

Investor Comment Letter To:

International Ethics Standards Board for Accountants (IESBA) Subject:

Response to IESBA Consultation Paper – Auditor Independence in Relation to Collective Investment Vehicles (CIVs) and Pension Funds

Submitted by Better Finance, 22 of May 2025

Executive Summary

As a representative of private investors, we welcome IESBA's consultation and express strong support for efforts to enhance auditor independence frameworks, particularly in the context of Collective Investment Vehicles (CIVs) and pension funds. Investors rely on the assurance provided by independent auditors, and any erosion of that independence directly compromises confidence in fund governance, performance reporting, and ultimately the financial system. Below are our responses to the consultation questions, grounded in the need for investor protection, transparency, and accountability.

Let us start with some general remarks from our side before we turn to the responses to your questions:

I. General Remarks on Auditor Independence in Collective Investment Schemes:

What's Needed to Safeguard Investors

1. Why Auditor Independence Matters to Investors

Auditors are uniquely positioned to provide **external validation** of a fund's financial integrity. For investors, their role is not merely technical — it is **trust-enhancing**. The auditor's opinion on whether a fund's financial statements fairly present its performance, position, and cash flows is a core pillar of investor confidence. If an auditor is not sufficiently independent — either **in fact** or **in appearance**—then this assurance becomes compromised. In CIS, where investors may have limited visibility into operations, asset valuation, liquidity, and internal controls, the auditor often represents the **only independent professional** with full access to fund records. Their independence is in our view indispensable for:

- **Challenging management's judgments**, particularly in valuation of illiquid assets or related party transactions;
- **Ensuring compliance** with applicable accounting and regulatory frameworks;
- **Signaling red flags** to oversight bodies or regulators where needed.

Therefore, safeguarding auditor independence is not optional- it is central to upholding the investor protection mandate.

2. Threats to Auditor Independence

The IESBA Code and EU/IOSCO frameworks identify several recurring threats to auditor independence, all of which are highly relevant in the CIS context:

- **Self-interest threats:** Financial or business interests in the CIS or its manager (e.g. significant audit fees, non-audit service income).

- **Self-review threats:** The auditor auditing work they or their firm performed (e.g., preparing the accounts, valuation models, internal control frameworks).
- **Familiarity threats:** Long-standing relationships with CIS management that erode objectivity.
- **Intimidation threats:** Pressure from influential clients, especially in large asset management groups where the auditor may fear losing business.
- **Advocacy threats:** Auditors acting in a role akin to promoting or defending the fund's interests (e.g., in disputes, marketing, or litigation).

Investors expect robust measures to mitigate or eliminate these threats—not merely through disclosure, but through **structural safeguards** and **regulatory enforcement**.

3. Conditions Necessary for Ensuring Sufficient Auditor Independence

To ensure that auditors of CIS are truly independent, the following conditions can be critical:

A. Prohibition of Certain Non-Audit Services

- Auditors must be **prohibited from providing services** that could create a self-review or advocacy threat. This includes preparing financial statements, asset valuations, tax structuring, internal audit, or acting as litigation support.
- Ethical standards should go beyond “significant threat” thresholds and **outright ban** certain high-risk services for audit clients.

B. Fee Dependency Limits

- Independence is compromised if a firm derives a **large proportion of its revenue** from a single CIS client or affiliated group.
- Regulators should enforce **fee dependency thresholds** (e.g., no more than 15% of audit firm's total revenue from one group).
- Mandatory disclosure of fee structures to investors enhances transparency and allows for scrutiny.

C. Audit Partner Rotation

- Long tenure weakens objectivity. The **lead audit partner** should be rotated at least every 5–7 years, with cooling-off periods to prevent familiarity threats.
- Some jurisdictions (e.g., the EU) require firm rotation after 10 years; such rules may be warranted for CIS of significant size or complexity.

D. Strong Internal Audit Quality Controls

- Audit firms should be required to have **independent internal review processes**, ensuring compliance with ethical standards before signing audit opinions.
- Second-partner reviews, conflict checks, and pre-approval processes for engagements help maintain integrity.

E. Independent Audit Committees or Oversight Boards

- CIS should have governance bodies (e.g., independent directors or audit committees) that **appoint, oversee, and review the auditors**—not just management.

- This separation ensures auditors are accountable to **investors, not management**, aligning their incentives correctly.

F. Clear Disclosure of Auditor Relationships

- Investors should receive **full disclosures** of:
 - All audit and non-audit fees paid;
 - Any affiliations between audit firm and CIS sponsor;
 - Tenure of auditor;
 - Any changes or issues raised in auditor reports.

This empowers investors to assess the robustness of oversight.

G. Public Enforcement and Oversight

- National audit oversight bodies (e.g., the UK's FRC, PCAOB in the U.S., or the EU's CEAOB) must **actively monitor** auditor independence and sanction violations.
- Public reporting on enforcement actions improves accountability and trust in the system.

4. The IESBA's Role

IESBA's ethics code plays a critical role in defining **what constitutes acceptable auditor conduct globally**. It must remain:

- **Strict in principle:** promoting a high bar for independence;
- **Specific in application:** offering clear guidance for CIS contexts (e.g., independence where fund managers are part of complex financial groups);
- **Coordinated with regulators:** enabling practical enforcement and convergence across jurisdictions.

Strengthening the auditor independence framework will directly enhance **investor trust in fund disclosures**, reduce systemic risk, and reinforce the perception that CIS operate with integrity.

II. BetterFinance Responses to the Consultation Paper

Executive Summary

As a representative of private investors, we welcome IESBA's consultation and express strong support for efforts to enhance auditor independence frameworks, particularly in the context of Collective Investment Vehicles (CIVs) and pension funds. Investors rely on the assurance provided by independent auditors, and any erosion of that independence directly compromises confidence in fund governance, performance reporting, and ultimately the financial system. Below are our responses to the consultation questions, grounded in the need for investor protection, transparency, and accountability.

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.

Investor Response:

Not quite, we believe that the current definition of "related entity" in the Code does not sufficiently capture all relevant parties that should be included in the auditor's independence assessment for CIVs and pension funds. Investors rely heavily on the independence of auditors to provide objective, high-quality assurance, and the failure to explicitly capture key external decision-makers and service providers—such as investment managers, sponsors, and advisors—as related entities presents a **material gap in investor protection**. Investment Schemes often outsource critical functions to entities that are legally distinct but operationally central. For example, external fund managers and investment advisors make key decisions that shape the financial outcomes of the scheme, yet they may fall outside the related entity scope. This creates a blind spot in the independence assessment, especially if the auditor has business or personal relationships with those parties. Investors require a **holistic view of independence threats**, not one limited to entities with formal control or financial ownership ties. By omitting entities with **functional influence**, the Code risks undermining trust in audit quality. Investors would strongly support either an expansion of the related entity definition or the creation of an "extended independence perimeter" around CIVs and pension funds to cover such connected parties.

Question 2

Do you believe the criteria set out [a, b, c] 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.

Investor Response:

Yes, the three criteria listed—(a) decision-making responsibility, (b) substantial impact on financial performance, and (c) influence over financial reporting—are **appropriate and aligned with investor concerns**. These capture the essence of what investors would consider to be "operationally influential" parties.

Investors are less concerned about formal corporate control and more focused on **who has the power to affect the fund's returns, risks, and disclosures**. The entities meeting these criteria can shape fund outcomes as much, if not more than traditional related entities. Therefore, their inclusion in independence assessments is essential to maintain confidence in the integrity of financial reporting. However, these criteria must be **consistently applied and clearly interpreted** to avoid ambiguity. Investors support IESBA in codifying these criteria as part of an

expanded definition of related entities or as a separate category of “Connected Parties subject to independence provisions.”

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.

Investor Response:

Again, we believe that the application of the conceptual framework in Section 120 of the Code is **not sufficiently clear** in the context of CIVs and pension funds involving Connected Parties. Investors believe that without explicit guidance, **too much discretion is left to individual audit firms**, potentially resulting in inconsistent or overly lenient independence evaluations. The conceptual framework presumes that the auditor can reliably identify and assess all threats to independence; however, in the complex ecosystems of Investment Schemes—where authority and influence are widely distributed—this presumption is often unrealistic. As a result, key threats arising from business, financial, or personal ties with fund managers or advisors may be inadequately addressed or overlooked entirely. Investors would welcome **clearer guidance and examples** in the Code that explicitly address auditor relationships with Connected Parties. This would help ensure a **uniform and rigorous standard** of independence across jurisdictions and reduce audit quality variance.

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.

Investor Response:

Probably not - from the investor perspective, the conceptual framework is **not consistently applied in practice**. The absence of explicit Code provisions specific to Connected Parties leads to substantial variation in how auditors interpret and apply independence principles across jurisdictions, firm networks, and fund structures. In some cases, auditors have treated investment advisors or sponsors as **entirely separate entities**, applying only a general threat assessment. In others, auditors have voluntarily scoped these parties into their independence assessment based on client-specific risk factors. This inconsistency undermines comparability and investor confidence in the audit function. Investors expect the IESBA to ensure **standardization of interpretation** to avoid regulatory arbitrage and protect against uneven applications of professional judgment that might benefit the audit firm or the fund sponsor at the expense of the investor.

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.

Investor Response:

Yes. The Code should **explicitly address** several types of high-risk relationships between auditors and Connected Parties, including:

- **Provision of non-audit services** (e.g., valuation, IT systems) by the audit firm to the fund manager or sponsor;
- **Financial dependencies**, such as large fee concentrations from fund complexes managed by a single adviser;
- **Personal or employment relationships**, including former employees of the investment adviser working on the audit team;
- **Common ownership or business alliances** between audit firms and fund service providers;
- **Shared office arrangements** or co-branding between audit firms and advisers.

Each of these presents significant **self-review, familiarity, or intimidation threats**. Given that fund managers often drive valuation, fee determination, and portfolio decisions, any auditor entanglement with them undermines independence in fact and appearance. BetterFinance therefore urges IESBA to introduce **bright-line prohibitions** or require enhanced safeguards where these circumstances arise.

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.

Investor Response:

Jurisdictions differ significantly. While the U.S. under SEC rules and Australia under the Corporations Act, have robust frameworks that **treat investment advisers and fund managers as affiliates** of the fund and are subject to the same independence requirements, others, like parts of the EU, rely on functional separation but do not always classify investment managers as related entities. From the investor point of view, such **fragmentation creates risk and confusion**. BetterFinance therefore urges IESBA to provide a global **minimum standard** by expanding the scope of “related entities” or establishing a new Connected Party framework that transcends local legal constructs. This would promote consistency and offer **investors globally equal protection**, regardless of the jurisdiction in which a fund is domiciled.

Closing Remarks

We as an organization of investors' associations in the EU, appreciate IESBA's leadership on this issue. Strong, principle-based global standards for auditor independence, combined with guidance tailored to the specific risks in CIVs and pension funds, will materially enhance investor protection and market confidence. We are available to further contribute to this consultation and any future deliberations.

Sincerely,

Jella Benner-Heinacher

President BetterFinance

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