



No: 10/Secretariat/AFA/VI/2025

Jakarta, 30 June 2025

To:

Mr Ken Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants

Dear Mr Ken Siong

**RESPONSE TO THE IESBA CONSULTATION PAPER: COLLECTIVE INVESTMENT VEHICLES
AND PENSION FUNDS – AUDITOR INDEPENDENCE**

On behalf of the ASEAN Federation of Accountants (AFA), we are pleased to submit our response to the IESBA Consultation Paper titled "Collective Investment Vehicles and Pension Funds – Auditor Independence", issued in March 2025.

AFA welcomes the IESBA's initiative to explore whether enhancements to the International Code of Ethics for Professional Accountants (including International Independence Standards) are necessary to address the specific and evolving auditor independence considerations in relation to investment schemes. We commend the IESBA for proactively engaging stakeholders through this consultation.

This submission reflects views gathered from across AFA's member organisations and is informed by practical experience and regulatory developments in ASEAN jurisdictions. The diversity of legal structures, governance models, and regulatory expectations in our region underscores the importance of ensuring that the Code remains relevant, adaptable, and implementable in both mature and emerging markets.

We trust that our responses will assist the IESBA in its deliberations, and we remain available to provide any further information or participate in follow-up discussions.

Thank you for the opportunity to contribute to this important initiative.

Yours sincerely,

Janoearto Alamsyah
Executive Director



Appendix

Question 1: Sufficiency of the current definition of related entity

We concur with the IESBA's observation that the current definition of "related entity" in the Code may not sufficiently encompass all relevant parties engaged in the governance and financial reporting processes of Collective Investment Vehicles (CIVs) and pension funds. In many ASEAN jurisdictions, schemes commonly outsource core functions—such as investment decision-making, financial management, administration, and custodianship—to external service providers.

These parties, while not meeting the Code's threshold of control or financial interest, often exert considerable influence over financial outcomes. For example, in Malaysia, fund management and administrative functions are typically outsourced, yet these parties can significantly influence a scheme's financial operations.

We recommend that the IESBA consider either broadening the scope of the "related entity" definition or introducing explicit criteria to recognise "Connected Parties"—third parties whose involvement creates threats to auditor independence.

Question 2: Appropriateness of the Connected Party criteria

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

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

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

Question 3: Clarity of the conceptual framework for evaluating threats involving Connected Parties

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

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

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



Question 4: Consistency in application of the conceptual framework to Connected Parties

We observe that the conceptual framework is not consistently applied in practice when it comes to Connected Parties in audits of CIVs and pension funds. The variance in application arises from differing interpretations of what constitutes significant influence, as well as gaps in jurisdiction-specific requirements and regulatory oversight.

We point out, in the absence of clearly defined parameters, auditors may default to firm-level interpretations or local practice, resulting in divergent approaches even in similar fact patterns. This undermines the comparability and integrity of independence assessments.

We encourage the IESBA to issue clarificatory and non-authoritative materials—such as flowcharts, guidance notes, and case studies—to help practitioners and regulators consistently apply the framework across markets with varying legal infrastructures.

Question 5: Interests, relationships, or circumstances to address

We believe the Code should explicitly address the following types of relationships and situations that commonly arise in the audit of Investment Schemes:

- Provision of non-assurance services by the auditor to fund managers or administrators that may create self-review or advocacy threats (e.g., developing systems used to generate financial data).
- Close personal relationships between audit staff and individuals in decision-making roles within Connected Parties (e.g., spouses or close relatives).
- Former employment relationships where individuals move between the audit firm and Connected Parties.
- Commercial or business arrangements between the audit firm and third-party service providers to the Investment Scheme.

These relationships are prevalent in ASEAN markets and, if not properly assessed, may impair the auditor's objectivity.

We recommend that the IESBA include detailed guidance and illustrative cases in the Code or in a related practice note that addresses how these circumstances should be evaluated under the conceptual framework. Particular attention should be given to indirect threats and cumulative relationships across entities.

Question 6: Jurisdictional perspectives

Across ASEAN, jurisdictions vary in the degree to which auditor independence requirements for Investment Schemes are addressed through regulation or professional standards, for example:

- In Malaysia, unit trust auditors must be independent of fund managers and custodians under Securities Commission regulations.

The regional diversity in implementation highlights the challenge of consistent application of the IESBA Code, especially in emerging markets.

We recommend that the IESBA continue to provide global leadership by issuing adaptable non-authoritative guidance that can be tailored by local regulators. Additionally, facilitating peer learning



through jurisdictional case studies or technical support to national standard setters would enhance adoption and compliance.

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