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30 June 2025

Mr. Ken Siong
IESBA Technical Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 5th Avenue
New York, New York 10017
USA

Re: Collective Investment Vehicles (CIVs) and Pension Funds

Dear Mr. Siong,

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA or Board) Consultation Paper with respect to auditor independence for audits of Collective Investment Vehicles and Pension Funds.

BDO summary

The overall view of BDO is that the IESBA Code is principle-based and that the application of the conceptual framework gives audit firms the necessary scope to capture all relevant relationships within their independence assessments for Collective Investment Vehicles and Pension Funds.

Attempting to change or expand the related entity definition to try to cover every entity that the audit firm may have a relationship with which could bear on its independence would likely have unintended consequences. It may lead to an overly expansive definition or one disproportionately cumbersome compared to other definitions within the Code and this may end up being counterproductive.

Instead, our view is that the issuance of non-authoritative guidance on identifying relationships with the connected parties that threaten independence could be of real value to firms in helping them apply the conceptual framework in a consistent manner, appropriate to the local markets within which these funds operate.

We understand that the IESBA is seeking to be proactive in addressing any potential gaps before they lead to an issue, but as the project team has acknowledged, no independence issues have to date been identified as the cause of an audit failure in the CIV/pension fund space. It is therefore difficult to identify any future issues that would only be averted by a change to the related entity definition within the Code.

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Responses to specific questions

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?

Please provide reasons for your response.

It is BDO's view that the related entity definition taken alone does not guarantee that all relevant parties who warrant inclusion in an auditor's independence assessment, would be captured.

In some jurisdictions, the local applicable Relevant Ethical Requirements (RERs) do not contain a clear concept of 'control' within the context of CIVs / pension funds, and it is not easily attributable to any one entity. It is likely that in such cases no entity has control over the fund, but several parties are instead responsible for discrete elements of the fund's operations, which in turn may also not meet the threshold for having 'significant influence'.

Similarly, for CIVs/pension funds not classified as publicly traded entities, parties 'upstream' of the fund would never come into the scope of the audit client definition. In addition, the application of materiality to those upstream entities is not defined and differs in the context of CIVs / pension funds compared to a normal corporate structure.

By relying solely on this definition, there is a risk that relationships between the audit firm and the connected parties may not be adequately evaluated. It is for this reason that the conceptual framework is important in helping firms consider these relationships and why we believe non-authoritative guidance to support this is the best approach.

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.

Question 2

Do you believe the criteria set out above 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?

Please provide reasons for your response.

Relationships with Connected Parties in some circumstances can impact the independence of the audit firm. For example, non-assurance services provided to the fund entered into via an agreement with a connected party, such as the investment manager or administrator. Based on the criteria above, the relationship with the connected party would meet one or more of the descriptions and we view them as sufficient. However, the important point here is that the criteria should help identify relationships that may impact independence, not just to identify the connected parties themselves.

In terms of the appropriateness of the criteria, adopting independence concepts already in use and applying them within a narrow context such as CIVs/pension funds would need careful framing. Without this, it may lead to a catch all situation where every connected party is at risk of being perceived as meeting one, or more, of the criteria, when in reality the risk is nominal. Providing further guidance on what it means to 'substantially affect' the financial

performance or what the threshold is for exerting ‘significant influence’ on accounting records or financial statements would help in this regard.

Question 3

Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties?

If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?

Please provide reasons for your response.

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

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

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

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?

Please provide reasons for your response.

Where there is an absence of local rules or established practice in place, there is a risk that the framework may not be applied consistently between audit firms. Our view is that there is room to assist audit firms in how section 120 of the Code can be applied in practice with respect to the assessment of auditor independence. Currently, the application of the conceptual framework requires firms to use their own judgment when identifying and evaluating relationships that could result in threats to independence which may result in firms reaching inconsistent conclusions.

CIV/pension fund specific non-authoritative guidance would help firms apply the conceptual framework to CIV/pension fund audit clients in a consistent manner and reach similar conclusions when evaluating threats to independence.

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.

Guidance on which types of services to a connected party may be deemed to benefit the CIV/pension fund could be addressed, particularly in cases when the CIV/pension fund is not a directly identified recipient. At the most basic level any service to a connected party could theoretically benefit all entities for which the connected party is a service provider. This is

clearly not the way to best apply the conceptual framework, so addressing these relationships would be beneficial.

Identifying the threats to independence when a business, employment or financial relationship between the audit firm or a member of the audit team exists with a connected party, should be addressed, for example employment relationships between an audit team member's immediate family and a connected party or holding a financial interest in a connected party.

Another area to consider is where the connected party is an individual filling a governance position at the CIV/pension fund on behalf of a corporate firm. The extent of the threat to independence that may arise from relationships between the audit firm and the entity to which the individual belongs should be addressed. There would appear to be a minimal risk in this instance, and applying a broad approach to evaluating all potential relationships would likely bring little benefit.

We appreciate the opportunity to comment on the consultation paper. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,

BDO International Limited



Basile Dura
Secretary