



Institut des
Réviseurs d'Entreprises

International Ethics Standards Board for
Accountants (IESBA)
529 5th Avenue
New York, NY 10017
United States

Luxembourg, June 26, 2025

Subject: Comprehensive Response to Consultation Paper on Auditor Independence for Collective Investment Vehicles (CIVs) and Pension Fund

Dear IESBA Members,

The Institut des réviseurs d'entreprises in Luxembourg ("IRE") is writing to provide our comprehensive response to the consultation paper issued by the IESBA regarding auditor independence for audits involving Collective Investment Vehicles (CIVs) and pension funds. We appreciate the opportunity to contribute our insights on these critical topics.

Response Summary:

We commend the Code for effectively capturing relevant parties essential to the auditor's independence assessment. The comprehensive framework, backed by specific provisions, ensures all pertinent interests, relationships, and circumstances are addressed. This allows auditors to maintain integrity and objectivity across varying contexts. Relying on a principles-based approach enables scalability within Luxembourg's regulatory environment, where mandated distinctions between third-party entities and CIVs reinforce the robustness of the Code.

We emphasize that the Code's provisions are already clear and comprehensive in guiding auditors to identify, evaluate, and address independence threats. The third-party providers receiving non-audit services typically operate under defined mandates with limited discretion.

While the current provisions are robust, additional non-authoritative local guidance could reinforce understanding and execution of auditor responsibilities. This would ensure adaptable and efficient management of potential threats within varied operational environments.

In conclusion, the existing Code provides a strong framework for maintaining auditor independence in audits related to CIVs and pension funds. We support continued adherence to this principles-based approach and welcome local enhancements in guidance as needed.



You can find our detailed answers to the questions included in the consultation paper in the appendix of this letter.

We remain at your disposal for any further information, and thank you for your attention to our response.

Yours sincerely,

For the IRE Council,

Laurence Demellenne
President of IRE



Question 1 - Does the Code's definition of related entity capture all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs/pension funds?

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

1. **Definition of Related Entities:** The Code's definition operationalized by paragraph 400.27 explicitly includes any relationship or circumstance related to a firm's independence evaluation concerning other related entities. This reference ensures all pertinent parties are accounted for.
2. **Fundamental Principles Application:** Although the definition of related parties under section 4A does not explicitly cover "Connected Parties", the application of the fundamental principles—Integrity, Objectivity, Professional Competence and Due Care, Confidentiality, and Professional Behavior—is assured by R112.2.
3. **Independence Threats Under R112.2:** Paragraph R112.2 prohibits professional activities where a circumstance or relationship might unduly influence the accountant's professional judgment. This provision requires auditors to evaluate potential threats, including self-interest and self-review, that might arise from interactions with Connected Parties. Appropriate safeguards are determined and applied to mitigate such threats.
4. **Specific Requirements Under Part 4A:** Part 4A addresses financial interests, close business relationships, and non-audit services, with consideration given to individuals or parties exerting significant influence over financial reporting processes. This ensures a robust framework for evaluating independence.
5. **Conceptual Approach to Diverse Landscapes:** The Code adopts a conceptual framework to address the varied and dynamic landscape of third-party service provider involvement in fund management. By focusing on the entities exerting economic control over investment vehicles or pension funds, the provisions remain adaptable and effective.

Luxembourg Contextual Observations:

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

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



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

Question 2 - Do you believe the criteria set out below, 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?

The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:

- (a) Responsible for its 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.

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

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

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

In Luxembourg, the CIV environment is robustly safeguarded by:

- **Regulatory Framework:** Segregation mandates between the CIV, management company, and custodian bank ensure that the CIV's board remains distinct from management or custodian duties.
- **Supervision:** CIVs offered publicly are under regulatory oversight by Luxembourg authorities, enhancing investor protection.
- **Governance Structure:** The detailed internal governance framework, including the three-lines-of-defense model, provides critical information about how integrity and separation of duties are maintained. Third-party service providers are appointed on an arm's length basis and may be replaced in the way any service provider can be replaced. This supports the idea that existing structures already provide comprehensive checks and balances.

Extending definitions to encompass Connected Parties may lead to inconsistencies, especially when considering subcontractor or outsourcing arrangements beyond fund contexts. For instance, outsourced accounting firms for corporate entities aren't deemed



relevant in audit independence assessments, nor would entities with shared service providers.

Luxembourg Contextual Observations:

(a) Responsible for its decision making and operations:

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

(b) Able to substantially affect its financial performance:

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

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

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

The ability to exert significant influence over the preparation of the accounting records of financial statements lies with those that are responsible for decision making and operations (point (a) above). In contrast, third-party service providers tasked with outsourced functions under strict regulatory frameworks, such as UCITS and AIFMD, do not possess the ability to significantly influence the preparation of accounting records or financial statements. For instance, fund administrators are often hired to assist in the preparation of financial statements, engaging primarily in routine and mechanical tasks.

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

Question 3 - Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties? If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?

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

Luxembourg's regulatory environment acknowledges the significance of maintaining distinctions between third-party entities and CIVs. This segregation is not only recognized but, in some instances, mandated, reinforcing the Code's robustness and adaptability. With



reference the CSSF Circular's requirements for prior authorization and ongoing reporting which protocols reinforce the sufficiency and clarity of the existing framework in identifying and managing independence threats effectively.

The conceptual framework outlined in Section 120 efficiently guides auditors in identifying, evaluating, and mitigating independence threats concerning Connected Parties within investment schemes. Thus, no additional clarification in the Code is considered necessary, as the framework adequately supports auditors in navigating the complexities associated with varied fund structures.

Question 4 - Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?

Response 4 - Drawing from the insights provided in Question 3, the Code offers a clear and comprehensive approach for auditors to identify, evaluate, and address threats to independence. It ensures that ethical principles are uniformly applied across varying legal structures and regulatory contexts. Luxembourg's regulatory environment further bolsters this consistent application through mandated distinctions between third-party entities and CIVs. While additional non-authoritative local guidance could enhance understanding, the existing framework already provides auditors with the tools necessary to maintain independence and uphold ethical standards efficiently. The consistent practice of these principles demonstrates the framework's robustness and adaptability, ensuring its relevance in varying operational environments.

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

Response 5 - The Code mandates consideration of service beneficiaries when providing non-audit services, which is crucial for accurately evaluating independence threats and implementing appropriate safeguards. Addressing interests, relationships, or circumstances between auditors of CIVs/pension funds and their Connected Parties necessitates similarly rigorous evaluations.

When considering the regulatory context around Investment Fund Managers (IFMs) in Luxembourg and those entities identified as Connected Parties in the Consultation Paper, the IRE emphasizes the importance of maintaining a principles-based approach within the Code, allowing for scalability and local amendments to suit diverse regulatory environments. Therefore, instead of broadening the definition of "related entity" or establishing a new definition for "connected party," we support for the release of non-authoritative local guidance, such as FAQs or illustrative examples for complex scenarios. This approach would promote a consistent application of the conceptual framework while effectively addressing independence risks arising from professional activities, interests, and relationships between the auditor and the connected parties of a Collective Investment Vehicle (CIV).



Where the auditor or its network provides non-audit services to service providers of an investment fund, such as fund administrators, depositaries, AIFMs, or other operational providers, potential threats to independence need to be considered.

However, such threats can often be effectively mitigated by a combination of structural safeguards, operational separation, and reliance on independent assurance frameworks.

Nature of the Service Providers

The most frequent recipients of non-audit services are third-party service providers that are not related to the governing body of the investment fund and do not participate in management decisions regarding the fund itself. They typically act under defined mandates with limited discretion. In this respect, then, the threat of inappropriate influence over the financial reporting process of the audited fund is lower.

Independent Assurance Reports (e.g., ISAE 3402, SSAE 18 / SAS 70)

Most of these service providers are also subject to independent assurance engagements, such as ISAE 3402 (Type I or II) or SSAE 18 SOC 1 reports. These are reviewed by independent auditors, providing further assurance on the design and operating effectiveness of the internal controls in place. Such independent oversight alleviates self-review and familiarity threats because the quality of the underlying data and processes can be verified independently.

Organizational Separation of Teams

Another effective measure is organizational and functional separation between the non-audit and audit teams. Practically, the individuals providing non-audit services to Connected Parties are not part of the audit engagement team, and they don't influence the audit procedures or judgments. Clear independence protocols and firewalls ensure that there is no overlap in personnel, and no access to audit documentation or discussions.

Materiality and Relevance

In the majority of cases, the services provided to the Connected Parties do not directly impact the subject matter of the audit of the fund. An example would be a tax compliance engagement for an underlying SPV, or advisory on other unrelated regulatory issues for an AIFM, which may be immaterial or not relevant to the financial statements of the fund. Each engagement is therefore considered on a case-by-case basis to determine whether the service gives rise to a self-review, advocacy, or other ethical threat.

Documentation and Oversight

Audit firms usually have a centralized independence clearance process, which includes when relevant:

- formal consideration of relationships with Connected Parties,
- approval by an ethics committee or independence officer,
- and documentation of the threats identified and safeguards applied.

This ensures that all of the services are duly assessed prior to acceptance, and that the objectivity of the auditor is not undermined.



In sum, while the existing Code provisions are robust, additional clarity in application, in the form of non-authoritative local guidance, could reinforce understanding and execution of auditor responsibilities in diverse operational environments.

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

Response 6 - In Luxembourg, there are no additional regulatory requirements specifically targeting the audits of Collective Investment Vehicles (CIVs) or pension funds concerning auditor independence beyond those outlined in the general application of the Code. The existing principles and standards within the Code are deemed adequate and appropriate to maintain auditor independence in these audits.

The Code's principles-based approach provides a robust framework that is sufficiently flexible to address the unique features of CIVs and pension fund audits. It ensures that auditors can navigate complexities while adhering to high ethical standards. This approach allows for scalable solutions that effectively cater to the diverse structures and practices encountered within the Luxembourg environment.

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