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

To the members of the International Ethics Standards Board for Accountants:

Grant Thornton International Ltd. (GTIL) appreciates the opportunity to comment on the consultation paper, Collective Investment Vehicles and Pension Funds – Auditor Independence.

GTIL is an umbrella organisation that does not provide professional services to clients. Professional services are delivered by GTIL member firms around the world. Representative GTIL member firms have contributed to and collaborated on this comment letter with the public interest as their overriding focus.

GTIL wants to thank the Board for their continued efforts to serve the public interest and acknowledges the challenges the Board face to set high-quality standards that will enhance the profession.

Overarching comments

The Conceptual Framework and section R400.27

Collective Investment Vehicles (CIVs) and Pension Funds (PFs) have very diverse regulatory requirements across the different jurisdictions, varying legal structures, and market practices. Due to these complexities, we believe the Conceptual Framework and the Code's current principles-based approach is appropriate to identify and respond to independence related threats when auditing CIVs and PFs.

The conceptual framework is designed to “accommodate a wide range of facts and circumstances, including the various professional activities, interests, and relationships

that create threats to compliance with the fundamental principles. The application of the Conceptual Framework and section R400.27 of the Code are sufficient mechanisms for Professional Accountants when assessing independence to CIVs and PFs and provide a consistent approach in applying the principles of the Code. This guidance is comprehensive and globally understood by Professional Accountants.

Further, CIV and PF markets are very heavily regulated. In addition to the requirements in the Code, current regulations that govern investments available to the public also provide the required protection for investors.

We understand that there could be significant public interest in these types of entities, however we do not believe additional guidance is necessary to protect audit integrity of CIVs and PFs from a lack of independence.

This topic has been on the board's strategic agenda for many years. However, we are unaware of any significant independence issues that have come to light (also acknowledged by the board in the consultation paper) over these years. The Code appears to work well with respect to the application of the conceptual framework and independence related matters.

Connected Parties

CIVs and PFs operate very differently than traditional corporate entities. They use outsourced service providers to provide various functions. The service providers are usually unrelated parties performing a specific function, largely mechanical in nature, and are not ultimately responsible for the CIVs or PFs operating or financial results. These responsibilities remain with the governing body, who are ultimately responsible for the decision making and governance of the CIV or PF.

Each party will provide services in accordance with a contract and are rarely responsible for any decision making or operations of the CIV or PF without their agreement to assume such responsibility, or a requirement by law or regulation that imposes such a responsibility. In situations where the service provider is deemed to have responsibility over operating or financial results, the service provider would be considered to have control and would be caught as a related entity under R400.27 of the Code.

The consultation paper introduces criteria for determining who is a Connected Party of the CIV or PF. One of the criteria is "substantially affect the financial performance of the scheme". It is not clear in the consultation paper what "substantially affect the financial performance of the scheme" entails". The lack of clarity causes concern on consistent application and can unintentionally scope-in entities that do not fall within the definition of "related entity."

Accordingly, we do not believe the term "Connected Party" is suitable or practicable when determining which entities independence is required. While the criteria laid out in the consultation paper are important factors for consideration, for the reasons discussed above, the majority of the third-party service providers would fall outside these considerations.

Request for specific 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?

As discussed in our 'overarching comments' above under Conceptual Framework and R400.27, we believe the Code's definition of related entity captures all relevant parties that need to be included in the auditor's independence assessment when auditing CIVs and PFs.

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 refer to our discussion above in the 'overarching comments' under Connected Parties.

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?

The conceptual framework is comprehensive and designed to "accommodate a wide range of facts and circumstances, including the various professional activities, interests, and relationships that create threats to compliance with the fundamental principles". We believe it is sufficiently clear in identifying, evaluating, and addressing threats to independence with a Connected Party. Should the board believe that this is an opportunity to provide clarity around threats to independence, we suggest that this should take the form of non-authoritative guidance, such as a staff alert or question and answer.

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?

We have not found any evidence that the conceptual framework is not consistently applied in practice with respect to auditing CIVs or PFs. As such, we believe that the

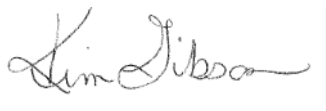
conceptual framework is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing CIVs and PFs.

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?

No, we have not identified any interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that need to be addressed.

GTIL would like to thank the IESBA for this opportunity to comment. As always, we welcome an opportunity to meet with representatives of the IESBA to discuss these matters further. If you have any questions, please contact Gina Maldonado-Rodek, Director – Global Risk Management and Independence at gina.maldonado-rodek@gti.gt.com.

Sincerely,

A handwritten signature in cursive script, reading "Kim Gibson", followed by a vertical line.

Kim Gibson – Global Head, Risk Management, and Independence
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