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Mr Ken Siong
IESBA Program and Senior Director
International Ethics Standards Board for Accountants
529 Fifth Avenue
New York, New York 10017
UNITED STATES OF AMERICA

Re: *Consultation Paper: Collective Investment Vehicles and Pension Funds*, International Ethics Standards Board for Accountants – March 2025

Dear Mr Siong:

RSM International Limited (RSM, we), a worldwide network of independent audit, tax and consulting services firms focused on serving the middle market, appreciates the opportunity to comment on the International Ethics Standards Board for Accountants' (IESBA) *Consultation Paper: Collective Investment Vehicles and Pension Fund* (the Consultation Paper).

Overall Comments on the Proposal

As detailed in our responses to the specific questions in the attached, we believe the conceptual framework is too broad and high-level, making it difficult for auditors to consistently apply it to identify and evaluate threats to independence, especially in the context of Connected Parties related to investment schemes. The conceptual framework lacks specific guidance and examples that would help auditors understand and apply it effectively. We are concerned that without clearer definitions and examples, the conceptual framework may not be sufficient to address the unique structures and relationships in investment schemes.

In our experience, auditors appreciate when there is guidance regarding specific situations that may require significant judgment to apply the IESBA's *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Code of Ethics) consistently across entities and jurisdictions in those situations.

We suggest that the IESBA Code of Ethics be updated to include more detailed guidance and examples to help auditors identify Connected Parties and assess independence threats more accurately. This could involve defining terms like 'Connected Parties' and integrating them into the IESBA Code of Ethics' definitions of audit client and related party.

We provide further detail on these areas, as well as other comments, in our responses to the specific questions set out in the attached document. In certain areas, we propose specific revisions to the proposed standards. Language recommended for deletion is ~~struck through~~. Language recommended for addition is underlined.

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If you have any questions relating to our response, please contact me at Marion.Hannon@rsm.global.

Yours sincerely,

A handwritten signature in blue ink, reading "Marion Hannon".

Marion Hannon
Global Leader, Quality & Risk
RSM International Limited

DRAFT

Request for Specific Comments

Application of the Code to Investment Schemes

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 responses.

We do not believe the definition of 'related entity' in the International Ethics Standards Board for Accountants' (IESBA's) *International Code of Ethics for Professional Accountants (including International Independence Standards)* (Code of Ethics) captures all relevant parties that need to be included in the auditor's independence assessment when auditing collective investment vehicles (CIVs) or pension funds. The IESBA Code of Ethics includes the following definition of related parties¹:

An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a 'sister entity') if the sister entity and the client are both material to the entity that controls both the client and sister entity.

We have the following comments on the definition of 'related party' in relation to CIVs and pension plans:

- CIVs can have complex structures that can involve a variety of parties that may influence auditor independence.
- The definition does not appear to capture individuals as related parties, and 'entity' does not appear to be defined in the IESBA Code of Ethics. Elsewhere in the IESBA Code of Ethics, it refers to 'individuals and entities'. Accordingly, it appears that an individual is not considered an entity and, thus, would not be considered a related party for purposes of applying the IESBA Code of Ethics. In addition, the definition does not appear to include entities that have operational or managerial control of the client without a financial interest (e.g., an investment advisor).
- In Appendix 2 of the Consultation Paper, 'Research Findings on Jurisdictional Responses to Independence', it appears that the six jurisdictions listed included other Connected Parties as part of their respective independence requirements, including asset management companies or investment advisor/sponsor, which do not appear in the definition of 'related party' in the IESBA Code of Ethics.
- The definition of 'related party' in IESBA Code of Ethics includes 'control'. It is unclear what is meant by control. Control could mean financial/ownership, operational or managerial. Generally, unless explicitly specified otherwise, 'control' is assumed to mean financial or ownership control. A 'direct financial interest' is defined as the following in the IESBA Code of Ethics²:

A financial interest:

- (a) Owned directly by and under the control of an individual or entity (including those managed on a discretionary basis by others); or
- (b) Beneficially owned through a collective investment vehicle, estate, trust or other intermediary over which the individual or entity has control, or the ability to influence investment decisions.

¹ IESBA Code of Ethics, 'Glossary'

² IESBA Code of Ethics, 'Glossary'

- The definition of 'direct financial interest' includes a financial interest beneficially owned through the ability to influence investment decisions. Certain Connected Parties could be scoped into (b) in the definition of 'related party' as the definition of 'direct financial interest' includes a financial interest beneficially owned through a CIV when the individual or entity has the ability to influence investment decisions of the CIV. However, this would only apply to Connected Parties that are entities as the definition of 'related party' does not appear to include individuals.
- It is unclear that 'direct financial interest' includes some 'beneficial interests' without referring to the definition of 'direct financial interest'. This leaves room for misapplication and a risk that the auditor may assume 'direct financial interest' means direct financial ownership of the client.
- Connected Party is not defined in the IESBA Code of Ethics. We believe it would be beneficial for consistent application if IESBA defines 'Connected Party' in the Code of Ethics.
- An asset manager that has employees, maintains the books and records of a CIV and makes managerial decisions would generally not meet the definition of an audit client or related party. This could result in a situation where an engagement to improve the asset manager's systems is performed that includes the books and records of the CIV. Thus, this engagement may effectively be considered a non-audit service under the conceptual framework because if a firm is hired as auditor of the CIV, the auditor could end up auditing the reports they created during the engagement with the asset manager. We believe that it is conceivable that this service may not be considered if a firm does not consider situations other than those identified.

We have the following recommendations:

- Consider defining 'control' as used in determining a 'related party' in line with the IESBA Code of Ethics.
- Consider defining 'Connected Party' that is specific to CIVs and pension plans and includes an individual or entity with a beneficial interest in the client through the ability to influence investment decisions.
- Either (1) add a requirement that the auditor should be independent from Connected Parties with significant influence over the client, when the interest in the client is material to such entity or (2) add another category in the definition of 'related entity' depending on if the extant definition of related party for CIVs and pension plans would be used without including the Connected Party.

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 [of the Consultation Paper], 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.

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.

The criteria set out above for capturing Connected Parties in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund appear to be a sufficient and appropriate initial list. However, we have identified several aspects that warrant further examination to help clarify the criteria.

The concepts of decision making and operations are already integrated into non-audit services prohibitions. This is an important consideration, as it highlights the existing framework that addresses these aspects. An example may be an asset manager making managerial decisions and maintaining books and records, which could lead

to auditing financial statements prepared by the same firm. This example illustrates the potential issues that could arise if the criteria are not carefully defined

We believe the wording, ‘decision making and operations’, may be unclear and may create a loophole, for example, if an entity is responsible for decision making, but not operations. Decision making involves overall control, while operations could be routine tasks or activities without decision-making authority. Accordingly, we propose changing it to ‘decision making ~~and~~ or operations’ or separating it into two separate criteria to avoid potential exploitation of the criteria as it aims to close any gaps that could be used to circumvent the rules.

We also noted that ‘operations’ is not defined in the IESBA Code of Ethics. Clear definitions are necessary to avoid unintended consequences. In addition, the term ‘routine and mechanical’ used in the Consultation Paper does not appear in the IESBA Code of Ethics and has been replaced by ‘administrative services’. It is unclear if these terms are intended to mean the same thing. If ‘operations’ is only considered to be performing activities without including decision making, there is a possibility that a self-interest threat may exist if a Connected Party performs those activities. Separating decision making and operations would be appropriate to address the risk of self-interest to maintain auditor independence and prevent any overlap that could compromise the integrity of the audit.

We also acknowledge that changing ‘decision making and operations’ to ‘decision making or operations’ may unintentionally increase the number of Connected Parties. This is a valid concern, and it is essential that IESBA weigh the pros and cons of such a change to ensure the criteria are effective and comprehensive and clarify which parties with some kind of connection with the auditor would be considered Connected Parties in the instance where the party only performs tasks or activities without being able to make managerial decisions to limit the potential number of connect parties. The distinction between decision making and operations is vital to ensure that the criteria accurately capture the relevant parties.

We believe it is unclear what is meant by ‘substantially’ in (b) in the criteria to be considered a Connected Party. We recommend adding application material to the listed criteria to include a description of what is intended to be meant by ‘substantially affect its financial performance’.

We also recommend that IESBA consider different governance structures and other potential unintended consequences, using examples to explain why separation is necessary, to avoid unforeseen complications.

While the criteria set out are a good starting point, we believe it is necessary to think through all potential scenarios and make adjustments where needed to ensure they are appropriate and sufficient to capture Connected Parties in relation to the assessment of auditor independence for a CIV/pension fund.

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.

When there are Connected Parties, we believe the conceptual framework in Section 120 of the IESBA Code of Ethics may not be sufficiently clear 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 of Ethics is meant to be used by practitioners worldwide, and the current language may not ensure consistent application or understanding. The language in the conceptual framework may not be sufficiently comprehensive to address the unique circumstances of CIVs and pension funds, and it is likely that someone without the necessary background may not arrive at a consistent answer.

While the framework may be sufficiently clear for those with a background in ethics and independence, it is essential to recognize that the IESBA Code of Ethics is intended to be understood by anyone who applies it. This is particularly relevant when it is used as the basis for sections of the IESBA Code of Ethics that may be used by those that are not professional accountants, such as the International Ethics Standards for Sustainability Assurance (Including International Independence Standards). Consistent application of the IESBA Code of Ethics is beneficial for the market and in the public interest. It is important to consider whether auditors

would stop to contemplate whether something is prohibited using the conceptual framework in Section 120 of the IESBA Code of Ethics without it being specifically addressed. We believe it is possible that individuals may simply move forward without considering the conceptual framework unless it is explicitly prohibited in the IESBA Code of Ethics. In addition, if the auditors do not reference additional guidance that exists when looking at Connected Parties, it can be challenging to determine if the terms are correct.

We believe more clarity and examples would help auditors identify Connected Parties and the related potential issues given the uniqueness of CIVs and pension funds, which may vary between jurisdictions. We would like to see the IESBA Code of Ethics revised to cover Connected Parties in CIVs and pension funds. The considerations above may be embedded in the relevant definitions, 'Part 3 – Professional Accountants in Public Practice' and subsections within Sections 600, 'Provision of Non-assurance Services to an Audit Client' of the IESBA Code of Ethics.

If the concept of Connected Parties is clearly defined, evaluating interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties becomes straightforward. However, when a judgment call is required, and the auditor relies solely on the conceptual framework, the evaluation becomes subjective and auditors may find ways to conduct business that is not explicitly prohibited.

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.

As referred to in our response to question 3, we do not believe that the conceptual framework in Section 120 of the IESBA Code of Ethics 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 is fairly basic, broad and subjective and doesn't give guidance on how to identify Connected Parties, which could be an issue. Auditors may reference the framework if they have a question about a situation, but without defined guidance or explicit prohibitions, they may use it to confirm their actions. Unfortunately, the framework doesn't provide a straightforward answer, and an auditor may not think they have a threat to independence based on what is provided in the conceptual framework.

At a high level, it is uncertain if auditors would reference the conceptual framework if the specific situation were not addressed in the IESBA Code of Ethics, since they may skip forward to the paragraphs specific to the topic applying to their situation. The conceptual framework is so broad and subjective that practitioners may skip it and focus on specific prohibitions, leading to inconsistent application. We do not believe that the framework provides enough guidance to help identify Connected Parties and potential issues. Therefore, there is a need for more specific language and definitions to ensure consistent application.

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 there are certain interests, relationships or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed. Overall, we believe there is a need for clarity by defining 'Connected Parties' and ensuring consistent application of the IESBA Code of Ethics. We identified the following specific interests, relationships or circumstances that we believe should be addressed:

- **Definition of 'Connected Parties':** It is important to clearly define Connected Parties within the IESBA Code of Ethics to avoid ambiguity and ensure auditors can apply the rules consistently. 'Connected Parties' should also be incorporated into the definitions of 'audit client' and 'related party'.
- **Jurisdictional variations:** We believe different jurisdictions' rules and practices should be considered in determining the criteria for Connected Parties that may be considered a threat to independence, such as Singapore's regulations on asset managers and trustees or Australia's setup for pension plans.

- **Unintended consequences:** We believe it is important to consider as many scenarios as possible to avoid unintended consequences, particularly in relation to the asymmetry between a sponsor and a plan given the potential management functions of the sponsor.

We would like to reiterate the importance of clarity so that auditors know how to appropriately and consistently apply the IESBA Code of Ethics.

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 responding as a global network, rather than specific jurisdictions. However, certain notable countries or regions did not appear to be considered in the initial analysis in the Consultation Paper or *Agenda Item 4A: Collective Investment Vehicles, Pension Funds and Investment Company Complexes* from the September 2024 IESBA meeting. We would like to suggest that IESBA also engage with the following jurisdictions:

United Kingdom (UK): It is essential to consider the UK in the list, as their regulations can significantly impact the global audit market. Pension schemes can be considered 'other entities of public interest' (OEPIs) if they have more than 10,000 members, which may impact the global audit market due to accreditation requirements.

Latin America: We noted that IESBA engaged with Brazil, and countries in Latin America generally follow the IESBA Code of Ethics. However, there may be specific nuances in financial systems in various countries, for example, in Chile, which may be considered in IESBA's analysis.

Pension Benefit Guarantee Corporation (PBGC) and Employee Benefits Security Administration (EBSA) in the United States: We noted that IESBA engaged with the American Institute of Certified Public Accountants' (AICPA's) investment company complexes and Employee Benefit Plan Audit Quality Center experts and the United States Securities and Exchange Commission (SEC). However, we would also like to recommend that IESBA also engage with the PBGC and the EBSA, as they are the relevant regulatory bodies for pension funds in the United States.

- End -