In practice, the stakeholder structure of CIVs and pension funds tends to evolve rapidly. Entities involved with a CIV at the planning stage may no longer be relevant by the time of audit execution. Therefore, an overly expansive and restrictive definition of related or connected parties captured by an updated related entity definition may inadvertently reduce the pool of eligible connected parties and audit firms for the CIV to select from. In practice, this will restrict choice and negatively impact competition in an already concentrated market.

Such restrictions not only affect a CIV's ability to appoint an auditor but also places pressure on those charged with governance of the CIV in meeting their legal and fiduciary obligations towards the CIV. In some cases, those charged with governance of the CIV already face a limited number of eligible firms, particularly in jurisdictions where independence rotation rules constrain the selection process. This risk is particularly challenging for the smaller funds which already have a more limited access to audit service providers.

We also caution against developing IESBA-specific approaches which may not align with current governance models and legal environments of some jurisdictions, particularly in the European Union (EU). A one-size-fits-all model reduces flexibility for local governance and potentially creates friction with existing legal frameworks.

Additionally, given how CIVs and pension fund structures operate differ from one jurisdiction to another, it will not be possible to come up with one related entity definition that will be operable around the globe. Instead, the IESBA should leave it up to the local jurisdiction to define the parties that should be included in the related entity definition for purposes of CIVs and pension funds within their jurisdiction.

Local laws and regulations should never be applied in isolation. The principles of the IESBA Code require the Professional Accountant to always apply the conceptual framework in addition to what is required under law, to identify if there are other relationships that may be relevant to the independence assessment.

We observe that, to date, there appears to be limited evidence of actual independence breaches in the CIV and Pension Fund sector that would justify a rigid redefinition. While stakeholder views and changing expectations are important, any changes to the rules should be supported by a clear rationale and applied in a proportionate and practical manner.

Recommendation

Rather than expanding the definition of "related entity" or introducing a new definition of "connected party," we support the issuance of non-authoritative guidance (e.g., FAQs or illustrative examples) to endorse consistent application of the conceptual framework while addressing independence risks as result of professional activities, interests and relationships between the auditor and the connected parties of a CIV.

ASEAN Federation of Accountants (AFA)

We concur with the IESBA's observation that the current definition of "related entity" in the Code may not sufficiently encompass all relevant parties engaged in the governance and financial reporting processes of Collective Investment Vehicles (CIVs) and pension funds. In many ASEAN jurisdictions, schemes commonly outsource core functions—such as investment decision-making, financial management, administration, and custodianship—to external service providers.

These parties, while not meeting the Code's threshold of control or financial interest, often exert considerable influence over financial outcomes. For example, in Malaysia, fund management and administrative functions are typically outsourced, yet these parties can significantly influence a scheme's financial operations.

We recommend that the IESBA consider either broadening the scope of the "related entity" definition or introducing explicit criteria to recognise "Connected Parties"—third parties whose involvement creates threats to auditor independence.

Association of Chartered Certified Accountants (ACCA)

The current definition of "related entity" focuses on control and significant influence and perhaps does not reflect the full range of stakeholders whose involvement could be relevant to an auditor's independence assessment in the context of CIVs and pension funds, if considered in isolation. However, professional accountants in public practice do not apply this definition in isolation, instead they use it within the broader conceptual framework within the IESBA Code, and alongside R400.27. Practitioners are required to consider all threats to independence, including those arising from entities or individuals that may not meet the formal definition of "related entity," but who nevertheless exert influence on the financial statements or make key decisions for the CIVs and pension funds. In this way, we believe the Code is sufficiently robust when applied holistically. We are of the view that the current conceptual framework already addresses many of the relationships and scenarios relevant to collective investment vehicles (CIVs) and pension funds, including those involving indirect stakeholders. The Code's principles-based design enables consideration of independence threats not just through formal client relationships, but also within the wider context in which professional services are carried out.

Chamber of Auditors Czech Republic (CACR)

We believe that the definition of a related party in the Code does not capture all relevant parties that need to be included in the assessment of auditor independence in the audit of CIV/pension funds. Other parties (Connected parties) that are not related parties are not covered by this definition. However, the conceptual framework of the Code requires the auditor to consider all relevant threats to independence, not just those arising from related parties.

Chartered Accountants Australia and New Zealand (CA ANZ)

When viewed in isolation, the Code's definition of "related entity" may not necessarily include all relevant parties that need to be included in an auditor's independence assessment for audits of CIVs/pension funds. This is because the two 'upstream' criteria are based on 'control', 'direct financial interest' and 'significant influence' – none of which may exist. However, it is dependent on a jurisdiction's specific legal framework that CIVs/pension funds are established under.

However, in practice the "related entity" definition is not applied in isolation, it is applied holistically alongside the conceptual framework, and paragraph R400.27 relating to the definition of "audit client". In our view, together these provide sufficient requirements to identify, evaluate and address threats to independence in relation to all relevant parties.

Chartered Professional Accountants Canada (CPAC)

Although the definition of a related entity does not capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds, the ISC thinks that this gap is not limited to audits of CIVs and pension funds. The ISC is of the view that the requirement in paragraph R400.19 to apply the conceptual framework is both necessary and sufficient to identify, evaluate and address threats to independence that are not captured by the related entity definition in relation to any audit engagement.

For example, the ISC notes that in Canada the practice of outsourcing functions such as the safeguarding and management of inventory to a third party is common in manufacturing, retail and distribution, by publicly traded entities with typical corporate structures, and not limited to investment funds or pension plans. Accordingly, the ISC thinks that it is important for the IESBA Code to remain principles-based and sufficiently adaptable to allow a PA to exercise their professional judgment in identifying all activities, interests and relationships that are relevant to their assessment of independence in relation to an audit engagement.

CPA Australia

No.

The definition of 'related entity' in the Code clearly concerns a relationship of:

direct or indirect control over an audit client by an entity (if the client is material to such an entity), or over an entity by the audit client;

direct financial interest where the entity has significant influence and the interest is material to the entity, or vice versa; and

common control by an entity of the audit client and another entity, both of which are material to the entity.

Accordingly, in the absence of such a relationship, Connected Parties as described in the Consultation Paper will not be included in the definition of ‘related entity’ in the Code. However, the identification and inclusion of related entities is not the only consideration when identifying the audit or assurance client as addressed at Question 3.

The term ‘related entity’ applies, *inter alia*, for the purpose of identifying the audit client in Part 4A of the Code. Section 400.27 of the Code specifically includes related entities in reference to an ‘audit client’ where the client is a publicly traded entity. In the circumstance where the audit client is a non-publicly traded entity, related entities are included where the client has direct or indirect control. This specificity is complemented by the following broader requirement (also in s. 400.27) which anticipates relationships which may threaten compliance with the fundamental principles, outside those identified as ‘related parties’:

When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

The above, broader requirement is also used in the independence requirements in Part 4B of the Code (s. 900.17) in respect of assurance clients. Accordingly, relationships which may threaten the fundamental principles are considered, albeit not specifically, in Parts 4A and 4B of the Code.

Hong Kong Institute of Certified Public Accountants (HKICPA)

In Hong Kong, CIVs carry a similar meaning to collective investment schemes (CIS). A CIS is broadly defined in the Securities and Futures Ordinance to mean investment products of a collective nature. Mutual funds, unit trusts, Mandatory Provident Fund (MPF) schemes and public open-ended fund companies are examples of CIS in Hong Kong. For a CIS in Hong Kong, usually both the trustee (for unit trusts and MPF schemes)/ custodian (for fund companies) and the management company are parties to the constitutive documents with the trustee/custodian responsible for the custodial and oversight activities of the CIS, while the management company is responsible for the investment of the assets of the CIS. Therefore, in Appendix 1 of the Consultation Paper (CP), one of the references in Table 2 which identifies the trustee as the “Investment Advisor appointed by Board of Trustees” is not applicable in Hong Kong.

In Hong Kong, the trustee/custodian and management company of a CIS are not captured by the definition of a related entity. However, the fundamental principles and conceptual framework in Part 1 of the Code provide a path for auditors to consider facts and circumstances that may present threats to independence when they audit an Investment Scheme (paragraphs 26 to 27 of the CP). Accordingly, one could consider that the principle-based approach of the Code addresses the auditor’s independence assessment regarding all relevant parties of CIVs/pension funds. Furthermore, CIS in Hong Kong is subject to the regulatory framework of the Securities and Futures Commission (SFC), covering auditor’s independence with respect to the trustee/custodian and management company (see our responses to Question 6). Consequently, some of our stakeholders consider that any enhancements to auditor’s independence should not result in additional administrative or compliance burden for CIS.

If the IESBA is to address the independence considerations concerning Connected Parties, several options could be considered. However, we note that each option has its merits and limitations.

One option is to expand the independence requirements to cover Connected Parties of entities that do not have a conventional corporate structure, for example, entities that do not employ their own staff but instead rely on Connected Parties to provide functions or services that management or employees would provide in a conventional corporate structure, such as decision-making and operational responsibilities. This would ensure that the auditor’s independence assessment for Investment Schemes is comprehensively addressed. However, this

approach may result in unintended consequences, such as inadvertently scoping in entities outside the CIVs/pension funds industry that do not have a typical corporate governance structure.

An alternative option is to develop a separate section specifically for independence requirements related to Investment Schemes, given the public interest issues and risks associated with these schemes. This approach would confine the relevant independence requirements for Connected Parties to CIVs/pension funds. However, it may set a precedent, as the Code should be principle-based and applicable to a wide range of circumstances, rather than being tailored to specific criteria or characteristics of a particular sector or industry. Moreover, due to the jurisdictional differences in Investment Schemes, it might be challenging to develop a definition of Connected Parties without local interpretation (see discussion below and our responses to Question 2).

Likewise, there may be other industries exhibiting similar characteristics to Investment Schemes, where the concept of a Connected Party applies but with different structures and circumstances. If the Code were to include independence requirements specific to Investment Schemes, numerous other industry-specific scenarios could also warrant consideration in both global and jurisdictional contexts.

As noted in the CP, there are jurisdictional differences in legal structures of CIVs/pension funds. A similar discussion is noted in the IESBA's previous project to revise the definitions of listed entity and public interest entity (PIE) in the Code, which noted that if post-employment benefit plans were scoped in as PIEs, necessary refinement would need to take place as part of the local adoption and implementation process. This implies an inherent lack of a universal definition for CIVs and pension funds. At a global level, these differences may complicate the establishment of principle-based independence requirements to Connected Parties. This highlights the need for jurisdiction-specific criteria, as a one-size-fits-all approach may not be suitable given the diversity of structures and regulations in different jurisdictions. This is supported by the Project Team's research findings that some jurisdictions have enacted laws, regulations or standards that include certain Connected Parties as part of the audit client, while others require auditors to be independent of certain Connected Parties (Section V of the CP).

Therefore, another option for the IESBA is to promote a practical and consistent application of the fundamental principles and conceptual framework in assessing auditor's independence in a wide range of scenarios. This could be achieved by developing targeted application materials within the Code or non-authoritative materials tailored to CIVs/pension funds or other industries. While this approach may not root out the potential inconsistencies in the independence assessment for audits of Investment Schemes, it represents a pragmatic solution given the jurisdictional differences and the limitations of the other options discussed above.

In summary, we believe that any approach taken by the IESBA should ensure that the Code remains robust, clear and relevant in addressing auditor independence.

Institute of Certified Public Accountants of Kenya (ICPAK)

No. The code definition of related entity does not capture all relevant parties.

Capturing all relevant parties is difficult due to several factors, primarily related to the complexity of relationships, organizational structures, and regulatory scope. In essence, identifying all relevant parties for an auditor's independence assessment is difficult because of:

the breadth of what constitutes a relevant party;

the depth of relationships that must be evaluated;

the dynamic nature of business structures and human behavior.

The Code's current definition of "related entity" — focused on ownership, control, or significant influence — provides a solid starting point for assessing auditor independence in collective investment vehicles (CIVs) and

pension funds. However, it overlooks several economically powerful parties whose relationships create equally serious threats to objectivity. For example, investment managers and sub-advisors, though not equity holders, make critical portfolio decisions and earn performance-based fees. Trustees, custodians, and administrators control cash flows and maintain the accounting records auditors rely on. Promoters, sponsors, and large placement agents also wield substantial influence through seed-capital arrangements or special governance rights.

Because these stakeholders can intimidate auditors or create self-interest threats — even without formal ownership ties — the definition should be broadened. We propose explicitly including key service providers (investment managers, custodians, administrators), founding and sponsoring parties (promoters, seed investors), and major investors or placement agents whose withdrawal power or fee negotiations could compromise impartiality. By capturing these relationships, the Code will better ensure that all parties capable of affecting a CIV or pension fund's financial results are considered in the auditor's independence assessment, thereby strengthening public confidence and consistency in audit quality.

Institute of Certified Public Accountants of Uganda (ICPAU)

Based on our review of the definition of the term 'Related Entities,' we come to the conclusion that the definition does not at least from a technical point of view incorporate all relevant entities sought to be considered under auditor independence for CIVs/pension funds. The approach so far adopted by different jurisdictions in as far the regulation of these entities is concerned seems to be different. In the circumstances we believe the conceptual framework currently provides sufficient guidance on the issue independence (Also see item 2.0 in Appendix II). Any attempts to widen the definition would pause a danger of creating unnecessary complexities and confusion. In Uganda for example the Uganda Retirement Benefits Regulatory Authority (URBRA), Act Cap. 232 explicitly restricts a member of a retirement benefit scheme, a trustee, custodian, administrator or fund manager from being appointed as an auditor of the scheme to which they are a member, a trustee, custodian, administrator or fund manager.

Instead, we recommend that additional guidance (and not necessarily revisions to the Code) by way of say non authoritative guidance be provided to cover Investment Schemes and their complex structures with multiple parties, including trustees, managers, advisors, and service providers. These entities may not always fall within the definitions of "related entities" as outlined in the Code. For example, third-party service providers engaged by the fund may have relationships with the auditor that could influence independence but might not be considered related entities under the current definition yet the element of control, or significant influence through direct financial interest, are fundamental in determining whether an entity should be classified as a related entity or not. These elements appear too remote when it comes to third party service arrangements in a CIVs/pension funds typical setup.

Institute of Chartered Accountants England and Wales (ICAEW)

ICAEW considers that, in the context of a complex and evolving sector, the current definition of "related entity" in the Code might not fully capture all parties that have the potential to exercise influence on these types of investment scheme.

However, the issue is not whether the definition of "related entity" is all encompassing, but rather, whether the auditors of such investment schemes are alert to any potential threats to their independence and remain independent in practice when undertaking the audit.

Independence in practice is not achieved by the existence of a catch-all definition. Rather, it is achieved by professional accountants exercising professional judgement, and putting in place adequate safeguards to mitigate or eliminate any potential threats.

As such, ICAEW does not consider it necessary or desirable to amend the definition of “related entity”.

Institute of Chartered Accountants of Jamaica (ICAJ)

Not entirely. While the IESBA Code provides a robust general definition of “related entity,” concerns remain that the definition may not fully capture all relevant parties in the unique structures of Collective Investment Vehicles (CIVs) and pension funds. These structures often involve multiple stakeholders (e.g., trustees, fund managers, administrators, sub-advisors) whose roles significantly influence financial reporting, yet may not legally qualify as “related entities.”

Key issues include the decentralized governance of CIVs/pension funds, extensive outsourcing of key functions, and the lack of sector-specific application guidance. These factors suggest that a broader or risk-based approach is necessary to ensure all influential parties are assessed for independence threats.

Institute of Chartered Accountants of Scotland (ICAS)

Whilst we believe that the Code’s definitions of “audit client” and “related entity” would not necessarily directly capture “Connected Parties” we do not believe this to be crux of the matter. Auditors are required to apply professional judgement in applying the conceptual framework to identify any threats to their independence, evaluate the level of the threat and to appropriately address these. This assessment is not limited by the boundaries of the definition of a related party. This is the approach that is currently applied and we are not aware that there is currently an issue in practice. Indeed, it can be argued that this approach ensures that appropriate consideration is given to identifying any such risks that may be present and that they are appropriately addressed.

Additionally, given their very nature, the operational structure of such entities may change in a fairly short space of time. Therefore, there is a risk that if IESBA was to impose further specific restrictions that such an approach might inadvertently have the unintended consequence of further reducing choice for CIVs and pension schemes in certain jurisdictions. To best disseminate best practice for the auditors of such entities we would encourage IESBA to consider producing non-authoritative guidance.

Institute of Singapore Chartered Accountants (ISCA)

CIVs/pension funds (referred to as “Investment Schemes”) are inherently complex with significant differences in how funds are structured across various jurisdictions. While the definition of related entity may not capture all relevant parties, we believe that proper application of the conceptual framework in Section 120 of the Code sufficiently guides the auditor to identify relevant parties of CIVs/pension funds, consider objectivity in relation to these parties, and to assess whether safeguards can be applied to reduce threats to an acceptable level.

International Federation for Accountants (IFAC)

Whilst the definition of related entity would not technically incorporate all relevant parties that would need to be considered for auditor independence for CIVs and pension funds, we would strongly oppose any revision to expand this definition. The current conceptual framework within the Code provides sufficient requirements to address independence threats in relation to related entities and other relevant parties, provided it is properly applied. Unless there is strong evidence that the conceptual framework and approaches such as threats and safeguards are not being applied well in this area, there is no underlying issue to resolve through amending the Code or expanding any definitions.

Furthermore, any adjustment to the definition of related entity may create more confusion than clarity, particularly if it leads to inconsistent interpretations across jurisdictions or among different types of investment structures. It should be remembered that this is an area where there are differences in how such entities are regulated globally, which will give rise to added complexity. Additionally, it is not clear that the definition of related entity not including all 'relevant parties' has led to actual independence failures in practice. Without a basis of evidence to suggest this is the case, it is not clear any revisions in this area will improve audit quality.

Intitut Der Wirtschaftsprüfer (IDW)

The Code's definition of related entity does not necessarily capture all parties that could be included in the auditor's independence assessment when auditing CIVs/pension funds, but we would strongly oppose any changes to expand this definition.

The current provisions strike an essential balance between including all conceivable entities that could possibly be relevant for ensuring auditor independence and the scope that is practical – both in terms of access to information about entities and their relationships and in terms of justifiable effort. This balance is differentiated in the Code based on the level of public interest in the audit client. In paragraph R400.27, all related entities are included in the understanding of the audit client for PIEs because of the heightened public interest. Other entities only include related entities to the extent that the client has direct or indirect control or when the audit team knows, or has reason to believe, that a client is relevant to the evaluations of the firm's independence from the client. This reflects a comparatively lower level of public interest than for PIEs.

The applicability of this differentiation to CIVs that issue redeemable financial instruments to the public and pension funds was the subject of the consultation on exposure draft, "Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code" (PIE ED) in 2021, on which the IDW commented, and explained that for pension funds:

"While members of the public may have a significant interest in the financial condition, and hence the audited financial statements, of an entity whose function is to provide post-employment benefits, the significant public interest in the financial condition, and hence audited financial statements, of these entities is not due to the primary business of those entities being predicated upon the public making decisions about accepting or retaining financial obligations from those entities (i.e., in this case, whether or not to be a member of such pension plan). In most cases, other parties (employers, unions, governments, etc.) make these decisions on behalf of members of the public. The audited financial statements therefore serve the accountability of those making the decisions on behalf of the public towards the specific members of the public in the respective pension plans: the audited financial statements are not used by members of the public for "investment" or "divestment" decisions."

This would also apply to CIVs that do not issue redeemable financial instruments to the public.

Furthermore, as mentioned in paragraph 2 of the current consultation paper, "...after reflecting on stakeholders' feedback on the PIE ED regarding the wide diversity in structure, governance, and size of such arrangements, the IESBA removed CIVs and PEBs from the mandatory PIE categories. This was on the grounds that including them would impose a disproportionate burden on local regulators and jurisdictional standard setters to refine those CIV and PEB categories."

We believe that the same arguments apply to an expanded or differentiated definition of related entities for CIVs and pension funds.

Beyond that, we consider that the current Code already provides proportionate requirements to address independence threats in relation to related parties and other relevant parties. In particular, the requirement in R400.27 for non-PIEs to include other related entities when the audit team knows, or has reason to believe, that a

relationship or circumstance is relevant to the evaluation of the firm's independence from the client is sufficient and proportionate for CIVs and pension funds.

We are not aware that the definition of related party not including all "relevant parties" has led to systematic independence failures in practice. Without a basis of evidence to suggest this is the case, it is not clear any revisions in this area will improve audit quality.

Japanese Institute of Chartered Accountants (JICPA)

We believe that the definition of related entities in the Code does not clearly capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds.

While the definition of related entities in the current Code is based on five types of relationship identified on the basis of the concept of "control" or "significant influence," the Code does not define "control" or "significant influence," nor does it refer to accounting standards, etc. for these concepts. If an investment scheme has an organizational or governance structure similar to a conventional corporate structure, it is possible for an audit team to appropriately determine whether a relevant party of an investment scheme is a related entity based on whether there is "control" or "significant influence" between the investment scheme and the relevant party by referring to accounting standards, etc. applied in the jurisdiction. However, for investment schemes that do not have organizational or governance structures similar to conventional corporate structures, the circumstances of investment scheme systems and their organizational structures vary by jurisdiction, and it is considered difficult to capture the relationship between the investment scheme and the relevant parties based on the concepts of "control" or "significant influence."

Korean Institute of Certified Public Accountants (KICPA)

In our views, the extant Code's definition of related entity doesn't capture all parties relevant to the auditor's independence assessment for CIVs/pension funds described in CP.

Malaysian Institute of Accountants (MIA)

In Malaysia, similar to many jurisdictions, fund management, custodial, and administrative functions are typically outsourced to external parties. While these parties may not meet the Code's criteria which is based on significant influence control or material financial interest, these parties could nonetheless exert significant influence over a Scheme's financial reporting and operations. As a result, auditors may overlook key independence threats posed by these parties unless specific guidance or mandatory inclusion criteria are provided in the Code.

The current definition of "related entity" may not sufficiently capture the full range of relevant relationships when CIVs and pension funds are considered. The IESBA could consider including clearer guidance or expanded criteria to ensure that all parties with meaningful involvement in the financial decision-making and reporting processes of CIVs and pension funds are appropriately considered.

We would, however, highlight that there is some concern that the CIV and pension fund sector may be receiving greater focus as opposed to other industries in this consultation. We believe that, to the extent practicable, further clarification from the IESBA would be helpful to explain why this sector warrants specific changes to the independence assessment framework, especially when similar independence risks may also arise in other sectors.

We find that the conceptual framework in Section 120 of the existing Code of Ethics broadly provides a principles-based approach for identifying, evaluating, and addressing threats to independence, including those that may arise from parties not formally defined as related entities. These inherent principles support the exercise of professional

judgment and may address the independence risks in complex structures such as CIVs and pension funds. As such, any new provisions should aim to build upon, rather than duplicating, this existing framework by offering practical guidance or illustrative examples that support consistent application across jurisdictions.

Pan African Federation for Accountants (PAFA)

The IESBA Code's definition of "related entity" provides a solid foundational framework for auditor independence. However, across many African jurisdictions, it does not fully capture all parties relevant to the independence assessment in audits of Collective Investment Vehicles (CIVs) and pension funds. In particular, third-party service providers—such as fund administrators, actuaries, custodians, fund managers, investment advisors, and even major shareholders who exert significant influence—are often central to decision-making and financial reporting processes. Yet these entities may fall outside the formal definition of "related entity," especially in jurisdictions with multi-entity operational structures and widespread outsourcing. As a result, there is a risk that material relationships and threats to auditor independence are not consistently identified or evaluated. A more tailored or expanded definition, that reflects functional influence and operational realities rather than solely legal or ownership-based ties, would help auditors apply the Code more effectively and consistently across African contexts.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

SOCPA believes that the definitions of 'related entity' and 'audit client' terms in the Code do not specifically cover other entities which should be part of the independence assessment in the case of investment schemes; however, the principle provided in para. R400.27 does explicitly establish to an extent a basis for the auditor to consider 'any other related entities' the audit team knows or has reason to believe that they are relevant to the assessment of the audit firm independence. This approach is consistent with the Code's conceptual framework requiring Professional Accountants in Public Practice (PAPP) to remain alert towards any threats that may hinder compliance with independence standard, exercise professional judgment and use the reasonable and informed third party test to assess and respond to such threats. However, we agree with the proposed agenda in the CP with regard to enhancing clarity around considering relationships which are relevant to investment schemes since they warrant the public interest and the nature of their business model and operations may expose auditors' independence to significant threats that should have been considered in the independence assessment.

Accordingly, we believe that the wording of the definitions of 'audit client' and 'related entities' (para. R400.27, para. R800.8, para. R601 and para. R901) worth revising, not only to capture the relationships and circumstances (e.g. connected parties) associated with investment schemes, but also to enhance clarity. Since the current definitions include differences between Public Interest Entities (PIE) and other entities, and some exceptions, they seem complicated. Thus, the proposed revision in the CP should pay attention not to introduce additional complexity for the sake of capturing other entities (e.g. connected parties) in these definitions.

South African Institute of Chartered Accountants (SAICA)

No, the current definition of "related entity" in the Code does not fully capture all relevant parties involved in the operation and oversight of CIVs and pension funds. Investment Schemes often rely on external parties such as investment managers, advisors, and custodians for critical functions that would typically be performed internally in a conventional corporate structure. These parties, while not meeting the formal criteria of control or significant influence as defined in the Code, can still exert substantial influence over the financial reporting process. Excluding them from the independence assessment creates a potential gap in safeguarding auditor objectivity and public trust.

The Malaysian Institute of Certified Public Accountants (MICPA)

We believe that the Code's definition of related entity may not fully capture all relevant parties in the context of CIVs and pension funds. These structures often involve fund managers, trustees, and administrators who, while not legally related, may still influence financial reporting.

We suggest that IESBA reconsider and expand the definition of related entity to cover a broader group of influential parties.

Wirtschaftspuferkammer (WPK)

The current definition of "related entity" which focuses on control and significant influence does not necessarily cover all parties whose involvement could be relevant in an auditor's independence assessment. This may apply to CIVs and pension funds as well as to other structures and circumstances.

However, auditors do not consider the definition of "related entity" in isolation when assessing their independence. The broader conceptual framework of the IESBA Code requires that practitioners consider all threats to independence, including those arising from entities or individuals that may not meet the formal definition of "related entity" but nevertheless exert influence on the financial statements or make key decisions for the audit client.

The threats and safeguards approach appropriately captures the nature of independence risks also in such structures. The existing principles-based provisions (e.g. the conceptual framework in Section 120) provide sufficient flexibility to cover even rare or complex cases.

No Specific Comment

Investors and Analysts

Investment Company Institute (ICI)

Refer to General Comments for response

Accounting Firms

MO Chartered Accountants Zimbabwe

Refer to General Comments for response

IFAC Member Bodies and Other Professional Accountancy Organizations

Global Accounting Alliance (GAA)

Refer to General Comments for response

Institute of Accredited Auditors for Financial Institutions (IREFI-IRAIF)

Refer to General Comments for response

Malta Institute of Accountants

We recommend against broadening the current definition of “related entity” or introducing a new concept such as “connected party.” Instead, we support the development of non-authoritative guidance which promotes consistent use of the framework.

Royal Netherland Institute of Chartered Accountants (NBA)

Refer to General Comments for response