

IESBA International Ethics Standards  
Board for Accountants

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Submitted via website.

Brussels, 27 June 2025

**Subject: Response to IESBA's Consultation Paper – Enhancing Independence Requirements in the Audit of Collective Investment Vehicles and Pension Funds**

Dear members of IESBA,

Accountancy Europe is pleased to respond to the IESBA Consultation Paper on enhancing independence requirements in the audit of collective investment vehicles (CIVs) and pension funds.

CIVs and pension funds often involve operational complexities and stakeholder relationships may not always be easily identifiable. However, these complexities are best addressed through the existing principles-based framework, rather than introducing sector-specific rules or rigid classifications.

The principles-based nature of the Code is a key strength and should remain central as an objective. Applying consistent principles across all sectors, rather than developing unique requirements for each sector, helps preserve the Code's coherence. Creating tailored rules for specific industries risks fragmentation and may lead to contradictions across sections of the Code, undermining the clarity and global applicability of the Code.

If the Code continues to expand with sector-specific additions, there is a risk that it will become overly complex and fragmented. Over time, this could result in fewer professionals being able to understand or apply the Code in its entirety. Professionals may focus only on isolated sections of the Code, preventing a holistic and consistent application of ethical standards. This would ultimately weaken the effectiveness of the Code and could lead to internal inconsistencies across its various provisions.

The current conceptual framework enables professional accountants to identify threats and apply safeguards using their professional judgment. Its flexibility is particularly important in the CIVs and pension fund context, where legal and governance models vary widely across jurisdictions. Differences in outcome should not be mistaken for inconsistency in application, but rather reflect appropriate adaptation to local circumstances. Any enhancements to the Code must therefore take into account jurisdiction-specific frameworks and avoid unintended conflict with national laws.

Where practical implementation challenges exist, these are best addressed through appropriate forms of guidance, such as illustrative examples or training, rather than new definitions or prescriptive criteria. In this regard, non-authoritative guidance, where considered necessary, may be more appropriately developed at the local level, the approach IESBA supported until now.

For all the reasons above, Accountancy Europe does not believe that specific revisions to the Code for CIVs and pension funds are necessary and would not support such proposals by IESBA.

We refer to the Appendix to this letter, where we provide our detailed comments on the specific questions raised in the Consultation Paper. Our response builds on these main positions and aims to support a globally consistent, yet practical and adaptable, application of the Code.

Please do not hesitate to contact Vitali Groholski ( [vitali@accountancyeurope.eu](mailto:vitali@accountancyeurope.eu) ) in case of any questions or remarks.

Sincerely,



Eelco van der Enden  
Chief Executive Officer

#### **ABOUT ACCOUNTANCY EUROPE**

Accountancy Europe unites 49 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

## **ANNEX: QUESTIONS FOR RESPONDENTS**

We are pleased to provide below our detailed responses to the questions.

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***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 and pension funds?***

### **Context and Importance of the Conceptual Framework**

We agree that CIVs and pension funds often operate through the provision of functions or services by other parties who don't own financial interests that would give them control or significant influence over the CIVs and pension funds. Some of these parties may nonetheless bear significant responsibilities related to their policies and operations. Therefore, it may appear that the current definition of "related entity" which focuses on control and significant influence, does not reflect the full range of stakeholders whose involvement could be relevant to an auditor's independence assessment in the context of CIVs and pension funds.

However, the definition of "related entity" is not applied in isolation by professional accountants in public practice. The broader conceptual framework within the IESBA Code requires that practitioners consider all threats to independence, including those arising from entities or individuals that may not meet the formal definition of "related entity," but who nevertheless exert influence on the financial statements or make key decisions for the CIVs and pension funds.

We believe the Code is sufficiently robust when applied holistically. The threats and safeguards approach appropriately captures the nature of independence risks in these structures.

### **Risks and Practical Challenges**

In practice, the stakeholder structure of CIVs and pension funds tends to evolve rapidly. Entities involved with a CIV at the planning stage may no longer be relevant by the time of audit execution. Therefore, an overly expansive and restrictive definition of related or connected parties captured by an updated related entity definition may inadvertently reduce the pool of eligible connected parties and audit firms for the CIV to select from. In practice, this will restrict choice and negatively impact competition in an already concentrated market.

Such restrictions not only affect a CIV's ability to appoint an auditor but also places pressure on those charged with governance of the CIV in meeting their legal and fiduciary obligations towards the CIV. In some cases, those charged with governance of the CIV already face a limited number of eligible firms, particularly in jurisdictions where independence rotation rules constrain the selection process. This risk is particularly challenging for the smaller funds which already have a more limited access to audit service providers.

We also caution against developing IESBA-specific approaches which may not align with current governance models and legal environments of some jurisdictions, particularly in the European Union (EU). A one-size-fits-all model reduces flexibility for local governance and potentially creates friction with existing legal frameworks. Additionally, given how CIVs and pension fund structures operate differ from one jurisdiction to another, it will not be possible to come up with one related entity definition that will be operable around the globe. Instead, the IESBA should leave it up to the local jurisdiction to define the parties that should be included in the related entity definition for purposes of CIVs and pension funds within their jurisdiction.

Local laws and regulations should never be applied in isolation. The principles of the IESBA Code require the Professional Accountant to always apply the conceptual framework in addition to what is required under law, to identify if there are other relationships that may be relevant to the independence assessment.

We observe that, to date, there appears to be limited evidence of actual independence breaches in the CIV and Pension Fund sector that would justify a rigid redefinition. While stakeholder views and changing expectations are important, any changes to the rules should be supported by a clear rationale and applied in a proportionate and practical manner.

## **Recommendation**

Rather than expanding the definition of "related entity" or introducing a new definition of "connected party," we support the issuance of non-authoritative guidance (e.g., FAQs or illustrative examples) to endorse consistent application of the conceptual framework while addressing independence risks as result of professional activities, interests and relationships between the auditor and the connected parties of a CIV.

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### ***Question 2: Are the proposed criteria appropriate and sufficient for identifying Connected Parties in relation to the audit client in a CIV or pension fund structure?***

#### **Context and Importance of the Conceptual Framework application**

The proposed criteria for identifying connected parties, namely, being responsible for decision-making and operation, having the ability to substantially affect financial performance and being in a position to exert significant influence over the preparation of accounting records or financial statements, are conceptually relevant to assessing independence threats in the context of CIVs and pension funds. These indicators may help draw attention to parties whose relationships warrant ethical consideration under the Code.

However, we consider it essential that these criteria are not interpreted in a strict or standalone manner. Their usefulness depends on their application within the broader threats and safeguards framework of the Code, which enables a proportionate and risk-based assessment of independence. Without considering the broader context, the criteria may be misunderstood as triggers for automatic classification, rather than indicators of potential threats.

#### **Risks and Practical Challenges**

There is a risk that applying these criteria narrowly or rigidly may result in over-inclusion of entities that are not genuinely influential in the context of the audit. In complex fund structures, operational parties may appear to meet one or more of the criteria without posing a substantive threat to independence.

Moreover, care must be taken to ensure these criteria do not conflict with national governance frameworks. This is particularly important in the EU where oversight roles and responsibilities are

defined in law or practice. For example, in jurisdictions such as Luxembourg and Ireland<sup>1</sup>, the CIV, its management company and custodian are mostly always segregated because of regulatory expectations or local practice. Such parties in these jurisdictions are intentionally structured this way to ensure they are independent from one another. Applying the proposed criteria in paragraph 35 without regard to this legal and jurisdictional context will result in classifying such parties as “connected,” thereby contradicting the regulatory or local intention. This highlights the risk of imposing a universal model that does not accommodate jurisdiction-specific governance structures and may create unintended conflicts between the Code and local requirements.

Finally, another practical challenge could arise when requiring auditors to assess or monitor relationships beyond their direct visibility (which might not be feasible). This would also increase the cost of compliance without a significant improvement in audit quality.

## **Recommendation**

Although the three criteria as suggested by IESBA are factors amongst other matters that are to be taken into consideration when applying the conceptual framework as part of the audit of a CIV, we don’t believe these criteria should be viewed in isolation and considered as the only factors that may matter in a CIV’s environment. The assessment of independence should be based on the actual relationships between the different parties involved and the CIV and not on a predefined set of criteria where such relationship is presumed.

For these reasons we disagree with IESBA’s proposal to include these specific types of relationships within the Code as the only appropriate criteria that may indicate potential threats to independence.

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***Question 3: Do you believe the conceptual framework in the Code is clear and appropriate when applied to connected parties in a CIV or pension fund structure?***

**Question 4: Do you believe that the conceptual framework is being applied consistently in practice to connected parties in a CIV or pension fund structure?**

## **Context and Framework**

We consider the conceptual framework in the IESBA Code to be broadly both clear and appropriate for application in the context of CIV and pension fund structures. Its principles-based design supports a risk-oriented and substance-over-form approach, which is essential when dealing with complex and often decentralised fund governance models.

The flexibility of the framework, particularly its emphasis on identifying threats and applying safeguards based on professional judgment, may be regarded as a key asset in addressing the complexities of such structures. It enables practitioners to assess independence considering diverse fund structures and stakeholder arrangements, including relationships that are not clearly visible or are indirect. However, practical implementation support may enhance consistency where the framework’s flexibility may lead to varied interpretations.

While audit firms generally aim to apply the conceptual framework consistently, the outcomes of its application may vary across jurisdictions. These differences do not reflect inconsistent application as such, but rather how the framework is interpreted in response to local governance practices, regulatory expectations, and the specific characteristics of fund structures.

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<sup>1</sup> Luxembourg and Ireland are the second and third largest markets for CIVs, globally, following the United States, reflecting their role as major international fund hubs.

## Practical Considerations and Observations

Although the framework promotes a consistent approach, its practical implementation can differ depending on jurisdiction-specific factors. This does not indicate a weakness in the framework but highlights the influence of local context in shaping its application.

## Conclusion and Recommendation

We do not believe that changes to the conceptual framework are warranted. Finally, communication and training could support more consistent interpretation and help practitioners better navigate complex fund environments while maintaining the core integrity of the Code.

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***Question 5: Are there particular relationships or circumstances that should be specifically addressed in the Code?***

## Context and Observations

We consider that many of the relationships and scenarios relevant to CIVs and pension funds including those involving indirect stakeholders, are already addressed under the current conceptual framework. The principles-based structure of the Code supports an assessment of threats to independence based not only on formal client relationships, but also on the broader context in which professional services are delivered. For example, the provision of services to parties closely linked to the fund, such as fund managers, is typically considered by practitioners in line with existing guidance.

## Complexities

Certain scenarios, such as the provision of non-assurance services to fund managers while undertaking audit engagements for associated funds may involve additional layers of assessment. While these parties may not be the audit client, their connection to the fund can raise questions about how to appropriately evaluate professional relationships, particularly where service or fee dynamics are complex. Such cases can be challenging to navigate in practice, especially when services span multiple entities or functions.

## Conclusion and Recommendation

We do not see a need to expand the Code to include new categories of relationships or make any other structural changes. The existing conceptual framework is robust and sufficient to address the complexities of CIV and pension fund structures. If any further support is deemed necessary, it would be more appropriate for local regulators to issue jurisdiction-specific clarifications or provide other resources that take into consideration local specificities when applying the conceptual framework.

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***Question 6: Are there jurisdiction-specific independence rules for CIVs and pension funds?***

## Context and Observations

We acknowledge that certain jurisdictions may have specific independence requirements for CIVs and pension funds, often shaped by local legal frameworks or supervisory expectations. These requirements vary widely and are outside of the scope of this response.

## Conceptual Framework and Application

We consider that such jurisdictional rules are best addressed at the national level (national regulators).