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International Ethics Standards Board for Accountants (IESBA)

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Re: Consultation Paper:
Collective Investment Vehicles (CIVs) and Pension Funds – Auditor Independence

Dear IESBA Board Members,

Impax Asset Management is a company founded in 1998 that specialises in making sustainable investments in companies contributing to the transition to a more sustainable economy. Nowadays, we are one of the world's largest specialised asset managers in the sustainable investing field. We are also a long-term investor that has been actively advocating for sustainability reporting and audit quality in different markets all over the world.

We welcome the opportunity to provide feedback on the IESBA's consultation regarding auditor independence for CIVs and pension funds. As a global investor operating across major economies, we recognise the importance of maintaining robust and consistent independence standards to safeguard the integrity of financial reporting in investment schemes. While the existing IESBA Code of Ethics provides a strong foundation for assessing auditor independence, the unique structure of CIVs and pension funds—where external service providers play critical roles—necessitates further clarification on the treatment of Connected Parties. Here are our responses to the specific questions in this Consultation Paper:

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?

Yes, the Code's definition of "related entity" is quite comprehensive in capturing relevant parties for auditor independence assessments. According to the IESBA Code of Ethics, the definition ensures that entities with direct financial, operational or governance influence over the Investment Scheme are considered. However, given the unique structure of CIVs and pension funds, there may be instances where certain Connected Parties are not explicitly covered under the definition.

The Consultation Paper acknowledges that Investment Schemes often rely on external parties for functions traditionally managed internally in corporate structures. These Connected Parties may exert influence over financial reporting, investment decisions or operational management, which could pose independence risks. While the conceptual framework allows auditors to assess threats to independence, additional guidance may be beneficial to ensure consistent application across jurisdictions.

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?

Yes, the criteria outlined in paragraph 35 are appropriate and sufficient to capture Connected Parties. The three key factors—decision-making authority, financial performance influence and control over financial reporting—effectively define the scope of parties that could impact auditor independence.

However, one potential gap is the treatment of indirect relationships, such as entities that provide advisory services but do not have direct control over financial statements. According to the US Securities and Exchange Commission (SEC) independence rules for Investment Company Complexes (ICCs), investment advisors or fund administrators may exert significant influence over the Scheme’s financial decisions without being formally classified as Connected Parties. The IESBA may consider clarifying whether such entities should be explicitly included in independence assessments.

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?

Yes, the conceptual framework in Section 120 of the Code provides a structured approach for auditors to assess threats to independence. It requires auditors to identify relationships that could impair objectivity, evaluate the significance of those threats, and apply safeguards where necessary.

However, discretion will need to be exercised based on professional judgment, as the framework can not prescribe specific rules for every scenario. According to the UK Financial Reporting Council (FRC) guidance on auditor independence, additional clarification on how auditors should assess indirect relationships—such as advisory firms or affiliated entities—could enhance consistency in application.

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?

No, the application of the conceptual framework varies across jurisdictions due to differences in regulatory structures for CIVs and pension funds. According to the Hong Kong Institute of Certified Public Accountants (HKICPA) Ethics Committee, Hong Kong follows the IESBA Code but incorporates additional guidance on auditor independence for investment schemes.

In developed markets like the UK and US, regulatory frameworks provide detailed guidance on auditor independence, often incorporating additional restrictions beyond the IESBA Code. In contrast, developing markets may have less stringent requirements, leading to inconsistencies in how Connected Parties are assessed. To address this, the IESBA could consider allowing flexibility for jurisdictions with evolving regulatory environments while maintaining core principles of auditor 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?

Yes, non-audit services provided to Connected Parties pose a significant threat to auditor independence. According to the SEC independence rules, if an audit firm provides advisory, tax or consulting services to a Connected Party that has decision-making authority over the Investment Scheme, it could create conflicts of interest.

Similarly, the UK FRC Ethical Standard imposes restrictions on non-audit services for auditors of investment schemes to mitigate these risks. The IESBA may consider strengthening guidance on this issue to ensure auditors maintain independence when engaging with Connected Parties.

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?

Hong Kong:

According to the HKICPA Ethics Committee, Hong Kong follows the IESBA Code but also incorporates additional guidance through local regulations. The HKICPA has issued consultation papers on auditor independence for CIVs and pension funds, emphasizing the importance of assessing Connected Parties.

United Kingdom:

The UK FRC enforces strict auditor independence rules, particularly for investment funds regulated under the Financial Conduct Authority (FCA). The UK's approach aligns closely with the IESBA Code but includes additional restrictions on non-audit services for auditors of investment schemes.

United States:
The US SEC has specific independence rules for ICCs, which govern mutual funds and pension schemes. These rules impose stringent restrictions on auditor relationships with fund managers and affiliated entities.

Given Impax Asset Management's global operations, it is crucial to consider jurisdictional differences when assessing auditor independence. The IESBA may need to provide additional guidance to ensure consistent application across major economies while allowing flexibility for developing markets.

Our responses above highlight areas where the current framework is effective, as well as considerations for enhancing guidance to ensure consistent application across jurisdictions. Specifically, we emphasise the need for flexibility in developing markets, clearer definitions of indirect relationships and stronger safeguards against non-audit services provided to Connected Parties. We appreciate the IESBA's efforts in addressing these issues and support its initiative to refine the Code to reflect the evolving landscape of investment schemes.

We encourage the IESBA to continue nurturing such coordination and to ensure that stakeholders, especially those in emerging markets or jurisdictions with different regulatory environments, have sufficient opportunity to engage with these processes. This will help ensure that the standards developed are not only globally consistent but also adaptable to the diverse needs of the global economy.

We appreciate the IESBA's effort in conducting this public consultation. Please do not hesitate to let us know if you have any questions on our response above. Thank you!

Yours truly,

Nana Li

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