

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue
New York, New York 10017

2 July 2025

Consultation Paper: Collective Investment Vehicles and Pension Funds – Auditor Independence

Dear Mr. Siong:

Ernst & Young Global Limited, the central coordinating entity of the Ernst & Young (“EY”) organization, welcomes the opportunity to offer its views on the Consultation Paper, *Collective Investment Vehicles and Pension Funds – Auditor Independence* (the “Consultation Paper”), issued by the International Ethics Standards Board for Accountants (the “IESBA” or the “Board”).

We welcome the opportunity to contribute to the further development of the IESBA Code of Ethics for Professional Accountants (the “Code”) and we continue to support robust ethics standards that will reinforce the integrity and objectivity of auditors worldwide. We fully support the IESBA’s efforts to ensure that the Code stays relevant, applicable, practicable, and responsive to an ever-changing environment to ultimately address matters of public interest.

With its Consultation Paper, the IESBA is considering whether the extant provisions of the Code are clear and capable of being applied to audits of collective investment vehicles (“CIV”) where Connected Parties (as defined in paragraph nine of the Consultation Paper) are involved with the CIV. As further explained in our responses to the questions below, we believe the extant Code is fully sufficient to guide the Professional Accountant (“PA”) in identifying, evaluating, and addressing threats to independence that arise from professional activities, interests and relationships a PA might have with Connected Parties. Accordingly, we believe the IESBA should not make revisions to the Code, including new requirements, application material, or amendments to the extant definitions of Audit Client and Related Entity.

The Conceptual Framework of the Code provides a robust, scalable, and well-understood framework that can be applied to the various structures and regulatory oversight mechanisms of CIVs in all jurisdictions. We do not believe it would be helpful if the IESBA created a new definition for Connected Party or modified the extant definitions of Audit Client and Related Parties intending to impose independence requirements on the types of entities that would be included in the Connected Party concept when there is such diversity in how CIVs are structured, operated, managed, and governed globally. Further, we do not fully understand which types of pension funds or vehicles the IESBA intends to include when considering the clarity of the Code’s provisions since pension funds that do not already fall within the definition of a CIV typically are structured, operated, managed and governed quite differently than CIVs. Additionally, pension funds that do not already fall within the definition of CIV are not commonly open to investment from the general public. However, we believe the Conceptual Framework is likewise sufficiently suitable for addressing threats to independence related to Connected Parties of pension funds.

We believe that when considering whether revisions to the Code are justified, it is important that a clear issue that is globally applicable be defined and evidenced. Otherwise, the IESBA risks diminishing the importance and adoption of the Code should it become inflexible and unable to accommodate variations in jurisdictional environments. In the case of the Investment Schemes described in the Consultation Paper, we do not believe the IESBA has defined and demonstrated a clear issue that is prevalent globally and would warrant any revisions to the Code. We highlight the fact that the IESBA's Project Team acknowledges in paragraph five of the Consultation Paper that it "has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor." Adding requirements to the Code when a clear and defined issue has not been identified, and in the absence of a cost/impact/benefit analysis, risks increasing the administrative cost of performing audits of Investment Schemes, which would only be passed on to the beneficiaries of the Investment Schemes, with no demonstrated commensurate benefit. Our response to question one below describes why we believe the Conceptual Framework, as currently applied by PAs when auditing Investment Schemes that have Connected Parties, provides the flexibility needed to effectively and efficiently identify and address threats to the PA's independence regardless of jurisdictional differences in how CIVs and pension funds are organized, structured and governed.

Six specific questions were identified on which the Board requested stakeholders to comment and we have organized our response accordingly.

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?

The elements of "control" and "financial interest" are explicitly contemplated in the Code's definition of Related Entity. It is unlikely that these two elements will be present in relationships between an Investment Scheme and an entity captured within the Connected Party concept. As such, it is possible that such Connected Parties will not in all circumstances meet the Code's definition of Related Entity. However, we believe that the Code's Conceptual Framework is sufficiently robust and is capable of guiding PAs to consider whether professional services, interests, or relationships with entities that the IESBA contemplates under the Connected Party concept might create threats to the independence of Investment Schemes' auditors. Specifically, as described in paragraph R112.2, the fundamental principle of objectivity requires that a PA not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity. Further, when auditing Investment Schemes, we believe the application of the Conceptual Framework, as required by the Code, will guide a PA to:

- Identify threats: Paragraph 120.6 A1 notes that: "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 [PA's] identification of threats to such compliance." We believe this sufficiently guides a PA to consider professional activities, interests and relationships with entities within the Connected Party concept.

- Evaluate threats: Paragraph 120.8 A1 notes that: “The consideration of qualitative as well as quantitative factors is relevant in the [PA’s] evaluation of threats [. . .].” We believe this sufficiently guides a PA to consider qualitative factors in evaluating relationships between an Investment Scheme and its service providers, such as: responsibility for decision-making and operation of the Investment Scheme; whether the service provider is able to substantially affect the financial performance of the Investment Scheme; or if the service provider can exert significant influence over the preparation of the accounting records or financial statements of the Investment Scheme.
- Address threats: Paragraph R120.10 requires: “If the [PA] determines that the identified threats to compliance with the fundamental principles are not at an acceptable level, the [PA] shall address the threats by eliminating them or reducing them to an acceptable level.” We believe that it is sufficiently clear that if a PA identifies threats to independence arising from professional services, interests or relationships with Connected Parties that are not at an acceptable level when auditing an Investments Scheme, the PA will need to eliminate the circumstances that are creating the threats, apply safeguards to reduce the threats to an acceptable level, or decline or end the specific professional activity.
- Have an inquiring mind: By applying the application material in paragraphs 120.5 A1 through 120.5 A3, we believe a PA is sufficiently guided to obtain the necessary understanding of facts and circumstances regarding the Investment Scheme and its Connected Parties to be able to appropriately apply the Conceptual Framework.
- Exercise professional judgement: As described in paragraphs 120.5 A4 and 120.5 A5, the PA is guided to take into account the nature and scope of professional activities, interests and relationships when making informed decisions about the courses of action available, and to determine whether such decisions are appropriate in the circumstances. We believe this sufficiently guides the PA in making decisions as to the appropriateness of professional activities, interests and relationships with Connected Parties when auditing Investment Schemes.
- Consider the reasonable and informed third party test: We believe that if a reasonable and informed third party would reach a conclusion that a professional service, interest or relationship with a Connected Party would impair the independence of the Investment Scheme’s auditor, the PA would, in complying with the Code, give this appropriate consideration.

Application of the Code to Connected Parties

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?

Because we believe the Conceptual Framework is sufficient in guiding the PA to identify, evaluate and address threats to independence created by professional services, interests and relationships with Connected Parties, we do not believe the criteria set out in the Consultation Paper are necessary for assessing auditor independence with respect to audits of Investment Schemes. Further, as a global organization, we are aware of significant variation globally in how Investment Schemes are structured, operated, managed, and governed. Given this variation, along with the different jurisdictional regulation of Investment Schemes, we believe it will be difficult for the IESBA to develop requirements and definitions that are fit for purpose for a global standard, and

this variation will result in greater complexity than that encountered with the PIE provisions. This has the risk of necessitating a jurisdictional refinement approach, similar to that used for PIEs, where local bodies might need to further refine the Code's provisions to address unique characteristics present in their jurisdiction.

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?

Yes, as discussed in our response to question one above, we believe 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 professional activities, interest, and relationships between the auditor of the Investment Scheme and any entities captured within the Connected Party concept.

In addition to the Conceptual Framework, we note that certain other extant provisions are relevant when addressing threats to independence in situations involving Connected Parties:

- With regard to business relationships, paragraph R520.4 restricts a close business relationship with management of an audit client, subject to the considerations of materiality and significance. In applying the Conceptual Framework, including the reasonable and informed third party test, we believe it is clear that a close business relationship with an entity that functions as the management of an Investment Scheme would likewise need to be evaluated as to whether it is subject to the restriction and considerations of paragraph R520.4.
- Paragraph 521.4 A1 guides the PA that a self-interest, familiarity, or intimidation threat is created when an immediate family member of an audit team member is an employee in a position to exert significant influence over the client's financial position, financial performance or cash flow. This application material does not restrict the threat to family members employed by the audit client; rather, it is sufficiently broad to be understood that the employment could be at an entity considered to be a Connected Party and in a position to exert significant influence over the Investment Scheme's financial position, financial performance or cash flows.

If the IESBA determines there should be further guidance provided to PAs that is specific to independence considerations of non-assurance services when auditing an Investment Scheme, we believe a framework similar to that used in paragraph R600.27, subpoints (i) through (iv) would be more meaningful. This guidance would best be provided through non-authoritative materials and could also include a description of the application of the Conceptual Framework similar to that provided in our response to question one above.

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?

We have not experienced inconsistent application by our member firms in situations where the underlying relevant facts and circumstances have been the same or similar. The EY Global Independence Policy requires all our network member firms to comply with the independence standards applicable to specific engagements, including application of the Code's Conceptual Framework. The application of the Conceptual Framework requires consideration by the PA of all relevant facts and circumstances and the exercise of professional judgement. As noted in our response to question one, we do believe the Conceptual Framework is sufficiently robust and is capable of guiding PAs to consider whether professional services, interests, or relationships with entities that the IESBA contemplates under the Connected Party concept might create threats to the independence of Investment Schemes' auditors. Given that the IESBA itself has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor, we believe it would be prudent for the IESBA to conduct a robust cost/impact/benefit analysis prior to proposing revisions to the Code, including new requirements or definitions. Otherwise, we see a risk of the Code becoming a more rules-based set of standards, which could have the consequence of PAs focusing on the rules and not sufficiently and consistently applying the Conceptual Framework, including having an inquiring mind, and thereby overlooking facts and circumstances that should be considered when applying an appropriate level of professional judgement.

5. Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed?

We are not aware of any other interests, relationships or circumstances between the auditor of an Investment Scheme and its Connected Parties that should be addressed.

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.

As a global organization, we are not in a position to comment on jurisdiction-specific matters.



We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Tone Maren Sakshaug (tonemaren.sakshaug1@qa.ey.com) or John Neary (john.neary1@ey.com).

Yours sincerely,

Ernst & Young Global Limited