

International Ethical Standards Board for Accountants
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Dear IESBA Board members,

Collective Investment Vehicles and Pension Funds – Auditor Independence

We welcome the opportunity to comment on the IESBA consultation paper on Collective Investment Vehicles and Pension Funds – Auditor Independence.

We set out below our general comments on the proposals followed by responses to the individual questions set out in the consultation document.

Forvis Mazars Group SC is an independent member of Forvis Mazars Global, a leading professional services network. Operating as an internationally integrated partnership in over 100 countries and territories, Forvis Mazars Group specialises in audit, tax and advisory services. The partnership draws on the expertise and cultural understanding of over 35,000 professionals across the globe to assist clients of all sizes at every stage in their development.

General comments

We are concerned with the significant expansion of the IESBA Code of Ethics ('the Code') in recent years, which has placed an increased burden on both local standard setters and auditors required to comply with the Code. Furthermore, we are concerned that the Code appears to be moving away from being "principles based" to "rules based" in some of its provisions.

We strongly welcome the decisions taken at the recent June meeting of the IESBA Board around standard setting and non-authoritative material, and particularly welcome a pause in major standard setting, with no new standards expected before 2027. This provides some welcome time in which local standard setters and audit firms can focus on fully implementing recent updates to the Code and assurance standards.

Proportionate response

While Para 12 of the consultation refers to a "potential gap in the code", the paper also 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"
- after extensive research, IESBA has identified only two jurisdictions (US and Australia) that have established regulations in this area

- “research highlights that Investment Schemes are established under various legal frameworks and are subject to different jurisdiction-specific legal and regulatory requirements”
- IESBA acknowledges that “Part 1 of the Code provides a path for auditors to consider facts and circumstances that may present threats to independence when auditing an Investment Scheme.”

Given these various factors identified in the consultation paper, it is not clear to us that there is any significant gap in the Code, or a need for enhanced provisions. Therefore, we do not believe that enhancing the Code would be a proportionate response to the findings of the IESBA’s research.

We believe that the existing provisions in the Code (Fundamental Principles, Conceptual Framework and requirement to exercise professional judgement) are sufficient in practice to ensure auditor independence, as acknowledged by IESBA in its own comments around Part 1 of the Code. There is therefore no justification to further enhance the Code in this regard. We do, however, consider that it may be appropriate for the IESBA to provide non-authoritative application material to support the application of the Code.

Practical application challenges

We believe that significant changes to the provisions of the Code might give rise to practical application challenges and potential unintended consequences, including:

- the ability of funds to change advisers quickly on different platforms would make it impractical for auditors to keep track of all relationships in real time
- potential challenges similar to those related to IESBA proposals around “value chain” independence in the IESSA sustainability standards might arise. For example, if a large audit firm implemented a transaction processing system which is used across multiple CIVs, this would impact the ability of the firm to be independent across many entities, which may be particularly problematic in jurisdictions where only a small number of firms are active in this market
- the scale of the impact on small jurisdictions which have a large number of funds (e.g. Republic of Ireland and Luxembourg).

Responses to consultation 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.

As noted in our general comments, we believe that the IESBA should restrict this project to providing non-authoritative guidance material only and not add more provisions to the Code.

We believe that the current definition of related entity is well understood and consistently applied, and we do not recommend any changes to the existing definition. It is likely that there will be different interpretations which would reflect different jurisdictional requirements etc., and this is an appropriate outcome for a principles-based code and application of the conceptual framework by auditors when assessing their independence.

Question 2

The questions in the following 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:

- *Responsible for its decision making and operations;*
- *Able to substantially affect its financial performance; or*
- *In a position to exert significant influence over the preparation of its accounting records or financial statements.*

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.

These criteria may be appropriate for consideration in any non-authoritative guidance provided by IESBA, but we do not believe that they, or a definition of “connected party”, are suitable for inclusion in the Code provisions as they do not necessarily incorporate the differences which arise through jurisdictional requirements and structures.

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.

As noted in our general comments and in Question 1, we believe that the existing provisions in the Code are sufficient in practice ensure auditor independence and therefore there is no justification to further enhance the Code in this regard. We do, however, consider that it may be appropriate for the IESBA to provide non-authoritative application material to support the application of the Code.

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.

Yes. For larger network firms operating as members of the Forum of Firms, such as Forvis Mazars, the IESBA Code is consistently applied, as international networks issue guidance to ensure consistency in application, particularly for transnational audits.

However, given the varied adoption of the Code around the world, with many jurisdictions still using previous versions of the Code, it is difficult to claim that the Code is consistently applied in practice in all jurisdictions by all firms. Furthermore the different jurisdictional requirements around CIVs and pension funds might give rise to different local interpretations – however, this would be an appropriate outcome for a principles-based code and application of the conceptual framework by auditors when assessing their 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.

We have not identified any interests, relationships or circumstances between the auditor of a CIV/pension fund and its "Connected Parties" that should be addressed in the provisions of the Code. However, we do not believe that a principles-based Code can necessarily address all interests, relations or circumstances. Any examples of such circumstances should be addressed in non-authoritative material and guidance, rather than in the code.

The IESBA may wish to consider, in its guidance, which types of collective investment vehicles and pension funds are being addressed and any particular issues relating to certain types of scheme. For example, how any guidance would apply to US-style Employee Benefit Plans and Public Sector Pension Funds, as opposed to private pension plans.

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.

No comment as we are responding as a global organisation.

Further discussion

If you would find it helpful to discuss any issues in this letter, please contact Paul Winrow, Partner, Public Policy & Regulation. (paul.winrow@mazars.co.uk).

Yours faithfully,

Forvis Mazars Group SC

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