



Sent via IESBA website

June 25, 2025

International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

Re: Collective Investment Vehicles and Pension Funds – Auditor Independence Consultation Paper

Dear Members of the International Ethics Standards Board for Accountants:

The Professional Ethics Executive Committee (PEEC or committee), on behalf of the American Institute of Certified Public Accountants (AICPA), recognizes the efforts the IESBA has put forth on its Collective Investment Vehicles and Pension Funds – Auditor Independence consultation paper (the consultation) with the intent to address concerns raised due to the exclusion of collective investment vehicles and pension funds from the public interest entity (PIE) project.

Overarching considerations

We do not believe IESBA should pursue a project to extend independence to non-related entities of Investment Schemes.

Should IESBA decide to pursue a project, it is crucial for IESBA to demonstrate that there is significant public concern that auditors are not independent in their audits of Investment Schemes. This is especially pertinent as the consultation paper notes that "...the Project Team has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor." Furthermore, the paper presents five jurisdictions with significant investment activity that have taken action to address the unique structures in their jurisdictions. IESBA should explain the concerns and how the extension of independence to third parties will address these concerns and justify the associated costs to audit clients and investors.

The code's principle-based approach to determining related entities seems particularly suitable for the Investment Schemes discussed in the consultation paper. This approach respects the diversity and complexity of their organizational structures and the unique legal, governance, and regulatory frameworks of each jurisdiction. Given the diverse and sometimes complex organizational structures globally, a broad measurement criterion is necessary to determine which entities should be considered related entities of an audit client. Investment Schemes vary significantly in structure and the services provided by third parties vary across jurisdictions, making the definition of a "Connected Party" unworkable. Consequently, if the standard could not be widely adopted and consistently implemented globally, the project's success would be jeopardized.

U.S. pension plans

We believe pension plans in the United States would not be in scope of this project since they are not open to the public. Rather, participants must be eligible to participate in the plan generally through employment with a particular company.

Even though these plans are out of scope, it is important to note that certain service providers, that meet the definition of a “Connected Party” under the proposed definition, would not be appropriate to include as a related entity in the United States. This is because they do not exert control over the plans. The types of plans in the United States vary based on relevant laws, but generally, a plan administrator (typically an employee of the plan sponsor) is responsible for the plan’s financial statements, hiring the plan auditor, and managing the day-to-day operations of the plan, including oversight of any third-party service providers. Additionally, a board of trustees often oversees the plan administrator as the governing body.

While plans may use third-party service providers like payroll processors, investment advisors, asset custodians, and recordkeepers; the ultimate responsibility for the design and implementation of internal controls over these services lies with the plan administrator or board of trustees. Even in large governmental plans which are created by local statutes, a governing body is ultimately responsible for ensuring that the plan’s assets are protected.

Responses to requests for specific comments

Q1 - 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?

For the reasons outlined in the “Overarching considerations” section of this letter we believe the related entity definition and guidance in R400.27 is sufficient. If there are other entities the professional accountant (PA) believes should be included in their independence evaluation, the conceptual framework would be used.

The diverse and complex organizational structures across jurisdictions necessitate a flexible, principle-based approach; therefore, it is essential to allow local bodies to determine the entities that are required to be considered by auditors. Each jurisdiction should have the latitude to determine which relationships should be included in the PA’s independence assessment based on the legal structure, governance, regulatory oversight and types of arrangements that exist in that jurisdiction. For example, in the AICPA Code of Professional Conduct (AICPA code), PEEC determined the measurement criteria for determining whether an entity should be an [affiliate](#) (analogous to IESBA’s “related entity”) based on the specific entities that exist in the United States that are relevant to our members. For this reason, any additional guidance from IESBA would cause confusion in the United States considering the standards that already exist.

As IESBA determined in adopting the PIE standard, to retain the fundamental condition of global operability, “it is the role of local bodies to determine which entities should be treated as PIEs

whereas the IESBA's role rests more with setting the appropriate additional independence requirements for PIEs".¹

Q2 - Do you believe the criteria for Connected Parties 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 proposed definition of "Connected Party" is not appropriate or sufficient due in part to the reasons outlined in the "Overarching considerations" section of this letter. Though the three criteria cover important activities, third parties performing these functions are in most cases simply performing a service and are not ultimately responsible for the entity's operating results or financial reporting. We believe that PAs already consider the impact of third parties like those defined as "Connected Parties" on independence using existing ethics and other professional standards.

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

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

The auditor's responsibility with respect to third parties who are "in a position to exert significant influence over the preparation of its accounting records or financial statements" is guided by the standards in the *AICPA Statements on Auditing Standards* specifically as codified in AU-C §402, *Audit Considerations Relating to an Entity Using a Service Organization*. AU-C §402 (and similarly, *International Standard on Auditing 402*) which provides guidance for auditors when an entity uses a service organization (third party) to process transactions or maintain records. The

¹ IESBA Basis for Conclusions: Definitions of Listed Entity and Public Interest Entity

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

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

Q3 - 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?

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

Q4 - 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?

The conceptual framework does provide a robust framework for practitioners to use when evaluating threats to independence and applying effective safeguards, and we believe that the conceptual framework is appropriately understood and is applied based on facts and circumstances, as necessary, by practitioners in the United States. Our belief seems consistent with the consultation paper which notes that "...the Project Team has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor."

The regulations and professional standards developed for Investment Schemes that exist in the United States allow PAs to consistently and appropriately identify and assess threats to independence related to Investment Schemes. We believe the conceptual framework provides a

consistent approach for evaluating threats that arise from relationships or circumstances that are not specifically covered by those regulations and professional standards.

Q5 - Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed?

There are no interests, relationships, or circumstances relevant to Investment Schemes that should be specifically addressed by the IESBA code. Rather, the conceptual framework combined with the fundamental principles and broad concepts in the code's related entity guidance are sufficient. The diverse and sometimes complex organizational structures that exist around the world call for the use of broad measurement criteria to determine which entities should be considered related entities of an audit client. Investment Schemes are not regulated in the same way and are not serviced in the same ways by third parties across jurisdictions. These variations make any definition of a "Connected Party" unworkable.

The imposition of a rules-based requirement on jurisdictions such as the United States that already have laws, regulations, or other professional standards that address risks unique to Investment Schemes in that jurisdiction, is counterproductive. We are not aware of any recent issues in the United States related to third parties of Investment Schemes.

Q6 - 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.

We believe the laws, regulations, and professional standards that exist in the United States are adequate to enable auditors to appropriately identify, assess, and address threats to independence with respect to Investment Schemes. We further believe the conceptual framework provides a consistent approach for evaluating threats that arise from relationships or circumstances that are not specifically covered by those laws, regulations, and professional standards.

The following is a (non-comprehensive) list of regulators, requirements, and guidance in the United States:

Investment Scheme-specific

- U.S. Securities and Exchange Commission (SEC) – [Investment Company Complex](#)
- U.S. Department of Labor (DOL) regulates employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974 (ERISA)
 - [Auditor independence regulation](#)
 - [Party in interest and prohibited transactions](#) – Section 3(14) of ERISA defines a party in interest to include, among others, fiduciaries or employees of the plan, any person who provides services to the plan, an employer whose employees are covered by the

plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee organization, or relatives of such persons just mentioned. Certain plan transactions with parties in interest are prohibited under ERISA Sections 406 and 407 and are required, without regard to their materiality, to be disclosed in the plan's annual report to the DOL.

- [Affiliate guidance](#): In the case of a plan established or maintained by two or more employers or jointly by one or more employers and one or more employee organizations, the association, committee, joint board of trustees, or other similar group of representatives of the parties who establish or maintain the plan are considered plan affiliates.
- U.S. Office of the Comptroller of the Currency – Regulates bank collective funds ([collective investment funds](#)) which are not available to public as they are only offered to pension plans.

Audit-specific

- SEC (all publicly available funds in the United States are covered by these regulations) – [Independence Rule 2-01\(b\)](#)
- U.S. Public Company Accounting Oversight Board – [ISB No. 2 Certain Independence Implications of Audits of Mutual Funds and Related Entities](#)
- AICPA [affiliate](#) definition
- U.S. Government Accountability Office – Chapter 3 of [Government Auditing Standards](#) includes independence requirements for governmental audits including governmental pension plans.

General guidance

- [Conceptual Framework for Independence](#)
- SEC [general standard of independence and four guiding principles](#): The general standard considers whether a reasonable investor with knowledge of all relevant facts and circumstances would conclude that an accountant is independent. Under the four guiding principles, an auditor cannot function in the role of management, audit the auditor's own work, serve in an advocacy role for the client, or have a mutual or conflicting role with the client.

We appreciate your consideration of these comments and welcome the opportunity to discuss these issues further. If you have any questions, please contact Toni Lee-Andrews, Director – AICPA Professional Ethics Division at Toni.LeeAndrews@aicpa-cima.com or Ellen Gorla, Associate Director – AICPA Global Professional Ethics at Ellen.Gorla@aicpa-cima.com.

Sincerely,

A handwritten signature in black ink that reads "Anna P. Dourdourekas". The signature is written in a cursive, slightly slanted style.

Anna P. Dourdourekas, Chair
Professional Ethics Executive Committee

cc: Toni Lee-Andrews, CPA, PFS, CGMA, Director – Professional Ethics