

### **CIVs and Pension Funds**

**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.**

### **Agree With Comments**

#### **Investors and Analysts**

##### **European Fund and Asset Management Association (EFAMA)**

Yes. For EFAMA, 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. Also, we believe due to the significant variation globally in how CIVs and Pension Funds are governed, structured, operated and managed, along with the different local jurisdictional regulation of CIVs and Pension Funds, it will be difficult for the IESBA to develop requirements and definitions that are can be consistently applied and fit for purpose for a global standard.

#### **Impax Asset Management**

Yes, the conceptual framework in Section 120 of the Code provides a structured approach for auditors to assess threats to independence. It requires auditors to identify relationships that could impair objectivity, evaluate the significance of those threats, and apply safeguards where necessary.

However, discretion will need to be exercised based on professional judgment, as the framework can not prescribe specific rules for every scenario. According to the UK Financial Reporting Council (FRC) guidance on auditor independence, additional clarification on how auditors should assess indirect relationships—such as advisory firms or affiliated entities—could enhance consistency in application.

### **Regulators and Audit Oversight Authorities**

#### **Botswana Accountancy Oversight Authority (BAOA)**

Section 120 provides a sound framework, but additional guidance is needed due to complexities in investment schemes such as indirect links through layered fund structures, shared service providers, or overlapping management roles that make it difficult to identify and assess threats to independence consistently.

## **Hellenic Accounting and Auditing Standards Oversight Board (HAASOB)**

Yes, we 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.

## **National Association of State Boards of Accountancy (NASBA)**

NASBA believes 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 and the Connected Parties; however, NASBA believes that the Code should provide greater clarity in regard to consideration of “Connected Parties.” NASBA recommends the development of nonauthoritative guidance to help the practitioner work through the decision-making process in applying the conceptual framework.

## **National Auditing Standard Setters**

### **New Zealand External Reporting Board (XRB)**

We believe that the conceptual framework is appropriate and sufficiently clear as to how to identify, evaluate and address threats to independence. We do not believe that any additional requirements are necessary.

In the absence of the definition of connected parties we question whether the auditor would include all connected entities in their assessment of independence. There is a risk that the auditor may not think to apply the conceptual framework to all connected parties and therefore whether parties would be consistently identified without further clarity being added to the Code or guidance material being provided.

## **Accounting Firms**

### **BDO International (BDO)**

Our view is that the conceptual framework does give firms the tools with which to identify and assess all relationships relevant to its independence assessment. The practical threats to independence that arise from certain interests, relationships, or circumstances between the auditor and the connected party are all underpinned by the threats set out in Section 120.

That said, the conceptual framework is by its nature a broad framework and identifying how those independence threats may present themselves in the audits of CIVs /pension funds is not always straightforward in practice. The application material within the Code allows for theoretical consideration, but the practical application can be more challenging. It is for this reason we believe additional clarification, in the form of non-authoritative guidance, is warranted.

Once independence threats have been identified, evaluating and addressing them under the conceptual framework would follow a similar process to that undertaken for a corporate audit client.

## **Deloitte**

As noted in our introductory comments, the proper application of the conceptual framework is sufficient to identify and address any threats to independence arising from interests, relationships or other circumstances involving Connected Parties. For example, if an entity is in a position to exert significant influence over the preparation of the

accounting records or financial statements of the Investment Scheme, the auditor would assess whether providing services to that entity results in a self-review threat with respect to the audit of the Investment Scheme. We believe the examples of scenarios in Paragraph 10 of the Consultation Paper would be appropriately identified and assessed through the auditor's proper application of the conceptual framework.

Deloitte Global recommends that the Board consider developing non-authoritative materials (NAM) to assist professionals in applying the conceptual framework to situations involving Connected Parties that are not Related Entities. While professional judgment will always be required when applying the conceptual framework to the specific facts and circumstances, practical and principles-based NAM with illustrative examples would help guide auditors in their assessment, regardless of jurisdiction.

## **Ernst & Young Global (EY)**

Yes, as discussed in our response to question one above, we believe 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 professional activities, interest, and relationships between the auditor of the Investment Scheme and any entities captured within the Connected Party concept.

In addition to the Conceptual Framework, we note that certain other extant provisions are relevant when addressing threats to independence in situations involving Connected Parties:

With regard to business relationships, paragraph R520.4 restricts a close business relationship with management of an audit client, subject to the considerations of materiality and significance. In applying the Conceptual Framework, including the reasonable and informed third party test, we believe it is clear that a close business relationship with an entity that functions as the management of an Investment Scheme would likewise need to be evaluated as to whether it is subject to the restriction and considerations of paragraph R520.4.

Paragraph 521.4 A1 guides the PA that a self-interest, familiarity, or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flow. This application material does not restrict the threat to family members employed by the audit client; rather, it is sufficiently broad to be understood that the employment could be at an entity considered to be a Connected Party and in a position to exert significant influence over the Investment Scheme's financial position, financial performance or cash flows.

If the IESBA determines there should be further guidance provided to PAs that is specific to independence considerations of non-assurance services when auditing an Investment Scheme, we believe a framework similar to that used in paragraph R600.27, subpoints (i) through (iv) would be more meaningful. This guidance would best be provided through non-authoritative materials and could also include a description of the application of the Conceptual Framework similar to that provided in our response to question one above.

## **Forvis Mazars**

As noted in our general comments and in Question 1, we believe that the existing provisions in the Code are sufficient in practice ensure auditor independence and therefore there is no justification to further enhance the Code in this regard. We do, however, consider that it may be appropriate for the IESBA to provide non-authoritative application material to support the application of the Code.

## Grant Thornton International (GTIL)

The conceptual framework is comprehensive and designed to “accommodate a wide range of facts and circumstances, including the various professional activities, interests, and relationships that create threats to compliance with the fundamental principles”. We believe it is sufficiently clear in identifying, evaluating, and addressing threats to independence with a Connected Party. Should the board believe that this is an opportunity to provide clarity around threats to independence, we suggest that this should take the form of non-authoritative guidance, such as a staff alert or question and answer.

## KPMG

The conceptual framework in Section 120 guides the professional accountant to consider objectivity without limiting its scope to specific entities. Through our internal socialization of the consultation paper, feedback did not indicate concerns in practice sufficient to support a project narrowly focused on this subject. Instead, internal discussions indicated that engagement teams regularly utilize the conceptual framework while also adhering to regulatory requirements when considering services to an entity that controls a CIV or pension fund through its decision-making ability.

While case studies on application of the conceptual framework to consider threats to independence from the key parties having control and significant influence over a CIV or pension fund could be created, this should be weighed carefully. Given the current shift to ease regulatory requirements, but more importantly without an impact analysis, we would urge the IESBA to focus their resources on post-implementation reviews of recently issued standards.

## Pitcher Partners

The Code is clear on how to identify them (i.e. the process) however as it incorporates judgement and professional assessment, there is the capacity for differential outcomes. Therefore, the Code cannot guarantee a consistent outcome in practise.

If the area of collective investment vehicles and similar requires specific additional guidance then this should be specific and explicit rather than judgment based because there are clearly specific scenarios which are envisaged by the IESBA which are being mishandled. This position however is contradicted by the information in para 5 “..the Project Team has not identified any Investment Scheme financial failure in which an auditor’s lack of independence was a contributing factor” would suggest that perhaps the IESBA could focus its resources on areas where ethical or independence matters have been identified as a contributory factor.

## PwC network (PwC)

In our view, the conceptual framework (the “CF”) set out in Section 120 of the Code is a clear and robust approach to the assessment of auditor independence.

Even though the Code does not specifically address the application of the CF in the context of investment schemes (in the same way that it does not address in any detail other industry or market scenarios), we believe that the following elements of the CF, coupled with the application of the “Reasonable and Informed Third Party” test, adequately direct the auditor to consider a broad range of circumstances that might create threats to independence. This could include relationships involving “connected parties.” If the auditor identifies circumstances that create threats that cannot be eliminated or reduced to an acceptable level, then, under the CF approach, the auditor shall not accept the engagement.

- R120.6** The professional accountant shall identify threats to compliance with the fundamental principles.
- 120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance....
- 120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

The fundamental principles are set out in Section 110 of the Code.

This specifies a clear approach to identification and evaluation of any threats and requires the auditor to address any such threats (see also paragraph 120.2).

We do not believe that the Code, or the International Independence Standard, need to be amended in this regard, and we do not believe that it would be appropriate to extend the definition of “related entities” for one sector and for what are, essentially, service providers outside the client's corporate hierarchy. However, we recognise that the profession as a whole might benefit from non-authoritative materials illustrating how the CF might be applied to CIVs (and appropriately defined ‘connected parties’), where the local jurisdiction does not already sufficiently address this area. This could, for example, address circumstances where the audit firm provides system design services to an appropriately defined connected party.

If the Board decides there is a need to introduce the concept of a “Connected Party” in relation to investment schemes, there might be unintended consequences in terms of the application of such a term in other sectors, markets and industries.

We recommend that any such material be developed in close collaboration with practitioners who are working in this space and that the guidance acknowledges the variety of scheme structures that are prevalent around the world and guidance that might already be available locally.

## **IFAC Member Bodies and Other Professional Accountancy Organizations**

### **American Institute of Certified Public Accountants (AICPA) PEEC**

The IESBA code is based on a global, principle-based approach. This means it establishes a framework of fundamental principles that guide ethical behavior for PAs worldwide, rather than prescribing specific rules for every situation. The conceptual framework is designed to allow PAs to identify, evaluate, and address threats to independence based on relevant circumstances and its application to Investment Schemes is no different from its application to other entities.

### **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)**

We believe the conceptual framework in the Code is broadly clear and appropriate when applied to connected parties in a CIV or pension fund structure. While audit firms generally aim to apply the conceptual framework consistently, the outcomes of its application may vary across jurisdictions globally. We therefore do not believe that changes to the conceptual framework are warranted. We do support reinforcing clarity and appropriateness when applying the Code to connected parties in a CIV or pension fund structure through the development of non-authoritative guidance, such as FAQs or illustrative scenarios, to demonstrate how the threats and safeguards approach can be applied in typical CIV and pension fund situations.

## Chamber of Auditors Czech Republic (CACR)

We believe that the conceptual framework in Section 120 of the Code is sufficiently broad for the purposes of assessing auditor independence in audits of CIVs/pension funds, as it requires the auditor to consider all threats to independence in all cases. We believe that sector-specific requirements should not be added to the Code.

## Chartered Accountants Australia and New Zealand (CA ANZ)

Overall, the feedback we received from our members indicates that the application of the conceptual framework is sufficiently clear as to how to identify, evaluate and address threats to independence when auditing CIVs/pension funds.

However, if it is found to warrant additional clarification, then we would support the IESBA issuing non-authoritative materials (NAM) to support the consistent application of the conceptual framework to CIVs/pension funds.

## Chartered Accountants Ireland (CAI)

We believe the application of the conceptual framework in Section 120 of the Code is sufficiently clear 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. An effective framework needs to be sufficiently broad to identify, evaluate and address threats across many industries, organisational structures, and governance frameworks, and we believe that the current principles-based framework is sufficiently broad and does not warrant additional clarification.

Further, even though the Code does not specifically address the application of the conceptual framework in the context of CIVs or pension funds (in the same way that it does not address in any detail other industry or market scenarios), we believe that Section 120 of the IESBA Code of Ethics offers a comprehensive and flexible framework that enables auditors to uphold independence while effectively identifying, evaluating, and addressing threats, including those related to the audits of CIV and pension funds. If the auditor identifies circumstances that create threats that cannot be eliminated, then the firm shall not accept the engagement.

The IESBA Code requires professional accountants to look beyond the immediate audit client which, if adequately addressed, addresses many of the concerns raised in the consultation paper. This includes the requirement to:

- apply an inquiring mind and sound professional judgment,
- consider the view of the reasonable and informed third party,
- use their professional judgement in assessing each situation,
- apply safeguards as needed; and
- where appropriate do not accept or resign from an engagement.

Part 4A, particularly paragraphs R400.18–R400.19 and R400.27, makes it clear that auditors must consider not just the audit client but also related entities, and any other relationships or circumstances that may pose threats to independence. Section 120 (R120.7–R120.10) provides for judgment in identifying such threats, even if not explicitly covered by defined terms like "related entity." These requirements are further reinforced in the International Standard on Quality Management 1 (ISQM 1) which mandates all firms performing audit or reviews of financial statements to design, implement and operate a formal system of quality management in all such engagements. A key component of ISQM 1 is the independence requirements which feature prominently as part of 'relevant ethical requirements', while also addressed in other parts of the standard.



## Chartered Professional Accountants Canada (CPAC)

Yes, the ISC believes that the application of the conceptual framework in Section 120 of the Code is robust and sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the mutual fund or pension fund and its Connected Parties.

For example, in Canada, firms have used the conceptual framework to establish monitoring systems and quality management processes to identify and address threats to independence that include mutual fund and pension plan service providers if they meet the criteria identified by IESBA.

In Canada, mutual funds themselves cannot engage the auditor, the fund manager does, and this must be approved by the mutual fund's Independent Review Committee (IRC) as established in securities law. Therefore, for practical purposes the fund manager is included in firms' monitoring systems and processes and the auditor can identify services and relationships that might cause a threat to their independence from that fund.

It is common in Canada for mutual fund managers and pension plan administrators to be fully integrated and to undertake all critical functions themselves or through a related entity, rather than to outsource day-to-day operations to a third party. In circumstances where such operations are outsourced, agreements are generally in place with the fund manager or pension plan administrator that clearly outline the discrete and narrow responsibilities of the third party, such as a portfolio sub-advisor.

## Compagnie Nationale des Commissaires aux Comptes (CNCC)

As stated above, we believe that the conceptual framework of the Code of Ethics is clear enough to assess and address threats to the independence of the CIV/pension fund's auditor. Indeed, the study you conducted in your consultation paper demonstrates that practices can be different without jeopardizing the independence assessment for the audit of CIV/pension funds as long as there are clear principles to which each jurisdiction can adhere. Moreover, local authorities already play a critical role in monitoring the actors in this environment. However, we believe that it can be entirely within the role of the IESBA to provide non-authoritative, illustrative guidance to local authorities if necessary.

## CPA Australia

Yes.

As set out in sections 400.6 and 900.5 of the Code, firms are required, when performing audit and assurance engagements respectively, to comply with the fundamental principles and be independent. Section 120.3A clarifies that Parts 4A and 4B of the Code are requirements additional to the conceptual framework. Accordingly, compliance with and the application of Part 4A and 4B of the Code are in addition to the requirement to comply with the fundamental principles in section 110 of the Code.

The conceptual framework in section 120 assists the professional accountant to identify, evaluate and address threats to compliance with the fundamental principles. The substantial breadth of section 120 of the Code enables the identification of threats to independence outside those captured by the term 'related entity' and application of appropriate safeguards to ensure independence is achieved.

As set out in section 120.5 A1, the fundamental principles of integrity and objectivity, are linked to independence. By requiring the professional accountant to:

- have an inquiring mind;



- exercise professional judgment; and
- use the reasonable and informed third party test described in paragraph 120.5 A9

the professional accountant applies sections 120.6, 120.7-120.9 and 120.10 to identify, evaluate and address threats to independence.

Section 120.6 A1 provides that in identifying threats to compliance with the fundamental principles '[a]n understanding of the facts, circumstances, including any professional activities, interests and relationships [emphasis added] that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant's identification of threats to such compliance.'

Accordingly, pursuant to the conceptual framework, to be able to identify threats to compliance with the fundamental principles, a professional accountant is required to have an understanding of any relationships that might compromise compliance with the principles.

Further, as set out in section 120.6 A2, in identifying threats to the fundamental principles, 'it is not possible to define every situation that creates threats'. This is particularly true with Investment Schemes which may be structured in a myriad of ways and have various relationships with multiple 'Connected Parties'.

Accordingly, applying the conceptual framework, any professional accountant providing audit services should be aware of any relationship that might threaten their compliance with these principles, in addition to the relationships specified in Parts 4A and 4B. This would include a relationship with someone who meets the criteria set out in paragraph 35 of the Consultation Paper as well as those outside such criteria. The broad, principles-based nature of the conceptual framework operates to respond to a perceived gap more comprehensively than list of criteria, rendering specific criteria unnecessary and for the reasons set out in our response to Question 2 likely to create uncertainty.

### **Hong Kong Institute of Certified Public Accountants (HKICPA)**

We believe that Section 120 of the Code is clear as to the identification, evaluation and responses to threats to independence across a range of circumstances, including those relating to the audit of CIVs/pension funds as well as their Connected Parties. However, we encourage the IESBA to ensure consistent application given jurisdictional differences. Please refer to our response to Question 1 regarding the merits and limitations of various options to address auditor independence concerning Connected Parties of CIVs/pension funds.

### **Institut des réviseurs d'entreprises in Luxembourg (IRE)**

Response 3 - Referencing our responses to Questions 1 and 2, the Code's application is deemed sufficiently clear and broad. It facilitates consistent application of ethical principles across various legal structures and regulatory contexts, effectively addressing independence threats arising from interests, relationships, or circumstances involving Connected Parties.

Luxembourg's regulatory environment acknowledges the significance of maintaining distinctions between third-party entities and CIVs. This segregation is not only recognized but, in some instances, mandated, reinforcing the Code's robustness and adaptability. With reference the CSSF Circular's requirements for prior authorization and ongoing reporting which protocols reinforce the sufficiency and clarity of the existing framework in identifying and managing independence threats effectively.

The conceptual framework outlined in Section 120 efficiently guides auditors in identifying, evaluating, and mitigating independence threats concerning Connected Parties within investment schemes. Thus, no additional

clarification in the Code is considered necessary, as the framework adequately supports auditors in navigating the complexities associated with varied fund structures.

### **Institute of Certified Public Accountants of Kenya (ICPAK)**

We believe the application of the conceptual framework is sufficiently clear however, while the conceptual framework offers flexibility and a principles-based approach, it demands strong ethical awareness, judgment, and a supportive professional environment. For example: Pressure from management vs. public interest can be hard, particularly where there's no explicit rule or clear guidance.

First, Section 120 and Part 4A require auditors to recognize threats arising from interests, relationships or circumstances and to apply safeguards where necessary. However, because Connected Parties to Investment Schemes often do not meet the Code's definitions of "audit client" or "related entity," auditors are simply directed back to the high-level conceptual framework (paragraph 400.6) without tailored guidance on how to treat, for example, an investment manager who designs the fund's accounting systems or a seed-capital sponsor whose withdrawal power creates intimidation threats.

Second, this gap can lead to inconsistent interpretations. Paragraph 37 of the Consultation Paper notes that some provisions in Part 4A do not explicitly capture relationships "in a position to exert significant influence" or services "indirectly" provided to the Scheme—forcing auditors to improvise in varied ways across firms and jurisdictions. Without clear application material, two auditors could reach different conclusions about the same Connected Party, undermining the Code's objective of consistent application.

We recommend that the Code be bolstered with tailored application guidance for CIV and pension-fund audits by: (1) including illustrative examples of common Connected-Party scenarios—such as fund managers providing non-audit services or sponsors wielding veto rights—and showing step-by-step how to apply Section 120's threat-identification and evaluation process; (2) prescribing explicit safeguards (for example, mandatory engagement-quality reviews or rotation requirements) whenever auditors face significant self-interest, familiarity, or intimidation threats from these parties; and (3) defining clear threshold criteria—drawing on both quantitative measures (e.g., size of financial stake, fee dependency) and qualitative factors (e.g., decision-making authority)—to determine when a party's influence merits inclusion in the independence assessment.

### **Institute of Certified Public Accountants of Uganda (ICPAU)**

Comment:

Yes, we believe that 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. Section 120 provides a robust conceptual foundation for identifying, evaluating, and addressing threats to auditor independence. The Code's principles-based approach allows for professional judgment in the assessment of threats to independence during audits of Investment Schemes.

However, there's a need for additional guidance, especially for Investment Schemes that involve complex interconnected relationships and management structures like umbrella schemes. S.3(3) of the Collective Investment Schemes Act Cap. 65 defines umbrella schemes as investment companies with variable capital whose instruments of incorporation provide for pooling of contributions from participants and the sharing of the resultant profits or income and whose shareholders are entitled to exchange rights in one part for rights in another. (Refer to Section 3.0 of Appendix 2). This could include more precise definitions of Connected Parties in the context of CIVs and pension funds, illustrative scenarios demonstrating how threats may arise, and practical guidance on evaluating and responding to those threats. Such enhancements would promote greater consistency,

transparency, and audit quality while enabling auditors to more effectively uphold independence in an increasingly complex financial landscape.

## **Institute of Chartered Accountants England and Wales (ICAEW)**

### **ICAEW Response**

ICAEW considers that the value of the Conceptual Framework is that it can be applied to novel, diverse and complex structures and stakeholder relationships, as they emerge.

We do not consider that any additional clarification of the Conceptual Framework is warranted or necessary.

The Conceptual Framework is “sector agnostic”; we do not consider that it would be helpful to overlay these now well-established broad principles (which are clear and simple to understand), with sector specific glosses. To do so, would risk making the framework unwieldy and difficult to apply across sectors.

## **Institute of Chartered Accountants Ghana (ICAG)**

We 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. Section 120 sets out requirements and application material, including a conceptual framework, to assist accountants in complying with the fundamental principles and meeting their responsibility to act in the public interest. Such requirements and application material accommodate the wide range of facts and circumstances, including the various professional activities, interests and relationships, that create threats to compliance with the fundamental principles. In addition, they deter accountants from concluding that a situation is permitted solely because that situation is not specifically prohibited by the Code. The conceptual framework specifies an approach for a professional accountant to: (a) Identify threats to compliance with the fundamental principles; (b) Evaluate the threats identified; and (c) Address the threats by eliminating or reducing them to an acceptable level.

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 Scotland (ICAS)**

We believe 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 CIV/pension fund and any such Connected Parties.

## **Institute of Singapore Chartered Accountants (ISCA)**

As mentioned in our response to Question 2, we believe that it is not necessary to introduce a new term “Connected Party”. The conceptual framework is already purposefully designed to be comprehensive and adaptable, and its application is not restricted to defined legal relationships such as formal control or ownership. The combination of a clear definition of related entity and the conceptual framework enables a comprehensive and proportionate assessment of independence threats, accommodating both structured and complex relationships.

## **International Federation for Accountants (IFAC)**

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 ‘Connected Parties.’ We have identified no need to revise this, and adding or expanding definitions or introducing prescriptive rules in relation to this area would be counterproductive. Embedding consideration of the three areas identified into the Code would inadvertently elevate their significance beyond what is warranted, potentially leading to over-compliance or misapplication.

If the Consultation Paper provides strong evidence that further clarity is needed, this would be best achieved through NAM or implementation guidance, rather than amendments to the Code. If there are genuine challenges in applying the requirements of Section 120, the ease of use of any NAM created should be central when drafting, as this will need to be a practical tool to facilitate implementation of requirements.

## **Intitut Der Wirtschaftsprufer (IDW)**

Yes, we 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 or pension fund and the connected parties on a proportionate basis. We are not aware of cases where the Code appeared to be insufficient in this respect.

## **Japanese Institute of Chartered Accountants (JICPA)**

The conceptual framework set out in Section 120 of the Code has long been established in practice, and we believe the provisions in the Code are sufficiently clear. On the other hand, with respect to investment schemes that do not have organizational or governance structures similar to conventional corporate structures, we believe that it would be useful to provide practical consideration factors in applying the conceptual framework in the application materials and/or staff Q&As, if necessary. The reason for this is that the circumstances of investment scheme systems and their organizational structures vary by jurisdiction.

## **Malta Institute of Accountants**

We appreciate the opportunity to respond to this Consultation Paper and support the IESBA's continued efforts to uphold and strengthen the ethical foundations of the profession. In our view, the current conceptual framework remains well-suited to address the complexities of auditor independence in the context of CIVs and pension funds, provided it is supported by appropriate non-authoritative guidance.

We would welcome further engagement as the project progresses and remain available to contribute to any future discussions or initiatives on this topic.

## **Pan African Federation for Accountants (PAFA)**

Section 120 of the IESBA Code provides a solid, principles-based framework for identifying, evaluating, and addressing threats to auditor independence, including those arising from Connected Parties. However, its practical application in the context of Collective Investment Vehicles (CIVs) and pension funds across Africa can be challenging. The framework often assumes that auditors have full visibility into complex and outsourced structures, which is not always the case. As a result, the clarity of the independence assessment process is diminished when key parties, such as fund administrators, asset managers, or consultants, are not formally associated with the audited entity but still exert material influence. While the conceptual approach is generally sufficient in theory, it

lacks the detailed, sector-specific guidance needed to support consistent application in practice. African practitioners would benefit from additional illustrative examples, implementation guidance, and industry-specific tools to effectively apply Section 120 in the diverse and often intricate environments in which CIVs and pension funds operate.

### **Pennsylvania Institute of CPAs (PICPA)**

We do not agree with the introduction of language into the Code that suggests that management can outsource its fiduciary responsibilities to connected parties. It is contrary to U.S. public policy. We believe that the Code – including the conceptual framework – are more than adequate to address independence threats. We further note that the consultation paper is not responding to any specific instance in which there was a failure resulting from a lack of adequate guidance.

### **Saudi Organization for Chartered and Professional Accountants (SOCPA)**

SOCPA Comments:

Yes, SOCPA believes that the conceptual framework in section 120 provides an overarching approach that should, from principle-based perspective, warrant the PAPP to remain alert to potential threats arising from relationships and circumstances with ‘connected parties’ which may impact audit team’s independence (both ‘independence of mind’ and ‘independence in appearance’). The successful application of the conceptual framework is dependent on the PAPP’s conduct of the three relevant aspects: having an inquiring mind, exercising professional judgment, and using the reasonable and informed third party test. The proper application of these aspects should alert the audit team to such relationships with other parties whether in auditing investment schemes or other types of entities (e.g. value chain entities in sustainability assurance).

However, we agree with the notion explained in the CP that the uniqueness of investment schemes (including how it operates) signifies the public interest and complicates the independence assessment. We observe this uniqueness and complexity in Saudi ‘investment fund regulations’ which require the appointment of independent auditor, but do not provide sufficient guidance with regard to the assessment of independence while explaining the occurrence of such complex relationships (e.g. fund management, fund operations, fund custody...etc). Although SOCPA prohibits auditors from providing non-audit services to audit clients with specific exceptions, we believe that the proposed additional clarification can help in the consistent application of the Code’s conceptual framework because it should help auditors understand what should be part of ‘audit client’ definition and independence assessment in the context of investment schemes.

Additionally, we believe that supplementing the conceptual framework with specific examples and criteria tailored to certain complex relationships and circumstances associated with investment schemes should help improving clarity. This supplemental guidance may, for instance, clarify what constitute “substantial affect” on financial performance, and “significant influence” over financial reporting, or provide illustrative scenarios for common threat patterns involving related entities (e.g. connected parties).

### **Wirtschaftspuferkammer (WPK)**

The WPK believes that the conceptual framework in Section 120 of the Code is sufficiently clear and appropriate to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the parties involved in such structures. Therefore, additional clarification in the Code is not considered necessary. The existing provisions of the conceptual framework are

intentionally formulated very generally to be suitable for a broad range of possible structures and situations including unusual and complex ones without requiring specific adaptations.

## **Disagree with Comments**

### **Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

We believe that the conceptual framework in Section 120 of the Code is helpful for identifying, evaluating and addressing threats to independence in the context of relationships between the auditor of a CIV or pension fund and Connected Parties.

In particular, the conceptual framework's emphasis on applying an inquiring mind, exercising professional judgement and using the reasonable and informed third party test offers useful direction for assessing such threats appropriately.

However, we note that CIVs and pension funds often involve complex arrangements and rely on external parties to perform functions that would typically be handled internally in a conventional corporate structure. This complexity can make it difficult to consistently identify all relevant Connected Parties and assess the associated threats to independence. As a result, different auditors or firms may reach different conclusions when applying the same framework, which is why further provisions may prove relevant.

## **Investors and Analysts**

### **Better Finance (BF)**

Investor Response:

Again, we believe that the application of the conceptual framework in Section 120 of the Code is not sufficiently clear in the context of CIVs and pension funds involving Connected Parties. Investors believe that without explicit guidance, too much discretion is left to individual audit firms, potentially resulting in inconsistent or overly lenient independence evaluations. The conceptual framework presumes that the auditor can reliably identify and assess all threats to independence; however, in the complex ecosystems of Investment Schemes—where authority and influence are widely distributed—this presumption is often unrealistic. As a result, key threats arising from business, financial, or personal ties with fund managers or advisors may be inadequately addressed or overlooked entirely. Investors would welcome clearer guidance and examples in the Code that explicitly address auditor relationships with Connected Parties. This would help ensure a uniform and rigorous standard of independence across jurisdictions and reduce audit quality variance.

## **Regulators and Audit Oversight Authorities**

### **Financial Reporting Council (UK FRC)**

We consider that the conceptual framework set out in Section 120 of the Code provides a sound and principles-based foundation for identifying, evaluating, and addressing threats to auditor independence, including those arising from relationships with Connected Parties in the context of audits of collective investment vehicles (CIVs) and pension funds.

The conceptual framework's emphasis on the application of an inquiring mind, the exercise of professional judgement and the use of the reasonable and informed third party test offers valuable guidance for navigating



complex independence considerations. These elements are particularly relevant in the CIV and pension fund environment, where external parties often perform functions that, in a traditional corporate context, would typically be undertaken internally.

Nonetheless, we recognise that the structural complexity of CIVs and pension funds can make it challenging to consistently identify all relevant Connected Parties and to assess the associated threats to independence. This complexity may lead to variability in how different auditors or firms apply the conceptual framework, potentially resulting in inconsistent conclusions, which is why we believe there may be merit in further provisions.

While we acknowledge that Section 120 of the Code is designed to be globally applicable, we also recognise that certain jurisdictions may face specific issues not fully addressed by the current framework. In such cases, we believe that the relevant national standard setters are best placed to provide supplementary guidance or requirements, provided these remain aligned with the overarching principles of the Code, rather than IESBA. Many jurisdictions have already developed and implemented independence rules tailored to their local regulatory and legal environments, particularly in relation to Connected Parties. These jurisdiction-specific adaptations should be carefully designed to ensure they remain aligned with the fundamental principles of the Code, thereby supporting overall harmonisation.

## **Independent Regulatory Board for Auditors (IRBA)**

We believe that the current application of the conceptual framework in the Code may not be sufficiently clear to identify, evaluate and address threats to auditor independence concerning the connected parties of CIVs and pension funds. While the conceptual framework is robust, it lacks specific guidance on applying its principles to the connected parties of CIVs and pension funds, which might lead to inconsistent application and interpretation among audit firms. We recommend that additional non-authoritative guidance and examples be provided to illustrate how to apply the framework in these contexts.

CIVs and pension funds often involve complex arrangements and rely on external parties to perform functions. They can also differ in form from one jurisdiction to another. This complexity can make it difficult to consistently identify all relevant connected parties and assess the associated threats to independence. As a result, audit firms may reach different conclusions when applying the framework, which is why additional guidance may be required.

Threats to independence, such as self-review, advocacy and familiarity threats, would need to be addressed in relation to connected parties. For example, connected parties earn commissions and fees based on the value of assets under their management. If an audit firm has, or is seen to have, a substantial role in managing, valuing or being the custodian of the assets, that could create a self-interest threat that would be difficult to mitigate. Guidance on how to evaluate and mitigate these threats is necessary.

While the conceptual framework serves as a strong foundation, additional non-authoritative guidance would be helpful to address the unique challenges posed by the connected parties of CIVs and pension funds. Guidance and practical examples would enhance the clarity and consistency of the framework's application.

## **Jurisdictional Standard Setters**

### **Accounting Professional & Ethical Standards Board (APESB)**

APESB is of the view that the application of the conceptual framework in the IESBA Code to Connected Parties does warrant additional clarification. While we acknowledge the IESBA Code does not have to specify its application to each type of entity, the significant levels of funds invested in CIVs worldwide and the breadth of their



application (as noted in paragraphs 15-18 of the Consultation Paper) creates a public interest imperative for strong and consistent auditor independence requirements.

APESB would support a definition of 'Connected Party' being added to the IESBA Code, subject to the concerns raised in question 2 being addressed. We would also support the inclusion of material in the IESBA Code to provide a clear connection that connected parties should be part of the auditor's independence considerations.

APESB notes that these entities are highly regulated in many jurisdictions; however, the legislation and allowable structures vary. We are of the view that highlighting the independence requirements for CIVs in the IESBA Code will ensure a globally consistent approach to independence is applied in the audits of these entities.

#### Stakeholder views

Stakeholders provided mixed views on whether additional clarification should be provided on the application of the conceptual framework by auditors of CIVs. Some stakeholders were of the view that the current provisions are sufficient, while others thought additional guidance in the Code or Non-Authoritative Guidance/Material would be useful.

## Accounting Firms

### RSM International (RSM)

When there are Connected Parties, we believe the conceptual framework in Section 120 of the IESBA Code of Ethics may not be sufficiently clear 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. The IESBA Code of Ethics is meant to be used by practitioners worldwide, and the current language may not ensure consistent application or understanding. The language in the conceptual framework may not be sufficiently comprehensive to address the unique circumstances of CIVs and pension funds, and it is likely that someone without the necessary background may not arrive at a consistent answer.

While the framework may be sufficiently clear for those with a background in ethics and independence, it is essential to recognize that the IESBA Code of Ethics is intended to be understood by anyone who applies it. This is particularly relevant when it is used as the basis for sections of the IESBA Code of Ethics that may be used by those that are not professional accountants, such as the International Ethics Standards for Sustainability Assurance (Including International Independence Standards). Consistent application of the IESBA Code of Ethics is beneficial for the market and in the public interest. It is important to consider whether auditors would stop to contemplate whether something is prohibited using the conceptual framework in Section 120 of the IESBA Code of Ethics without it being specifically addressed. We believe it is possible that individuals may simply move forward without considering the conceptual framework unless it is explicitly prohibited in the IESBA Code of Ethics. In addition, if the auditors do not reference additional guidance that exists when looking at Connected Parties, it can be challenging to determine if the terms are correct.

We believe more clarity and examples would help auditors identify Connected Parties and the related potential issues given the uniqueness of CIVs and pension funds, which may vary between jurisdictions. We would like to see the IESBA Code of Ethics revised to cover Connected Parties in CIVs and pension funds. The considerations above may be embedded in the relevant definitions, 'Part 3 – Professional Accountants in Public Practice' and subsections within Sections 600, 'Provision of Non-assurance Services to an Audit Client' of the IESBA Code of Ethics.

If the concept of Connected Parties is clearly defined, evaluating interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties becomes straightforward. However, when

a judgment call is required, and the auditor relies solely on the conceptual framework, the evaluation becomes subjective and auditors may find ways to conduct business that is not explicitly prohibited.

## **IFAC Member Bodies and Other Professional Accountancy Organizations**

### **ASEAN Federation of Accountants (AFA)**

While Section 120 of the Code provides a sound conceptual framework, we believe its application to Investment Schemes involving Connected Parties is insufficiently clear. While auditors are required to exercise professional judgement in evaluating threats, the absence of specific guidance on external service providers may result in inconsistent outcomes.

Practitioners may struggle to determine how to assess relationship involving entities not formally defined as audit clients or related entities but who have significant influence over particular scheme. This uncertainty is especially pertinent for jurisdictions where local guidance is limited or silent on such matters.

We recommend the IESBA develop supplementary application material focused on Connected Parties within the Investment Scheme context. This should include practical scenarios, decision-making tools, and clarification on how to operationalise the framework under varying legal and institutional settings.

### **Institute of Chartered Accountants of Jamaica (ICAJ)**

While Section 120 of the Code sets out a sound conceptual framework, its application may not be sufficiently clear in scenarios involving Connected Parties who meet the criteria in paragraph 35. In particular, the framework does not provide practical guidance or examples specific to the CIV/pension fund environment, where complex governance structures and third-party service providers may give rise to unique threats to independence. In such cases, the auditor may struggle to appropriately identify and evaluate threats without more detailed, context-specific direction from the Code.

### **Institute of Chartered Accountants of Pakistan (ICAP)**

Section 120 emphasizes the need to evaluate whether identified threats are at an acceptable level (paras R120.7, 120.7 A1). However, the Code does not provide a clear threshold or specific guidance for this assessment. In the audit of CIVs and pension funds, where structures are often complex and roles frequently overlap, the lines of influence can become blurred. This makes the evaluation of threats inherently subjective and potentially inconsistent in the absence of more explicit direction.

Given these challenges, the application of the conceptual framework to Connected Parties in the context of CIVs and pension funds would benefit from further clarification in the Code. In particular, the inclusion of practical guidance—such as illustrative examples or scenarios reflecting common industry structures (e.g., relationships with fund managers, third-party administrators, or entities with shared board members)—would help auditors better understand how to apply the framework in practice and support more consistent independence assessments.

### **Korean Institute of Certified Public Accountants (KICPA)**

The extant conceptual framework doesn't address considerations specific to investment schemes, which may lead to lack of clarity in circumstances that are unique to investment schemes. As noted in our answer for Question 2, supplementing the Code with application or non-authoritative materials that need to be considered in auditing CIVs would help the auditor better address the threat to independence arising from the situations unique to CIVs.

### **Malaysian Institute of Accountants (MIA)**

We believe that the current provisions may be insufficient due to the lack of clear definitions and application material involving investment schemes. In particular, Section 120 of the Code does not address the circumstances of CIVs and pension funds where other parties may have influence over financial reporting without being legally related entities. In the absence of specific guidance material, practitioners are required to rely on their professional judgement and may ultimately result in inconsistent application across firms.

As noted in our response to Question 2, the lack of specific guidance would lead practitioners to rely more on professional judgement and result in inconsistent decisions across firms and jurisdictions. For example, it is unclear whether a fund administrator or investment adviser that prepares the financial records but are not under the control of the investment scheme should be assessed as being an audit client or its related entity. Furthermore, there is also an increased complexity of relationships whereby investment schemes often have multiple layers of outsourced parties, some of whom play critical roles in operations, financial controls or data integrity.

We believe that it would be beneficial for further clarification to be made on the application of the conceptual framework to Connected Parties in relation to investment schemes. This can take the form of illustrative examples or application material which should also incorporate the qualifying considerations mentioned in Question 2 to assist practitioners in identifying relationships with actual independence concerns.

### **South African Institute of Chartered Accountants (SAICA)**

No, while the conceptual framework provides a principles-based approach, it lacks specific guidance on how to apply those principles in the context of Connected Parties to Investment Schemes. The absence of explicit provisions or illustrative examples may lead to inconsistent application across firms and jurisdictions. Additional clarification or non-authoritative guidance would be beneficial to ensure that auditors consistently identify and address threats arising from relationships with Connected Parties.

### **The Malaysian Institute of Certified Public Accountants (MICPA)**

We believe that further guidance and clarifications are needed in the application of the conceptual framework in relation to such Connected Parties.

## **No Specific Comment**

### **Investors and Analysts**

#### **Association of the Luxembourg Fund Industry (ALFI)**

Important considerations

ALFI would like to respond to two distinct points in the consultation, namely:

Questions 1&2 in relation to the impact of changes to the definition of “related entity”; and

Question 6 Luxembourg (and EU) jurisdictional requirements specific to CIVs / pension funds from an auditor perspective.

### **Investment Company Institute (ICI)**

Refer to General Comments for response

### **Accounting Firms**

#### **MO Chartered Accountants Zimbabwe**

Refer to General Comments for response

### **IFAC Member Bodies and Other Professional Accountancy Organizations**

#### **Accountancy Europe (AE)**

About Accountancy Europe

Accountancy Europe unites 49 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

### **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