

CIVs and Pension Funds

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 or pension fund? Please provide reasons for your response.

Agree With Comments

Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

We believe that the criteria support the capture of Connected Parties which should be included in the auditor's independence assessment when auditing a CIV or pension fund. The criteria highlight the role and influence that Connected Parties can have on CIVs and pension funds, which is critical for a thorough independence assessment.

The criteria encompass entities responsible for decision-making, those able to substantially affect the financial performance of the CIV or pension fund, and those in a position to exert significant influence over the preparation of accounting records or financial statements. These criteria support the identification of parties which should be included in the independence assessment as they have significant responsibilities related to the Investment Scheme's policies and operations, rather than administrative or standardised support services.

However, the application of broad principles in a range of jurisdictions may prove challenging and it may not be possible to refine criteria enough to promote consistent application as the structure of CIVs may vary significantly from one jurisdiction to another. The use of qualitative terms such as "substantially" and "significantly" may lead to inconsistent interpretations. For example, what does it mean to "substantially" affect its financial performance and how will this be measured? Similarly, how will the exertion of "significant" influence over the preparation of accounting records be measured in the absence of a financial interest?

While we understand the rationale for the introduction of the new concept of Connected Parties, we recognise that this may create additional complexity. There appears to be overlap between the proposed definition of Connected Parties and entities that would already qualify as related entities under the current Code. Introducing a new term may lead to inconsistent application, especially across jurisdictions. Targeted amendments to the existing definition of "related entity" supported by additional illustrative examples could achieve the same objective.

Investors and Analysts

Better Finance (BF)

Yes, the three criteria listed—(a) decision-making responsibility, (b) substantial impact on financial performance, and (c) influence over financial reporting—are appropriate and aligned with investor concerns. These capture the essence of what investors would consider to be "operationally influential" parties.

Investors are less concerned about formal corporate control and more focused on who has the power to affect the fund's returns, risks, and disclosures. The entities meeting these criteria can shape fund outcomes as much, if not more than traditional related entities. Therefore, their inclusion in independence assessments is essential to maintain confidence in the integrity of financial reporting. However, these criteria must be consistently applied and

clearly interpreted to avoid ambiguity. Investors support IESBA in codifying these criteria as part of an expanded definition of related entities or as a separate category of “Connected Parties subject to independence provisions.”

European Fund and Asset Management Association (EFAMA)

Yes. For EFAMA, the new criteria or application material to capture Connected Parties should not be added because we believe the Conceptual Framework and the existing framework is sufficient in guiding the auditors to identify, evaluate and address threats to independence created by professional services, interests and relationships with Connected Parties and therefore we do not believe the criteria set out in the Consultation Paper are necessary for assessing auditor independence with respect to audits of CIVs and Pension Funds.

Impax Asset Management

Yes, the criteria outlined in paragraph 35 are appropriate and sufficient to capture Connected Parties. The three key factors—decision-making authority, financial performance influence and control over financial reporting—effectively define the scope of parties that could impact auditor independence.

However, one potential gap is the treatment of indirect relationships, such as entities that provide advisory services but do not have direct control over financial statements. According to the US Securities and Exchange Commission (SEC) independence rules for Investment Company Complexes (ICCs), investment advisors or fund administrators may exert significant influence over the Scheme’s financial decisions without being formally classified as Connected Parties. The IESBA may consider clarifying whether such entities should be explicitly included in independence assessments.

Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority (BAOA)

Yes we do we believe that the criteria set out is 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 as outlined below:

‘A’ speaks to being responsible for decision making and operations. We believe that this criterion is appropriate, however not sufficient. We feel the criteria should have been broadened to speak to the magnitude/impact of the decision making because not every decision that a connected party would make would be material or impact the dynamics of the CIV/Pension fund.

We agree with the criteria set out at ‘B’ and ‘C’ are appropriate and sufficient as they capture the main areas of influence that could affect auditor independence.

Financial Reporting Council (UK FRC)

We consider that the proposed criteria are, in principle, appropriate and directionally helpful in identifying Connected Parties that should be considered in the auditor’s independence assessment in relation to the audit of a collective investment vehicle (CIV) or pension fund. The criteria appropriately reflect the potential for such parties to influence the governance, operations, and financial reporting of these entities—factors that are central to a robust independence evaluation.

The inclusion of entities involved in decision-making, those capable of materially affecting the financial performance of the CIV or pension fund, and those with influence over the preparation of financial statements is particularly relevant to protect the public interest. These criteria help distinguish parties with substantive roles in shaping the investment scheme's policies and operations from those providing standardised or administrative services, who may not pose the same level of independence risk.

However, we note that the application of broad principles across jurisdictions may present practical challenges, and it may not be possible to refine criteria enough to promote consistent application, given the significant diversity in CIV structures globally. The use of qualitative descriptors such as “substantially” and “significantly” introduces a degree of subjectivity that may lead to inconsistent interpretation and application, particularly in the absence of clear guidance or benchmarks. For instance, what constitutes a “substantial” impact on financial performance, or how “significant” influence over financial reporting is measured in the absence of a financial interest, may differ considerably in practice.

While we understand the rationale for the introduction of the new concept of Connected Parties, we are mindful that this may introduce additional and unnecessary complexity to the Code. There appears to be a degree of conceptual overlap between the proposed definition of Connected Parties and the existing definition of related entities. Introducing a new term may lead to inconsistent application, especially across jurisdictions. Rather than introducing a new term, we believe that the intended objectives could be more effectively achieved through targeted enhancements to the current definition of “related entity,” supported by additional guidance and illustrative examples to aid consistent application across jurisdictions.

Hellenic Accounting and Auditing Standards Oversight Board (HAASOB)

Yes, the above criteria are suitable and there could be an additional criteria taking in consideration the previous answer which could be to “Influence the success or failure of the fund.”

Independent Regulatory Board for Auditors (IRBA)

Overall, we believe that the criteria, as outlined in paragraph 35, are appropriate and relevant for identifying the connected parties that are to be included in the auditor's independence assessment when auditing a CIV or pension fund. These criteria address key roles that could compromise an auditor's objectivity, integrity or professional scepticism, if relationships or services exist between the auditor and these connected parties.

However, additional guidance is necessary to ensure consistent application and understanding across different jurisdictions and audit firms.

Clear guidelines on what constitutes responsibility for decision-making are essential, especially in cases where mandates are tight and decision-making authority is limited. Examples to illustrate the practical application of this criterion would be beneficial.

Clarification is needed on whether the connected parties being considered for auditor independence refer to individuals within an entity or the entity as a whole. For instance, if the employees of an administrator serve on a pension fund's board of trustees, it should be clear whether the connected party is the individual trustee or the entire administrative entity.

Clearer definitions and detailed guidance or examples are needed for terms such as “substantially affect” and “exerting significant influence”. Without precise definitions and detailed guidance or examples, these terms are open to interpretation, which could lead to inconsistent application.

The practical implications of these criteria should be considered. If, for example, multiple asset managers are involved in a CIV, it would need to be clarified how auditors are to assess the independence threats posed by each manager.

Thus, while the proposed criteria are a good starting point, they require further refinement, guidance and illustrative examples to ensure they are applied consistently and effectively. This will help auditors identify and address independence threats in a manner that is both practical and aligned with the principles of the Code.

National Association of State Boards of Accountancy (NASBA)

NASBA believes that 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. NASBA recommends including additional guidance or examples of those parties that are in a position to exert significant influence over the preparation of its accounting records and financial statements, particularly if the intention is to include those service providers such as actuaries and valuation firms.

Jurisdictional Standard Setters

Accounting Professional & Ethical Standards Board (APESB)

APESB supports the establishment of a criteria or a definition of 'Connected Parties' for inclusion in the IESBA Code, however, we have some concerns with the proposals outlined in the consultation paper.

The term 'Connected Party' is quite broad and does not indicate the importance of the relationship. We are concerned that it could imply a wider cohort of entities and relationships should be considered in independence assessments, and we wonder whether further clarification on the connection is required. APESB suggests that the IESBA Project Team consider changing the term to 'Connected Parties responsible for Management or Governance' or another term that better reflects the types of parties that need to be considered.

We would encourage the IESBA Project Team to reflect on the criteria specified in the consultation paper for the term 'Connected Party'. We are supportive of the inclusion of limbs (a) and (b); however, we are concerned about limb (c) and whether it will inadvertently capture entities and relationships that it did not intend to be within its scope.

Stakeholder views

Stakeholders raised concerns about the breadth of the suggested criteria for connected parties, with many noting that limb (c) could encompass IT service providers and bookkeeping functions that may not be involved in management and governance functions.

Some stakeholders believed that the criteria for a connected party should be set out in Non-Authoritative Material (NAM) rather than being added to the Code. However, a couple of stakeholders supported including the term as a definition in the IESBA Code. The definition would provide the 'anchor' or connection within the Code upon which further guidance material can be developed.

New Zealand External Reporting Board (XRB)

We support encouraging auditors to consider connected parties. While clarification of who connected parties are could aid consistent application of the principles of the Code, we have a concern that these criteria may be too broad, given our unique New Zealand structures.

We agree with (a) if a connected entity is responsible for decision making and operations then it should be included in the assessment of independence. In New Zealand this would be the MIS Manager. The MIS and MIS manager (in respect of the financial statements of the MIS they manage) are included in the New Zealand Public Interest Entity (PIE) definition and are subject to the PIE independence requirements under PES 1.

We agree with (b) that a party that is able to substantially affect the financial performance of an entity should be included in the assessment of independence. We have an open question as to whether this definition may capture the supervisor role, that may be unique to New Zealand, that we describe above and whether it is intended to do this, as this role is primarily fiduciary in nature. We encourage the IESBA to consider additional guidance in this area to clarify what is meant by substantially affect the financial performance so that the relevant parties are identified and that is not applied to more parties than intended.

We agree with the intent of (c) but question whether the wording may be too broad and may extend to or capture service organisations that may be used to carry out functions for the investment schemes including preparing financial statements or maintaining accounting records on behalf of MIS. These organisations are being used for their GAAP knowledge rather than making decisions on behalf of the MIS. These may be considered as service organisations under ISA (NZ) 402 or ISAE (NZ) 3402.

We encourage the IESBA to consider further refinement and consultation to ensure that only intended parties meet the definition of connected parties.

Accounting Firms

BDO International (BDO)

Relationships with Connected Parties in some circumstances can impact the independence of the audit firm. For example, non-assurance services provided to the fund entered into via an agreement with a connected party, such as the investment manager or administrator. Based on the criteria above, the relationship with the connected party would meet one or more of the descriptions and we view them as sufficient. However, the important point here is that the criteria should help identify relationships that may impact independence, not just to identify the connected parties themselves.

In terms of the appropriateness of the criteria, adopting independence concepts already in use and applying them within a narrow context such as CIVs/pension funds would need careful framing. Without this, it may lead to a catch all situation where every connected party is at risk of being perceived as meeting one, or more, of the criteria, when in reality the risk is nominal. Providing further guidance on what it means to ‘substantially affect’ the financial performance or what the threshold is for exerting ‘significant influence’ on accounting records or financial statements would help in this regard.

Forvis Mazars

These criteria may be appropriate for consideration in any non-authoritative guidance provided by IESBA, but we do not believe that they, or a definition of “connected party”, are suitable for inclusion in the Code provisions as they do not necessarily incorporate the differences which arise through jurisdictional requirements and structures.

Pitcher Partners

The principles outlines in the criteria of para 35 would be sufficient to capture Connected Parties, again given the absence of identified issues refer 1 above.

RSM International (RSM)

The criteria set out above for capturing Connected Parties in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund appear to be a sufficient and appropriate initial list. However, we have identified several aspects that warrant further examination to help clarify the criteria.

The concepts of decision making and operations are already integrated into non-audit services prohibitions. This is an important consideration, as it highlights the existing framework that addresses these aspects. An example may be an asset manager making managerial decisions and maintaining books and records, which could lead to auditing financial statements prepared by the same firm. This example illustrates the potential issues that could arise if the criteria are not carefully defined

We believe the wording, ‘decision making and operations’, may be unclear and may create a loophole, for example, if an entity is responsible for decision making, but not operations. Decision making involves overall control, while operations could be routine tasks or activities without decision-making authority. Accordingly, we propose changing it to ‘decision making and or operations’ or separating it into two separate criteria to avoid potential exploitation of the criteria as it aims to close any gaps that could be used to circumvent the rules.

We also noted that ‘operations’ is not defined in the IESBA Code of Ethics. Clear definitions are necessary to avoid unintended consequences. In addition, the term ‘routine and mechanical’ used in the Consultation Paper does not appear in the IESBA Code of Ethics and has been replaced by ‘administrative services’. It is unclear if these terms are intended to mean the same thing. If ‘operations’ is only considered to be performing activities without including decision making, there is a possibility that a self-interest threat may exist if a Connected Party performs those activities. Separating decision making and operations would be appropriate to address the risk of self-interest to maintain auditor independence and prevent any overlap that could compromise the integrity of the audit.

We also acknowledge that changing ‘decision making and operations’ to ‘decision making or operations’ may unintentionally increase the number of Connected Parties. This is a valid concern, and it is essential that IESBA weigh the pros and cons of such a change to ensure the criteria are effective and comprehensive and clarify which parties with some kind of connection with the auditor would be considered Connected Parties in the instance where the party only performs tasks or activities without being able to make managerial decisions to limit the potential number of connect parties. The distinction between decision making and operations is vital to ensure that the criteria accurately capture the relevant parties.

We believe it is unclear what is meant by ‘substantially’ in (b) in the criteria to be considered a Connected Party. We recommend adding application material to the listed criteria to include a description of what is intended to be meant by ‘substantially affect its financial performance’.

We also recommend that IESBA consider different governance structures and other potential unintended consequences, using examples to explain why separation is necessary, to avoid unforeseen complications.

While the criteria set out are a good starting point, we believe it is necessary to think through all potential scenarios and make adjustments where needed to ensure they are appropriate and sufficient to capture Connected Parties in relation to the assessment of auditor independence for a CIV/pension fund.

IFAC Member Bodies and Other Professional Accountancy Organizations

ASEAN Federation of Accountants (AFA)

We agree that the proposed criteria—namely, where a Connected Party (a) is responsible for decision-making and operations, (b) can substantially affect financial performance, or (c) has significant influence over financial reporting—are relevant and broadly appropriate.

These criteria reflect the structure of many Investment Schemes in ASEAN, where external parties undertake roles traditionally performed by management. We note that terms such as “substantially affect” and “significant influence” may be subject to interpretation and inconsistently applied.

We recommend that the IESBA support these criteria with additional guidance, including threshold indicators and illustrative examples. This would facilitate consistent application across jurisdictions, particularly in countries with differing regulatory expectations and governance models for investment schemes and pension funds.

Chamber of Auditors Czech Republic (CACR)

We believe that the criteria set out above can help assess threats to independence in the case of CIV/pension fund. However, these criteria must be assessed in conjunction with principles set out in the conceptual framework of the Code. We do not believe that the definition of the Connected parties should be added to the Code.

Chartered Professional Accountants Canada (CPA Canada)

The ISC agrees with stakeholders consulted with who say that the IESBA's criteria are appropriate and sufficient factors to consider in capturing Connected Parties. In fact, firms in Canada report that their monitoring systems and quality management processes to identify and address threats to independence include mutual fund and pension plan service providers if they meet the criteria identified by IESBA. Stakeholders were not able to identify any additional criteria.

While the ISC agrees that the criteria set out are factors to consider in relation to the assessment of auditor independence from any audit client, the ISC also thinks that it is clear in Canada that such factors are already being monitored in relation to the audit of CIVs and pension funds through application of the conceptual framework. Therefore, the ISC recommends that the IESBA consider identifying these criteria as factors in non-authoritative material, for firms to consider in applying R400.19, rather than establishing a narrow definition of a Connected Party for CIVs and pension funds that may need to be further refined by local jurisdictions.

Hong Kong Institute of Certified Public Accountants (HKICPA)

We generally agree with the criteria for a Connected Party set out in paragraph 35 of the CP regarding the audit of a CIV/pension fund, which is in line with section 5 of the Hong Kong SFC Code on Unit Trusts and Mutual Funds (UT Code) that auditors must be independent of the management company and trustee/custodian and, in case of a mutual fund corporation, the directors (see our responses to Question 6).

However, any definition established by the Code will apply to all jurisdictions that adopt the IESBA Code. Given the jurisdictional differences, any definition of Connected Parties in the context of Investment Schemes might require local interpretation.

Institut des réviseurs d'entreprises in Luxembourg (IRE)

Response 2 – The criteria outlined for identifying Connected Parties are comprehensively reflected through the current application of the Code. These criteria are inherently considered, ensuring auditor independence without necessitating further defined relations for Collective Investment Vehicles (CIVs) or pension funds. Introducing additional definitions might lead to unintended applications, compromising the flexibility required to assess specific regulatory environments or contractual arrangements under which funds operate.

The consultation's understanding of "CIVs open to the general public" should reflect investment schemes that directly allow public subscription, excluding indirect means like life insurance investments.

It is crucial to understand the roles and responsibilities within a fund's management structure, distinguishing between principals and agents. Agents, appointed by the fund's board, engage in client-supplier relationships reflecting typical business arrangements.

In Luxembourg, the CIV environment is robustly safeguarded by:

Regulatory Framework: Segregation mandates between the CIV, management company, and custodian bank ensure that the CIV's board remains distinct from management or custodian duties.

Supervision: CIVs offered publicly are under regulatory oversight by Luxembourg authorities, enhancing investor protection.

Governance Structure: The detailed internal governance framework, including the three-lines-of-defense model, provides critical information about how integrity and separation of duties are maintained. Third-party service providers are appointed on an arm's length basis and may be replaced in the way any service provider can be replaced. This supports the idea that existing structures already provide comprehensive checks and balances.

Extending definitions to encompass Connected Parties may lead to inconsistencies, especially when considering subcontractor or outsourcing arrangements beyond fund contexts. For instance, outsourced accounting firms for corporate entities aren't deemed relevant in audit independence assessments, nor would entities with shared service providers.

Luxembourg Contextual Observations:

(a) Responsible for its decision making and operations:

Those charged with governance (board) hold decision-making and appoint Management Companies to oversee operations, guided by stringent regulatory mandates preventing conflicts via asset safekeeping and duty segregation.

(b) Able to substantially affect its financial performance:

Luxembourg's laws have embedded additional related party considerations alongside conventional corporate structures. Third-party service providers operate within established boundaries, often undertaking tasks under strict legal stipulations. These third party service providers are, however, not decision makers and hence they do not affect the financial performance of the CIV.

Prudence dictated by regulatory frameworks such as UCITS and AIFMD emphasizes investor protection, ensuring no single entity can substantially influence a fund's financial outcomes.

(c) In a position to exert significant influence over the preparation of its accounting records or financial statements:

The ability to exert significant influence over the preparation of the accounting records of financial statements lies with those that are responsible for decision making and operations (point (a) above). In contrast, third-party service providers tasked with outsourced functions under strict regulatory frameworks, such as UCITS and AIFMD, do not

possess the ability to significantly influence the preparation of accounting records or financial statements. For instance, fund administrators are often hired to assist in the preparation of financial statements, engaging primarily in routine and mechanical tasks.

Conclusively, introducing additional criteria is not deemed necessary for evaluating parties relevant to auditor independence concerning CIVs or pension funds within Luxembourg.

Institute of Certified Public Accountants of Kenya (ICPAK)

We believe the criteria set out are appropriate but may not be sufficient to capture connected parties. This is in consideration to the difficulties as highlighted in question 1 above.

To address these gaps, the Code could be supplemented with a “catch-all” provision requiring auditors to consider any party that (i) provides critical data or decision-support services, (ii) participates in material non-audit services, or (iii) holds contractual governance or veto rights, even if none of the three existing criteria strictly applies. This would ensure all economically or informationally powerful relationships are evaluated for independence threats, thereby reinforcing the robustness and public confidence in CIV and pension-fund audits.

Institute of Chartered Accountants Ghana (ICAG)

We believe that the criteria set out 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. However, IESBA should provide illustrative examples, red flags, threats to independence and explanatory notes in the Code that should provide greater clarity on requirements for auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and Connected Parties pose any threats to the auditor's independence when conducting the audit of an Investment Scheme.

Institute of Chartered Accountants of Jamaica (ICAJ)

The Code's definition of a related entity, as currently drafted, does not comprehensively capture all Connected Parties relevant in the context of a CIV or pension fund. Where a Connected Party meets the criteria in paragraph 35 (such as being responsible for decision making, substantially affecting financial performance, or influencing financial reporting) there are heightened risks to independence that may not be adequately addressed under the existing related entity framework. Additional clarity or supplementary guidance would be beneficial to ensure that such parties are appropriately considered in independence assessments.

Institute of Chartered Accountants of Pakistan (ICAP)

We agree that the investment Schemes do not employ their own staff; instead, they rely on other parties to provide functions or services for the Schemes that management or employees would provide in a conventional corporate structure. As a result, it is usual for an Investment Scheme to engage other parties, such as an asset management company or investment advisor to carry out vital functions. The same practice follows in Pakistan.

The current criteria appear to focus primarily on direct influence over operations, performance, or financial reporting. However, in complex CIV or pension fund structures, indirect influence can also create independence threats that may not be captured by the existing wording.

In addition, the criteria do not explicitly address financial dependence between the auditor and the Connected Party. A commercial arrangement between the auditor and the entity could give rise to a self-interest threat. The

absence of a reference to economic relationships may result in such threats being overlooked, even when the Connected Party does not exercise direct control over decision-making or financial reporting.

We accordingly agree to include specific independence provisions for audits of Investment Schemes, to provide greater clarity on requirements for auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and Connected Parties pose any threats to the auditor's independence when conducting the audit of an Investment Scheme.

We accordingly suggest to provide additional guidance or illustrative examples where such interests, relationships or circumstances exist with respect to investment schemes that pose a threat to the auditor's independence. We believe that it would serve the public interest and promote consistent application of the Code's principles.

International Federation for Accountants (IFAC)

Gaining an understanding of situations where third parties warrant further attention is appropriate, and the three areas identified appear directionally appropriate. However, these areas are very broad and open to subjective interpretation. If these were included within the Code, practical difficulties would arise, including in scoping and documentation, especially where roles and responsibilities are shared across multiple entities or change over time.

In the absence of identified independence failures in relation to such 'Connected Parties' introducing new definitions or scoping mechanisms for these would introduce ambiguity, increase compliance burdens, and be disproportionately challenging for firms, especially SMPs, without clear benefits to audit quality or the public interest. Extending the scope of entities to which independence requirements apply (for example custodians) may be unrealistic in some jurisdictions too as this could preclude larger networks from providing audits due to service relationships with such bodies. Reliance on the conceptual framework is therefore a more effective and proportionate approach.

If the consultation provides evidence that there are challenges auditors face in applying the conceptual framework in relation to the three areas identified, some limited and targeted non authoritative material to support application could be helpful for practitioners and would avoid potential problems through revision of the Code.

Japanese Institute of Chartered Accountants (JICPA)

There are various types of investment schemes around the world, and some schemes have organizational or governance structures similar to conventional corporate structures. We believe that the investment schemes to be considered in the CP are those that do not have such organizational or governance structures. As stated in our comment for Question 1, for investment schemes that have organizational or governance structures similar to conventional corporate structures, the scope of their related entities would be determined based on the definition of related entities in the current Code.

On the other hand, for investment schemes that do not have organizational or governance structures similar to conventional corporate structures, the current definition of related entities in the Code might not capture the "connected parties" that may be relevant to the assessment of the auditor independence. Therefore, when an audit team determines that the level of "connectedness" is high in light of the interests, relationship or circumstances between the investment scheme and the "connected party", the audit team might decide to include the "connected party" within the scope of entities of which the audit team should be independent.

While we believe that the criteria set out in paragraph 35 of the CP are appropriate to consider in identifying "connected parties" that might be highly "connected" to investment schemes that do not have organizational or governance structures similar to conventional corporate structures, paragraph 24 of the CP states that it is important to differentiate between other parties that provide routine and mechanical services and those that are (a)

responsible for the decision-making and operation of the Investment Scheme, (b) able to substantially affect its financial performance, or (c) in a position to exert significant influence over the preparation of the Scheme's accounting records or financial statements.

For this purpose, we believe that an audit team should first determine whether the entity falls under the category of “other parties that provide routine and mechanical services,” and then, for those who do not fall under such a category, the audit team should evaluate the level of “connectedness” between the entity and the investment scheme based on the criteria in (a), (b), or (c). If the level of “connectedness” is determined to be high in substance, we believe it is appropriate that the entity be identified as a “connected party” of which the audit team should be independent in the audit of the investment scheme.

Korean Institute of Certified Public Accountants (KICPA)

We believe that the criteria set out above are appropriate. However, investment schemes may have wide diversities in their structures and governance as well as in the functions or roles provided by Connected Parties across as well as even within jurisdictions, depending on their objectives and legal/contractual arrangements, as described in CP.

Therefore, we hope that the Code provides relevant application or non-authoritative materials to allow the public accountant auditing CIVs to consistently and appropriately assess the independence in accordance with the relevant conceptual framework, instead of prescribing uniform requirements for independence assessment of CIVs. In particular, non-authoritative materials providing examples of independence assessment relevant to the parties serving various roles related to CIVs (Investment Advisor, Sponsor, Custodian, Management Company) would facilitate practical application and consistent interpretation.

Malaysian Institute of Accountants (MIA)

We broadly agree with the criteria set out in the CP as it would appear to capture the Connected Parties in respect of audits of a CIV/pension fund.

However, further clarity may be required on the terms “substantially affect” and “significant influence” as these are subjective and may lead to inconsistent interpretation in practice. We would suggest that the IESBA consider providing further elaboration with examples or additional guidance to assist auditors in determining the threshold or the minimum level of involvement at which a party should be recognised as a Connected Party.

We would also highlight the jurisdictional variances in how different jurisdictions assign fiduciary responsibilities. For example, some jurisdictions require trustees to appoint auditors while others rely on management companies. Any revisions to the Code would, therefore, need to accommodate jurisdiction-specific governance structures whilst maintaining global consistency in principle.

Furthermore, we believe there is a need to also address ongoing monitoring as the role or influence of certain parties may change over time (e.g. due to restructuring or outsourcing). Revisions to the Code should provide application material or guidance for practitioners to regularly reassess which parties qualify as Connected Parties throughout the audit engagement period.

With reference to our response in Question 1 and notwithstanding the above, we would caution against an overly broad application of the criteria. Without appropriate parameters or thresholds for scalability of application, there is a risk of inadvertently capturing entities whose involvement in the financial reporting process is limited and would potentially lead to unnecessary compliance burden and constraints to the pool of practitioners able or willing to undertake such audits. It may also be worth considering whether the perceived benefits to the public interest would

justify the additional complexity and resource implications for practitioners if this area of auditor independence is further developed.

If the IESBA proceeds with developing the proposed criteria for identifying Connected Parties, we recommend also developing qualifying considerations such as the frequency, nature or scope of the other party's involvement to assist the practitioner in identifying relationships that present independence risks. Incorporating these considerations into the application material or illustrations would promote more consistent implementation across jurisdictions and firm sizes.

Saudi Organization for Chartered and Professional Accountants (SOCPA)

Yes, SOCPA believes that the criteria set out are capturing the 'connected parties' relevant to investment schemes. Although we believe that the use of a new term 'connected parties' with certain defining criteria may provide a beneficial guidance to auditors when assessing their independence from client in these investment schemes, the needed guidance may not necessarily require the introduction of a new term with a specific definition. This objective might be satisfied by including these defining criteria as an application material linked to the concept of 'related entities' (in specific para. R400.27). The application material should generally explain examples of relationships or circumstances which auditors should consider when implementing the Code's conceptual framework and 'related entities' term in the assessment of independence when auditing particular types of industries (e.g. investment schemes). These application materials should also explain further the proposed criteria by clarifying, for instance, the threshold for "substantial affect" and "significant influence" to ensure consistency in application, and including examples of specific roles (e.g., actuaries for pension funds) to reduce ambiguity.

South African Institute of Chartered Accountants (SAICA)

Yes, the criteria outlined in paragraph 35 focusing on decision making authority, influence over financial performance, and control over financial reporting are appropriate and comprehensive. These criteria reflect the practical realities of how Investment Schemes operate and help identify parties whose relationships with the auditor could pose threats to independence. Applying these criteria ensures that all materially influential parties are considered in the independence assessment, even if they fall outside the traditional definitions of related entities.

The Malaysian Institute of Certified Public Accountants (MICPA)

We believe that the criteria listed are appropriate and sufficient to identify Connected Parties relevant to the auditor's independence assessment for a CIV/pension fund audit. However, caution should be exercised in applying them, especially in cases involving complex structures or indirect relationships.

Wirtschaftspuferkammer (WPK)

The three proposed criteria: a) responsible for the decision making and operations, b) able to substantially affect the financial performance or c) in a position to exert significant influence over the preparation of the accounting records or financial statements are considered appropriate to serve as indicators to be taken into consideration in the auditor's independence assessment.

However, it is preferable to consider such indicators in a principles-based approach, i.e. when applying the general provisions of the conceptual framework. In order to support the consistent application of such indicators in the identification of threats to independence, the WPK recommends issuing non-authoritative guidance, if deemed necessary, rather than amending the Code itself. The inclusion of a strict definition that is designed for the current

structures of CIVs/pension funds would create a tight frame resulting in the necessity of future adjustments to adopt the definition to potential changes of the structures or the complexity of CIVs/pension funds. Therefore, the WPK does not consider the introduction of a new definition of “connected parties” in the IESBA Code expedient or necessary.

It is also questionable whether it is useful to develop specific rules for specific types of entities or sectors. The potential impact of relationships with third parties performing services or taking management decisions for an audit client may be common but is not exclusive for CIVs/pension funds. In general, the principles-based approach of the conceptual framework of the Code is considered more suitable to respond to changes as a rules-based approach could be.

Furthermore, the structures of CIVs/pension funds show a lot of complexity and diversity in different countries and legal environments that can be better addressed by local legislation or regulators, if special rules for such structures are deemed necessary.

Disagree With Comments

Accounting Firms

Deloitte

Deloitte Global considers the proposed additional criteria to be vague, in contrast to the well-established accounting concepts of control and significant influence. A Related Entity of an audit client, with respect to which the auditor must also maintain independence, is defined as such because of the specific relationship it has with the audit client through ownership, control or influence. As a globally consistent baseline, independence requirements should only apply to entities whose relationship with the audit clients qualifies them as a Related Entity.

Introducing vague criteria when establishing Connected Parties of Investment Schemes could lead to the unintended consequence of requiring auditors to consider a large number of third parties in their independence assessment, even when only certain relationships are relevant. This focus on collecting information about irrelevant entities might result in an onerous administrative burden on the auditor and increase costs without a benefit to audit quality. As stated in our response to Question 1, if an entity is not a Related Entity but it is relevant to the independence assessment, the auditor of the Investment Scheme would identify threats to independence through the application of the conceptual framework (see also question 3 below).

Ernst & Young Global (EY)

Because we believe the Conceptual Framework is sufficient in guiding the PA to identify, evaluate and address threats to independence created by professional services, interests and relationships with Connected Parties, we do not believe the criteria set out in the Consultation Paper are necessary for assessing auditor independence with respect to audits of Investment Schemes. Further, as a global organization, we are aware of significant variation globally in how Investment Schemes are structured, operated, managed, and governed. Given this variation, along with the different jurisdictional regulation of Investment Schemes, we believe it will be difficult for the IESBA to develop requirements and definitions that are fit for purpose for a global standard, and this variation will result in greater complexity than that encountered with the PIE provisions. This has the risk of necessitating a jurisdictional refinement approach, similar to that used for PIEs, where local bodies might need to further refine the Code's provisions to address unique characteristics present in their jurisdiction.

KPMG

While we understand the intention of the term “Connected Parties,” the criteria lack the specificity needed for consistent application. Alternatively, case studies within non-authoritative material that use the criteria as guidance, such as factors to consider when identifying other parties that may need to be included when applying the conceptual framework, would support professionals in applying the Code effectively, especially in complex and varied situations.

The definition would not be suited to include in the Code due to the following:

As we note above under Q1, creating a new term within the Code to capture parties for a narrow use case does not seem to be aligned to the overarching purpose of a global code.

The term’s proposed definition would require additional clarification for the criteria if specific independence requirements were to be prescribed to such entities. Specifically:

Responsible for decision-making and operation: The term “responsible” may be open to varying interpretations on the degree of responsibility that would trigger this criterion. An entity could be responsible for decision making and operations to different degrees, and differences in this interpretation would lead to inconsistency in determining which parties should be considered for threats to independence.

Able to substantially affect the financial performance: This criterion would be subjective without clearer conditions or thresholds to minimize discrepancies in interpretation. Without clarity, the criterion could be interpreted as applying to a party who selects investments (generating the return on investments), selects third-party service providers (incurring costs), funds the pension scheme with required or voluntary contributions, values the investments, or prepares accounting records and financial statements.

In a position to exert significant influence over the preparation of its accounting records or financial statements: Contextualization would be required within the unique environments of CIVs and pension funds and the parties they contract for services. Identifying and monitoring such influence will be difficult due to the inherent complexity of these entities. For instance, when accounting functions are outsourced, the third-party provider may inadvertently fall within the scope of this criterion even if the audit client maintains ultimate responsibility for financial reporting. This could lead to an overly broad application of independence requirements, capturing relationships that do not pose genuine threats to auditor objectivity.

Given the complexity of these investment schemes and their widespread use of service providers, there are cases where an entity will meet one of the criteria, yet relationships or interests of the auditor with that entity would not reasonably impair the firm’s independence from the CIV or pension fund audit client. Case studies using the criteria as factors, including considering multiple factors, can show the importance of using professional judgment in an agile manner to apply the conceptual framework where threats to independence may truly exist.

PwC network (PwC)

We believe that the focus of any consideration by the auditor should be on those parties fulfilling the criteria in (a), recognising that such decision making and operational roles will already result in such a party having significant influence over the preparation of its accounting records or financial statements (criteria (c)). This would typically be the investment advisor or management company (or sponsor, as in the case of a benefit plan or scheme) but could vary depending on the jurisdiction.

However, we disagree that entities that only meet criteria (c), but do not also meet criteria (a), as might be the case for a fund administrator, for example, should be viewed as connected parties. Although an entity is involved (as a service provider) in the preparation of the accounting records or financial statements due to those activities having been outsourced, generally, the oversight and control over the investment scheme is retained by those charged

with governance. The activities undertaken by entities meeting criteria (c), although not solely administrative, are nevertheless overseen by the management of the CIV and it should not be determined to have significant influence over the preparation of accounting records or financial statements.

Furthermore, while we are unclear what is meant by (b) in addition to those parties captured by (a), the same principle around those charged with governance retaining oversight over the fund would apply. For example, a “connected party” that has decision making responsibilities in terms of investment strategy and investment decisions with a corresponding ability to affect the fund’s financial performance that would already be captured by (a).

We do not believe that arm’s length service providers, such as custodians, administrators, brokers, trustees, or those that do not have decision making oversight of the financial statements of the investment scheme, but which provide administrative services of a routine and mechanical nature, should be included in a ‘connected party’ definition. These third-party service providers typically operate within established boundaries, often undertaking routine tasks under strict legal stipulations which are often designed to have an inherent system of checks and balances, as well as multiple lines of oversight by entities captured in prong a) of the proposed connected party definition. In such a set-up, these parties will rarely end-up with having a significant influence on the financial reporting of the fund.

IFAC Member Bodies and Other Professional Accountancy Organizations

Accountancy Europe (AE)

Context and Importance of the Conceptual Framework application

The proposed criteria for identifying connected parties, namely, being responsible for decision-making and operation, having the ability to substantially affect financial performance and being in a position to exert significant influence over the preparation of accounting records or financial statements, are conceptually relevant to assessing independence threats in the context of CIVs and pension funds. These indicators may help draw attention to parties whose relationships warrant ethical consideration under the Code.

However, we consider it essential that these criteria are not interpreted in a strict or standalone manner. Their usefulness depends on their application within the broader threats and safeguards framework of the Code, which enables a proportionate and risk-based assessment of independence. Without considering the broader context, the criteria may be misunderstood as triggers for automatic classification, rather than indicators of potential threats.

Risks and Practical Challenges

There is a risk that applying these criteria narrowly or rigidly may result in over-inclusion of entities that are not genuinely influential in the context of the audit. In complex fund structures, operational parties may appear to meet one or more of the criteria without posing a substantive threat to independence.

Moreover, care must be taken to ensure these criteria do not conflict with national governance frameworks. This is particularly important in the EU where oversight roles and responsibilities are defined in law or practice. For example, in jurisdictions such as Luxembourg and Ireland, the CIV, its management company and custodian are mostly always segregated because of regulatory expectations or local practice. Such parties in these jurisdictions are intentionally structured this way to ensure they are independent from one another. Applying the proposed criteria in paragraph 35 without regard to this legal and jurisdictional context will result in classifying such parties as “connected,” thereby contradicting the regulatory or local intention. This highlights the risk of imposing a universal model that does not accommodate jurisdiction-specific governance structures and may create unintended conflicts between the Code and local requirements.

Finally, another practical challenge could arise when requiring auditors to assess or monitor relationships beyond their direct visibility (which might not be feasible). This would also increase the cost of compliance without a significant improvement in audit quality.

Recommendation

Although the three criteria as suggested by IESBA are factors amongst other matters that are to be taken into consideration when applying the conceptual framework as part of the audit of a CIV, we don't believe these criteria should be viewed in isolation and considered as the only factors that may matter in a CIV's environment. The assessment of independence should be based on the actual relationships between the different parties involved and the CIV and not on a predefined set of criteria where such relationship is presumed.

For these reasons we disagree with IESBA's proposal to include these specific types of relationships within the Code as the only appropriate criteria that may indicate potential threats to independence.

American Institute of Certified Public Accountants (AICPA) PEEC

The proposed definition of "Connected Party" is not appropriate or sufficient due in part to the reasons outlined in the "Overarching considerations" section of this letter. Though the three criteria cover important activities, third parties performing these functions are in most cases simply performing a service and are not ultimately responsible for the entity's operating results or financial reporting. We believe that PAs already consider the impact of third parties like those defined as "Connected Parties" on independence using existing ethics and other professional standards.

Third parties are rarely "responsible for the decision-making and operation" of an Investment Scheme unless the third party has agreed to assume that responsibility or is subject to a law or regulation imposing a fiduciary duty. In such cases, the PA would typically consider the third party to have control and therefore be an entity that the PA is either required to be independent of under extant R400.27 or evaluates under the "knows or has reason to believe" component of that paragraph. In the absence of such an agreement, law, or regulation, the responsibility for the decision-making, operation, and financial reporting of the Investment Scheme ultimately lies with management or those charged with governance.

We have several concerns with the criteria "substantially affect the financial performance of the Scheme" and "in a position to exert significant influence over the preparation of its accounting records or financial statements." We believe these criteria are too vague to be successfully and consistently applied and could result in independence being extended to entities that are simply performing a service for those charged with governance and the Investment Scheme and do not have contractual management responsibilities or fiduciary duties. Further, the paper does not establish why the criteria are unique to these investment schemes (and not applicable to other entities) which in itself could have unintended consequences. Since the cost of compliance for monitoring "Connected Parties" will likely be borne by investors and plan participants of Investment Schemes, it is crucial for IESBA to establish that there is significant public interest concern that auditors of these investment schemes are not independent and that what IESBA proposes would address these concerns.

The auditor's responsibility with respect to third parties who are "in a position to exert significant influence over the preparation of its accounting records or financial statements" is guided by the standards in the AICPA Statements on Auditing Standards specifically as codified in AU-C §402, Audit Considerations Relating to an Entity Using a Service Organization. AU-C §402 (and similarly, International Standard on Auditing 402) which provides guidance for auditors when an entity uses a service organization (third party) to process transactions or maintain records. The standard emphasizes the importance of understanding the services provided by the service organization and how they affect the entity's internal control over financial reporting. Auditors need to understand the nature of the services provided by the service organization and their impact on the entity's internal control. They should assess

the risks of material misstatement associated with the use of the service organization and obtain sufficient appropriate audit evidence regarding the effectiveness of the controls at the service organization. This standard ensures that auditors consider the implications of using service organizations on the entity's financial statements and the overall audit process. In cases where the PA might have provided nonaudit services to the third party that affect the services provided to the audit client, a report on controls at the third party prepared by an independent service auditor (a SOC report) could reduce any threats to independence. Therefore, relevant professional standards address risks associated with services provided by a third party. Should IESBA decide to pursue a project, we believe it would be important to coordinate with the IAASB to ensure any guidance does not conflict with ISA 402. However, as emphasized above we do not believe this project should be pursued.

We believe the stakeholders of Investment Schemes in the United States are protected.

Assirevi

Assirevi analyzed the criteria established by the Consultation Paper under discussion, particularly with regard to Collective Investment Vehicles (CIV)/pension funds and the definition of "Connected Parties". Assirevi does not believe that it is necessary to introduce additional criteria, other than those already included in the IESBA Code, to define further entities that may be "connected parties", as better explained below.

The criteria reflected in the Consultation Paper are theoretical in nature and are not universally applicable as a common baseline across all jurisdictions. They do not account for the variations in CIV/pension fund structures and governance, as defined and regulated under different jurisdictions (including Italy). These structures range in the different jurisdictions from situation where own internal governance is established (including the Board of Directors and other roles discharged by Those Charged with Governance) to structures without internal governance roles. In such cases, laws and regulations provide for i) applicable structures and related governance, including with respect to any delegations and associated responsibilities, ii) auditors' independence rules. All such laws and regulations are applied in the independence assessment, without any need to introduce a definition of "connected parties".

Furthermore, the criteria reflected in the Consultation Paper highlight activities that may or may not be assigned to third parties. In most instances, the delegated parties and/or external providers are independent intermediaries and organisations that offer these activities as services to numerous unrelated CIVs/pension funds. Taking the view that these independent intermediaries and organisations, which may or may not meet the proposed criteria, are connected parties would lead to consider these organizations not as service providers, but as part of the CIV/pension fund governance, even if local laws do not consider them as "connected parties".

In addition, such an approach could lead to unintended consequence whereby these entities would be considered "connected parties" for a significant number of CIVs/pension funds. Consequently, by adopting independence rules and provisions concerning these service providers, the IESBA would impose multiple unnecessary and excessive independence constraints on third parties, which would not address the perceived gap described in the Consultation Paper.

Therefore, Assirevi believes that the proposal to apply general standard provisions to CIVs/pension funds without considering jurisdictional variations will result in numerous unintended consequences that would outweigh the intended benefits for the public interest. Additionally, we observe that the Consultation Paper accurately explains that there is no evidence of failures related to independence issues arising from interests, relationships, and other circumstances regarding CIV/pension fund auditors and "Connected parties".

Therefore, we do not deem it necessary to introduce additional criteria, other than those included in the IESBA Code, to define further entities that may be "connected parties", as these are already identified through the application of local laws, including those related to independence. Should there be parties that are not explicitly

included in the scope identified by the IESBA Code or local laws (as it is the case for the Italian law), Assirevi strongly believes that the “conceptual framework” identified by the IESBA Code in Section 120 and the definition of “related parties” is clear enough to assess and address threats arising from all relevant circumstances, including interests and relationships, without the need to introduce the “Connected Parties” definition. For the same reason, we also do not consider necessary to identify further interests, relationships, or circumstances beyond those already outlined by the Code in Section 120.

Association of Chartered Certified Accountants (ACCA)

The assessment of independence should be based on the actual relationships between the different parties involved and the CIV and not on a predefined set of criteria where such relationship is presumed. We therefore disagree with the proposal to include these specific types of relationships within the Code as the only appropriate criteria that may indicate potential threats to independence.

Chartered Accountants Australia and New Zealand (CA ANZ)

The CP highlights that no CIV/pension fund failure has been identified in which an auditor’s lack of independence was a contributing factor. We support evidence-based standard setting, but there is no evidence to suggest that any revisions in this area will improve audit quality. On this basis, we do not support any amendments to the Code at this time, including the introduction of a new defined term “Connected Parties” comprising the criteria. This is likely to add compliance costs and complexity to the Code which already provides a principles-based approach for assessing auditor independence.

During our outreach we heard particular concerns about the potential unintended consequences from criteria (c) which would bring in ‘other service providers’, because it is not just CIVs/pension funds that use service organisations. Therefore, we recommend the IESBA exercise caution in this regard.

Chartered Accountants Ireland (CAI)

We believe that the proper application of the existing conceptual framework is sufficient to address any threats to independence arising from relationships with connected parties. The existing Code is clear in both its definition of ‘audit clients and related entities’ and the concept of ‘control’ is fundamental when making an assessment of any entities that would be relevant to consider for independence purposes.

The introduction of further criteria into the IESBA Code to define a ‘connected party’ specifically for the purpose of an audit of a CIV or pension fund does not seem necessary. In the absence of any clear scope or definition of what constitutes a CIV or pension fund for the purposes of this consultation, it is also difficult to make an assessment of the sufficiency and appropriateness of the proposed criteria. In the context of investment fund vehicles, there are significant differences in how investment funds are structured across jurisdictions. We believe that the diversity in regulatory environments, legal structures and market practices will make it very difficult for IESBA to establish any form of global solution in this very complex area.

The proposed criteria may not reflect the regulatory environments in other jurisdictions, as many regulators may use different concepts, criteria, and definitions to capture connected parties in the context of audits of a CIV or pension fund.

In Ireland, we have the concept of ‘affiliates’ in the IAASA Ethical Standard which aligns to the ‘related entity’ concept in the IESBA Code. The IAASA Ethical Standard further defines an entity’s ‘connected parties’ as being:

Its affiliates;

Key members of management of management (including but not limited to directors and those charged with governance) of the entity and its significant affiliates, individually or collectively; and

Any person or entity with an ability to influence (other than in the capacity of professional advisors), whether directly or indirectly, key members of management or those charged with governance of the entity and its significant affiliates, individually or collectively, in relation to their responsibility for or approach to any matter or judgment that is material to the entity's financial statements or other subject matter information or subject matter.

The existing rules in the Code already require an audit firm to assess any non-assurance services for potential or perceived threats to independence regardless of what entity they are provided to. Our response to Question 3 references the existing requirements of the Code that require professional accountants to look beyond the immediate audit client. For example, non-assurance services provided to an investment management service provider (such as an IT consultancy engagement) that creates a self-review or self-interest threat for the provision of audit services to a fund is already captured and considered in applying existing Code requirements.

The introduction of additional criteria and the broadening of certain definitions proposed by in the Consultation Paper will make the current requirements unnecessarily complex and introduce ambiguity between the Code and regulatory frameworks applying to this niche industry across global jurisdictions. The current key independence considerations required by the Code are fit for purpose for this context. Additional requirements in the Code would significantly increase compliance costs for audited entities and their beneficiaries, e.g., individuals investing for their retirement, and have a negative impact on their ability to source a suitable audit provider. In our view, this would present a public interest concern, contrary to the objectives of the IESBA.

Compagnie Nationale des Commissaires aux Comptes (CNCC)

As we believe that introducing a new concept of "connected parties" could collide with the local regulation and could make the audit exercise impracticable in France, we also believe that the three criteria a), b), and c) which could characterize the concept of "connected parties" would be in contradiction with the specific features already implemented by the French authorities to protect the public investing in CIV. As indicated in the cover letter and annex n°2, the local authorities (i.e. the AMF and the ACPR) have already structured the CIV environment around different regulated stakeholders to ensure they are independent from each other. Moreover, additional independence mechanisms exist at stakeholder's level: for example, the requirement for the asset manager to appoint a chief compliance officer or an independent evaluator for the funds, which contributes to ensuring the respect of the legal and regulatory framework. Furthermore, these criteria do not take into account the fact that the collective investment vehicle's strategy, is described in its prospectus which is aimed at the investors, and that the prospectus introduce different ratio (covering investment strategy...) which must be complied with.

As a result, we believe that introducing these additional criteria is inappropriate. In addition, introducing a new concept of "connected parties" into the Code would require a very clear definition. If the Board was to take such a decision, it should carefully consider the risk of unintended consequences outside of the application of the Code for CIV and Pension Funds when applying the Code to other situations - for example in the context of unconsolidated entities under management contracts or value chain entities. Value chain entities could be seen as "connected parties," potentially affecting the recently published IESSA and adding further complexity.

NATIONALE oEs COMM ISSA IRES AUX COMPTES

CPA Australia

No.

It is not appropriate to create a list of criteria to identify Connected Parties, as described in the Consultation Paper, given the variety ways in which Investment Schemes may be structured. Their complexity and diversity are recognised in the Consultation Paper. A definitive list risks excluding structures or arrangements, which failed to be identified at the time of drafting, and thereby inadvertently creating gaps which for the reasons set out in our responses to Questions 1 and 3 respectively, do not currently exist. This is more likely to result in confusion and a potential lack of independence.

This risk is compounded by the fact that many jurisdictions regulate Investment Schemes comprehensively. In some jurisdictions this extends to including certain Connected Parties in the definition of 'audit client'. Given the substantial jurisdictional differences regarding the regulation of Investment Schemes as illustrated in the Consultation Paper, particularly in Appendix 2, compounded by the variety of Investment Scheme structures, to create a set of criteria will inevitably conflict with jurisdictional regulatory requirements, creating more confusion and likely render such a list redundant in respect of many jurisdictions.

For the same reasons that the definition of Public Interest Entities in the Code provides for jurisdictional input, given the jurisdictional differences as to size, structure and governance of such entities, relationships relevant to Investment Schemes cannot and should not be prescribed for the purpose of identifying threats to the fundamental principles.

However, the criteria set out at paragraph 35 of the Consultation Paper could provide non-exhaustive indicia of a relationship which threatens independence relevant for jurisdictions which have not considered or addressed the hypothetical gap. Such indicia would be suitably included in non-authoritative material for such jurisdictions to consider.

Institute of Certified Public Accountants of Uganda (ICPAU)

No, our comments in the above refer. In addition we applaud the Board for the initiative to scope connected parties into the ambit of the Code where such parties are neither covered under the definition of audit client or related parties, we are indifferent and have reservations on the criteria as set out in para 35 as some appear ambiguous and hence likely to breed unintended confusion and result into potentially different interpretations or outcomes which in the first place the Board seeks to address. For instance, if one says a connected party is able to substantially affect the financial performance of the scheme, how will one arrive at 'substantially affect'; the ripple effect construes the criteria to one's advantage depending on the circumstances.

Institute of Chartered Accountants England and Wales (ICAEW)

ICAEW considers that it would be undesirable and impractical to develop sector specific definitions to capture new stakeholder relationships as they emerge. Such definitions may quickly lose currency and become outdated, leading to a cycle of frequently updated definitions.

ICAEW considers it important not to confuse form with substance. The creation of rigid definitional criteria may result in professional accountants adopting a tick box approach, rather than considering whether specific advisers and relationships pose a substantive threat to auditor independence.

Institute of Chartered Accountants of Scotland (ICAS)

Given our view on this matter as set out above, we do not believe that there is a need for further criteria to be introduced into the Code of Ethics. Such an approach would potentially unnecessarily add to the complexity of the Code and might have unintended consequences.

Institute of Singapore Chartered Accountants (ISCA)

If a new term is introduced, the generality of the criteria set out in paragraph 35 of the CP, as presently framed, will lead to variability in how they are applied. These include for example, ambiguity in the use of the word “substantially” in sub-paragraph (b). The word “substantially” is inherently subjective and is likely to be interpreted variably across engagements and jurisdictions.

Under sub-paragraph (c), the identification of parties who are able to exert significant influence over preparation of accounting records or financial statements may be challenging given the complex and unique structures of Investment Schemes and the common use of third-party service providers by Investment Schemes.

As set out in paragraph 5 of the CP, the Project Team has not identified any Investment Scheme financial failure in which an auditor’s lack of independence was a contributing factor. Hence, in our view, a new term is not necessary at this juncture.

Intitut Der Wirtschaftsprüfer (IDW)

This question appears to be tautological. “Connected party” is defined in the consultation paper (in paragraph 9, and repeated in paragraph 35), and the question merely asks whether the criteria (identical to those in the definition) are sufficient to meet the definition itself.

We assume the question is aimed at a broader idea of entities for whom independence could be an issue and whether these entities should be included, specifically in the Code. In our view, the objective here is again the balance with practicality, which is not new and not specific to CIVs and pension funds. Other entities where there could be conceivable independence threats to an audit client include customers, suppliers, management’s experts and other service providers or further entities that indirectly depend on the audit client. A key similarity between such entities not yet specifically covered by the Code, including most entities fitting one of the “connected party” criteria, is that they may not be controlled by the audit client and the audit client often has limited influence over them. In these cases, auditors’ access to information required to proactively demonstrate independence cannot reasonably be required and the effort involved would often be prohibitive.

Furthermore, the criteria provided are highly subjective and therefore not well defined. They could be very widely or narrowly interpreted by auditors, leading to inconsistent practice.

Widening the scope of entities for which specific independence requirements would be required also leads to a danger of independence “gridlock” for audit firms. A good example for this is custodians. As part of the research findings on jurisdictional responses to independence the consultation paper mentions, in paragraph 42, that some jurisdictions require the CIV auditor to be independent from custodians. Such a requirement would be unrealistic in Germany. Larger asset management companies in Germany (which are subject to independence requirements, see Q6 below) often use many custodians for funds and may include most or even all custodians in a jurisdiction. If strict independence requirements were applied to all these entities, it would likely practically preclude the larger networks from auditing these entities because of service relationships with the custodians that include many of the major banks in Germany.

In the absence of evidence of systematic independence failures in relation to such “connected parties”, introducing new definitions or scoping mechanisms for these would introduce ambiguity, increase compliance burdens, and be disproportionately challenging for auditors, without commensurate benefits to audit quality or the public interest.

Malta Institute of Accountants

While the three criteria proposed by IESBA can be helpful considerations, they should not be treated as the only relevant factors when assessing independence in a CIV context. We do not support including these specific criteria in the Code as the exclusive indicators of potential independence threats.

Pan African Federation for Accountants (PAFA)

The criteria provide a useful and structured starting point for defining Connected Parties in the context of Collective Investment Vehicles (CIVs) and pension funds. However, they do not sufficiently capture the full range of parties relevant to independence assessments across many African jurisdictions. Given the complex and often outsourced operational structures common in these schemes, additional clarity and expansion of the criteria are necessary. In particular, entities such as fund administrators, actuarial and asset consultants, and investment managers, while not always legally affiliated, exert material influence over financial reporting, investment decisions, and operational outcomes. These functionally influential parties may not meet traditional related party definitions under existing standards. Expanding the criteria to explicitly consider practical influence and risk exposure, rather than limiting the scope to legal or ownership-based ties, would enhance the consistency, relevance, and effectiveness of independence assessments.

Pennsylvania Institute of CPAs (PICPA)

We believe that the introduction of any requirement to evaluate connected parties in connection with a firm's independence evaluation could be misleading because plan management, not the auditor, is responsible for controls over third-party service organizations and the results of those services. The suggestion that there are parties outside of the plan that are "(a) responsible for decision-making and operation of the Scheme, (b) able to substantially affect the financial performance of the Scheme, or (c) in a position to exert significant influence over the preparation of the Scheme's accounting records or financial statements" would actively undermine not only the audit standards referenced above but education efforts by the U.S. Department of Labor designed to ensure that plan management fulfills its legal and regulatory responsibilities and understands the limitations of the audit. Therefore, the introduction of this language regarding connected parties would undermine the public interest in the United States.

No Specific Comment

Investors and Analysts

Association of the Luxembourg Fund Industry (ALFI)

Response dealt with under Question 1.

Investment Company Institute (ICI)

Refer to General Comments for response

Accounting Firms

Grant Thornton International (GTIL)

Please refer to our discussion above in the 'overarching comments' under Connected Parties.

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

Royal Netherland Institute of Chartered Accountants (NBA)

Refer to General Comments for response