

June 24, 2025

International Ethics Standards Board for Accountants (IESBA)

Ms. Gabriela Figueiredo Dias, Chair

RE: IFAC Response to the IESBA's Consultation Paper *Collective Investment Vehicles and Pension Funds – Auditor Independence*

Dear Chair Figueiredo Dias:

IFAC welcomes the opportunity to comment on IESBA's Consultation Paper for auditor independence considerations for Collective Investment Vehicles (CIVs) and Pension Funds. As the global voice of the accountancy profession, IFAC connects and unites over 180 Professional Accountancy Organizations in 135 jurisdictions. IFAC's members are champions of integrity and professional quality and committed to the public interest.

We have undertaken significant engagement with our members and their members who are public practice practitioners, and a wide range of stakeholders including preparers and investors. This **new approach by IFAC** is focused on bringing views from global multi-stakeholder perspectives. We believe this approach provides you with more valuable insights and information to use in your processes. We demonstrated our convening power and multi stakeholder approach recently at the April 2025 IFAC-IESBA Summit in Paris. One compelling theme at the Summit was the too quick pace and nature of new standards being developed. Practitioners, preparers, and investors all focused on this issue. In addition, there was unity about improving the due process of standard setting. This was a matter I covered in my opening remarks at the Summit and has been included in our joint media release after the Summit. Potential new standards should, in the early phases of standard setting, develop robust effects analysis of the benefits and costs of the changes being proposed. I encourage that such effects analysis should cover separately different classes including large practitioners, small and medium practitioners and preparers. Taking this approach will give greater transparency and justification.

The issue of auditor independence in relation to CIVs and Pension Funds is important, but we are concerned that this project lacks a sufficient evidence base for justification, so would strongly oppose any changes to the Code as a response. The principles within the Code are appropriate to address the issues raised, and there is no reason to believe that these are not being appropriately applied by practitioners. If this consultation provides evidence that practitioners struggle to apply these requirements, we may then be supportive of the creation of non-authoritative material (NAM) to assist practical application, but there is insufficient public interest demonstrated for any action beyond this.

Sincerely,



Lee White

CEO, IFAC

APPENDIX – RESPONSE TO REQUEST FOR COMMENTS

Related Entities Under the Code

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

Whilst the definition of related entity would not technically incorporate all relevant parties that would need to be considered for auditor independence for CIVs and pension funds, we would strongly oppose any revision to expand this definition. The current conceptual framework within the Code provides sufficient requirements to address independence threats in relation to related entities and other relevant parties, provided it is properly applied. Unless there is strong evidence that the conceptual framework and approaches such as threats and safeguards are not being applied well in this area, there is no underlying issue to resolve through amending the Code or expanding any definitions.

Furthermore, any adjustment to the definition of related entity may create more confusion than clarity, particularly if it leads to inconsistent interpretations across jurisdictions or among different types of investment structures. It should be remembered that this is an area where there are differences in how such entities are regulated globally, which will give rise to added complexity. Additionally, it is not clear that the definition of related entity not including all ‘relevant parties’ has led to actual independence failures in practice. Without a basis of evidence to suggest this is the case, it is not clear any revisions in this area will improve audit quality.

Application of the Code to Connected Parties

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.**

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.

Gaining an understanding of situations where third parties warrant further attention is appropriate, and the three areas identified appear directionally appropriate. However, these areas are very broad and open to subjective interpretation. If these were included within the Code, practical difficulties would arise, including in scoping and documentation, especially where roles and responsibilities are shared across multiple entities or change over time.

In the absence of identified independence failures in relation to such ‘Connected Parties’ introducing new definitions or scoping mechanisms for these would introduce ambiguity, increase compliance burdens, and be disproportionately challenging for firms, especially SMPs, without clear benefits to

audit quality or the public interest. Extending the scope of entities to which independence requirements apply (for example custodians) may be unrealistic in some jurisdictions too as this could preclude larger networks from providing audits due to service relationships with such bodies. Reliance on the conceptual framework is therefore a more effective and proportionate approach.

If the consultation provides evidence that there are challenges auditors face in applying the conceptual framework in relation to the three areas identified, some limited and targeted non authoritative material to support application could be helpful for practitioners and would avoid potential problems through revision of the Code.

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.

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 'Connected Parties.' We have identified no need to revise this, and adding or expanding definitions or introducing prescriptive rules in relation to this area would be counterproductive. Embedding consideration of the three areas identified into the Code would inadvertently elevate their significance beyond what is warranted, potentially leading to over-compliance or misapplication.

If the Consultation Paper provides strong evidence that further clarity is needed, this would be best achieved through NAM or implementation guidance, rather than amendments to the Code. If there are genuine challenges in applying the requirements of Section 120, the ease of use of any NAM created should be central when drafting, as this will need to be a practical tool to facilitate implementation of requirements.

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.

Whilst we acknowledge that it is difficult to determine whether the conceptual framework is consistently applied in this area, we are not aware of any evidence suggesting it is not. We understand there may be challenges, particularly in jurisdictions with less-developed regulatory ecosystems or where firms have fewer resources, but revisions to the Code would be counterproductive in providing support in such cases. These would increase complexity, expanding the issue rather than providing support. If the Consultation provides strong evidence that the conceptual framework is inconsistently applied in this area, a focus on developing educational and interpretive support materials, and promoting greater awareness and training on how to apply the framework would be the most effective response.

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.

There are specific relationships or scenarios, such as close commercial or governance links between fund managers and auditors that warrant consideration; however, we have not identified any such area that necessitates a change to the Code's scope. Such situations are effectively addressed under the existing threats and safeguards approach within the Code, and evidence received from these bodies would also be subject to consideration under the requirements of auditing standards. Adding new mandatory inclusions or rules in the Code could result in unintended consequences, such as requiring auditors to assess or monitor relationships beyond their direct visibility, increasing cost and complexity without commensurate benefit.

It should also be remembered that while CIVs or Pension Funds may well have advisers or third parties that have a role in decision making, these arrangements will have Trustees who are the ultimate decision makers and can remove the third parties making operational decisions. Structures with these complex layers of decision makers are far more suited to be considered through principles-based guidance that can be used to examine specific threats and safeguards in particular situations rather than prescriptive requirements which will be challenging to apply to such areas.

Research Findings on Jurisdictional Responses to Independence

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.

We are aware of a number of jurisdictions where there are specific requirements in this area. This creates an added complication were amendments to the Code to be made in relation to this project. Any Code amendments would need to take such requirements into consideration to avoid duplication or confusion and avoid creating tensions with local laws and expectations; otherwise, global operability would be impacted.

If the IESBA are to move forward with project, we would strongly recommend deeper consultation with jurisdictions where CIVs or Pension Schemes may make up a large proportion of economic activity, which would include countries such as Luxembourg, Singapore and Ireland among many others.