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[Submitted via IESBA website]

30 June 2025

IESBA Consultation Paper: Collective Investment Vehicles and Pension fund - Auditor Independence

Dear Mr Siong,

Introduction

We¹ appreciate and thank you for the opportunity to comment on the IESBA's Consultation Paper on Collective Investment Vehicles and Pension fund - Auditor Independence.

Overall comments

In responding to this consultation, we would like to make an overriding comment that it is not entirely clear from the consultation paper what types of investment schemes the Board has in mind that might need addressing in this context. The paper refers to those schemes that "allow members of the public to invest through pooled funds." These terms can be broadly defined and lack clarity in terms of understanding and application, particularly in the area of pension funds where there is a diverse range of pension schemes and arrangements around the world. If the Board decides to take this initiative forward, it will be important to provide additional specificity on the types of schemes intended to be covered, at the same time as recognising that there will be important jurisdictional differences.

¹ This response is being filed on behalf of PricewaterhouseCoopers International Limited (PwCIL). References to "PwC", "we" and "our" refer to PwCIL and its global network of member firms, each of which is a separate and independent legal entity.

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We also believe that it is important to recognise that the investment and pension fund industry is a highly regulated area (e.g. SEC and ERISA regulation in the USA, UCITS funds regulation in Europe) and that the checks and balances inherent in local regulation and governance arrangements provide additional comfort that the public interest in the audits of these schemes is safeguarded.

Detailed comments

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.

In some jurisdictions, certain relevant parties, such as an advisor or management company are deemed (by the regulatory framework) to have an actual or an implied control relationship with the investment scheme and accordingly will be covered by the local definition of a related entity (or affiliate) and, by implication, the definition of a related entity in the Code. Application of the related entity definition in the Code would then depend on whether the entity is a Publicly Traded Entity or not (based on R400.27).

In other jurisdictions, the principles of the related entity definition are not clearly applicable to funds and to entities that are service providers to such investment schemes. As a general observation, the defined term in the Code is not currently drafted to explicitly refer to other parties, such as advisors or other paid service provider roles, which might have decision making or operational responsibilities in relation to management of the fund, its performance, or the preparation of its financial statements. These parties are generally outside the entity's organisational boundary and might not be deemed under the local framework to have a control relationship with the CIV (such as is generally the case in the EU).

We acknowledge though that relevant interests and relationships with certain "connected parties" (which are not related entities) should be included in the assessment of independence, and in many cases the auditor will already consider such relationships through existing mechanisms (application of the conceptual framework and the 'look-through' principle described in our response to Question #4).

Should the Board decide to move forward with this initiative, enhancing clarity through non-authoritative guidance or additional application material could offer more precision. However, see our responses to Questions 2-5 below in which set out our view that the existing conceptual framework in the Code provides an effective framework for dealing with the identification and response to independence threats that might arise.

The questions in this Section [Questions 2-5] 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.

We believe that the focus of any consideration by the auditor should be on those parties fulfilling the criteria in (a), recognising that such decision making and operational roles will already result in such a party having significant influence over the preparation of its accounting records or financial statements (criteria (c)). This would typically be the investment advisor or management company (or sponsor, as in the case of a benefit plan or scheme) but could vary depending on the jurisdiction.

However, we disagree that entities that only meet criteria (c), but do not also meet criteria (a), as might be the case for a fund administrator, for example, should be viewed as connected parties. Although an entity is involved (as a service provider) in the preparation of the accounting records or financial statements due to those activities having been outsourced, generally, the oversight and control over the investment scheme is retained by those charged with governance. The activities undertaken by entities meeting criteria (c), although not solely administrative, are nevertheless overseen by the management of the CIV and it should not be determined to have significant influence over the preparation of accounting records or financial statements.

Furthermore, while we are unclear what is meant by (b) in addition to those parties captured by (a), the same principle around those charged with governance retaining oversight over the fund would apply. For example, a “connected party” that has decision making responsibilities in terms of investment strategy and investment decisions with a corresponding ability to affect the fund’s financial performance that would already be captured by (a).

We do not believe that arm’s length service providers, such as custodians, administrators, brokers, trustees, or those that do not have decision making oversight of the financial statements of the investment scheme, but which provide administrative services of a routine and mechanical nature, should be included in a ‘connected party’ definition. These third-party service providers typically operate within established boundaries, often undertaking routine tasks under strict legal stipulations which are often designed to have an inherent system of checks and balances, as well as multiple lines of oversight by entities captured in prong a) of the proposed connected party definition. In such a set-up, these parties will rarely end-up with having a significant influence on the financial reporting of the fund.

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.

In our view, the conceptual framework (the “CF”) set out in Section 120 of the Code is a clear and robust approach to the assessment of auditor independence.

Even though the Code does not specifically address the application of the CF in the context of investment schemes (in the same way that it does not address in any detail other industry or market scenarios), we believe that the following elements of the CF, coupled with the application of the “Reasonable and Informed Third Party” test, adequately direct the auditor to consider a broad range of circumstances that might create threats to independence. This could include relationships involving “connected parties.” If the auditor identifies circumstances that create threats that cannot be eliminated or reduced to an acceptable level, then, under the CF approach, the auditor shall not accept the engagement.

R120.6 The professional accountant shall identify threats to compliance with the fundamental principles.

120.6 A1 An understanding of the facts and circumstances, including any professional activities, interests and relationships that might compromise compliance with the fundamental principles, is a prerequisite to the professional accountant’s identification of threats to such compliance....

120.6 A2 Threats to compliance with the fundamental principles might be created by a broad range of facts and circumstances. It is not possible to define every situation that creates threats. In addition, the nature of engagements and work assignments might differ and, consequently, different types of threats might be created.

The fundamental principles are set out in Section 110 of the Code.

This specifies a clear approach to identification and evaluation of any threats and requires the auditor to address any such threats (see also paragraph 120.2).

We do not believe that the Code, or the International Independence Standard, need to be amended in this regard, and we do not believe that it would be appropriate to extend the definition of “related entities” for one sector and for what are, essentially, service providers outside the client’s corporate hierarchy. However, we recognise that the profession as a whole might benefit from non-authoritative materials illustrating how the CF might be applied to CIVs (and appropriately defined ‘connected parties’), where the local jurisdiction does not already sufficiently address this area. This could, for example, address circumstances where the audit firm provides system design services to an appropriately defined connected party.

If the Board decides there is a need to introduce the concept of a “Connected Party” in relation to investment schemes, there might be unintended consequences in terms of the application of such a term in other sectors, markets and industries.

We recommend that any such material be developed in close collaboration with practitioners who are working in this space and that the guidance acknowledges the variety of scheme structures that are prevalent around the world and guidance that might already be available locally.

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.

Naturally we cannot speak for other professional firms and accountants in terms of consistent application, but we believe that within the PwC network our overall approach to the acceptance and continuance of both assurance and non-assurance services have appropriate regard to circumstances that might create threats to independence and that audit engagement teams give consideration to facts and circumstances that might create threats. This is grounded in the conceptual framework approach in the Code.

For example, our acceptance processes relating to new non-assurance services (NAS) to unrestricted clients involve identifying the beneficiary of the services to capture scenarios where the beneficiary might be a restricted entity (the “look-through” principle or “indirect services”). This is consistent with the conceptual framework approach. If the analysis identifies that an investment scheme under audit would be a beneficiary of a proposed service and that the provision of the service might create a self-review threat in relation to the audit of the scheme, then the scheme audit engagement partner would evaluate and determine, based on the facts and circumstances, as to whether the firm could proceed with that NAS.

The same principle would apply regarding any proposal to enter into a close business relationship with an unrestricted entity.

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 believe that any threat is most likely to come from the provision of NAS to the connected party and that if the Board determines that further tailored guidance needs to be developed applicable to CIVs, non-authoritative materials could be helpful. The focus could be on circumstances that might create a self-review threat.

While, in rare circumstances, other interests and relationships with connected parties might potentially create threats, they will (and should) depend on the facts and circumstances. Further, as discussed in our response to #4, above, these interests and relationships would be identified through application of the conceptual framework.

However, to the extent that a local jurisdiction has standards or regulations applicable to the audits of CIVs/pension funds, and those standards are geared towards capturing entities that are locally viewed as being relevant ‘connected parties’ within the jurisdiction, we believe that the local considerations should

prevail, given the deeper understanding of the local environment that will be held by local regulators or standard setters.

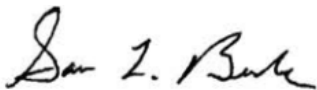
Question 6 Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details.

This is a response on behalf of the PwC network of member firms and accordingly it is not appropriate to comment on specific jurisdictional approaches. We assume that individual jurisdictions (Standard Setters and/or IFAC member bodies) will address this question.

Contact

We would be happy to discuss our views with you. If you have any questions regarding this letter, please contact me at samuel.l.burke@pwc.com.

Yours sincerely

A handwritten signature in black ink that reads "Sam L. Burke". The signature is written in a cursive, flowing style.

Sam Burke

Global Independence Leader