

# **CIVS AND PENSION FUNDS REPORT**

**DECEMBER 2025**

**IESBA  
CIVS AND PENSION FUNDS PROJECT TEAM**

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## EXECUTIVE SUMMARY

1. The Collective Investment Vehicles (CIVs) and Pension Funds workstream was launched by the IESBA in December 2023 to evaluate whether the independence provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) remain fit for purpose for audits of CIVs and pension funds (“Investment Schemes”). Unlike traditional corporate entities, these structures often operate through decentralized governance models in which ownership, control, and management functions are separated, and specific roles or functions are delegated to external service providers such as investment managers, advisors, trustees, and custodians. This complexity has raised questions about how the Code’s related entity definition and conceptual framework should be applied when assessing auditor independence with respect to these Connected Parties.
2. Over the past two years, the Project Team (PT) has carried out extensive research, outreach, and consultation to build a comprehensive understanding of these issues. Its work included a global review of regulatory and professional standards in key jurisdictions, targeted discussions with regulators, audit oversight bodies, firms, and investor groups, and the development of a Consultation Paper (CP) which the IESBA approved and released in March 2025. The CP generated 59 comment letters from a wide range of stakeholders, both global organizations as well as organizations representing more than 30 jurisdictions. This input, together with the PT’s research findings, provides the evidence base for the analysis and recommendations in this report.
3. The responses to the CP highlight that while the Code’s principles-based framework remains fundamentally sound, there are a number of calls among respondents for greater clarity in how it applies to the complex structures of Investment Schemes. A majority of respondents expressed the view that the Code’s ownership-based related entity definition does not adequately capture entities that have operational control or significant influence, such as fund managers or trustees. Only 26 percent of respondents agreed that the definition is sufficient, while 64 percent disagreed and 10 percent offered no view.
4. However, there were more nuances beyond the binary responses to the question regarding the sufficiency of the related entity definition. Specifically, 40% of the respondents agreed that using the related entity definition alongside the conceptual framework is effective in identifying all entities relevant to Investment Scheme audits. Additionally, 20% stated that combining this definition with local laws and regulations is enough to ensure auditor independence when dealing with Investment Schemes.
5. Notwithstanding that a number of respondents considered that the conceptual framework, when applied together with jurisdictional laws and regulations, provides sufficient flexibility to evaluate such relationships, many respondents believe that additional clarification or illustrative guidance would promote more consistent application across jurisdictions.
6. The consultation also revealed broad confidence in the Code’s conceptual framework, with two-thirds of respondents affirming that it remains robust and relevant. Respondents emphasized that having an inquiring mind, exercising professional judgment, and using the reasonable and informed third-party test continue to provide an effective basis for evaluating threats to independence. Nevertheless, many encouraged the IESBA to develop non-authoritative materials (NAM) to show how the conceptual framework could be applied in practice to the unique circumstances of Investment Schemes, where relationships are often indirect or layered.
7. Throughout the information gathering, the PT identified several challenges that contribute to perceived interpretive differences in practice. The structural diversity of Investment Schemes

makes it difficult to apply the concepts of “control” and “significant influence” consistently. In addition, variations in national regulations—such as whether fund managers or advisors are treated as public interest entities (PIEs)—create perceived inconsistencies in the way independence requirements are implemented. In this regard, the PT agreed with a number of respondents that it is important to recognize that the application of the conceptual framework will, by design, vary depending on the specific facts and circumstances. Thus, the fact that the conceptual framework is applied differently in an audit of an Investment Scheme compared with an audit of a different Investment Scheme does not mean that the auditors of the Schemes have applied the conceptual framework inconsistently.

8. Nevertheless, based on its findings, the PT concluded that maintaining the status quo is not an appropriate option, given a level of uncertainty expressed by various respondents across stakeholder categories regarding the application of the Code, and the strong public interest in auditor independence, in this area. At the same time, substantive revisions to the Code – such as redefining the related entity concept or introducing new terminology – would present significant challenges for global consistency and alignment with *existing* national independence regimes or frameworks relating to Investment Schemes.
9. **The PT therefore recommends that the IESBA commission NAM to clarify how the existing provisions of the Code apply to audits of Investment Schemes.** This approach would provide practical support for consistent application, strengthen confidence in the Code’s global operability, and preserve its principles-based foundation.
10. The recommendation to commission NAM would represent a proportionate and timely response to stakeholder feedback and an important step in reinforcing the public’s trust in the independence of auditors of Investment Schemes.

## I. INTRODUCTION

### New Workstream

1. The IESBA initiated the *Collective Investment Vehicles and Pension Funds* workstream in December 2023 in response to questions about the sufficiency of the Code's independence provisions when applied to certain pooled investment structures. These structures, i.e., collective investment vehicles (CIVs) and pension funds (hereinafter referred to as "Investment Schemes" or "Schemes"), differ fundamentally from traditional corporate structures. In particular, their governance and operational structures are decentralized, with management and advisory responsibilities frequently outsourced to third parties (hereinafter referred to as "Connected Parties"), like investment advisors, fund managers, trustees, and custodians, to perform functions that are typically managed internally in conventional corporate structures.

### Background

2. In 2021, the IESBA issued an exposure draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED), to address concerns expressed by regulatory stakeholders regarding the adequacy and consistency in application of the PIE definition in the Code globally. The PIE ED contained proposed mandatory PIE categories, which included CIVs and entities that provide post-employment benefits (PEBs).
3. After reflecting on stakeholders' feedback on the PIE ED regarding the wide diversity in structure, governance and size of CIVs and PEBs, the IESBA removed these categories from the mandatory PIE categories. This decision was based on the consideration that incorporating these elements would place an undue burden on local regulators and jurisdictional standard setters (JSS) to further clarify the CIV and PEB categories. However, with the concurrence of the Public Interest Oversight Board, the IESBA committed to undertaking a holistic review of CIVs, PEBs and investment company complexes (ICCs)<sup>1</sup> as part of the [IESBA's 2024-2027 Strategy and Work Plan](#). The review would be from an auditor independence perspective, given questions regarding the application of the "related entity" concept in the [IESBA's International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) to these investment structures.
4. In December 2023, the IESBA launched an initiative with respect to auditor independence in the context of audits of Investment Schemes. The workstream's focus arose from the Board's recognition that the current definition of "related entity" in the Code may not fully capture the entities or individuals that exert influence over the financial statements of these Schemes. As a result, this lack of clarity could affect the consistency of application of the auditor independence requirements across jurisdictions.
5. The fact that doubts might arise regarding the application of the Code in these circumstances can be highlighted by considering relevant provisions of the extant Code:
  - (a) Paragraph R400.18 requires that a "firm performing an audit engagement shall be independent."
  - (b) Paragraph R400.19 requires that a firm apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

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<sup>1</sup> The workstream's objectives include reviewing the U.S. Securities and Exchange Commission's (SEC) independence rules on ICCs. While the independence rules for ICCs are specific to the United States, the PT considered aspects of these rules as they relate to this workstream.

6. To comply with these requirements, a firm must first identify all entities that comprise the audit client.<sup>2</sup> Relevant to the requirements noted in paragraph 5 is the definition of “related entity” in the Code.<sup>3</sup> That definition focuses on whether an entity has “control” or “significant influence” over another entity. However, the concepts of “control” and “significant influence” are not defined within the Code. The PT’s research across different jurisdictions shows that control of CIVs or pension plans by a third party can be based on either accounting or regulatory criteria. Accounting-based control is often derived from IFRS 10,<sup>4</sup> while regulatory-based control varies depending on the jurisdiction.

### *Public Interest*

7. Although the PT has not identified an audit failure caused by a lack of independence when auditing these Investment Schemes, it has noted regulatory interest arising from the substantial amount of funds invested in CIVs and pension funds. In June 2006, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued its final report of the Examination of Governance for Collective Investment Schemes (CIS). The report highlighted the results of a survey conducted of IOSCO’s member jurisdictions, noting the various entities and legal structures that existed and how these might create differences in member jurisdictions’ approaches to CIS governance issues. As a result of the differences, it was agreed that the overarching principle of governance would be independent review and oversight of the CIS operator’s fiduciary duties. The report specifically noted that auditors of CIS can play a role in the governance framework, resulting in protection of investors’ interests.
8. According to the [Investment Company 2024 Factbook](#) as of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled \$257.4 trillion, of which regulated funds’ net assets were 27%, or \$68.9 trillion. According to the International Investment Funds Association, which collected data on 46 jurisdictions, regulated funds are typically defined as collective investment pools that are substantively regulated, open-end investment funds. In the past decade, the net sales of regulated funds worldwide have totaled \$19.9 trillion from 139,982 regulated funds. The report specifically noted that 116 million individual investors in 68.7 million US households relied on mutual funds to meet long-term personal financial objectives. This activity resulted in net inflows of US\$292 billion in 2023.
9. The public interest in Investment Schemes is undeniable. However, due to the diversity of Investment Schemes, the global scale of these types of investments and the regulatory complexities, thoughtful consideration has remained paramount in the IESBA’s consideration of how to move forward.

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<sup>2</sup> As defined in the Glossary

<sup>3</sup> The Code defines a related entity as an entity that has any of the following relationships with the client:

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

<sup>4</sup> International Financial Reporting Standard (IFRS) 10, *Consolidated Financial Statements*

### *Control or Significant Influence*

10. The PT's research revealed that the issue of control and significant influence may create inconsistencies in applying the related entity definition, which is fundamental when determining the audit client and the scope for an auditor's independence assessment. The Code does not define "control" or "significant influence" and many jurisdictions seem to base their determination on whether "control" or "significant influence" exists based on the applicable financial reporting or regulatory framework.
11. At the IESBA-JSS meeting in May 2024, participants were briefed about the workstream and invited to offer feedback. Some participants expressed the view that the principles underlying "control" in the financial reporting frameworks do not work appropriately with respect to Connected Parties to Investment Schemes. Other participants stressed that certain Investment Scheme frameworks ensure that no single third-party service provider "controls" the Investment Scheme. Another participant referred to the importance of the IOSCO principles of securities regulation in the design of regulatory frameworks addressing auditor independence in respect of Investment Schemes.<sup>5</sup>
12. Given the focus on control and significant influence, these Connected Parties might not be captured by the definitions of "audit client" and "related entity" in the Code. So, there may be inconsistencies or gaps in the independence assessments. For example, if the auditor of an Investment Scheme has a business relationship with, or financial interest in, a Connected Party, threats to independence might not be adequately identified, evaluated and addressed if this third party is not regarded as being part of the audit client. (Nevertheless, the Connected Party might be subject to jurisdictional laws or regulations that require the Connected Party to be included in independence assessments.)
13. Indeed, while the PT's research began with an investigation into whether control or significant influence was important when considering the role of Connected Parties, it became clear as the information gathering evolved that the challenge stems from the fact that some Connected Parties might not always be captured by the related entity definition. *From an independence perspective, what really matters is whether threats to the auditor's independence are properly identified, evaluated and addressed.* Thus, it becomes imperative to assess whether there are any interests, relationships or circumstances involving Connected Parties that might pose potential threats to the auditor's independence when conducting the audit of an Investment Scheme. As noted by many of the respondents to the CP, such threats should be identified, evaluated and addressed in accordance with the conceptual framework,<sup>6</sup> regardless of whether or not the Connected Parties are considered part of the audit client.

### *Objectives of the Project Team*

14. The PT's objectives, as set out in the [Terms of Reference](#), are to:
  - (a) Review CIVs and pension fund arrangements and their relationships with trustees, managers and advisors to gain a comprehensive understanding of these arrangements to ensure that the independence provisions and the application of the "related entity" definition in the *International Independence Standards* in Part 4A of the Code remain fit for purpose;

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<sup>5</sup> [Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation](#). For example, Principle 20 "Auditors should be independent of the issuing entity that they audit" sets out the critical role of independent auditors in enhancing the reliability of financial information.

<sup>6</sup> Paragraph R120.3 and R400.19

- (b) Review investment company complexes and consider whether the Code should be enhanced to address these structures, such as establishing new terms and definitions, and clarifying which entities or arrangements within such a complex should be considered as related entities of an audit client; and
  - (c) Develop a report and recommendations to the IESBA.
15. To achieve these objectives, the PT focused on obtaining a baseline understanding of investment schemes in different jurisdictions, concentrating its research on CIVs accessible to the general public and those pension funds with characteristics similar to these types of CIVs. This focus is based on the potential risk of financial harm these Schemes may create for investors and the public if a financial failure were to occur, highlighting the need for independent, high-quality audits of such Schemes. Sophisticated investment vehicles, like private equity or hedge funds, are not included in the scope of this workstream.

## Approach

16. The PT undertook a phased approach to achieve the objectives set out above.
17. As part of gathering an understanding of CIVs, pension funds and investment company complexes, the PT undertook the following activities:
- (a) Desktop research on CIVs and pension fund arrangements in different jurisdictions and their relationships with trustees, managers and advisors;
  - (b) Desktop research to understand the intricacies of investment company complexes, taking into account the United States Securities and Exchange Commission's (SEC) independence and related rules on investment company complexes; and
  - (c) Engagement with relevant experts and stakeholders both formally and informally to obtain insights on the issues and relationships, understand different perspectives and share knowledge.
18. To facilitate global stakeholder feedback on the matters under consideration, the IESBA also issued the Consultation Paper (CP) [\*Collective Investment Vehicles and Pension Funds – Auditor Independence\*](#) in March 2025. Among other matters, the CP invited views on whether revisions to the Code might be needed to establish clarity with respect to the independence of auditors when they audit these Investment Schemes.
19. The CP explored relationships involving Connected Parties and requested respondents' input on three areas: (a) whether the "related entity" definition is adequate; (b) whether respondents support the general criteria<sup>7</sup> for scoping in Connected Parties; and (c) whether the Code's conceptual framework is consistently applied when assessing independence threats arising from interests, relationships, or circumstances between the auditor of an Investment Scheme and its Connected Parties. These three areas will be explored further in Section III, which presents the PT's findings and sets out the context and rationale behind the PT's recommendations.

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<sup>7</sup> The criteria, set out in paragraph 35 of the CP, are that the Connected Party is:

- (a) Responsible for CIV's/pension fund's decision making and operations;
- (b) Able to substantially affect its financial performance; or
- (c) In a position to exert significant influence over the preparation of its accounting records or financial statements.



## II. INFORMATION GATHERING

20. The PT's information gathering focused on the following common characteristics of Investment Schemes:

| Common Characteristics   |
|--|
| Investments are generally open to the public   |
| Investment Schemes enable a number of investors to pool their assets with a view to sharing profits or income from the purchase, holding, management or disposal of assets |
| Investments are generally invested and managed by a third-party advisor or investment manager  |
| These types of entities are typically highly regulated   |

### Jurisdictional Research

21. From December 2023, the PT researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with parties such as trustees, managers, and advisors to develop an in-depth knowledge of the overall Scheme governance and the roles and functions that these parties undertake. Understanding these relationships is fundamental to determining whether the “*related entity*” definition in the Code, which is determined by elements of control or significant influence, adequately addresses these types of audit clients and captures the appropriate parties involved with the Scheme. [Appendix 1](#) lists the stakeholders the PT engaged with in 2024, and the jurisdictions they represent.
22. The PT's research identified significant governance and structural differences in Investment Schemes compared to traditional corporate structures. Generally, Investment Schemes do not have their own employees. In such cases, the day-to-day operations of the Scheme, and the investment and management of the Scheme investors' funds, are typically undertaken by, or outsourced to, a third-party or parties (called various names in different jurisdictions) in accordance with an underlying foundational document or agreement.
23. Aspects of corporate governance normally assumed within an organization, including certain oversight and management functions, are often undertaken externally to the Investment Scheme itself. This is consistent with the IOSCO Technical Committee's definition of governance for collective investment schemes, which recognizes “*the differences between the nature and purpose of CIS and the operating companies in which they invest*” and “*the fact that CIS are structured and regulated differently.*”<sup>8</sup>
24. This research also underscored that Investment Schemes assume various designs of legal framework and are subject to different jurisdiction-specific legal and regulatory obligations, resulting in diversity regarding which organization(s) is(are) responsible for the Scheme's oversight and management. The PT also identified that it is not unusual for third parties engaged by Schemes to be involved in activities and decisions regarding the acquisition, deployment and control of resources, and/or designing, implementing, monitoring or maintaining internal controls.

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<sup>8</sup> Refer page 3 of the Report of the Technical Committee of the IOSCO [Examination of Governance for Collective Investment Funds Final Report Part I](#).

25. At both the [March 2024](#) and [June 2024](#) IESBA meetings, the PT highlighted that the scope of the independence provisions in Part 4A of the Code is determined by the definition of “audit client”<sup>9</sup> and the elements of “control” or “significant influence,” which are fundamental to determining whether an entity is a “related entity” to an audit client.
26. The PT identified jurisdictional variations in respect of:
- Whether the third party holds interests in the Investment Scheme; however, third parties do not generally hold a majority ownership or voting control of the Scheme.<sup>10</sup>
  - Contractual rights and obligations of these third parties.
  - How control and significant influence are determined.

Therefore, depending on the facts and circumstances, these third parties may or may not have control or significant influence over the Scheme. If these third parties do not have control or significant influence over the Scheme, they would not be captured under the “related entity” definition in the Code and would not automatically be required to be included in the independence evaluation. The proper application of the conceptual framework in the Code entails consideration of interests, relationships and circumstances that might directly or indirectly affect the auditor’s independence.

### Consultation Paper

27. The CP highlighted relationships involving Connected Parties and sought views on the following questions:
- (a) Does the Code’s definition of “related entity” capture all relevant parties that need to be included in the auditor’s independence assessment when auditing CIVs/pension funds?
  - (b) Do you believe the criteria set out in paragraph 35 of the CP are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund?
  - (c) Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties? If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?
  - (d) Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?
  - (e) Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed?

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<sup>9</sup> An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity, in accordance with paragraphs R400.27 of the Code, the audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control.

<sup>10</sup> For example, India and Singapore

- (f) Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation?
28. A total of 59 comment letters<sup>11</sup> were received in response to the CP. They represented a wide range of stakeholders and a variety of views. [Appendix 2](#) provides a complete list of respondents.
29. Respondents unanimously underscored the public interest importance of robust, independent audits, though their views diverged on whether audits of Investment Schemes presented challenges to auditor independence that warrant the IESBA's intervention. The following key themes were identified from respondents' comments that were discussed during the [September 2025](#) IESBA meeting:
- Auditor independence is central to maintaining trust in financial reporting, safeguarding investors, and reinforcing market stability.
  - The conceptual framework in Section 120 of the Code is sufficient for identifying and addressing threats to independence, and principles-based guidance provides the necessary flexibility across diverse jurisdictions and Scheme complexities.
  - Recurring threats, including fee dependency, provision of non-audit services to Connected Parties, familiarity from an auditor's long tenure with a Scheme, and financial or personal relationships between auditors and fund managers or service providers, were considered to be particularly relevant given the outsourced and complex structures of CIVs and pension funds.
  - There is significant diversity in regulatory environments. [Appendix 3](#) provides a high-level summary of jurisdictional findings derived from the PT's research, responses to questionnaires and interviews, as well as feedback received from the CP respondents.
30. In the following section, the PT presents the key findings from stakeholders' responses to the CP, focusing on the three main areas of focus in the CP:
- (a) The adequacy of the related entity definition in addressing audits of Investment Schemes;
  - (b) The appropriateness and sufficiency of the criteria suggested in paragraph 35 of the CP to capture Connected Parties; and
  - (c) Whether the application of the conceptual framework is sufficiently clear with respect to Connected Parties.

### III. KEY FINDINGS FROM PUBLIC CONSULTATION

#### Overall Summary of Key Comments from Respondents

##### *Related Entity Definition*

31. Of the 59 respondents to the CP, a majority expressed the view that the current related entity definition in the Code is not sufficient to address the complexities of CIVs and pension fund structures. Specifically, 26% agreed that the definition is sufficient, while 64% disagreed, and 10% did not take a definitive position.<sup>12</sup> The differences of views exist not only between

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<sup>11</sup> Submitted comment letters can be found on the IESBA website: [Collective Investment Vehicles and Pension Funds - Auditor Independence | Ethics Board](#)

<sup>12</sup> Percentages mentioned in this report are intended to provide a general sense of the extent to which respondents share a particular view on a matter, recognizing that some respondents are groups of organizations while others are individual organizations. These percentages do not determine the IESBA's final position on a matter as the IESBA weighs a variety of

categories of respondents (e.g., regulators vs firms) but also within categories of respondents (e.g., investors, firms and professional accountancy organizations (PAOs)).

32. Among those offering more detailed views, 40% of respondents indicated that the related entity definition, when applied together with the conceptual framework, adequately captures all relevant entities involved in the audit of Investment Schemes. Separately, 20% emphasized that the definition, in conjunction with jurisdictional laws and regulations, is sufficient to address auditor independence in the context of Investment Schemes.
33. These results suggest that while a number of respondents find the existing framework adequate, a significant majority perceive gaps or inconsistencies in the definition's application in relation to Connected Parties such as investment advisors, management companies, and trustees.
34. The responses point to a divergence in stakeholder perspectives—with some advocating reliance on the conceptual framework or national regimes, and others calling for further clarification or expansion of the Code to ensure global consistency and transparency in auditor independence assessments.

#### *Connected Party Criteria*

35. With respect to the Connected Party criteria set out in paragraph 35 of the CP, 54% of respondents felt they were relevant and appropriate, while 34% disagreed and raised various concerns. The regulatory/JSS and investors groups showed the highest level of support for the criteria with 100% and 60%, respectively. Of those who had concerns about the criteria, 19% highlighted the inherent complexity of Investment Scheme structures as a barrier to consistent global application, and 5% cited jurisdictional variation as a challenge to developing universally applicable guidance. Only four out of 59 respondents (less than 10%) proposed introducing a new definition of "Connected Party" directly into the Code.

#### *Application of the Conceptual Framework*

36. Respondents from all stakeholder categories agreed that the conceptual framework is clear (66%), with some noting that there should be an emphasis on having an inquiring mind, exercising professional judgment, and using the reasonable and informed third-party test as essential tools for applying the conceptual framework. Regardless, 47% of respondents suggested the development of NAM to assist with the application of the conceptual framework with respect to Connected Parties and how auditors should assess indirect relationships. The complexity of Investment Schemes was cited by 19% of respondents as a challenge to the consistent application of the conceptual framework under the circumstances. There was a view that global diversity may also complicate the development of requirements and definitions that are fit for purpose (5%).
37. Segmentation of the responses showed that 80% of firms and 70% of PAOs felt that the conceptual framework was clear with respect to assessing auditor independence in relation to Connected Parties. Meanwhile, 50% of the Regulators/JSS group disagreed. The investor group had mixed responses with 40% agreeing, 20% disagreeing, and 40% not responding whether the conceptual framework is clear.
38. When asked whether the conceptual framework is applied consistently in practice, 46% of respondents agreed that it was. A number of the respondents highlighted that the conceptual

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factors in reaching a conclusion on a matter, including the merits of arguments advanced by stakeholders from a public interest perspective.

framework is by design intended to be applied to the particular facts and circumstances, and this does not inherently mean that it is applied inconsistently in practice.

39. Those who were of the view that there are inconsistencies in application highlighted a number of factors as contributing to such inconsistencies, including:
- Professional judgement
  - Level of Investment Scheme structure
  - Interpretation differences with respect to the conceptual framework
  - Laws and regulations
  - Jurisdictional independence requirements
40. To assist consistent application of the conceptual framework, 25% of respondents supported practical implementation guidance.

### Specific Arguments Raised by Respondents

#### *Related Entity Definition*

41. Among respondents who believe that the related entity definition captures all the relevant parties and therefore no changes to the definition are needed, the following key arguments were made:
- The current definition, combined with the conceptual framework and any applicable local laws and regulations, already captures the relevant parties.<sup>13</sup> In this regard, a respondent from the firms explained that its engagement acceptance process for non-assurance services (NAS) involves applying a “look through” approach to capture scenarios of indirect services where the beneficiary of a NAS provided to a third party might be a “restricted entity” (e.g., an audit client).<sup>14</sup>
  - The concepts of control and significant influence remain appropriate, regardless of the nature of the relevant party.<sup>15</sup>
  - A principles-based approach allows firms to assess independence and identify parties to which the independence provisions apply.<sup>16</sup>
  - There is no evidence of systemic weaknesses that need to be addressed.<sup>17</sup> In many jurisdictions, Investment Schemes are already subject to rigorous regulatory oversight and robust auditing standards. It was also noted that outsourced activities are always performed under the ultimate responsibility of those charged with governance of the Schemes.<sup>18</sup>
  - Introducing prescriptive standards or new terms could conflict with jurisdictional rules, increase complexity or costs, or create unintended consequences.<sup>19</sup>

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<sup>13</sup> **Investors:** ALFI, EFAMA; **Firms:** DTTL, GTIL; **PAOs:** AICPA, Assirevi, CAI, CNCC, GAA, IRE, IREFI-IRAIF, PICPA (a few of the respondents also cited the application of paragraph R400.27 of the Code which specifies the scope of related entities included with the audit client)

<sup>14</sup> **Firms:** PwC

<sup>15</sup> **Firms:** DTTL; **PAOs:** CAI

<sup>16</sup> **Investors:** ALFI, EFAMA; **Firms:** FM; **PAOs:** AICPA, Assirevi, IRE, ICAP

<sup>17</sup> **Investors:** ICI; **Firms:** KPMG, PP; **PAOs:** CAI, CNCC, GAA

<sup>18</sup> **PAOs:** IREFI-IRAIF

<sup>19</sup> **Investors:** ALFI, EFAMA; **Firms:** KPMG; **PAOs:** AICPA, Assirevi, CAI, GAA, PICPA

- Changes could limit market access to firms' expertise without enhancing investor protection or could make the audit impracticable.<sup>20</sup>
42. Some of the respondents also argued that local regulators or standard-setting bodies are best positioned to provide additional guidance within their respective environments.<sup>21</sup>
43. Among respondents who believe that the related entity definition does not capture all the relevant parties, the following key arguments or observations were made:
- While the definition captures financial interest relationships, it may not cover other relationships where there may be control or significant influence via other means, for example, through contractual agreements, performing key management functions or exerting significant influence over the preparation of accounting records or financial statements.<sup>22</sup>
  - While the definition alone is not sufficient to capture all relevant entities, the gap is covered when applying the conceptual framework.<sup>23</sup>
  - The concepts of control and significant influence may not capture relevant entities, especially given that control is not defined.<sup>24</sup>
  - A global definition may not be possible and any specificities with respect to capturing relevant parties should be left to local bodies.<sup>25</sup>
44. While expressing the view that the current definition does not capture all relevant parties, a few respondents nonetheless advised caution about making changes to the definition to avoid inadvertently restricting audit firm choice and negatively impacting competition, or creating potential conflicts with existing legal and regulatory frameworks.<sup>26</sup> Some also suggested to be mindful that there has been no evidence of problems in this area.<sup>27</sup> Others noted that in some jurisdictions, local laws and regulations are already in place to address independence in the context of Investment Schemes.<sup>28</sup>
45. A number of respondents adopted a middle position, suggesting further consideration by the IESBA, including additional clarification or guidance to ensure consistency of application across jurisdictions.<sup>29</sup> Some nevertheless emphasized the importance of maintaining a principles-based approach.<sup>30</sup>

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<sup>20</sup> **Investors:** ALFI; **Firms:** KPMG; **PAOs:** CNCC, IFAC, MIA

<sup>21</sup> **Firms:** DTTL, KPMG; **PAOs:** AICPA, GAA

<sup>22</sup> **Investors:** BF, IAM; **Regulators:** BAOA, HAASOB, IFIAR, IRBA, NASBA, UKFRC; **Firms:** RSM; **JSS:** XRB; **PAOs:** ACCA, AE, AFA, ICAJ, ICPAK, JICPA, KICPA, MIA, MICPA; PAFA, SAICA, SOCPA

<sup>23</sup> **Firms:** BDO, EY, PwC; **PAOs:** AE, ACCA, CAANZ, CPAA, CACR, CPAC, HKICPA, ICAEW, ICPAU; ICAS, IDW, IFAC, ISCA, MIA, WPK

<sup>24</sup> **Regulators:** IRBA; **Firms:** BDO, EY, RSM; **JSS:** APESB; **PAOs:** JICPA

<sup>25</sup> **PAOs:** AE, IDW

<sup>26</sup> **PAOs:** AE, IFAC

<sup>27</sup> **JSS:** XRB; **PAOs:** AE, IDW, IFAC

<sup>28</sup> **Regulators:** IRBA; **Firms:** PwC; **JSS:** APESB, XRB; **PAOs:** AE, ICPAU

<sup>29</sup> **Investors:** IAM; **Regulators:** HAASOB, IRBA, UKFRC; **Firms:** BDO, PwC; **JSS:** APESB; **PAOs:** AE, HKICPA, ICAS, ICPAU, MIA, NBA

<sup>30</sup> **Regulators:** IRBA, UKFRC; **PAOs:** AE, CPAC

46. A few respondents suggested adding a definition of control<sup>31</sup> or providing guidance on control with reference to the applicable financial reporting framework.<sup>32</sup> It was also observed that it is unclear whether individuals are captured within the related entity definition.<sup>33</sup>

#### *Connected Party Criteria*

47. Many respondents agreed that the criteria suggested in paragraph 35 of the CP appropriately capture Connected Parties,<sup>34</sup> with a few suggesting including the concept of a Connected Party as a definition or guidance in the Code.<sup>35</sup> Others also agreed with the suggested criteria but shared the following additional thoughts, observations or suggestions:
- The criteria should not be included in the Code as they are covered by the conceptual framework and it would not be appropriate to include a definition of Connected Party in the Code.<sup>36</sup>
  - The scope of the criteria should be reviewed to ensure that the term Connected Party captures the appropriate parties and not a wider cohort of entities than intended.<sup>37</sup>
  - The qualitative terms in the criteria (e.g., “substantially,” “significant influence” and “decision-making and operation”) should be reviewed for clarity.<sup>38</sup>
  - The related entity definition should include a separate category for Connected Parties.<sup>39</sup>
  - The criteria could add complexity and lead to inconsistent application.<sup>40</sup>
  - Further refinement could be made to the criteria, with guidance or illustrative examples.<sup>41</sup> A few suggested including thresholds or qualifying considerations with the criteria to ensure that only relevant parties are captured.<sup>42</sup> There was also a suggestion to consider applicable laws and regulations in determining whether criteria are required.<sup>43</sup>
  - Consideration should be given to capturing advisory service providers and functionally influential parties as Connected Parties.<sup>44</sup> There was also a question as to whether it was sufficiently clear that individuals are also covered by the criteria.<sup>45</sup>

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<sup>31</sup> **Firms:** RSM

<sup>32</sup> **Regulators:** IRBA

<sup>33</sup> **Firms:** RSM

<sup>34</sup> **Investors:** BF, IAM; **Regulators:** BAOA, HAASOB, IFIAR, IRBA, NASBA, UKFRC; **Firms:** BDO, PP, RSM; **PAOs:** AFA, HKICPA, ICAG, JICPA, KICPA, MIA, MICPA, SOCPA, SAICA

<sup>35</sup> **JSS:** APESB; **Firms:** RSM

<sup>36</sup> **Investors:** EFAMA; **Firms:** FM; **PAOs:** CACR, CPAC, IRE, IFAC, WPK

<sup>37</sup> **Regulators:** NASBA; **JSS:** APESB, XRB; **Firms:** PwC

<sup>38</sup> **Regulators:** BAOB, IFIAR, IRBA, UKFRC; **Firms:** BDO, RSM; **PAOs:** AFA, MIA, SOCPA

<sup>39</sup> **Investors:** BF

<sup>40</sup> **Regulators:** IFIAR, UKFRC; **PAOs:** HKICPA, IRE, MIA, WPK

<sup>41</sup> **Regulators:** IRBA, NASBA; **Firms:** FM; **PAOs:** CPAC, ICAG, ICAJ, ICAP, IFAC, KICPA, SOCPA, WPK

<sup>42</sup> **PAOs:** JICPA, MIA

<sup>43</sup> **PAOs:** IRE, MIA

<sup>44</sup> **Investors:** IAM; **PAOs:** PAFA

<sup>45</sup> **Regulators:** IRBA

- Targeted amendments to related entity definition could achieve the same outcome as adding criteria for Connected Parties.<sup>46</sup>
48. Respondents who disagreed that the criteria in paragraph 35 of the CP appropriately capture Connected Parties raised the following arguments:
- Variations in how Investment Schemes are structured, operated, managed, and governed, and different jurisdictional regulations make it difficult to create global requirements and definitions.<sup>47</sup>
  - The criteria lack clarity and may capture irrelevant entities or be applied inconsistently.<sup>48</sup>
  - It is difficult to assess the adequacy of the criteria without clarity regarding the scope of Investment Schemes covered as no definitions of CIVs and pension funds were provided in the CP.<sup>49</sup>
  - The criteria should be considered in conjunction with the conceptual framework.<sup>50</sup>
  - There is a need for caution in addressing industry-specific matters. In particular, it is unclear why the criteria are unique to Investment Schemes.<sup>51</sup> CIVs and pensions funds are not the only types of entity that operate under a series of outsourced service provider arrangements. There are other industries where this may be a typical operational arrangement, e.g., “owners management companies” typically employ a range of external service providers for property maintenance, property management, etc.<sup>52</sup>
  - Jurisdictions may need to refine the criteria to suit the unique characteristics of their markets.<sup>53</sup>
49. Some respondents disagreed with developing criteria to identify Connected Parties for similar reasons they disagreed with revising the related entity definition, including the following:
- The conceptual framework will capture all relevant entities.<sup>54</sup>
  - The criteria could conflict with local laws and regulations or auditing standards.<sup>55</sup>
  - Local laws and regulations may already have addressed independence in this area.<sup>56</sup>
  - Changes will add complexity and increase audit costs.<sup>57</sup>
  - Changes may impact market competition or make it harder to source an independent auditor.<sup>58</sup>

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<sup>46</sup> **Regulators:** IFIAR, UKFRC

<sup>47</sup> **Investors:** EFAMA; **Firms:** EY; **PAOs:** AE, Assirevi, CAI, CNCC, CPAA, ICAEW

<sup>48</sup> **Firms:** DTTL, GTIL, KPMG; **PAOs:** ACCA, AE, AICPA, Assirevi, CAANZ, CNCC, ICPAU, IDW, ISCA

<sup>49</sup> **PAOs:** CAI, IDW

<sup>50</sup> **PAOs:** AE

<sup>51</sup> **PAOs:** AICPA, Assirevi

<sup>52</sup> **PAOs:** CAI, CPAC, HKICPA

<sup>53</sup> **Firms:** EY; **PAOs:** CPAA, PICPA

<sup>54</sup> **Firms:** DTTL, EY; **PAOs:** Assirevi, CAI, CAANZ, GAA, IREFI-IRAIF, NBA

<sup>55</sup> **PAOs:** AICPA, PICPA

<sup>56</sup> **PAOs:** CNCC, CPAA

<sup>57</sup> **Firms:** DTTL; **PAOs:** AE, CAI, ICAS, IDW

<sup>58</sup> **PAOs:** CAI, IDW



- Robust protections are already in place for stakeholders.<sup>59</sup>
  - There is no evidence of audit failures in this area.<sup>60</sup>
50. A few respondents suggested that it would be preferable to develop case studies within NAM than develop changes to the Code.<sup>61</sup>
51. No additional threats to independence were highlighted by respondents that have not already been included in the Code.

#### *Application of the Conceptual Framework*

52. Many respondents were of the view that the conceptual framework is a robust and flexible framework that can accommodate diverse Scheme structures.<sup>62</sup> A number of them highlighted that the flexibility of the conceptual framework in its application to diverse facts and circumstances does not mean that such application is inconsistent in practice.
53. However, a number of other respondents commented that while the conceptual framework provides a robust foundation, its application to audits of Investment Schemes is unclear and could lead to inconsistent outcomes, especially given the potential complexity of Investment Scheme arrangements.<sup>63</sup>
54. A number of respondents suggested that the IESBA provide either guidance in the Code<sup>64</sup> or NAM<sup>65</sup> (e.g., illustrative examples or case-based guidance) showing how the conceptual framework could be applied in illustrative scenarios. Other respondents suggested that IESBA guidance could help enhance consistency in the application of the Code if the local jurisdictions do not address this area, although they did not express a view as to whether such guidance should be inside or outside the Code.<sup>66</sup>
55. There was a suggestion that if the concept of a Connected Party is included in the guidance, the IESBA should collaborate closely with practitioners and consider the varying structures that exist in Investment Schemes.<sup>67</sup>
56. A respondent was of the view that JSS should provide supplementary requirements or guidance, provided these remain aligned with the overarching principles of the Code, rather than the IESBA.<sup>68</sup>

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<sup>59</sup> **Investors:** ICI; **PAOs:** AICPA

<sup>60</sup> **Investors:** ICI; **PAOs:** Assirevi, CAANZ, GAA, ISCA, IDW

<sup>61</sup> **Firms:** KPMG; **PAOs:** CPAA

<sup>62</sup> **Investors:** EFAMA, IAM; **Regulators:** BAOA, HAASOB, NASBA; **Firms:** BDO, DTTL, EY, GTIL, KPMG, PP, PwC; **JSS:** XRB; **PAOs:** ACCA, Assirevi, CAANZ, CACR, CAI, CNCC, CPAA, CPAC, ICPAU, ICAEW, ICAG, ICAS, IDW, IFAC, IRE, ISCA, JICPA, Malta IA, PICPA, WPK

<sup>63</sup> **Investors:** BF; **Regulators:** IFIAR, IRBA; **Firms:** RSM; **JSS:** APESB; **PAOs:** AFA, ICAJ, ICAP, KICPA, SAICA

<sup>64</sup> **Investors:** BF; **Firms:** RSM; **JSS:** APESB; **PAOs:** AFA, HKICPA, ICAG, ICAP, ICPAK, KICPA MIA, MICPA, SAICA

<sup>65</sup> **Regulators:** IRBA; **PAOs:** HKICPA, MIA, MICPA, SAICA

<sup>66</sup> **Investors:** IAM; **Regulators:** BAOA, NASBA; **Firms:** BDO, DTTL, FM, GTIL, PP, PwC; **JSS:** XRB; **PAOs:** ACCA, CAANZ, CNCC, IFAC, Malta IA, PAFA, SOCPA

<sup>67</sup> **Firms:** PwC

<sup>68</sup> **Regulators:** UKFRC

#### IV. PROJECT TEAM ANALYSIS AND RECOMMENDATIONS

57. In relation to the three main areas of focus in the CP, the wide distribution of respondents' views as set out in section III above, with differences even within stakeholder groups, indicates that charting the path forward is not a straightforward task.
58. The PT shared four possible courses of action at the IESBA meeting in September 2025 for the Board to consider with respect to auditor's assessment of independence when auditing Investment Schemes that engage Connected Parties. The options are as follows:

1. Maintain the current Code, without amendments, but commission NAM
2. Incorporate application material into the Code
3. Undertake substantive revisions of the Code
4. Maintain the status quo, with no changes to the Code and no issuance of NAM

59. The PT is of the view that while maintaining the status quo under Option 4 would avoid disturbing the Code and therefore avoid the risk of unintended consequences from redefining core terms or including new terms and concepts in the Code, it is the option that would least serve the public interest. This is because many respondents requested enhanced clarity regarding the application of the related entity definition to Connected Parties and that the lack of guidance may lead to inconsistent application of the conceptual framework to audits of Investment Schemes.
60. Given the calls for clarification from respondents across all stakeholder groups, and the fact that those who did not support making changes to the related entity definition or introducing new terms and concepts in the Code were not necessarily opposed to the IESBA providing guidance, the PT recommends that Option 4 not be pursued by the Board.
61. At the other end of the range of options, the PT believes that substantively revising the Code under Option 3 – i.e., introducing new terms and definitions (e.g., “Connected Party”) and/or making structural amendments to expand the scope of “related entity” to include key third parties – would present the greatest challenge for many of the reasons respondents have provided. In particular, several markets already operate under comprehensive independence regimes that are tailored to national contexts. In many jurisdictions (e.g., the EU, UK, US, Australia, and South Africa), existing regulations already impose independence requirements that go beyond or differ from the Code. Changes to the Code's related entity definition or introducing new terms and concepts could potentially conflict with jurisdictional laws and regulations, creating a burden on firms to reconcile the differences.
62. Making such substantive revisions to the Code would also likely be very challenging given the complex tapestry of structures of Investment Schemes and arrangements involving Connected Parties globally. To a compelling degree, as some of the respondents have observed, robust protections in law or regulation are already in place for stakeholders in many jurisdictions, including regulatory oversight of designated Connected Parties. Additional safeguards may also exist in terms of governance arrangements as well as fiduciary responsibilities for certain Connected Parties. These protections and safeguards, operating alongside statutory audits for Investment Schemes and any pre-existing laws and regulations governing auditor independence in this area, mitigate any imperative to substantively amend the Code from a public interest perspective.
63. The PT is also mindful of the concerns expressed by some respondents about addressing the specificities of Investment Schemes in the Code, given that certain other industries share similar characteristics relating to Connected Parties.

64. Most importantly, as emphasized in paragraph 13 above, *what really matters from an independence perspective is whether threats to the auditor's independence are properly identified, evaluated and addressed given the facts and circumstances in an audit of an Investment Scheme*. As many respondents have highlighted in their responses to the CP questions, the conceptual framework in the Code serves this very purpose when properly applied.
65. For these reasons, the PT does not recommend that the Board pursue Option 3.
66. While many respondents have expressed the view that the conceptual framework is sufficient to assess independence with respect to Connected Parties or that jurisdictions provide adequate safeguards locally, many other respondents have suggested that greater clarity or supplementary guidance may be needed or would be helpful to promote consistent application of independence principles to audits of Investment Schemes across jurisdictions. In light of the public interest dimension of the project, these findings point to the need for the Board to consider proportionate actions, such as commissioning NAM or developing targeted application material in the Code. Such guidance would help to promote global consistency while maintaining the Code's principles-based character and avoiding unnecessary codification. It would also strengthen stakeholder trust and confidence in auditor independence assessments for Investment Schemes.
67. Accordingly, the PT has weighed the positive and negative aspects of Options 1 and 2. The results of this assessment are provided in the table below.

#### Options 1 and 2 – Advantages and Disadvantages

| Option / Description  | Advantages  | Disadvantages / Limitations  |
|---|---|--|
| <b><u>Option 1</u></b><br><b>Commission NAM</b><br>Develop supplementary guidance outside the Code (such as Q&As, examples, or case studies) to clarify application of the Code to Investment Schemes | <ul style="list-style-type: none"> <li>Enables practical, flexible guidance adaptable to market practice and delivered relatively timely</li> <li>Provides contextual examples to support the exercise of professional judgment</li> <li>Supports global consistency without potential complications or unintended consequences with Code amendments</li> </ul> | <ul style="list-style-type: none"> <li>NAM does not carry authoritative status</li> <li>May not be as visible over the longer-term as provisions incorporated into the Code; effectiveness globally will depend on broad and high level of awareness over time</li> <li>Will require careful navigation during development to avoid inadvertently setting standards outside the Code without full due process</li> </ul> |

| Option / Description   | Advantages   | Disadvantages / Limitations   |
|--|--|---|
| <p><b>Option 2</b></p> <p><b>Include application material in the Code</b></p> <p>Add targeted application material to clarify how existing independence principles apply to Investment Schemes, without changing definitions</p> | <ul style="list-style-type: none"> <li>Provides authoritative clarification supporting consistent interpretation</li> <li>Enhances practitioner understanding while maintaining flexibility</li> <li>Balances providing enhanced clarity with a principles-based approach</li> <li>Benefit of applying full due process, ensuring broad exposure of proposals to all stakeholders</li> </ul> | <ul style="list-style-type: none"> <li>Will require careful navigation to avoid risk of conflict with jurisdictional requirements</li> <li>May take a minimum of two years to develop given the need for due process</li> <li>May not fully satisfy expectations among some investors regarding clear and specific independence provisions</li> </ul> |

68. The PT considers that including application material in the Code provides authoritative clarification but may increase the Code's complexity. Developing NAM is viewed by a diverse range of stakeholders -- including investors, PAOs, firms, and JSS - as the most proportionate and globally operable option at this stage. Accordingly, the PT recommends that the Board pursue Option 1 and explore possible avenues of collaboration with practitioners with expertise and experience in this area in identifying possible approaches to developing such NAM.
69. The PT believes that Option 1 would provide a timelier and more flexible way to reach the market with clarifying guidance, subject to the Board's prioritization of resources. At the same time, developing NAM under Option 1 will enable IESBA Staff to develop a deeper understanding of the issues regarding the application of the conceptual framework to audits of Investment Schemes. In due time, with the benefit of reviewing the usefulness, clarity and implementability of the NAM with firms and understanding any practical challenges in implementing the guidance, the Board may consider revisiting whether there would be merit in incorporating some of the guidance as application material in the Code.

## V. OTHER MATTERS RAISED

70. During the outreach activities undertaken by the PT, additional concerns were raised by two stakeholders.<sup>69</sup> These concerns specifically pertain to the application of Section 510<sup>70</sup> of the Code.
71. The first stakeholder's concern relates to a type of investment that is perceived to be excluded from being considered an indirect financial interest through the application of the extant Code. For context, Section 510 prohibits (subject to an exception) a firm, network firms, audit team members and their immediate family members, and certain other partners and managerial employees of the firm from holding a direct financial interest or a material indirect financial interest in an audit client.<sup>71</sup> As described in the Code,<sup>72</sup> when a beneficial owner has control over an intermediary or has the ability to influence its investment decisions, the Code defines that financial

<sup>69</sup> CNCC and IRBA

<sup>70</sup> Section 510, *Financial Interests*

<sup>71</sup> Paragraph R510.4

<sup>72</sup> Paragraph 510.3 A1

interest to be direct. If the beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect. The Code also specifies that a financial interest might be held indirectly through an intermediary such as a CIV, an estate or a trust.<sup>73</sup>

72. According to the stakeholder, in France, an individual may enter into an *individual* contractual relationship with an intermediary to invest their funds in a specific scheme. However, the investor cannot influence the investment manager's decisions and is only informed of the investment decisions made ex-post, usually on a quarterly or annual basis. So, while an investment in such a scheme shares the same characteristics as an indirect financial interest through an intermediary such as a CIV, an estate or a trust, the stakeholder felt that the Code does not recognize the investment as such. This is because, in the stakeholder's view, the scheme cannot be regarded as a CIV as the vehicle is individual. Accordingly, the stakeholder is of the view that relevant partners and staff and their immediate family members cannot benefit from the derogation granted to indirect financial interests.
73. By effectively viewing such investment as being a direct financial interest, the stakeholder argued that these individuals cannot meet their independence monitoring obligations as they are unable to obtain the required information concerning their financial interests in the underlying funds. Accordingly, the stakeholder has suggested that the IESBA clarify the situation through a narrow-scope amendment to the Code.
74. The concerns raised by the other stakeholder<sup>74</sup> relate to:
  - (a) The significant judgement involved in determining what constitutes a direct or indirect investment in Investment Schemes, which can result in inconsistent application of these definitions. Consequently, this could lead to either (i) the application or implementation of stricter independence requirements than intended, so strict that it becomes impractical to implement, especially in jurisdictions where the Investment Schemes markets are smaller and auditors are limited for choice, or (ii) missing the self-interest threat to independence completely; and
  - (b) The difficulty in applying one of the prohibitions noted in paragraph R510.4 of the Code as it relates to "partners in the same office," as "offices" are no longer limited to physical space.

### Project Team Analysis

75. With respect to the first stakeholder's concern regarding whether the particular type of investment described can be considered an indirect financial interest, the PT draws the Board's attention to paragraph 510.3 A1, which states that when a beneficial owner has no control over the intermediary or ability to influence its investment decisions, the Code defines that financial interest to be indirect. Further, paragraph 510.3 A1 only presents a CIV, an estate or a trust as *examples* of the ways in which an indirect financial interest might be held through an intermediary. The Code does not intend these to be the only vehicles through which an indirect financial interest might be held.
76. However, the PT notes that the type of individual contract described by the stakeholder may vary across jurisdictions. The PT therefore believes that it is necessary to obtain a full and clear understanding of the particulars, terms and conditions of such investment contract to determine whether or not the individual investor is able to exert, directly or in substance, control or influence

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<sup>73</sup> Paragraph 510.3 A1

<sup>74</sup> Independent Regulatory Board for Auditors

over the investment manager's decisions. Undertaking a careful review of the investment contract in this way can then support a conclusion as to whether or not the financial interest is indirect. Accordingly, the PT believes no changes to Section 510 are needed in relation to this matter.

77. Regarding the matters raised by the second stakeholder, the PT believes that the guidance in paragraph 510.3 A1 as to what constitutes a direct or indirect financial interest is already principles-based. As above, the facts and circumstances surrounding the investment agreement would play a key role in determining whether there is evidence to suggest that the investment is, in substance, direct. Also, more specific details regarding practical implementation challenges are needed to assess whether any clarification or other changes to this guidance are needed.
78. With respect to the question regarding the meaning of the concept of an "office," the PT notes that the Code does not limit its application to a physical space. The Glossary to the Code defines the concept of an office in principles-based terms, i.e., it is a distinct sub-group, whether organized on geographical or practice lines. Accordingly, unless there is clear evidence that firms are facing challenges in applying the definition to their particular circumstances, the PT does not believe that any Board action is warranted at this time.

## APPENDIX 1

### List of Stakeholders Engaged through Initial Information Gathering

| Abbrev.  | Respondent  | Region        |
|----------|---|---------------|
| ASF      | Autoridade de Supervisão de Seguros e Fundos de Pensões (Portugal)  | Europe        |
| AICPA    | American Institute of Certified Public Accountants (ICC and Employee Benefit Plan Audit Quality Center experts) | North America |
| APESB    | Accounting Professional & Ethical Standards Board (Australia)   | Asia Pacific  |
| Assirevi | Association of Italian Audit Firms  | Europe        |
| AUASB    | Auditing and Assurance Standards Board, Australia   | Asia Pacific  |
| CPAC     | Chartered Professional Accountants Canada   | North America |
| CPAK     | Capital Markets Authority of Kenya  | Africa        |
| ESMA     | European Securities and Markets Authority   | Europe        |
| EY       | Ernst & Young Global Limited  | Global        |
| GT       | Grant Thornton International Limited (United States)  | North America |
| IAASB    | International Auditing and Assurance Standards Board  | Global        |
| IRBA     | Independent Regulatory Board for Auditors, South Africa   | Africa        |
| ISCA     | Institute of Singapore Chartered Accountants  | Asia Pacific  |
| JICPA    | Japanese Institute of Certified Public Accountants  | Asia Pacific  |
| KEPFIC   | Kenya Pension Fund Investment Consortium  | Africa        |
| MAS      | Monetary Authority of Singapore   | Asia Pacific  |
| JSS      | Jurisdictional Standard Setters   | Global        |
| OCRI     | ON Valor Relações com Investidores  | South America |
| PFRDA    | Pension Fund Regulatory & Development Authority (India)   | Asia Pacific  |
| PwC      | PricewaterhouseCoopers International Limited  | Global        |
| SA       | Spearhead Africa (Kenya)  | Africa        |
| SEBI     | Securities and Exchange Board of India  | Asia Pacific  |
| SEC      | United States Securities and Exchange Commission  | North America |

## Jurisdictions Represented by Stakeholders Engaged

| Country |                          | Region        | Considered as Public Interest Entity (PIE) <sup>75</sup> |               |
|---------|--------------------------|---------------|--|---------------|
|         |                          |               | CIVs   | Pension Funds |
| 1       | Australia                | Asia Pacific  | Yes  | Yes*          |
| 2       | Bahrain                  | Middle East   | No   | No            |
| 3       | Brazil                   | South America | Yes  | No            |
| 4       | Canada                   | North America | Yes  | No            |
| 5       | France                   | Europe        | No   | No            |
| 6       | Hong Kong SAR            | Asia Pacific  | No   | No            |
| 7       | India                    | Asia Pacific  | No   | No            |
| 8       | Ireland                  | Europe        | No   | No            |
| 9       | Italy                    | Europe        | Other* <sup>76</sup>                                     | No*           |
| 10      | Japan                    | Asia Pacific  | No   | No            |
| 11      | Kenya                    | Africa        | No   | No            |
| 12      | Luxembourg               | Europe        | No   | No            |
| 13      | Portugal                 | Europe        | No   | Yes*          |
| 14      | Singapore                | Asia Pacific  | No*  | Yes*          |
| 15      | Saudi Arabia             | Middle East   | No   | No            |
| 16      | South Africa             | Africa        | Yes*   | Yes*          |
| 17      | United Arab Emirates     | Middle East   | No   | No            |
| 18      | United States of America | North America | No   | No            |

\* Fund managers, investment companies and asset managers are regarded as PIEs in the case of CIVs.  
Pension fund managers and trustees are regarded as PIEs in the case of Pension Funds

<sup>75</sup> As per the IESBA [Database of Public Interest Entity \(PIE\) Definition by Jurisdiction](#)

<sup>76</sup> Entities subject to an intermediate regime to which only certain PIE independence requirements are applicable



## APPENDIX 2

### List of Stakeholders that Responded to Consultation Paper

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

| #   | Abbrev.            | Stakeholder   | Region        |
|---|--------------------|---|---------------|
| <b>Regulators and Oversight Authorities, Including MG members</b> |                    |   |               |
| 1.  | BAOA               | Botswana Accountancy Oversight Authority  | MEA           |
| 2.  | HAASOB             | Hellenic Accounting and Auditing Standards Oversight Board                                  | Europe        |
| 3.  | <b>IFIAR</b>       | <b>International Forum of Independent Audit Regulators</b>                                  | <b>Global</b> |
| 4.  | IRBA               | Independent Regulatory Board for Auditors, South Africa                                     | MEA           |
| 5.  | NASBA              | National Association of State Boards of Accountancy (US)                                    | NA            |
| 6.  | UKFRC              | United Kingdom Financial Reporting Council  | Europe        |
| <b>Investors and Other Users</b>                                  |                    |   |               |
| 7.  | ALFI               | Association of the Luxembourg Fund Industry   | Europe        |
| 8.  | BF                 | Better Finance  | Europe        |
| 9.  | EFAMA              | European Fund and Asset Management Association  | Europe        |
| 10.   | ICI                | Investment Company Institute  | Global        |
| 11.   | IAM                | Impax Asset Management  | AP            |
| <b>Independent<sup>77</sup> Jurisdictional Standard Setters</b>   |                    |   |               |
| 12.   | APESB              | Accounting Professional & Ethical Standards Board (Australia)                               | AP            |
| 13.   | XRB                | New Zealand Auditing & Assurance Standards Board  | AP            |
| <b>Professional Accountancy Organizations (PAOs)<sup>78</sup></b> |                    |   |               |
| 14.   | ACCA <sup>δ</sup>  | Association of Chartered Certified Accountants  | Global        |
| 15.   | AE                 | Accountancy Europe  | Europe        |
| 16.   | AICPA <sup>δ</sup> | American Institute of Certified Public Accountants' Professional Ethics Executive Committee | NA            |
| 17.   | AFA                | ASEAN Federation of Accountants   | AP            |
| 18.   | ASSIREVI           | Association of Italian Audit firms  | Europe        |

<sup>77</sup> Jurisdictional Standard Setters (JSS) that have a mandate to set jurisdictional ethics standards, including independence requirements, in their jurisdictions and which do not belong to PAOs are categorized as "Independent Jurisdictional Standard Setters."

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

<sup>78</sup> For purposes of this categorization, a PAO is a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to IFAC member bodies. PAOs that have full, partial, or shared responsibility for setting jurisdictional ethics standards, including independence requirements, in their jurisdictions are indicated with a "δ."

| #   | Abbrev.             | Stakeholder   | Region |
|-----|---------------------|---|--------|
| 19. | CAANZ <sup>δ</sup>  | Chartered Accountants Australia and New Zealand                                     | AP     |
| 20. | CACR <sup>δ</sup>   | The Chamber of Auditors of the Czech Republic                                       | Europe |
| 21. | CAI                 | Chartered Accountants Ireland   | Europe |
| 22. | CNCC                | Compagnie Nationale des Commissaires aux Comptes                                    | Europe |
| 23. | CPAA                | CPA Australia   | AP     |
| 24. | CPAC <sup>δ</sup>   | Chartered Professional Accountants Canada, Public Trust Committee                   | NA     |
| 25. | GAA                 | Global Accounting Alliance  | Global |
| 26. | HKICPA <sup>δ</sup> | Hong Kong Institute of Certified Public Accountants                                 | AP     |
| 27. | ICAEW <sup>δ</sup>  | Institute of Chartered Accountants in England and Wales                             | Europe |
| 28. | ICAG                | Institute of Chartered Accountants Ghana  | MEA    |
| 29. | ICAJ                | Institute of Chartered Accountants of Jamaica                                       | MEA    |
| 30. | ICAP                | Institute of Chartered Accountants of Pakistan                                      | AP     |
| 31. | ICAS <sup>δ</sup>   | The Institute of Chartered Accountants of Scotland                                  | Europe |
| 32. | ICPAK               | Institute of Certified Public Accountants of Kenya                                  | MEA    |
| 33. | ICPAU               | Institute of Certified Public Accountants of Uganda                                 | MEA    |
| 34. | IDW <sup>δ</sup>    | Institut der Wirtschaftsprüfer (Germany)  | Europe |
| 35. | IFAC                | International Federation for Accountants  | Global |
| 36. | IRE                 | Institut des Reviseurs d'Entreprises (Luxembourg)                                   | Europe |
| 37. | IREFI-IRAIF         | Instituut van de Bedrijfsrevisoren – Institut des Reviseurs d'Entreprises (Belgium) | Europe |
| 38. | ISCA <sup>δ</sup>   | Institute of Singapore Chartered Accountants  | AP     |
| 39. | JICPA <sup>δ</sup>  | Japanese Institute of Certified Public Accountants                                  | AP     |
| 40. | KICPA               | Korean Institute of Certified Public Accountants                                    | AP     |
| 41. | MALTA IA            | Malta Institute of Accountants  | Europe |
| 42. | MIA                 | Malaysian Institute of Accountants  | AP     |
| 43. | MICPA               | Malaysian Institute of Certified Public Accountants                                 | AP     |
| 44. | NBA                 | Royal Netherlands Institute of Chartered Accountants                                | Europe |
| 45. | PAFA                | Pan-African Federation of Accountants   | MEA    |
| 46. | PICPA               | Pennsylvania Institute of Certified Public Accountants                              | NA     |
| 47. | SAICA               | South African Institute of Chartered Accountants                                    | MEA    |
| 48. | SOCPA               | Saudi Organization for Chartered and Professional Accountants                       | MEA    |
| 49. | WPK <sup>δ</sup>    | Wirtschaftsprüferkammer (Germany)   | Europe |

| #   | Abbrev. | Stakeholder                                  | Region |
|---|---------|--|--------|
| <b>Accounting Firms and Sole Practitioners<sup>79</sup></b> |         |  |        |
| 50.   | BDO*    | BDO International Limited                    | Global |
| 51.   | DTTL*   | Deloitte Touche Tohmatsu Limited             | Global |
| 52.   | EY*     | Ernst & Young Global Limited                 | Global |
| 53.   | FM*     | Forvis Mazars Limited                        | Global |
| 54.   | GTIL*   | Grant Thornton International Limited         | Global |
| 55.   | KPMG*   | KPMG IFRG Limited                            | Global |
| 56.   | MU      | Muhammad Umar – Mo Chartered Accountants     | MEA    |
| 57.   | PP      | Pitcher Partners                             | AP     |
| 58.   | PwC*    | PricewaterhouseCoopers International Limited | Global |
| 59.   | RSM*    | RSM International Limited                    | Global |

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<sup>79</sup> Forum of Firms members are indicated with a \*. The Forum of Firms is an association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum have committed to adhere to, and promote the consistent application of, high-quality audit practices worldwide. They also have policies and methodologies for the conduct of such audits that are based to the extent practicable on the International Standards on Auditing (ISAs), and policies and methodologies which conform to the IESBA Code and national codes of ethics.

## APPENDIX 3

### Jurisdictional Responses to Independence

Since March 2024, the PT researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with Connected Parties such as trustees, managers and advisors. To supplement its desktop research, the PT circulated questionnaires to stakeholders and conducted interviews with relevant parties to obtain further insight into how different jurisdictions address potential independence matters involving Investment Schemes.

Further, as part of the CP, respondents were asked whether their jurisdictions have requirements or guidance specific to audits of Investments Schemes from an auditor independence perspective.

The following high-level jurisdictional summaries are based on the PT's research, questionnaire responses and interviews, and feedback received from respondents to the CP.

#### Australia

Australia imposes specific auditor independence requirements through both legislation and ethical standards. The Corporations Act 2001 contains provisions<sup>80</sup> for auditors of registered Managed Investment Schemes (MIS) and Registered Superannuation Entities (RSEs), broadening the “audit client” to include parties like responsible entities and superannuation trustees. The national code (APES 110,<sup>81</sup> which is aligned with the IESBA Code) and the Australian Prudential Regulation Authority (APRA) reinforce these rules. Since 2013, Australia's definition of PIE has been expanded to include superannuation funds and publicly offered MIS, meaning such funds are subject to PIE-level independence standards (e.g. partner rotation, stricter non-audit service prohibitions). In practice, auditors of pension (superannuation) funds and retail investment schemes must adhere to strict independence, with oversight by regulators ensuring compliance.

#### Canada

In Canada, CIVs open to the public (e.g. mutual funds) are treated as “reporting issuers” and thereby are subject to enhanced independence requirements akin to those for PIEs. Auditors of public mutual funds must comply with provincial securities laws and Chartered Professional Accountant (CPA) codes of conduct that include stricter independence rules for reporting issuers. In addition, mutual fund governance requires an Independent Review Committee, underscoring auditor impartiality. While Canada has no fund-specific auditor independence law beyond these measures, the framework ensures that an audit of a mutual fund captures all related entities of the fund. For pension plans, there are no special audit-independence statutes; however, pension regulators impose governance and oversight similar to mutual funds, and auditors are expected to follow the IESBA-based Code of Ethics.

#### France

The auditor independence framework for Investment Schemes is governed by the Code de Déontologie des Commissaires aux Comptes, enforced by the Haute Autorité de L'Audit (H2A) and the Compagnie Nationale des Commissaires aux Comptes (CNCC). This code aligns closely with the IESBA Code of Ethics and the EU Audit Directive (2014/56/EU) and Regulation (EU) 537/2014, applying a principles-

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<sup>80</sup> Section 324CH(1) of the *Corporations Act 2001* sets out a table of relevant relationships for the auditor independence requirements set out in Sections 324CE, CF and CG of that Act. Under Section 324CH(2), if the audited body is a registered scheme (which is a type of CIV) then the responsible entity for the registered scheme is included as part of the audited body for certain provisions. Note there are similar provisions for a registrable superannuation entity (a type of pension fund).

<sup>81</sup> APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

based approach that emphasizes the identification, evaluation, and mitigation of threats to independence. It requires measures such as audit partner rotation, restrictions on non-audit services, and cooling-off periods for PIEs.

In the context of CIVs, which are regulated under the Monetary and Financial Code and overseen by the Autorité des Marchés Financiers (AMF), auditors must remain independent of both the management company and affiliated service providers. While France does not prescribe sector-specific independence rules for pension schemes or investment funds, these entities fall within the general audit and ethical framework applicable to PIEs, ensuring auditor objectivity and independence through robust statutory, professional, and supervisory oversight.

## India

CIVs in India include mutual funds that are trusts and require a sponsor to set up a trustee company and an asset management company. The asset management company is responsible for day-to-day management, compliance with regulatory requirements, accounting and the financial statements for the fund. The Securities and Exchange Board of India (SEBI) regulations<sup>82</sup> stipulate that the fund's auditor must not be in any way associated with the auditor of the asset management company.

The asset management company is required to invest in the mutual fund to ensure there is an alignment of interests with other investors.<sup>83</sup> The definitions of "associate," "control" and "group" in the SEBI regulations effectively stipulate that the asset management company and trustee company control the fund. Consequently, the asset management company and trustee company would likely be related entities under the Code<sup>84</sup> and part of the audit client, either due to the fund being a listed entity<sup>85</sup>/publicly traded entity or via the "reason to believe" requirement to include any "other related entity" that is relevant to the evaluation of independence.

## Hong Kong SAR

In Hong Kong, there are three main funds – Securities and Futures Commission (SFC)-regulated mutual funds, Mandatory Provident Funds (MPF) and Limited Partnership Funds. SFC-regulated funds are unit trusts or open-ended fund companies subject to the SFC Code.<sup>86</sup> The SFC Code requires an independent Trustee (for unit trusts) or Custodian (for fund companies) and a management company to be appointed for each fund.<sup>87</sup> Due to the role of the Trustee/Custodian,<sup>88</sup> the management company is generally considered to be an agent, does not control the fund, and therefore, is generally not a related entity under Hong Kong's Code of Ethics.<sup>89</sup> However, the SFC Code requires the auditor to "*be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.*"<sup>90</sup> The SFC Code however does not provide further guidance on the scope and extent of such auditor independence; as a result auditors of CIS are required to exercise

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<sup>82</sup> [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) Clause 55

<sup>83</sup> Clause 25 of the SEBI Regulations and [SEBI issues circular on alignment of interest of Asset Management Companies with the Unit-holders of the Mutual Fund Schemes | SCC Times \(sconline.com\)](#)

<sup>84</sup> The Institute of Chartered Accountants in India (ICAI) [Code of Ethics \(Revised 2019\)](#) is derived from the IESBA Code of Ethics 2018.

<sup>85</sup> 5 out of the 44 asset management companies in India are listed and, in some instances, the mutual funds can be listed.

<sup>86</sup> [Section II: Code on Unit Trusts and Mutual Funds.](#)

<sup>87</sup> Paragraphs 4.1, 4.7, and 5.1 of the SFC Code

<sup>88</sup> Chapter 4 and paragraph 5.11 of the SFC Code

<sup>89</sup> The Hong Kong Institute of Certified Public Accountants (HKICPA) *Code of Ethics for Professional Accountants* is based on the IESBA Code and has the same related entity definition.

<sup>90</sup> Paragraph 5.16 of the SFC Code

professional judgement to ensure their independence in accordance with the SFC Code.

## Italy

Italian CIVs are either contractual or statutory based:<sup>91</sup>

- Contractual-based mutual investment funds do not have their own legal personality. A separate asset management company acts on the fund's behalf and is the formal owner of the fund's assets and liabilities. The management company's Board of Directors is the ultimate decision maker for the fund. As a result of Italian law,<sup>92</sup> the "audit client" is the CIV itself and the management company, the fund auditor must be the same as the management company auditor, and the auditor must be independent of both the fund and the management company.
- Statutory-based Undertakings for Collective Investment management<sup>93</sup> are companies with their own legal personality, which can be managed within the company itself or externally managed. However, there is no formal distinction between the fund and management company.

## Ireland

While there are no Irish requirements or guidance specific to audits of CIVs and pension funds from an auditor independence perspective, the European Contact Group (ECG)<sup>94</sup> provides guidance for PIEs, (including funds) in the comprehensive ECG FAQs, because although the legislation is final, the language is unclear in many places. The Central Bank of Ireland (CBI) has a robust legal and regulatory framework that applies to Irish collective investment schemes and pension funds. The regulatory framework includes detailed governance and risk management requirements for fund structures and the use of third-party service providers. The regulatory framework in Ireland also includes Regulation (EU) No. 537/2014 on statutory audit and the Irish Auditing and Accounting Supervisory Authority's (IAASA) Ethical Standard for Auditors, both of which impose rigorous independence requirements, including those concerning affiliates and connected parties.

Pension funds are managed on behalf of pension schemes, and the EU's Institutions for Occupational Retirement Provision II (IORP II) applies in Ireland. As a regulator, the Irish Pensions Authority has a statutory duty to supervise Irish Pension Schemes, to ensure they are IORP II compliant. This involves ensuring robust governance procedures are in place, including effective risk management, monitoring of investment management, scheme administration, managing conflicts of interest, reporting and ensuring the independence of the external auditor.

More broadly, Irish companies are subject to the Companies Act 2014, which imposes core governance duties on directors and boards, including oversight of financial reporting and auditor independence. These requirements complement the ethical and independence obligations placed on auditors.

## Jamaica

Jamaica has sector-specific regulations reinforcing auditor independence for pension schemes and investment funds. Under the Pensions (Superannuation Funds and Retirement Schemes) Act, overseen by the Financial Services Commission (FSC), each pension fund must appoint an

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<sup>91</sup> Italian CIVs (called UCIs – Undertaking for Collective Investment Management) and management companies (called a SGR) are generally not PIEs but are classified as Entities Subject to an Intermediate Regime (ESRI), meaning they are subject to some of the rules applicable to PIEs, including certain independence requirements.

<sup>92</sup> Including [Legislative Decree No. 58 of 24 February 1998, TUF](#)

<sup>93</sup> Called a SICAV (variable capital investment company) or a SICAF (fixed capital investment company).

<sup>94</sup> Represents the six largest international professional services networks in Europe: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC

independent auditor, and auditors must confirm their independence to fund trustees and the FSC. FSC guidelines for pensions stress avoiding conflicts of interest (e.g. auditors cannot have relationships with plan administrators or trustees that threaten objectivity). For collective investment schemes (unit trusts and mutual funds regulated by the Securities Act), the FSC requires auditors to disclose any potential conflicts between the auditor and the fund's manager or administrator. Although Jamaica largely relies on the IESBA Code (adopted via the Public Accountancy Board) for detailed independence rules, the FSC can take action if an auditor's independence is impaired. Jamaican law and regulators mandate independent auditors for funds and pensions and expect full compliance with ethical standards, even though no separate domestic code specifically for Investment Scheme audits exists

## **Japan**

The Japanese Institute of Certified Public Accountants (JICPA) Code of Ethics does not contain any provisions that go beyond the provisions in the IESBA Code in relation to the audit of investment schemes. For audit engagements of investment schemes that do not have organizational or governance structures similar to conventional corporate structures, there is a well-established practice in Japan whereby the auditor of an investment trust is independent of both the investment trusts and the investment trust management company, and the auditor of an investment limited partnership is independent of both the investment limited partnership and its unlimited liability partners.

## **Kenya**

Kenya enforces auditor independence for Investment Schemes through both its general audit code and targeted regulations. The Accountants Act and the ICPAK (national code of ethics aligned to the IESBA Code) require all auditors to evaluate and manage independence threats for any client. Beyond this, the Capital Markets Authority (CMA)'s regulations for Collective Investment Schemes demand that each fund appoint an external auditor completely independent of the scheme and its management company. In practice, while the same audit firm might audit both a fund and its manager, different partners or senior staff must be used if any individual has a financial interest in the management company. For pension funds, the Retirement Benefits Authority (RBA) regulations require auditors to annually declare their independence to the RBA, confirm no financial or familial ties to the plan's sponsors or trustees, and enforce a five-year rotation of the engagement partner.

## **Luxembourg**

Luxembourg has a robust, multi-layered framework for auditor independence in the context of investment funds and pension entities. As an EU member, Luxembourg applies the EU Statutory Audit Directive (2014/56/EU) and Audit Regulation (537/2014), which classify certain funds (e.g. UCITS and alternative funds) and pension funds as PIEs and impose requirements like mandatory auditor rotation, restrictions on non-audit services, and cooling-off periods. These EU rules are implemented nationally by the Luxembourg Law of 23 July 2016 on the audit profession, which sets detailed independence and ethics provisions for auditors (réviseurs d'entreprises agréés). Luxembourg's regulator, the Commission de Surveillance du Secteur Financier (CSSF), supervises auditors and issues additional guidance via circulars to address fund-specific expectations. Notably, in Luxembourg, pension funds organized as ASSEPs or SEPCAVs are considered PIEs under the law, so their auditors must meet stricter independence and rotation rules as mandated by statute.

## **Malaysia**

Malaysia's regulatory framework also addresses auditor independence for collective investment schemes. The Securities Commission Malaysia (SC), under the Capital Markets and Services Act 2007, requires that unit trust fund auditors be independent of the fund's management company and custodian.

This means an audit firm cannot audit a unit trust if it has certain relationships with the fund manager or trustee that would impair independence. While the Malaysian Institute of Accountants (MIA) professional code (MIA By-Laws) is based on the IESBA Code and contains the standard independence definitions, there are no extensive additional independence rules specific to Investment Schemes beyond the SC's stipulation. In summary, apart from classifying listed or widely held funds as PIEs in line with general practice, Malaysia ensures independence mainly by prohibiting auditors from having conflicts with fund managers or custodians as per SC regulations.

### **Mauritius**

The Financial Reporting Act 2004 and the guidance issued by the Financial Reporting Council (FRC) provide for auditor independence and extend these requirements to Investment Schemes.

### **Morocco**

Morocco has implemented the 2013 OEC Code of Ethics, adapted from the 2009 IESBA Code, and additional oversight comes from the Autorité Marocaine du Marché des Capitaux (AMMC) regulations for CIVs. These instruments do not provide comprehensive guidance specific to the independence risks of complex Investment Scheme structures.

### **Pakistan**

Pakistan enforces auditor independence for Investment Schemes via dedicated regulatory instruments. The Securities and Exchange Commission of Pakistan (SECP) has issued rules for Non-Banking Finance Companies and Notified Entities, including mutual funds, and Voluntary Pension System Rules that hold auditors to high independence standards. Under these rules, an auditor cannot serve in any executive, consulting, or decision-making capacity with the asset management company (AMC) or fund manager of a scheme they audit. Moreover, SECP's Circular No. 3 of 2024 introduced an extra layer of oversight: auditors of large funds and pensions (above certain asset thresholds) must be chosen from an SECP-approved list of firms with strong quality control and ethics compliance, and are subject to mandatory firm rotation (typically after 5 years) with a cooling-off period. These requirements, in addition to adoption of the IESBA Code locally, mean auditors in Pakistan's fund and pension sector face both professional ethical obligations and binding regulatory constraints designed to ensure independence.

### **New Zealand**

New Zealand explicitly brings certain investment funds into its auditor independence regime. The External Reporting Board (XRB) designates Managed Investment Schemes (MIS) offered to the public, along with their licensed managers, as PIEs under New Zealand's ethics code.<sup>95</sup> This goes beyond the baseline IESBA definition, thereby subjecting these funds and managers to the stricter independence requirements for PIE audits. In practice, auditors of retail MIS and similar collective schemes must comply with rules like partner rotation and prohibitions on many non-assurance services, just as they would for a public company audit. These measures, coupled with New Zealand's overall statutory audit framework, ensure high independence standards for auditors of public CIVs and any pension schemes that fall under the PIE criteria.

### **Saudi Arabia**

Except for the Capital Market Authority (CMA) regulations for investment funds, Saudi Arabia does not currently have comprehensive, Investment Scheme specific auditor independence rules beyond the requirements in the Saudi Organization for Chartered and Professional Accountants (SOCPA) Code of

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<sup>95</sup> PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards)



Ethics, which is based on the IESBA Code. CMA regulations require fund managers to appoint independent auditors, but do not explicitly define or regulate independence in relation to third-party service providers, such as custodians or investment advisors.

## Scotland

In Scotland, auditor independence requirements for Investment Schemes are governed by the FRC's Ethical Standard, which applies across the United Kingdom. There are no additional Scotland-specific rules or guidance for these audits.

## Singapore

In Singapore, there are no specific requirements for audits of Investment Schemes outside of those regulated by the Monetary Authority of Singapore (MAS) or are caught by virtue of their listing status. The Singapore (SG) definition of a PIE includes amongst others, any "financial institution" (FI) regulated by the MAS as defined in the Glossary of Accounting and Corporate Regulatory Authority (ACRA) Code/EP 100,<sup>96</sup> except for a handful whose main functions do not involve taking deposits from or providing insurance to the public. FIs that fall within the scope of the SG PIE definition include trustee-managers of listed registered business trusts (BTs), Capital Markets Services (CMS) licensees, approved Collective Investment Scheme (CIS) trustees and licensed trust companies which could be CIVs. In addition, under the ACRA Code/EP 100, the audits of the financial statements of listed BTs and listed real estate investment trusts are required to be conducted in compliance with the same independence rules that apply to the audit of the financial statements of a PIE. CIS by approved CIS trustees and funds managed by CMS licensees, including fund managers, do not fall within the scope of the SG PIE definition.

## South Africa

South Africa has explicit auditor independence rules for Investment Schemes, grounded in both professional standards and law. The Independent Regulatory Board for Auditors (IRBA) Code was augmented with R400.23 SA, which defines PIE categories to include collective investment schemes and pension funds over certain size thresholds. This classification as PIEs triggers requirements like audit partner rotation (every 5 years) and restrictions on non-audit services. In parallel, South African legislation addresses independence: the Pension Funds Act requires every pension fund to appoint an auditor who is not an officer of the fund, and the Collective Investment Schemes Control Act prohibits a fund's auditor from being a director or employee of the scheme's manager, trustee, or custodian. Furthermore, the regulator (the Financial Sector Conduct Authority, alongside IRBA) oversees compliance. In effect, South Africa's framework combines a widened PIE definition (bringing large funds under stringent independence rules) with statutes that bar auditors from certain entanglements with fund management, thereby safeguarding auditor objectivity in the fund and pension sectors.

## Uganda

Uganda treats both collective investment schemes and pension funds as PIEs, extending the full IESBA Code independence requirements to their audits. Auditors of Ugandan investment funds must therefore observe strict rules on evaluating threats, partner rotation, non-assurance services, etc., as per the PIE-level code. In addition, specific regulations fill in details: the Capital Markets Authority (CMA)'s Collective Investment Schemes (Financial and Accounting) Regulations 2003 requires fund auditors to

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<sup>96</sup> ACRA and ISCA are responsible for establishing ethical requirements for professional accountants. Public accountants (PAs) are required to comply with ACRA's Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities (ACRA Code). ISCA members (both PAs and non-PAs) are required to adhere to the ISCA Ethics Pronouncement 100 *Code of Professional Conduct and Ethics* (EP 100).

hold local practice certificates and limits their tenure to 4 years. Likewise, the Retirement Benefits Regulatory Authority Act empowers pension fund trustees (with regulatory approval) to appoint the auditor and explicitly forbids insiders – such as fund trustees, administrators, custodians, or managers – from being appointed as the fund’s auditor. These measures ensure external auditors remain independent from those managing or overseeing the funds. Combined with oversight by the CMA and Uganda’s Accountants Act, these provisions create a targeted independence regime for auditors of investment funds and pension schemes in Uganda.

### United Kingdom (UK)

Section 1.33 of the [Financial Reporting Council \(FRC\)’s Ethical Standard 2024](#) contains detailed requirements and guidance for PAs on how to deal with potential threats in relation to their integrity, objectivity and independence. The new FRC 2026 Stewardship Code<sup>97</sup> contains principles, guidance and disclosure requirements for those charged with governance and their service providers, including in relation to managing potential conflicts of interest.

Auditor independence requirements for pension schemes and funds are set by the FRC Ethical Standard (2024), which is an audit regulation rather than sector-specific law. The FRC classifies very large pension schemes as “Other Entities of Public Interest” (OEPI) if they exceed 10,000 members and £1 billion in assets, making their audits subject to PIE-equivalent independence rules (e.g. enhanced prohibitions and partner rotation), although without mandated firm rotation or the 70% cap on non-audit fees. By contrast, most collective investment vehicles are not automatically treated as PIEs/OEPIs. However, the Ethical Standard provides bespoke guidance to address independence threats in diversified investment funds. Notably, it permits audit firms and covered persons to hold only immaterial, indirect financial interests via diversified funds in audit clients, under strictly limited conditions, to mitigate any self-interest threat. This coupled with the UK’s alignment to IESBA principles allows auditors to maintain independence when auditing funds, even when the auditor (or their immediate family) might invest in broad-based funds, as long as those investments are diversified and insignificant. In summary, the UK ensures independence by treating large pension funds as PIEs (with near-PIE safeguards) and by tailoring rules for auditors’ financial interests in diversified CIVs.

### United States (US)

The United States has a comprehensive set of auditor independence requirements for mutual funds and pension plans spread across multiple regulators. The U.S. Securities and Exchange Commission (SEC)<sup>98</sup> imposes stringent independence rules for auditors of investment companies (mutual funds) as part of its Investment Company Act regulations. SEC Regulation S-X Rule 2–01, for example, defines independence broadly and prohibits many financial, employment, and business relationships between auditors and the fund or its affiliates. In addition, the Department of Labor (DOL) has independence and conflict-of-interest requirements for audits of benefit plans under the Employee Retirement Income Security Act (ERISA). The American Institute of Certified Public Accountants Code of Professional Conduct further supplements these with detailed guidance (e.g. defining when a fund’s advisor or sponsor is considered an affiliate whose relationships must be independent). Oversight bodies like the Public Company Accounting Oversight Board (PCAOB) have also issued interpretive guidance (such as ISB Standard No. 2 for mutual fund audits) to clarify independence in complex fund structures. In practice, U.S. auditors of CIVs cannot have direct or material indirect interests in the fund or its investment advisor, cannot have certain roles at the fund sponsor, and must adhere to partner rotation for SEC-registered funds similar to public companies. Together, the SEC, DOL, and professional

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<sup>97</sup> United Kingdom (UK) Stewardship Code 2026

<sup>98</sup> Further details on the SEC ICC Rules were included in the PT’s [March 2024 update](#) to the IESBA.

standards create a rigorous independence regime, overseen by entities like the SEC and PCAOB, to ensure auditors remain unbiased when auditing mutual funds and pension plans

### **Zimbabwe**

In Zimbabwe, there are no sector-specific auditor independence requirements for Investment Schemes. Auditors follow the Public Accountants and Auditors Board Code of Ethics, which is aligned with the IESBA Code and applies broadly to all entities. This provides the general conceptual framework for independence, but it is not tailored to the unique risks of fund or pension audits. Regulators such as the Insurance and Pensions Commission and the Securities and Exchange Commission of Zimbabwe (SECZim) issue circulars or set compliance expectations; however, these are largely interpretative and non-binding.

## APPENDIX 4

### List of Acronyms and Abbreviations

| Acronym/Abbreviation | Explanation  |
|----------------------|--|
| CIV                  | Collective Investment Vehicle                        |
| CP                   | Consultation Paper                                   |
| CIS                  | Collective Investment Scheme                         |
| DOL                  | United States Department of Labor                    |
| ED                   | Exposure Draft                                       |
| EU                   | European Union                                       |
| FAQ                  | Frequently Asked Question                            |
| IAASB                | International Auditing and Assurance Standards Board |
| ICC                  | Investment Company Complex                           |
| IESBA                | International Ethics Standards Board for Accountants |
| IFRS                 | International Financial Reporting Standards          |
| IOSCO                | International Organization of Securities Commissions |
| JSS                  | Jurisdictional Standard Setters                      |
| MG                   | Monitoring Group                                     |
| MIS                  | Managed Investment Scheme                            |
| NAM                  | Non-authoritative Material                           |
| NAS                  | Non-assurance Services                               |
| PAO                  | Professional Accountancy Organization                |
| PCAOB                | Public Company Accounting Oversight Board (U.S.)     |
| PEB                  | Post-Employment Benefits                             |
| PIE                  | Public Interest Entity                               |
| PT                   | Project Team   |
| Q&As                 | Questions and Answers                                |

| Acronym/Abbreviation | Explanation                                      |
|----------------------|--|
| SEC                  | United States Securities and Exchange Commission |
| UK                   | United Kingdom                                   |
| US                   | United States                                    |