

**Collective Investment Vehicles and Pension Funds  
Summary of Significant Comments on Consultation Paper**

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## A. Background

1. In 2021, the IESBA issued an exposure draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED), to address concerns expressed by regulators and other stakeholders regarding the inconsistent interpretation and application of the PIE definition in the Code globally. The PIE ED contained proposed mandatory PIE categories, which included collective investment vehicles (CIVs) and entities that provide post-employment benefits (PEBs).
2. 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. However, with the concurrence of the Public Interest Oversight Board (PIOB), the IESBA committed to undertake a holistic review of CIVs, PEBs and investment company complexes (ICCs)<sup>1</sup> from an auditor independence perspective, given questions regarding the application of the "related entity" concept in the [IESBA's International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) to such investment vehicles or structures.
3. As a result, the IESBA launched an initiative in 2023 to review the "related entity" definition in the Code and its applicability to audits of CIVs and pension funds (hereinafter referred to as "Investment Schemes" or "Schemes") from an independence perspective.
4. The Project Team (PT) concentrated its research on CIVs accessible to the general public and those pension funds with characteristics similar to these types of CIVs. This focus is due to the higher potential risk of financial harm these Schemes might pose to investors and the wider public in case of a financial failure, reinforcing the importance of robust, *independent* audits of such Schemes. Sophisticated investment vehicles, like private equity or hedge funds, are not included in the scope of this workstream.
5. To facilitate global stakeholder feedback on the matters under consideration, the IESBA issued the Consultation Paper (CP) [Collective Investment Vehicles and Pension Funds – Auditor Independence](#) in March 2025. Among other matters, the CP invited views on whether revisions to the Code are necessary to address the independence of auditors when they audit these Investment Schemes. Such Schemes enable investors to pool their funds and often rely on "Connected Parties" for functions that are typically managed internally in conventional corporate structures.
6. The CP highlighted relationships involving Connected Parties and focused on three key areas for respondents' input – applicability of the "related entity" definition, completeness of Connected Party criteria, and adequacy of the Code's conceptual framework when assessing threats to independence resulting from interests, relationships, or circumstances between the auditor of an Investment Scheme and Connected Parties. The CP sought views on the following questions:
  - (a) 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/pension funds?

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<sup>1</sup> The workstream's objectives include reviewing the U.S. Securities and Exchange Commission's (SEC) independence rules on ICCs. While the independence rules for ICCs are specific to the United States, the Project Team is considering whether aspects of these rules may be relevant to this workstream.

- (b) Do you believe the criteria set out in paragraph 35 of the CP are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund?
  - (c) Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties? If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?
  - (d) Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?
  - (e) Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed?
  - (f) Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation?
7. The purpose of this paper is to generate discussion with the Board at its September 2025 meeting. It provides a high-level summary of the significant comments from respondents to the CP and does not seek to identify or address every comment expressed by respondents. The paper is organized as follows:
- An analysis of the significant comments received.
  - The PT's responses to the significant comments.
  - Next steps with respect to this workstream.

## B. Demographics

8. A total of 59 comment letters were received. They represented a wide range of stakeholders and a variety of views. **Appendix 1** provides a complete list of respondents, with demographic summaries below.

Stakeholder Group	
Monitoring Group (MG) member	1
Regulator	5
Investors and Analysts	5
Independent jurisdictional standard setter (JSS)	2
Professional accountancy organization (PAO)	36
Firm	10
<b>TOTAL</b>	<b>59</b>

Respondents by Region	
Asia-Pacific	14
Europe	18
Global	13
MENA	10
North America	4
<b>TOTAL</b>	<b>59</b>

9. A breakdown of the respondents<sup>2</sup> includes:
- (a) One Monitoring Group (MG) member.<sup>3</sup>
  - (b) Two independent jurisdictional standard setters (JSS).<sup>4 5</sup>
  - (c) International Federation for Accountants (IFAC) member bodies comprised the majority of PAO respondents.<sup>6</sup>
  - (d) Eight of the 10 firms that provided comments are members of the [Forum of Firms](#) (FoF).

## C. High-Level Summary of Responses

10. Respondents unanimously underscored the public interest importance of robust, independent audits, though their views diverged on whether audits of Investment Schemes presented challenges to auditor independence that warrant the IESBA's intervention. The following key themes were identified from respondents' comments:

### *Importance of Auditor Independence*

11. Across all respondents, auditor independence was identified as central to maintaining trust in financial reporting, safeguarding investors, and reinforcing market stability. Stakeholders in the Investor group, in particular, emphasized that independence is not only a technical requirement but also a trust-enhancing safeguard against mismanagement, valuation risks, and opacity in fund governance.

### *Adequacy of the Current Framework*

12. A significant number of respondents argued that the conceptual framework in Section 120 of the Code is sufficient for identifying and addressing threats to independence, and that principles-based guidance provides the necessary flexibility across diverse jurisdictions and Scheme complexities. They cautioned against expanding the definition of "related entities" or introducing rigid definitions related to Connected Parties. They were of the view that these types of Code amendments could

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<sup>2</sup> For the abbreviations used in this paper for specific respondents, please refer to the list of respondents in the Appendix.

<sup>3</sup> **MG:** IFIAR

<sup>4</sup> Independent Jurisdictional Standard Setters do not form part of PAOs.

<sup>5</sup> **JSS:** APESB, XRB

<sup>6</sup> Some PAOs have full, partial, or shared responsibility for setting ethics standards, including independence requirements, in their jurisdictions.

reduce operability, increase complexity, or generate unintended consequences such as limiting audit firm choice, increasing costs, and creating anti-competitive outcomes.

#### *Diverging Views on “Related Entities” and Connected Parties*

13. Support for expansion: Some respondents argued that the current definitions do not fully capture key decision-makers like fund managers, advisors, or sponsors, and called for an “extended independence perimeter” to explicitly include these Connected Parties.
14. Preference for status quo: Others preferred to retain existing definitions, suggesting that additional risks can be managed through the conceptual framework and jurisdiction-specific regulation.
15. Middle ground: Many respondents suggested the issuance of non-authoritative guidance and illustrative examples to ensure consistency in application without altering the Code itself.

#### *Commonly Identified Threats*

16. Respondents highlighted recurring threats, including fee dependency, provision of non-audit services to Connected Parties, familiarity from long tenure, and financial or personal relationships between auditors and fund managers or service providers. These were seen as particularly acute given the outsourced and complex structures of CIVs and pension funds.

#### *Jurisdictional Variation*

17. A consistent theme was the diversity of regulatory environments. EU stakeholders stressed alignment with the Audit Directive and UCITS<sup>7</sup> framework, while others (e.g., from South Africa, Australia and the U.S.) pointed to existing local independence regimes that already extend to CIVs and pension funds. Many urged the IESBA to avoid duplicating or conflicting with established national requirements.
18. Overall, respondents agreed that auditor independence in CIVs and pension funds is a matter of high public interest, but they were divided on the need for Code amendments. Some favored clarity in the Code, whereas many others advocated for retaining the flexible conceptual framework, supplemented by practical guidance. The prevailing recommendation across respondent groups was to enhance consistency and understanding through non-authoritative guidance, illustrative case studies, and other resources, rather than revisions to the Code.

### **I. General Comments Received**

19. Many respondents expressed a strong preference for retaining the current principles-based approach.<sup>8</sup> The respondents were of the view that this model provides the necessary flexibility to apply the Code across jurisdictions, especially given the unique structures of Investment Schemes. They noted that the existing conceptual framework is already robust, applied consistently, and

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<sup>7</sup> Undertakings for Collective Investment in Transferrable Securities (UCITS) is a regulatory framework established by the European Union (EU) to govern mutual funds and investment instruments across the EU. These funds provide investors with a diversified portfolio under strict regulatory oversight, making them appealing to both individual and institutional investors seeking cross-border opportunities in Europe.

<sup>8</sup> **Investors:** EFAMA **JSS:** XRB; **PAOs:** AE, CAI, CPAC, GAA, HKICPA, IRE; **Firms:** BDO, DTTL, FM, KPMG

effective in practice.<sup>9</sup> A number of respondents<sup>10</sup> specifically indicated that no amendments to the Code should be made. Several respondents argued that attempts to modify definitions risked creating fragmentation, operational burdens, competitive disadvantages, and confusion.<sup>11</sup> Moreover, many respondents questioned whether a genuine issue exists: they were not aware of systemic failures in audits that would warrant such changes, nor did they view auditor independence with respect to audits of investment schemes as being under immediate threat.<sup>12</sup>

20. Even though a number of respondents<sup>13</sup> supported the enhancement of auditor independence related to audits of Investment Schemes, some expressed concerns about any potential proposals to revise the Code. One such theme was that the anticipated benefits did not appear to justify the costs. A few emphasized the importance of conducting a cost-benefit or fact-based impact analysis to demonstrate the practical consequences of implementation.<sup>14</sup> The respondents wished to understand the real costs involved before supporting any changes.
21. Many respondents suggested that, rather than revising the Code itself, the IESBA should consider issuing non-authoritative materials,<sup>15</sup> such as bulletins or staff guidance. They felt that this would allow the profession more time for reflection and would better support consistent application of the existing Code, without introducing unnecessary disruption. Many respondents<sup>16</sup> also stressed that regulatory decisions should be left to local authorities, since jurisdictions have varying legal and regulatory frameworks that are already tailored to their circumstances.
22. A number of stakeholders pointed out that CIV and pension fund industries are already subject to extensive regulation within their respective jurisdictions, which they felt was sufficient.<sup>17</sup>
23. Some respondents were concerned that making the Code more prescriptive would increase complexity and require frequent adaptations, undermining stability. Instead, they argued for a period of pause, giving practitioners and audit firms the opportunity to embed and operationalize recent changes.<sup>18</sup> Some other respondents were of the view that auditor independence is best preserved not by definitions, but through the careful and consistent exercise of professional judgment.<sup>19</sup>

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<sup>9</sup> **PAOs:** AE, ACCA, CAI, CNCC, CPA Aus, GAA, HKICPA, ICAEW, ICAS, IFAC, IRE, IDW, Malta IA, NBA, WPK; **Firms:** BDO, DTTL, EY, FM, GTIL, KPMG

<sup>10</sup> **Investors:** EFAMA; **PAO:** AE, CA ANZ, CAI, CPA Aus, ICAEW, ICAS, IFAC, NBA **Firms:** DTLL, EY, FM

<sup>11</sup> **Investors:** EFAMA **PAO:** CAI, CPAC, GAA, ICAEW, GAA **Firms:** BDO, EY, FM, KPMG

<sup>12</sup> **Investors:** ICI **Firms:** BDO, DTTL, EY, GTIL, KPMG, FM, PP; **PAOs:** AICPA, CAI, CNCC, GAA, ICAEW, IDW, IFAC, IREFI-IRAIF, WPK

<sup>13</sup> **Investor:** BF, ICI; **JSS:** APESB, XRB; **PAO:** CNCC, SOCPA, **Firm:** MU

<sup>14</sup> **PAO:** IFAC; **Firms:** EY

<sup>15</sup> **MG:** IFIAR; **Regulators:** IRBA, UK FRC; **Investors:** BF; **JSS:** XRB; **PAOs:** ACCA, AE, CA ANZ, CPA Aus, GAA, ICAEW, ICPAU, IFAC, IRE, JICPA, Malta IA, WPK; **Firms:** BDO, DTTL, FM, RSM

<sup>16</sup> **Investor:** EFAMA, ICI; **JSS:** APESB, XRB, **PAO:** CA ANZ, CAI, CPACC, CNCC, GAA, ICAEW, IDW, IRE, Malta IA, PICPA, **Firms:** DTTL, GTIL, KPMG, PwC

<sup>17</sup> Refer to footnote 10

<sup>18</sup> **PAO:** GAA, ICAEW, IFAC, WPK **Firms:** DTTL, FM

<sup>19</sup> **MG:** IFIAR; **Regulator:** UK FRC **PAO:** CAI, ICAEW **Firms:** FM, MU

## II. Responses To Specific Questions

### ***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/pension funds?***

***Please provide reasons for your response.***

24. One of the objectives of the PT, as set out in the [Terms of Reference](#) for this workstream, is to explore CIVs and pension fund arrangements and their relationships with Connected Parties to determine whether the application of the “related entity” definition<sup>20</sup> in the Code remains fit for purpose. Question 1 sought to gather insight into stakeholders’ views about the coverage of the definition and whether there may be gaps.
25. Responses to Question 1 were as follows (see **Agenda Item 4-B.1** for details):
- (a) 15 respondents (26%) agreed that the definition captured all relevant parties, and provided comments explaining the reasons for their responses;
  - (b) 38 respondents (64%) felt the definition did not capture all relevant parties, and provided comments explaining the reasons for their responses; and
  - (c) 6 respondents did not submit a response to Q1 – 10%.
26. The responses generated three main themes:
- (a) Amendments are not necessary – The existing principles-based definition, when combined with the application of the Conceptual Framework and local regulations, provide sufficient guidance for auditors to identify and assess Connected Parties to determine whether there may be independence threats with respect to audits of CIVs and pension funds.
  - (b) Guidance would enhance consistent application of the Code – The “related entity” definition is sufficient but there may be inconsistencies in the application of the definition and the Conceptual Framework resulting from the complexity of the relationships and the auditor’s professional judgment.
  - (c) Expanded or clarified coverage – The scope of the “related entity” definition does not capture operationally important parties that materially influence Scheme outcomes, such as fund managers, investment advisors, and others.
27. A summary of the comments is provided below.

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<sup>20</sup> The Code defines a 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 direct financial interest that gives it significant influence over such entity and the interest in 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.

## Respondents' Comments

28. There was general agreement among a number of respondents that the definition of “related entity” is sufficiently broad to include key parties that should be included in an auditor’s independence assessment when auditing CIVs and pension funds.<sup>21</sup> When applied in conjunction with the conceptual framework, respondents were of the view that the related entity definition captures all relevant parties who materially influence Investment Schemes.<sup>22</sup> Several respondents<sup>23</sup> supported a principles-based assessment of independence threats.
29. Several respondents were of the view that the definition, in conjunction with jurisdictional requirements, capture all relevant parties, adding that amendments to the definition of “related entity” are not considered necessary.<sup>24</sup> Some respondents added that local regulators and standard setters are best placed to provide additional guidance, if necessary.<sup>25</sup>
30. Many other respondents,<sup>26</sup> including an MG member,<sup>27</sup> acknowledged that the current definition may not fully encompass all relevant relationships that could give rise to significant threats to auditor independence. Some shared the view that the definition may not capture relationships with Connected Parties where control or significant influence may be present by virtue of contractual arrangements or by performing key management functions, without holding a financial interest. They were of the view that these relationships could still pose significant threats to auditor independence.

## Other Comments Received

31. Several respondents<sup>28</sup> highlighted that including a new term (Connected Parties) for a narrow use case or extending to other parties could increase complexity in understanding the Code, lead to potential unintended consequences or restrict the entity’s ability to source an audit firm.
32. Some respondents<sup>29</sup> indicated that any additional guidance from the IESBA would cause confusion due to local requirements that already exist as it could impose the same rules in an undifferentiated manner.
33. Others encouraged the IESBA to develop non-authoritative guidance to promote the consistent application of the “related entity” definition and conceptual framework.<sup>30</sup> A few suggested guidance

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<sup>21</sup> **Investors:** ALFI, EFAMA, **Firms:** DTTL, FM, GTIL, KPMG, PP; **PAOs:** AICPA, Assirevi, CAI, CNCC, IRE, ICAG, ICAP, PICPA

<sup>22</sup> **Investor:** EFAMA; **Firms:** BDO, EY, FM, PwC; **PAOs:** AE, ACCA, AICPA, Assirevi, CA ANZ, CACR, CAI, CPAC, HKICPA, ICPAU, IFAC, IRE, ICAS, ISCA, PICPA, MIA, SOCPA, WPK

<sup>23</sup> **Regulators:** IRBA, UK FRC; **Investors:** ALFI, EFAMA; **PAOs:** ACCA, CPAC, HKIPCA, CAI, MIA, WPK

<sup>24</sup> **Investor:** ALFI, EFAMA; **Firms:** DTTL, FM, PwC; **PAO:** AICPA, CAI, HKICPA

<sup>25</sup> **PAO:** AE, AICPA, CA ANZ, IDW; **Firm:** DTTL, KPMG

<sup>26</sup> **Regulators:** BAOA, HAASOB, IRBA, NASBA, UK FRC; **Investors:** BF, IAM; **JSS:** APESB, XRB; **Firms:** BDO, EY, RSM; **PAOs:** ACCA, AE, AFA, CA ANZ, CACR, CPA Australia, HKICPA, ICAEW, ICAJ, ICPAK, ICPAU, IDW, IFAC, ISCA, JICPA, KICPA, MIA, MICPA, PAFA, SAICA, SOCPA, WPK

<sup>27</sup> **MG:** IFIAR

<sup>28</sup> **Investor:** ALFI; **Firm:** KPMG; **PAOs:** AE, Assirevi, CNCC, HKICPA, ICAS, ICPAU; CAI, IFAC

<sup>29</sup> **PAOs:** AE, AICPA, Assirevi, PICPA

<sup>30</sup> **Regulator:** HAASOB; **JSS:** APESB (Australian stakeholders’ views); **Investors:** IAM; **PAOs:** AE, HKICPA, ICPAU, ICAS, Malta IA, MAI; **Firms:** BDO, PwC



with reference to specific accounting standard/framework that is applied and how control is determined.<sup>31</sup>

34. Several other respondents encouraged the IESBA to either broaden the scope of the “related entity” definition or introduce explicit criteria to recognize Connected Parties to ensure consistent application.<sup>32</sup>
35. A few other respondents highlighted that the issue is not whether the definition of “related entity” is all encompassing, but rather whether auditors are alert to any potential threats to their independence and remain independent in practice when undertaking an Investment Scheme audit.<sup>33</sup>

### PT’s Preliminary Analysis of Comments

36. The wide diversity of views from respondents to this question indicates that there is a lack of agreement about whether the Code’s definition of related entity captures all relevant parties that should be included in the auditor’s independence assessment when auditing Investment Schemes. Differences of views exist not only between categories of respondents (e.g., regulators vs firms) but also within categories of respondents (e.g., investors, firms and PAOs).
37. This wide diversity of views suggests that, even before any in-depth analysis of the responses is carried out, it may be potentially challenging for the IESBA to achieve broad support for revisions to key concepts and definitions in the Code to address independence considerations relating to audits of Schemes that engage Connected Parties. In particular, while a substantial body of respondents, including regulatory respondents, are of the view that the related entity definition does not, or may not necessarily, capture all relevant parties to a Scheme, a significant number of respondents believe otherwise.
38. Given the significant differences of views among respondents on Q1, the PT felt that it would be premature to attempt to develop a pathway forward without preliminary IESBA consideration of, and reactions to, the significant comments from respondents. Accordingly, the PT felt that it would be more useful to present the following key arguments or suggestions from respondents for the Board’s reflection and comment (for illustrative purposes, the footnotes indicate a few respondents who raised the arguments or suggestions; other respondents also raised similar arguments or suggestions):

#	Respondents’ Key Arguments/Suggestions
1.	<ul style="list-style-type: none"> <li>The related entity definition captures all relevant parties; concepts of control and significant influence remain appropriate.<sup>34</sup></li> </ul>
2.	<ul style="list-style-type: none"> <li>Local bodies are best positioned to provide additional guidance, if necessary, within their local environments.<sup>35</sup></li> </ul>

<sup>31</sup> **Regulator:** IRBA; **Firm:** RSM

<sup>32</sup> **Firm:** RSM; **PAOs:** AFA, CPAK, MIA, MICPA, PAFA, SOCPA

<sup>33</sup> **PAOs:** ICAEW, ICAS

<sup>34</sup> E.g., DTTL, KPMG

<sup>35</sup> E.g., DTTL, KPMG

#	Respondents' Key Arguments/Suggestions
3.	<ul style="list-style-type: none"> <li>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.<sup>36</sup></li> </ul>
4.	<ul style="list-style-type: none"> <li>CIVs 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, e.g., “owners management companies” typically employ a range of external service providers for property maintenance, property management, etc.<sup>37</sup></li> <li>Additionally, no definition of CIVs/Pension funds is provided in the CP.</li> </ul>
5.	<ul style="list-style-type: none"> <li>The Code recognizes 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.<sup>38</sup></li> </ul>
6.	<ul style="list-style-type: none"> <li>The Code’s principles-based framework recognizes 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.<sup>39</sup></li> <li>However, the related entity definition 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.</li> </ul>
7.	<ul style="list-style-type: none"> <li>The related entity 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.<sup>40</sup></li> </ul>
8.	<ul style="list-style-type: none"> <li>In some jurisdictions, the local ethical requirements 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.’<sup>41</sup></li> </ul>
9.	<ul style="list-style-type: none"> <li>The conceptual framework will guide the auditor to identify threats in relation to Connected Parties, given that paragraph 120.6 A1 notes that “An understanding of the facts and circumstances, including any professional activities, interests and relationships that might</li> </ul>

<sup>36</sup> E.g., CAI, KPMG

<sup>37</sup> E.g., CAI, CPAC, HKICPA

<sup>38</sup> E.g., IFIAR

<sup>39</sup> E.g., BDO, UK FRC

<sup>40</sup> E.g., IRBA

<sup>41</sup> E.g., BDO, EY

#	Respondents' Key Arguments/Suggestions
	<p>compromise compliance with the fundamental principles, is a prerequisite to the [professional accountant's] identification of threats to such compliance.”<sup>42</sup></p> <ul style="list-style-type: none"> <li>• This sufficiently guides a professional accountant to consider professional activities, interests and relationships with entities within the Connected Party concept.</li> </ul>
10.	<ul style="list-style-type: none"> <li>• An acknowledgment that relevant interests and relationships with certain “connected parties” (which are not related entities) should be included in the assessment of independence.<sup>43</sup></li> <li>• A view that enhancing clarity through non-authoritative guidance or additional application material could offer more precision, but also a 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.</li> </ul>

39. The PT welcomes the Board’s reflections on, or reactions to, the above key arguments or suggestions from respondents.

***Question 2 – Do you believe the criteria set out above are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund? Please provide reasons for your response.***

#### Overview of responses

40. Questions 2-5 pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme is one that meets the criteria set out in paragraph 35 of the CP, i.e., the Connected Party is:
- (a) Responsible for the Scheme’s decision making and operations;
  - (b) Able to substantially affect the Scheme’s financial performance; or
  - (c) In a position to exert significant influence over the preparation of the Scheme’s accounting records or financial statements.
41. Although the term “Connected Party” and criteria for Connected Parties were primarily to establish a common understanding of the types of entities that were the focus of the CP, the PT was interested in gaining feedback on whether the specified criteria adequately reflected the types of parties that could operationally influence Investment Schemes, and present potential independence threats for auditors.
42. Responses to Question 2 were as follows (see separate NVivo report in **Agenda Item 4-B.2** for details):
- (a) 32 respondents agreed with further comments – 53%;
  - (b) 20 respondents disagreed with further comments – 35%; and
  - (c) 7 respondents had no specific comment – 12%.

<sup>42</sup> E.g., EY

<sup>43</sup> E.g., PwC

43. The following specific comments were received relating to Question 2 of the CP.

### Respondents' Comments

44. The MG member<sup>44</sup> and many respondents<sup>45</sup> agreed that the criteria referred to in the CP are relevant and appropriate, capturing those parties to be considered from an auditor independence perspective. Even though the criteria were deemed to be appropriate, several respondents<sup>46</sup> highlighted their view that the conceptual framework and current application of the Code are sufficient in guiding auditors in identifying, evaluating and addressing threats to independence.
45. The MG member and several other respondents<sup>47</sup> highlighted that the application of broad principles may prove challenging due to jurisdictional differences as it might not be possible to refine criteria to the extent to promote consistent application. Some respondents also indicated that their local jurisdiction already applies to some extent the criteria set out in the CP to identify Connected Parties.<sup>48</sup>
46. A significant number of respondents,<sup>49</sup> however, did not believe the criteria to be appropriate for the following reasons:
- (a) The additional criteria were considered to be vague, which could lead to unintended consequences, unnecessary administrative burden and increased costs without improved audit quality.<sup>50</sup>
  - (b) The new concept of Connected Parties may create additional complexity and even lead to inconsistent application, especially across jurisdictions.<sup>51</sup>
  - (c) Due to complexity and diversity in legal structures in different countries, these structures can be better addressed by local legislation and regulation if special rules are deemed necessary.<sup>52</sup>
47. Some respondents<sup>53</sup> specifically indicated that they do not believe a definition of Connected Party should be added to the Code, while a few others<sup>54</sup> specifically indicated that they were supportive of including a definition in the Code.

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<sup>44</sup> **MG:** IFIAR

<sup>45</sup> **Regulators:** BAOA, HAASOB, IRBA, NASBA, UK FRC; **Investors:** BF, EFAMA, IAM; **JSS:** APESB, XRB; **PAOs:** AFA, CACR, CPAC, HKICPA, ICAG, ICAJ, ICPAK, ICPAU, IFAC, IRE, JICPA, KICPA, MIA, MICPA, SOCPA, SAICA, MICPA, WPK; **Firms:** BDO, FM PP, RSM

<sup>46</sup> **Investor:** EFAMA; **PAOs:** Asserivi, CACR, CAI, IFAC, WPK; **Firms:** DTTL, EY

<sup>47</sup> **Regulator:** UK FRC; **PAO:** Asserivi, CAI, HKICPA, IFAC, MIA; **Firm:** EY

<sup>48</sup> **PAO:** AICPA, CNCC, CPAC, HKICPA, IRE

<sup>49</sup> **PAO:** ACCA, AE, AICPA, Asserivi, CAANZ, CAAus, CAI, CNCC, ICAEW, ICAP ICAS, IDW, ISCA, Malta IA, PAFA, PICPA, **Firms:** DTTL, EY, KMPG, PwC

<sup>50</sup> **PAO:** Asserivi, AICPA, CAANZ, CAI, ICPAU, IDW **Firm:** DTTL

<sup>51</sup> **MG:** IFIAR **Regulator:** UK FRC **PAO:** CIA, CAANZ, ICAS, IDW, ISCA, IRE

<sup>52</sup> **PAO:** AE, CAAus, WPK

<sup>53</sup> **PAO:** CAANZ, CACR, CPAC, WPK **Firms:** FM, KPMG

<sup>54</sup> **Investor:** BF **JSS:** APESB (Australian stakeholders' views) **PAO:** ICAG

### *Potential Gaps Identified*

48. A few respondents flagged the following potential gaps with respect to the criteria:
- The treatment of indirect relationships where parties may exert significant influence over the Investment Scheme's financial decisions without being formally classified as Connected Parties.<sup>55</sup>
  - The criteria do not explicitly address financial dependency between the auditor and the Connected Party;<sup>56</sup> and
  - There is a need to address ongoing monitoring as the role or influence of certain parties may change over time.<sup>57</sup>
49. Certain respondents provided feedback regarding the criteria outlined in paragraph 35 of the CP:
- (a) *Criterion A: Be responsible for the decision-making and operation of the Scheme*
- The criterion should be clarified and focused on the magnitude and impact of decision-making, with precise definitions to avoid ambiguity or loopholes, ensuring that only roles with inherent significant influence are captured.<sup>58</sup>
- (b) *Criterion B: Able to substantially affect its financial performance*
- The use of qualitative terms such as “substantially” and “significantly” may lead to inconsistent interpretations without additional guidance.<sup>59</sup>
- (c) *Criterion C: In a position to exert significant influence over the preparation of its accounting records or financial statements.*
- Criterion might inadvertently capture entities and relationships that were not intended to be scoped in.<sup>60</sup>
  - Identifying and monitoring such influence will be difficult due to the inherent complexity of entities.<sup>61</sup>

### *Other Comments Received*

50. The MG member<sup>62</sup> and a few other respondents<sup>63</sup> noted that there appeared to be an overlap between the proposed definition of Connected Parties and entities already defined as “related entities” as per the Code.

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<sup>55</sup> **Investor:** IAM **PAO:** ICAP

<sup>56</sup> **PAO:** ICAP

<sup>57</sup> **PAO:** MIA

<sup>58</sup> **Firms:** KPMG, RSM, PwC

<sup>59</sup> **MG:** IFIAR; **Regulator:** UK FRC **JSS:** XRB **PAO:** AFA, AIPCA, ISCA, MIA, **Firm:** BDO, RSM, KPMG

<sup>60</sup> **JSS:** APESB, XRB; **PAO:** AIPCA, CA ANZ, ISCA **Firms:** KPMG

<sup>61</sup> **Firm:** KPMG

<sup>62</sup> **MG:** IFIAR

<sup>63</sup> **Regulator:** UK FRC; **PAO:** ICOA

51. The MG member and a regulatory respondent encouraged targeted amendments to the existing definition of “related entity”, supported by additional illustrative examples.<sup>64</sup>
52. Several respondents<sup>65</sup> highlighted the need for additional guidance and illustrative examples to ensure consistent application and understanding across jurisdictions. Examples suggested include:
- Clear guidance on what constitutes the responsibility for decision-making.
  - Clarification on whether Connected Parties refer to individuals within an entity or the entity as a whole.
  - Clear definitions and guidance for terms such as “substantially affect” and “exerting significant influence.”

### PT’s Preliminary Analysis of Comments

53. Although there was a significant level of agreement that the Connected Party criteria may capture additional parties that would not be captured by the “related entity” definition, many respondents felt that adding a term for an industry-specific matter is not necessary. Also, key arguments and suggestions raised in relation to this question mirror those in Questions 1 and 3, including support for a principles-based approach and recognition of potential inconsistencies in application that could be addressed by the IESBA in various ways to enhance consistency.
54. The PT believes that whether to pursue the concept of Connected Party and further develop and refine the scoping criteria set out in paragraph 35 of the CP will depend on the Board’s consideration of respondents’ comments and suggestions to Question 1.

***Question 3 – Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties?***

***If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?***

***Please provide reasons for your response.***

### Overview of Responses

55. Responses to Question 3 were as follows (see separate NVivo report in **Agenda Item 4-B.3** for details):
- (a) 39 respondents agreed with comments – 66%;
  - (b) 13 respondents disagreed with comments – 22%; and
  - (c) 7 respondents did not have a specific response – 12%.
56. The following specific comments were received relating to Question 3 of the CP.

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<sup>64</sup> **MG:** IFIAR; **Regulator:** UK FRC

<sup>65</sup> **Regulators:** IRBA, NASBA; **JSS:** APESB (Australian stakeholders’ views); **PAO:** AFA, CA Aus, ICAJ, ICPAU, IFAC, KICPA, PAFA **Firm:** FM, KPMG

## Respondents' Comments

57. A substantial body of respondents<sup>66</sup> agreed that the conceptual framework is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the Investment Schemes and Connected Parties. Several respondents supported this view due to the emphasis in the application of the conceptual framework on having an inquiring mindset, exercising professional judgment and using the reasonable informed third part test.<sup>67</sup> However, several other respondents felt that, given that Investment Scheme arrangements may be complex, the consistent identification of Connected Parties and assessment of threats to independence among different auditors might be challenging.<sup>68</sup>
58. Several respondents expressed concern that the conceptual framework does not offer adequate clarity for identifying, evaluating, and addressing threats to auditor independence related to Connected Parties of Investment Schemes. They were of the view that although the conceptual framework is robust, it lacks specific guidance on applying its principles to Connected Parties, which may result in inconsistent interpretation and application across audit firms.<sup>69</sup>
59. A few respondents<sup>70</sup> noted due to the significant variation globally in how Investment Schemes are governed, structured, operated and managed, together with local regulation, it would be difficult to develop requirements and definitions to be fit for purpose and applied consistently.
60. Many respondents<sup>71</sup> suggested the development of non-authoritative guidance to assist in the application of the conceptual framework as it relates to Connected Parties and how auditors should assess indirect relationships to enhance consistent application. Some, however, were of the view that no guidance or clarification was needed.<sup>72</sup>
61. Other proposed guidance or amendments suggested include:
- (a) Prescribing explicit safeguards whenever auditors face significant threats with respect to Connected Parties and defining clear threshold criteria to determine when influence merits inclusion in the independence assessment.<sup>73</sup>
  - (b) Precise definitions of Connected Parties, illustrative scenarios describing how threats arise, and practical guidance on evaluating and responding to the threats.<sup>74</sup>

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<sup>66</sup> **Investors:** EFAMA, IAM; **Regulators:** BAOA, CARC, HAASOB, NASBA, UK FRC; **JSS:** APESB (Australian stakeholders' views), XRB; **Firms:** BDO, DTTL, EY, FM, GTIL, KPMG, PP, PwC; **PAO:** ACCA, AICPA, Assirevi, CAI, CNCC, CPA Australia, CA ANZ, CPAC, HKICPA, ICPAK, ICPAU, ICAEW, ICAG, ICAS, IDW, IFAC, IRE, ISCA, JICPA, Malta IA, PAFA, PICPA, SOCPA, WPK

<sup>67</sup> **MG:** IFIAR; **Regulator:** IRBA; **PAO:** CAI, CPA Australia, ICPAK, ICPAU, SOCPA; **Firms:** PwC

<sup>68</sup> **MG:** IFIAR; **Regulators:** BAOA, IRBA, UK FRC **PAO:** ICAJ, ICAP, ICPAK, ICPAU, MIA, PAFA, SOCPA

<sup>69</sup> **Investor:** BF; **Regulator:** IRBA; **JSS:** APESB **Firm:** RSM **PAO:** AFA, PAFA, SAICA, MICPA

<sup>70</sup> **Investor:** EFAMA; **Regulator:** UK FRC; **PAO:** Asserivi

<sup>71</sup> **Investors:** BF, IAM; **Regulators:** BAOA, IRBA, NASBA; **JSS:** APESB (Australian stakeholders' views), XRB; **Firms:** BDO, DTTL, EY, FM, GTIL, PP, PwC **PAOs:** ACCA, AFA, CA ANZ, CNCC, ICAJ, ICPAK, IFAC, JICPA, KICPA, Malta IA, MIA, MICPA, SAICA, SOCPA

<sup>72</sup> **PAO:** Asserivi, CAI, IRE, ICAEW, IDW **Firms:** FM

<sup>73</sup> **Regulator:** IRBA **PAO:** ICPAK

<sup>74</sup> **PAO:** ICPAU

- (c) Illustrative examples, red flags, threats to independence and explanatory notes in the Code to assist auditors in evaluating whether certain interests, relationships or circumstances pose any threats to the auditor's independence.<sup>75</sup>

#### *Other Comments*

62. A respondent<sup>76</sup> highlighted that even though non-authoritative material could be valuable, the IESBA should focus its resources on post-implementation reviews of recently issued standards.
63. Another respondent<sup>77</sup> further encouraged the IESBA to develop non-authoritative material in collaboration with practitioners who are working in this space.
64. Some respondents<sup>78</sup> were supportive of including a definition of Connected Parties in the Code to provide a clear indication that Connected Parties should be part of the auditor's independence consideration and to ensure a consistent approach to independence in the audits of Investments Schemes.

#### **PT's Preliminary Analysis of Comments**

65. A large body of respondents felt that the conceptual framework is sufficiently clear for identifying, evaluating and addressing threats to independence. They emphasized the conceptual framework's emphasis on having an inquiring mind, exercising professional judgment, and using the reasonable information third-party test as essential tools for auditors to navigate complex Scheme relationships and structures globally. However, several respondents highlighted that the complexity of investment schemes and jurisdictional variations may pose challenges in consistently applying the conceptual framework. They stressed the need for definitions and practical application guidance that is flexible yet clear.
66. The conceptual framework sets out requirements and application material to assist PAs in complying with the fundamental principles and, where applicable, to be independent. The requirements and application material accommodate a wide range of facts and circumstances, including the various activities, interests, and relationships that create threats to compliance with the fundamental principles.<sup>79</sup> However, some respondents noted that the exercise of professional judgment in complex situations may contribute to inconsistencies in application.
67. Notwithstanding, a significant number of respondents have expressed support for the development of guidance in terms of how to enhance the application of the conceptual framework when assessing independence threats associated with auditing Investment Schemes that engage Connected Parties.
68. The PT has not at this time explored how such guidance might be developed and where it might be located, pending initial Board consideration of the feedback received on the other questions in the CP.

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<sup>75</sup> **PAO:** ICAG

<sup>76</sup> **Firm:** KPMG

<sup>77</sup> **Firm:** PwC

<sup>78</sup> **JSS:** APESB, XRB **Firm:** RSM **PAO:** ICAP

<sup>79</sup> Paragraph 120.1



**Question 4 – Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund? Please provide reasons for your response.**

### Overview of Responses

69. Responses to Question 4 were as follows (see separate NVivo report in **Agenda Item 4-B.4** for details):
- (a) 27 respondents agreed with comments – 46%;
  - (b) 17 respondents disagreed with comments – 29%;
  - (c) 6 respondents indicated that they were not able to respond to the question – 10%; and
  - (d) 9 respondents did not have a specific response – 15%;
70. The following specific comments were received relating to Question 4 of the CP.

### Respondents' Comments

71. Many respondents<sup>80</sup> believed that the conceptual framework is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing Investment Schemes.
72. Several respondents<sup>81</sup> commented that applicable laws and regulations, existing jurisdictional independence requirements and interpretation, and unique Investment Scheme structures will be relevant to how the conceptual framework is applied to Investment Schemes in a particular jurisdiction.
73. To enhance consistent application, many respondents<sup>82</sup> encouraged the IESBA to provide practical implementation guidance and/or support where the conceptual framework's flexibility may lead to varied interpretations. A respondent<sup>83</sup> was of the view that there is a need for more specific language and definitions to ensure the consistent application of the conceptual framework.
74. Many respondents<sup>84</sup> commented that there may be instances of inconsistent application. Reasons respondents offered for the inconsistent application of the conceptual framework include the emphasis it places on professional judgement, the level of complexity involved in the structure of these Schemes, and how the conceptual framework is interpreted across firms and different jurisdictions.
75. Some respondents<sup>85</sup> indicated that they were unable to provide a response.

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<sup>80</sup> **Investors:** EFAMA; **Regulator:** HAASOB **JSS:** APESB, XRB **Firms:** DTTL, EY, FM, GTIL, PP, PwC **PAO:** AE, AICPA, Assirevi, CAANZ, CAI, CNCC, CPAC, ICAEW, ICAG, ICAP, ICAS, IFAC, IRE, JICPA, MICPA, PICPA, WP

<sup>81</sup> **Investor:** EFAMA, **JSS:** APESB, XRB; **Firm:** DTTL, FM; **PAO:** AE, AICPA, IFAC, IRE

<sup>82</sup> **Regulator:** UK FRC **Firms:** BDO **PAO:** AE, AFA, ICAEW, ICAJ, ICAP, ICPAU, IFAC, IRE, JICPA, Malta IA, MIA, PAFA, SOCPA

<sup>83</sup> **Firm:** RSM

<sup>84</sup> **MG:** IFIAR **Investors:** BF, IAM **Regulators:** IRBA, UK FRC **Firms:** BDO, KPMG, RSM **PAO:** AFA, ICAEW, ICAJ, ICPAK, ICPAU, ISCA, MIA, PAFA, SAICA, SOCPA

<sup>85</sup> **Regulator:** NASBA **PAO:** ACCA, CACR, CPA Australia, HKICPA, IDW

76. Some other respondents<sup>86</sup> suggested that the IESBA could consider allowing flexibility for jurisdictions with evolving regulatory environments while maintaining core principles of auditor independence.

#### *Other Comments*

77. A respondent encouraged the IESBA to conduct a robust cost-benefit analysis prior to proposing revisions to the Code.<sup>87</sup>
78. Another respondent<sup>88</sup> commented that, given the varied adoption of the Code around the world, it is difficult to claim that the Code is consistently applied in practice in all jurisdictions. Different jurisdictional requirements around Investment Schemes might give rise to different local interpretations.

#### **PT's Preliminary Analysis of Comments**

79. A significant number of respondents indicated that they believed the conceptual framework is applied consistently in practice in relation to Connected Parties when auditing Investment Schemes. However, many other respondents also acknowledged perceptions of variability in the application of the conceptual framework in this area due to jurisdictional differences, the need to exercise professional judgment and the complexity of Investment Schemes. Some respondents encouraged the development of guidance to assist auditors.
80. As in relation to Q3, the PT has not at this time explored how guidance might be developed regarding the application of the conceptual framework to audits of Investment Schemes, pending initial Board consideration of the feedback received on the other questions in the CP.

**Question 5 – Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed? Please provide reasons for your response.**

#### **Overview of Responses**

81. Responses to Question 5 were as follows (see separate NVivo report in **Agenda Item 4-B.5** for details):
- (a) 22 respondents agreed with further comments – 37%;
  - (b) 10 respondents disagreed – 17%;
  - (c) 18 respondents disagreed with further comments – 31%; and
  - (d) 9 respondents did not have a specific response – 15%.
82. The following specific comments were received relating to Question 5 of the CP.

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<sup>86</sup> **Investor:** IAM **Regulator:** UK FRC **Firms:** KPMG **PAO:** HKIPCA, ICAEW, ISCA

<sup>87</sup> **Firm:** EY

<sup>88</sup> **Firm:** FM

## Respondents' Comments

83. Many respondents<sup>89</sup> agreed that there are certain interests, relationships, or circumstances between the auditor of an Investment Scheme and its Connected Parties that would pose threats to independence and may benefit from being explicitly addressed. Examples suggested include:

- Any direct or material indirect financial interest held by the audit firm, network firm, audit team member or closely associated persons in an Investment Scheme or Connected Party.<sup>90</sup>
- Self-interest threat associated with fee dependency on the Investment Scheme or its Connected Parties.<sup>91</sup>
- Providing non-audit services<sup>92</sup> to Connected Parties might create self-review or advocacy threats.
- Having longstanding relationships<sup>93</sup> with audit clients that are Connected Parties can create a familiarity threat.
- Close personal relationships between audit team members and individuals in decision-making roles within Connected Parties, or former employment relationships where individuals move between the audit firm and Connected Parties.<sup>94</sup>
- Business relationships between the audit firm and Investment Scheme or Connected Parties.<sup>95</sup>

Some respondents noted that, in practice, the application of the conceptual framework may not always lead to consistent conclusions.<sup>96</sup>

84. Many respondents<sup>97</sup> indicated that there were no specific interests, relationships, or circumstances between the auditor of an Investment Scheme and its Connected Parties that need to be addressed. The following reasons were provided:

- Interests, relationships or circumstances between the auditor of an Investment Scheme and Connected Parties are already appropriately addressed under the conceptual framework.<sup>98</sup>
- Local authorities are uniquely positioned to offer necessary clarifications or furnish further guidance as required, given their deeper understanding of the local environment.<sup>99</sup>

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<sup>89</sup> **MG:** IFIAR; **Regulator:** BAOB, HAASOB, IRBA, NASBA, UK FRC **Investors:** BF, IAM; **JSS:** XRB; **PAO:** ADA, ICAJ, ICAG, ICPAK, ICPAU, MIA, PAFA SAICA, SOCPA **Firms:** BDO, KPMG, PwC, RSM

<sup>90</sup> **MG:** IFIAR **Regulator:** IRBA, UK FRC **PAO:** ICPAK, PAFA, SAICA, SOCPA **Firm:** BDO

<sup>91</sup> **MG:** IFIAR; **Regulator:** IRBA, NASBA; **Investor:** BF; **PAO:** ICAJ, ICPAK

<sup>92</sup> **MG:** IFIAR; **Regulator:** BAOA, IRBA, UK FRC; **Investor:** BF, IAM, **JSS:** XRB; **PAO:** AFA, ICPAK, ICPAU, PAFA, SAICA, SOCPA; **Firms:** BDO, PwC

<sup>93</sup> **MG:** IFIAR; **Regulator:** IRBA, UK FRC; **Investor:** BF

<sup>94</sup> **PAO:** AFA, ICAJ, ICPAK, PAFA, SAICA, SOCPA; **Firm:** BDO

<sup>95</sup> **PAO:** AFA, ICAJ, PAFA

<sup>96</sup> **MG:** IFIAR **Regulator:** UK FRC; **Firm:** FM

<sup>97</sup> **JSS:** APESB **Investor:** EFAMA; **PAO:** ACCA, AE, AICPA, Asserivi, CA ANZ, CACR, CAI, CNCC, CPAC, ICAEW, ICAP, ICAS, IDW, IFAC, IRE, ISCA, JICPA, KICPA, Malta IA, MICPA, PICPA, WPK; **Firms:** DTTL, EY, FM, GTIL

<sup>98</sup> **Investor:** EFAMA; **JSS:** APESB; **PAO:** AE, AICPA, Asserivi, CA ANZ, CAI, CPAC, CNCC, ICAEW, WPK

<sup>99</sup> **JSS:** APESB **PAO:** AE, AICPA, Asserivi, CPAC **Firms:** PwC, RSM

### Other Comments

85. Several respondents<sup>100</sup> encouraged the IESBA to develop non-authoritative material such illustrative examples that may support the consistent application of the conceptual framework when evaluating relationships with Connected Parties. A few other respondents<sup>101</sup> suggested that the Code should incorporate guidance for identifying, evaluating, and addressing threats arising from complex relationships, to provide clarity and support uniform practices worldwide.
86. A respondent suggested that in addition to clarification with regards to the relationships associated with Investment Schemes, reference should be made for auditors to consider relevant legal requirements which may specify certain relationships as threatening auditors' independence when auditing investment schemes.<sup>102</sup>

### PT's Preliminary Analysis of Comments

87. Key circumstances highlighted by respondents related to an auditor's assessment of independence when auditing an Investment Scheme that engages a Connected Party include the provision of non-assurance services to Connected Parties, as well as financial or business relationships with Connected Parties. Many respondents felt that the Code is sufficient to capture these threats, while others preferred explicit examples or prohibitions. There was support for preserving the Code's principles-based approach on NAS, financial interests, and business relationships in the Investment Scheme context, with recommendations to strengthen examples.
88. The PT broadly agrees with respondents that the independence principles in the Code should capture interests, relationships and circumstances involving Connected Parties. Based on the responses to this question, respondents have not raised specific interests, relationships or circumstances involving Connected Parties that should be addressed by the independence principles in the Code.

**Question 6 – Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details.**

### Overview of Responses

89. Responses to Question 6 were as follows (see separate NVivo report in Agenda Item 4-B.6 for details):
- (a) 34 respondents indicated that their jurisdiction has specific requirements – 59%;
  - (b) 8 respondents indicated that their jurisdiction did not have specific requirements – 14%; and
  - (c) 16 respondents did not have a specific response – 27%.

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<sup>100</sup> **MG:** IFIAR; **Regulator:** UK FRC; **PAO:** AFA, CPAC **Firms:** FM, KPMG, PwC

<sup>101</sup> **PAO:** ICPAU, PAFA **Firm:** RSM

<sup>102</sup> **PAO:** SOCPA

## Respondents' Comments

90. A large number of respondents<sup>103</sup> (86%<sup>104</sup>) indicated that their jurisdictions have requirements or guidance specific to Investments Schemes from an auditor independence perspective.
91. Types of requirements or guidance highlighted include the following:
- Jurisdictional ethical code includes:
    - Investment Schemes as public interest entities (PIEs) per specific legislation.<sup>105</sup>
    - Concept of “other entities of public interest” which include Investment Schemes.<sup>106</sup>
    - Certain Connected Parties are considered as “related entities” to an audit client.<sup>107</sup>
    - Specific provisions to be alert to threats in general in order to respond appropriately.<sup>108</sup>
  - Industry-specific legislation or regulation.<sup>109</sup>
  - Well-established practices.<sup>110</sup>

## Other Comments

92. Some respondents<sup>111</sup> considered that the existing principles and guidance in the Code are adequate and appropriate as a principles-based approach allows for the necessary flexibility to address auditor independence.
93. Some other respondents felt that local jurisdictions are best placed to address any concerns that might arise at national level.<sup>112</sup>

## PT's Preliminary Analysis of Comments

94. There is variation in the ways jurisdictions have dealt with audits of Investment Schemes; however, many respondents were of the view that local bodies are best placed to address independence concerns that might arise at a national level. This echoes views expressed in response to earlier questions in the CP, including Question 1.

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<sup>103</sup> **Regulator:** IRBA, NASBA, UK FRC **Investors:** ALFI, EFAMA, IAM **JSS:** APESB, XRB; **PAO:** AICPA, AFA, Asserivi, CA ANZ, CACR, CA Aus, CAI, CNCC, CPAC, ICAJ, ICAP, ICPAK, ICPAU, IDW, ISCA, HKICPA, JICPA, MIA, PAFA, PICPA, SAICA, SOCPA, WPK **Firm:** PP

<sup>104</sup> Of 44 respondents, 38 indicated they have jurisdictional requirements or guidance in place relating to Investment Schemes from an auditor independence perspective.

<sup>105</sup> **Regulator:** IRBA **Investors:** EFAMA **JSS:** APESB, XRB; **PAO:** CACR, CAI, CPAC, ICPAU, ISCA, SAICA **Firm:** PP

<sup>106</sup> **Regulator:** UK FRC

<sup>107</sup> **Regulator:** NASBA; **PAO:** AICPA, PICPA

<sup>108</sup> **Regulator:** UK FRC **JSS:** APESB; **Firm:** PP

<sup>109</sup> **Regulator:** IRBA, NASBA **Investors:** ALFI, EFAMA, IAM **JSS:** APESB, XRB; **PAO:** AICPA, AFA, Asserivi, CA ANZ, CA Aus, CAI, CNCC, CPAC, ICAJ, ICAP, ICPAK, ICPAU, IDW, ISCA, HKICPA, MIA, PAFA, PICPA, SAICA, SOCPA, WPK **Firm:** PP

<sup>110</sup> **PAO:** JICPA

<sup>111</sup> **PAO:** AICPA, CAI, ICAG, IRE

<sup>112</sup> **PAO:** AE, AICPA, IFAC, Malta IA

## **D. For Preliminary IESBA Discussion**

95. The PT has analyzed the significant comments from respondents and identified, on a preliminary basis, four potential responses for the IESBA to consider with respect to auditor independence when auditing Investment Schemes that engage Connected Parties. These potential responses reflect the diverse perspectives of respondents and address the key themes from the significant comments. IESBA members are invited to share their views on the comments received and the following potential responses.
- (a) No amendments to the Code but commission non-authoritative material – A large body of stakeholders found the Code adequate. However, many respondents recognized merit in additional guidance to address the complexities of the Scheme structures and the jurisdictional variations. They indicated support for guidance materials that provide clarity when applying the conceptual framework, which would enhance professional judgment, help auditors navigate complex Scheme arrangements, and ensure consistent outcomes when assessing independence for audits of Investment Schemes.
  - (b) Include application material in the Code – Some stakeholders emphasized the need for clearer guidance in, and clarification of, certain Code sections, noting that ambiguity in the application of the conceptual framework and engagement complexities might lead auditors to overlook potential issues unless specifically addressed in the Code. Without explicit guidance, some believe there is a risk that inconsistent approaches could undermine audit quality.
  - (c) Substantively revise the Code – A small percentage of respondents expressed support for amending the “related entity” definition in the Code or adding a new definition of a Connected Party to articulate that Connected Parties should be considered in auditor independence assessments.
  - (d) Maintain the status quo, i.e., no revisions to the Code and no issuance of non-authoritative material – On the opposite end of the spectrum, a significant number of respondents were of the view that revisions of the Code or the issuance of non-authoritative material is unnecessary, noting the lack of evidence to support the need for amendments to the Code and the potential for unintentional consequences.

## **E. Next Steps**

96. At the December 2025 IESBA meeting, the PT will present its final report and recommendations to the Board, taking into consideration the Board’s initial reflections on respondents’ significant comments on the CP at this meeting.

## Appendix

### List of Respondents to IESBA CIVs and Pension Fund Consultation Paper

**Note:** Members of the Monitoring Group are shown in bold below.

#	Abbrev.	Respondent	Region
<b>Regulators and Oversight Authorities, Including MG members (7)</b>			
1.	BAOA	Botswana Accountancy Oversight Authority	MEA
2.	HAASOB	Hellenic Accounting and Auditing Standards Oversight Board	Europe
3.	IRBA	Independent Regulatory Board for Auditors, South Africa	MEA
4.	<b>IFIAR</b>	<b>International Forum of Independent Audit Regulators</b>	<b>Global</b>
5.	NASBA	National Association of State Boards of Accountancy (US)	NA
6.	UKFRC	United Kingdom Financial Reporting Council	Europe
<b>Investors and Analysts (4)</b>			
7.	ALFI	Association of the Luxembourg Fund Industry	Europe
8.	BF	Better Finance	Europe
9.	EFAMA	European Fund and Asset Management Association	Europe
10.	ICI	Investment Company Institute	Global
11.	IAM	Impax Asset Management	AP
<b>Independent<sup>113</sup> Jurisdictional Standard Setters (2)</b>			
12.	APESB	Accounting Professional & Ethical Standards Board (Australia)	AP
13.	XRB	New Zealand Auditing & Assurance Standards Board	AP
<b>Firms (10)<sup>114</sup></b>			
14.	BDO*	BDO International Limited	Global

<sup>113</sup> JSS that have a mandate to set jurisdictional ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as “Independent Jurisdictional Standard Setters.”

The IESBA has a liaison relationship with a group of JSS (both independent JSS and organizations that hold dual JSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, South Africa, Saudi Arabia, the United Kingdom, and the United States of America

<sup>114</sup> Forum of Firms members are indicated with a \*. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to, and promote the consistent application of, high-quality audit practices worldwide. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics.

#	Abbrev.	Respondent	Region
15.	DTTL*	Deloitte Touche Tohmatsu Limited	Global
16.	EY*	Ernst & Young Global Limited	Global
17.	FM*	Forvis Mazars Limited	Global
18.	GTIL*	Grant Thornton International Limited	Global
19.	KPMG*	KPMG IFRG Limited	Global
20.	MU	Muhammad Umar - Mo Chartered Accountants	MEA
21.	PP	Pitcher Partners	AP
22.	PwC*	PricewaterhouseCoopers International Limited	Global
23.	RSM*	RSM International Limited	Global
<b>IFAC Member Bodies and Other Professional Accountancy Organizations (PAOs)<sup>115</sup></b>			
24.	ACCA <sup>δ</sup>	Association of Chartered Certified Accountants	Global
25.	AE	Accountancy Europe	Europe
26.	AICPA <sup>δ</sup>	American Institute of Certified Public Accountants' Professional Ethics Executive Committee	NA
27.	AFA	ASEAN Federation of Accountants	AP
28.	ASSIREVI	Association of Italian Audit firms	Europe
29.	CAANZ <sup>δ</sup>	Chartered Accountants Australia and New Zealand	AP
30.	CACR <sup>δ</sup>	The Chamber of Auditors of the Czech Republic	Europe
31.	CAI	Chartered Accountants Ireland	Europe
32.	CNCC	Compagnie Nationale des Commissaires aux Comptes	Europe
33.	CPAA	CPA Australia	AP
34.	CPAC <sup>δ</sup>	Chartered Professional Accountants Canada, Public Trust Committee	NA
35.	GAA	Global Accounting Alliance	Global
36.	HKICPA <sup>δ</sup>	Hong Kong Institute of Certified Public Accountants	AP
37.	ICAEW <sup>δ</sup>	Institute of Chartered Accountants in England and Wales	Europe
38.	ICAG	Institute of Chartered Accountants Ghana	MEA
39.	ICAJ	Institute of Chartered Accountants of Jamaica	MEA

<sup>115</sup> For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial, or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions are indicated with a “δ.”



#	Abbrev.	Respondent	Region
40.	ICAP	Institute of Chartered Accountants of Pakistan	AP
41.	ICAS <sup>δ</sup>	The Institute of Chartered Accountants of Scotland	Europe
42.	ICPAK	Institute of Certified Public Accountants of Kenya	MEA
43.	ICPAU	Institute of Certified Public Accountants of Uganda	MEA
44.	IDW <sup>δ</sup>	Institut der Wirtschaftsprüfer (Germany)	Europe
45.	IFAC	International Federation for Accountants	Global
46.	IRE	Institut des Reviseurs d'Entreprises (Luxembourg)	Europe
47.	IREFI-IRAIF	Instituut van de Bedrijfsrevisoren – Institut des Reviseurs d'Entreprises (Belgium)	Europe
48.	ISCA <sup>δ</sup>	Institute of Singapore Chartered Accountants	AP
49.	JICPA <sup>δ</sup>	Japanese Institute of Certified Public Accountants	AP
50.	KICPA	Korean Institute of Certified Public Accountants	AP
51.	MALTA IA	Malta Institute of Accountants	Europe
52.	MIA	Malaysian Institute of Accountants	AP
53.	MICPA	Malaysian Institute of Certified Public Accountants	AP
54.	NBA	Royal Netherlands Institute of Chartered Accountants	Europe
55.	PAFA	Pan-African Federation of Accountants	MEA
56.	PICPA	Pennsylvania Institute of Certified Public Accountants	NA
57.	SAICA	South African Institute of Chartered Accountants	MEA
58.	SOCPA	Saudi Organization for Chartered and Professional Accountants	MEA
59.	WPK <sup>δ</sup>	Wirtschaftsprüferkammer (Germany)	Europe