

# Consultation Paper

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## Collective Investment Vehicles and Pension Funds

**MARCH 2025**



**IESBA**

International Ethics Standards Board for Accountants

AN IFEA BOARD

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## About the IESBA

The [International Ethics Standards Board for Accountants](#)<sup>®</sup> (IESBA<sup>®</sup>) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations, and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

## REQUEST FOR COMMENTS

This Consultation Paper was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®) for the purpose of informing its thinking on the independence considerations with respect to audits of Collective Investment Vehicles and Pension Funds. **Comments are requested by June 30, 2025.**

Respondents are asked to submit their comments electronically through the IESBA website, using the “[Submit a Comment](#)” link. Please submit comments in both PDF and Word files. First-time users must register to use this feature. All comments will be considered a matter of public record and will be posted on the IESBA website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Program and Senior Director, at [kensiong@ethicsboard.org](mailto:kensiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

## EXECUTIVE SUMMARY

The IESBA is issuing this Consultation Paper (CP) to solicit feedback from stakeholders regarding auditor independence considerations for audits of collective investment vehicles (CIVs) and pension funds (hereinafter referred to as “Investment Schemes” or “Schemes”). This feedback will inform the IESBA Project Team’s report and recommendations to the IESBA as to whether revisions to the *International Code of Ethics for Professional Accountants™ (including International Independence Standards™)* (the Code) are warranted to ensure that the Code remains robust and fit for purpose in addressing auditor independence in these contexts.

Investment Schemes enable investors to pool their assets to distribute the associated risks and benefits of their investments. Unlike more conventional corporate structures, such as companies, Investment Schemes typically do not employ their own staff and instead rely on other parties to provide functions or services to the Schemes that management or employees would provide in a conventional corporate structure. These other parties can range from those offering routine and mechanical services, like bookkeeping, to those with significant responsibilities related to the Scheme’s policies and operations, such as making investment decisions and managing financial records. This CP highlights the public interest issues and risks associated with these Schemes and stresses the significance of auditor independence when they audit the Schemes.

The definitions of “audit client” and “related entity” in the Code are fundamental when determining independence from the audit client. If an entity is not a related entity as defined in the Code, it might not be included in the auditor’s independence assessment. In such a case, auditors should apply the conceptual framework set out in Section 120 of the Code to identify, evaluate and address threats to their independence. Notwithstanding the application of the conceptual framework, the Project Team is requesting stakeholders’ feedback regarding whether there is sufficient guidance in the Code with respect to independence considerations vis-à-vis parties, other than related entities as defined in the Code, that are (a) responsible for decision-making and operation of the Scheme, (b) able to substantially affect the financial performance of the Scheme, or (c) in a position to exert significant influence over the preparation of the Scheme’s accounting records or financial statements (“Connected Parties”).

The Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with other parties. This research included an analysis of the U.S. Securities and Exchange Commission’s (SEC) independence rules on investment company complexes (ICCs). Although the independence rules for ICCs are tailored specifically to the United States, the Project Team evaluated the potential relevance of these rules to the work stream. Based on this research and stakeholder outreach, the Project Team found that the Code’s definitions of “audit client” and “related entity” would not necessarily capture Connected Parties.

### Request for Comments

The IESBA is seeking stakeholders’ views on the provisions in the Code and the clarity of their application to audits of Investment Schemes where Connected Parties are involved with such Schemes, thereby safeguarding the public interest and supporting consistent application of the Code’s principles. This includes evaluating whether certain interests, relationships, or circumstances between the auditor of an Investment Scheme and those Connected Parties pose any threats to the auditor’s independence.

The IESBA recognizes that in some jurisdictions, in order to fulfill fiduciary duties to act in the best interest of the Scheme’s beneficiaries, certain parties are required or at least expected to appoint auditors who are

independent from Investment Schemes and certain third parties This is because the independence of the Scheme's auditor is crucial to ensure that the interests of the Scheme's beneficiaries are not compromised due to the auditor's interests, relationships or circumstances with other parties. The Project Team encourages feedback from the investment community on the matters addressed in this CP.

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## I. Introduction

1. In 2021, the IESBA issued an exposure draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED), to address concerns expressed by regulators and other stakeholders regarding the inconsistent interpretation and application of the PIE definition in the Code globally. The PIE ED contained proposed mandatory PIE categories, which included collective investment vehicles (CIVs) and entities that provide post-employment benefits (PEBs).
2. After reflecting on stakeholders' feedback on the PIE ED regarding the wide diversity in structure, governance and size of such arrangements, the IESBA removed CIVs and PEBs from the mandatory PIE categories. This was on the grounds that including them would impose a disproportionate burden on local regulators and jurisdictional standard setters to refine those CIV and PEB categories. However, with the concurrence of the Public Interest Oversight Board (PIOB), the IESBA committed to undertake a holistic review of CIVs, PEBs and investment company complexes (ICCs) from an auditor independence perspective, given questions regarding the application of the "related entity" concept in the Code to such investment vehicles or structures.
3. This Consultation Paper (CP) has been issued by the IESBA to solicit feedback from stakeholders regarding independence considerations for audits of CIVs and pension funds (hereinafter referred to as "Investment Schemes" or "Schemes"). The Project Team has concentrated on CIVs accessible to the general public and those pension funds with characteristics similar to CIVs. This focus is due to the higher potential risk of financial harm these Schemes might pose to the public in case of a financial failure, reinforcing the importance of robust and independent audits of such Schemes. Sophisticated investment vehicles, like private equity or hedge funds, have not been scoped in.
4. This CP is asking questions about the application of the related entity concept in the IESBA [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code) with respect to audits of Investment Schemes and its adequacy to ensure the necessary independence of the auditor of the Scheme. The Project Team observed that the structure of an Investment Scheme is different from that of a conventional corporate structure, where decision-making and operational responsibilities are handled internally. In comparison, Investment Schemes frequently engage other parties to perform roles like those managed by in-house teams in a conventional corporate structure.
5. This consultation's emphasis is on Investment Schemes whose financial condition holds substantial public interest concern due to the potential implications their financial health may have on a broad range of stakeholders. Although the Project Team has not identified any Investment Scheme financial failure in which an auditor's lack of independence was a contributing factor, it has noted stakeholders' interest arising from the substantial amount of funds invested in them and, therefore, the need to ensure that the necessary independence provisions apply.
6. A primary objective of this work stream<sup>1</sup> is to gain a comprehensive understanding of the relationships between Investment Schemes and their trustees, managers, and advisors. This will help the IESBA determine whether the auditor independence standards, particularly the definition of a "related entity" in Part 4A of the Code, adequately address the independence implications arising from certain

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<sup>1</sup> See paragraph 4 of the Project Team's [Terms of Reference](#).



interests, relationships or circumstances between a Scheme’s auditor and such parties. In terms of independence, an auditor should not have the ability, either directly or indirectly, to inappropriately influence information in the financial statements of the audit client. Otherwise, there is a risk that the auditor’s integrity, objectivity, and professional skepticism might be compromised.

7. The work stream’s objectives also include reviewing the U.S. Securities and Exchange Commission’s (SEC) independence rules on investment company complexes (ICCs). While the independence rules for ICCs are specific to the United States, the Project Team continues to consider whether aspects of these rules may be relevant to this work stream. This might involve establishing new terms and definitions or clarifying which parties should be considered as related entities of an Investment Scheme audit client for independence purposes.<sup>2</sup>
8. To better understand the global context of Investment Schemes, the Project Team conducted comprehensive research across various jurisdictions. In addition to performing extensive desktop research, the Project Team circulated questionnaires to stakeholders and conducted interviews with relevant parties. This approach provided deeper insights into how different jurisdictions address potential auditor independence issues related to the Schemes. Certain jurisdictions have responded to these issues in various ways. For example, the United States and Australia have established regulations that include certain other parties as part of the audit client definition, thereby scoping them within the independence requirements.
9. Upon examining the circumstances further, the Project Team noted that the Code’s definitions of “audit client” and “related entity” might not capture certain parties<sup>3</sup> that are (a) responsible for decision-making and operation of the Scheme, (b) able to substantially affect the financial performance of the Scheme, or (c) in a position to exert significant influence over the preparation of the Scheme’s accounting records or financial statements (hereinafter referred to as “Connected Parties”). Although the Code’s Conceptual Framework is designed to guide an auditor in identifying, evaluating and addressing independence threats, Part 4A of the Code, which contains the International Independence Standards for audit engagements, does not explicitly include provisions for assessing independence from a Connected Party. An Investment Scheme might also use other service providers that do not meet the definition of related entity under the Code and do not have the same level of responsibility or involvement in the Scheme as a Connected Party.

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<sup>2</sup> Appendix 2 includes further information on ICCs.

<sup>3</sup> The audit client is an entity for which a firm conducts an audit engagement. When the client is a publicly traded entity (PTE), in accordance with paragraphs R400.22 and R400.23 of the Code, audit client always includes its related entities. When the client is not a PTE, audit client includes those related entities over which the client has direct or indirect control. See *Section III. Application of the Code to Investment Schemes* for discussion on this point. (References to specific paragraphs in the Code are to the 2024 Code.)

**Diagram 1: Other Parties to Investment Schemes**



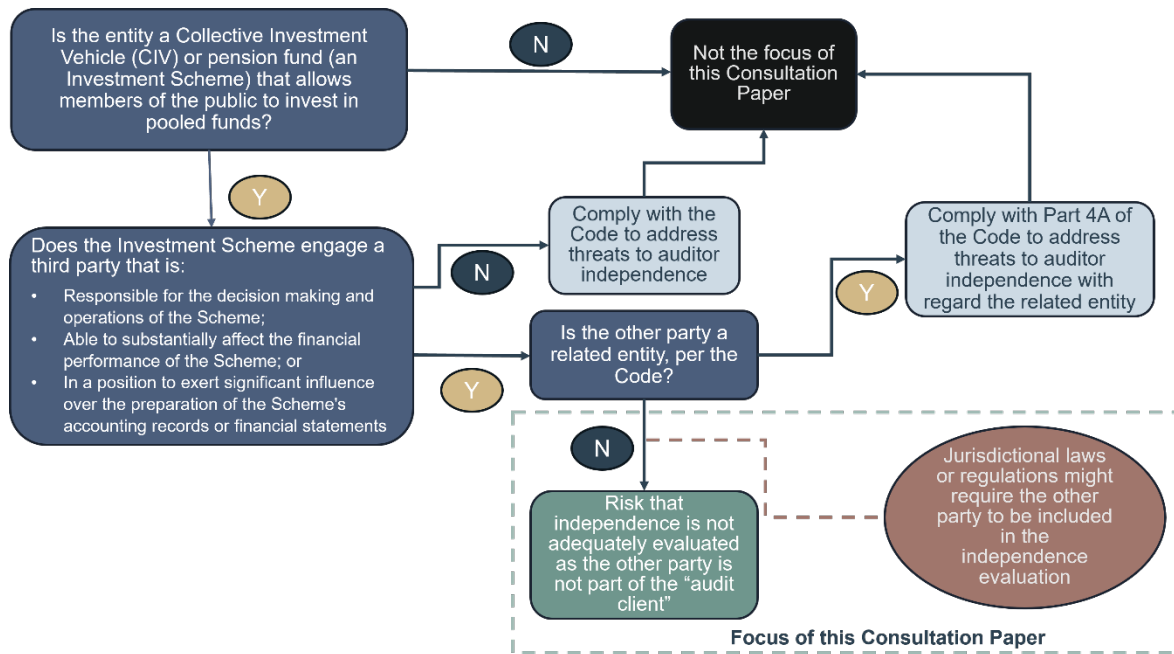
10. This perceived gap may lead to potential threats to independence not being identified when auditing Investment Schemes that involve a Connected Party. The following scenarios illustrate circumstances that may lead to elevated risks due to a lack of explicit provisions in the Code on how to apply the conceptual framework with respect to audits of Investment Schemes:
- If a CIV's external fund manager engages an audit<sup>4</sup> firm to help develop its transaction processing system, the auditor might face a self-review threat when auditing the Investment Scheme that depends on financial information which has been generated by the fund manager's system. This situation could undermine the auditor's ability to objectively evaluate the CIV's financial information due to biases related to the auditor's association with the fund manager's transaction processing system.
  - When the investment adviser has a close relationship with the auditor, the auditor might face a self-interest threat or an intimidation threat. For example, if the auditor's spouse holds a decision-making role with the investment advisor, this relationship may allow the investment advisor to exert influence over the auditor's assessment of evidence or reporting of unfavorable information.
11. The following are examples of how the level of potential independence threats might be reduced by external conditions or legal or regulatory requirements for audits of Investment Schemes that engage Connected Parties:
- By scoping in as part of regulation certain services or relationships applicable to Investment Schemes that might threaten independence. For example, the US SEC, and other local financial market authorities, have enacted industry-specific regulations to include investment advisors as part of the audit client.
  - In some jurisdictions, in order to fulfil fiduciary duties to act in the best interest of the Scheme's beneficiaries, certain parties are required or at least expected to appoint auditors who are independent from Investment Schemes, and certain third parties. They also request auditors

<sup>4</sup> The terms "auditor" and "audit firm" are interchangeable when considering services, interests or relationships with respect to other parties.

to implement necessary controls to maintain their independence for this purpose. These may serve as cross checks against interests, relationships or circumstances with the Schemes' auditors that might create threats to auditor independence.

- In other jurisdictions, the supervisory authority for the Investment Scheme may object to the authorization or registration of the Investment Scheme whose auditor does not fulfill all the independence requirements.

12. The Project Team recognizes the complexity and diversity of Investment Schemes, which may lead to certain challenges when assessing auditor independence. The following flowchart (**Flowchart 1**) illustrates the potential gap in the Code with respect to Investment Schemes.



## II. Investment Scheme Structures

13. The Project Team has focused on CIVs accessible to the general public and those pension funds with characteristics similar to CIVs, because they have the highest potential risk of financial harm to the general public in case of a financial failure. The Project Team also recognizes that there can be notable differences between CIVs and pension funds.
14. The Investment Schemes discussed in this CP have the following characteristics:
- They allow members of the public to invest through pooled funds; and
  - They engage other parties to perform functions or services for the Schemes, such as making investment decisions or managing accounting and financial records.

The public interest with respect to the amount and volume of Investment Schemes is highlighted below. Furthermore, the governance structures and relationships with other parties with respect to Investment Schemes can vary based on the jurisdiction in which they operate, the investment purpose or strategy, and the structure utilized. These factors contribute to the challenges auditors

might face when identifying, evaluating and addressing threats to independence for these types of audits.

## CIVs

15. According to the [Investment Company 2024 Factbook](#) as of year-end 2023, worldwide capital markets, as measured by the value of equity and debt securities outstanding, totaled US\$257.4 trillion. Regulated funds' net assets were 27%, or US\$68.9 trillion, of the total. The International Investment Funds Association (IIFA), which collected data on 46 jurisdictions, typically defines regulated funds as collective investment pools that are substantively regulated, open-end investment funds. In the past decade, the net sales of regulated funds worldwide have totaled US\$19.9 trillion from 139,982 regulated funds.

## Pension Funds

16. Significant funds are invested in pension plans around the world. The discussion below covers the EU and the US for illustrative purposes. According to a report from the European Capital Markets Institute,<sup>5</sup> at the end of 2023, EU pension funds' total assets (EUR 2.7 trillion) represented about 25% of the EU's GDP. The assets are mainly allocated to investment funds (38%), government bonds (22%), equity (18%) and corporate bonds (12%). Further analyses of investment funds revealed that they are primarily composed of equity funds (33%), debt funds (26%), real estate funds (14%) and "other" funds (13%). Most of the private equity funds are classified as "other" if they largely invest in unlisted companies (e.g. via loans or participation).
17. The Prudent person principle,<sup>6</sup> as established in EU Directive 2009/138/EC, has led to pension funds allocating a good portion of their money to fixed-income assets. The principle states that, in the case of a conflict of interest, entities that manage the asset portfolios for insurance/reinsurance companies "shall ensure that the investment is made in the best interest of policy holders and beneficiaries." Furthermore, the EU's Institutions for Occupational Retirement Provision (IORP) II's Article 19 encourages pension fund investments to be on regulated markets.
18. With respect to the US, approximately US\$13.1 trillion is held in private sector pension funds, while US\$14.5 trillion is held in pension plans for government employees.<sup>7</sup> There are more than 5,000 public sector retirement systems totaling US\$5.5 trillion in assets. CalPERS, one of the largest public sector funds, had total contributions of US\$31.3 billion and investment income of US\$44.2 billion for the 2023-2024 financial year.<sup>8</sup> Due to the significant impact these plans have on the public, there is significant regulation.

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<sup>5</sup> [https://www.ecmi.eu/sites/default/files/no\\_90\\_-\\_closing\\_the\\_gaping\\_hole\\_in\\_the\\_capital\\_market\\_for\\_eu\\_start-ups\\_-\\_the\\_role\\_of\\_pension\\_funds.pdf](https://www.ecmi.eu/sites/default/files/no_90_-_closing_the_gaping_hole_in_the_capital_market_for_eu_start-ups_-_the_role_of_pension_funds.pdf)

<sup>6</sup> [https://www.eiopa.europa.eu/rulebook/solvency-ii/article-2219\\_en](https://www.eiopa.europa.eu/rulebook/solvency-ii/article-2219_en)

<sup>7</sup> <https://crsreports.congress.gov/product/pdf/IF/IF12117/2>

<sup>8</sup> [Facts at a Glance, Finances FY 2023-24](#)

## Governance Structures

19. In June 2006, the Technical Committee of the International Organization of Securities Commissions (IOSCO) issued its final report on the Examination of Governance for Collective Investment Schemes (CIS).<sup>9</sup> The report highlighted the results of a survey conducted of IOSCO's member jurisdictions, noting the various entities and legal structures that existed and how these might create differences in member jurisdictions' approaches to CIS governance issues. As a result of the differences, it was agreed that the overarching principle of governance would be independent review and oversight of the CIS operator's fiduciary duties. The report specifically noted that auditors of CIS can play a role in the governance framework, contributing to the goal of protecting investors' interests.
20. In line with the objective of the IESBA's work stream, the Project Team reached out to various jurisdictions to better understand the global context of Investment Schemes and their relationships with parties such as trustees, managers and advisors. This research identified governance and structural differences across jurisdictions and that Investment Schemes generally do not have their own employees. Instead, day-to-day operations, as well as the investment and management of investors' funds, are typically carried out by, or outsourced to, other parties.
21. Certain oversight and management functions typically associated with corporate governance within an organization are often performed externally to the Investment Scheme itself. This construct is consistent with the IOSCO Technical Committee's definition of governance for CISs, which recognizes "*the differences between the nature and purpose of CIS and the operating companies in which they invest*" and "*the fact that CIS are structured and regulated differently.*"
22. This research highlights that Investment Schemes are established under various legal frameworks and are subject to different jurisdiction-specific legal and regulatory requirements. Consequently, there is considerable variation in the organizations that are responsible for oversight and management of these Schemes. [Appendix 1](#) (Table 1) provides summaries of the different governance models and legal frameworks applicable to CIVs based on this research.

## Roles and Responsibilities of Other Parties

23. The Project Team found that Investment Schemes often engage other parties to participate in activities and make decisions regarding the acquisition, deployment and control of resources, as well as ensuring the effectiveness of internal controls. Actuaries, valuation experts, and fund sponsors may also be engaged as other parties. Certain activities related to these functions may be further outsourced by these other parties.
24. [Appendix 1](#) (Table 2) provides examples of the various roles and responsibilities applicable to CIVs. It is important to differentiate between other parties that provide routine and mechanical services and those that are (a) responsible for decision-making and operation of the Investment Scheme, (b) able to substantially affect its financial performance, or (c) in a position to exert significant influence over the preparation of the Scheme's accounting records or financial statements (i.e., Connected Parties).

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<sup>9</sup> Refer page 3 of the Report of the Technical Committee of the IOSCO [Examination of Governance for Collective Investment Funds Final Report Part I](#).

25. Given the impact that Connected Parties have on the Investment Schemes, the Project Team has been evaluating whether certain interests, relationships, or circumstances between the auditor and Connected Parties involved with the Scheme could pose any threats to the auditor's independence when auditing the Scheme. The Project Team recognizes that there can be different types of Investment Scheme structures around the world. Notwithstanding the diversity of Scheme structures, there is an argument that Connected Parties should be included in the auditor's identification, evaluation and addressing of the threats to independence. In contrast to the audit of a conventional corporate structure, specific provisions within the Code address the auditor's independence, particularly in relation to the client's management.<sup>10</sup>

### III. Application of the Code to Investment Schemes

26. The Code provides that it is in the public interest that professional accountants (PAs) be independent when performing audit engagements.<sup>11</sup> To meet this objective, paragraphs 400.6, R400.18 and R400.19 establish that the Code requires firms to comply with the fundamental principles and apply the conceptual framework.<sup>12</sup> Part 1 of the Code provides a path for auditors to consider facts and circumstances that may present threats to independence when auditing an Investment Scheme. Independence is linked to the principles of objectivity and integrity, which are fundamental to audit quality.
27. Several provisions in Part 1 of the Code require PAs to be straightforward and honest in all professional and business relationships, as well as to exercise professional or business judgment without being compromised. Paragraph R112.2 of the Code prohibits a PA from undertaking "a professional activity if a circumstance or relationship unduly influences the accountant's professional judgment regarding that activity."
28. Further, Part 4A of the Code outlines how PAs should apply the conceptual framework to maintain independence.<sup>13</sup> The provisions in Part 4A set out considerations relevant to applying the conceptual framework to specific situations or circumstances with respect to the audit client. For example, Part 4A:
- Provides guidance for the auditor on how to identify, evaluate and address threats to independence in specific circumstances. The sections in Part 4A of the Code set out specific requirements and application material relevant to applying the conceptual framework in various circumstances, for example, with respect to:
    - Holding a financial interest in an audit client that might create a self-interest threat.<sup>14</sup>
    - A close business relationship with an audit client or its management that might create a self-interest or intimidation threat.<sup>15</sup>

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<sup>10</sup> For example, refer to paragraph R520.4 of the Code.

<sup>11</sup> Paragraphs 400.1 and R400.18 of the Code

<sup>12</sup> Section 120, *The Conceptual Framework*

<sup>13</sup> Paragraphs 400.6 and R400.19 of the Code

<sup>14</sup> Section 510, *Financial Interests*

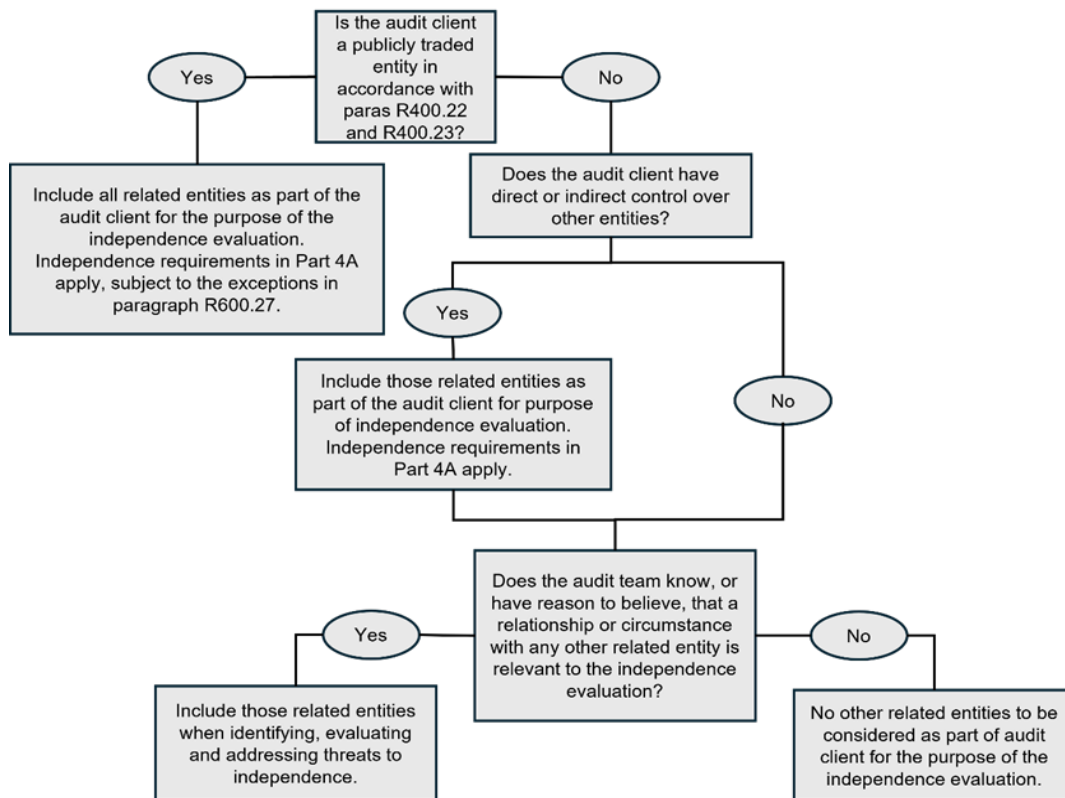
<sup>15</sup> Section 520, *Business Relationships*

- Providing a range of non-assurance services to a firm's audit client that might create a self-review threat.<sup>16</sup>
- Establishes prohibitions for certain services, interests, relationships, or circumstances related to the audit client when threats cannot be eliminated, and safeguards cannot be applied to reduce the threats to an acceptable level.
- Includes specific provisions to ensure that the auditor maintains their independence from the audit client, particularly in relation to the client's management or employees who have significant influence over the client's accounting records or financial statements.<sup>17</sup>

### Related Entities Under the Code

29. The following provides an analysis of other parties to an Investment Scheme that are related entities and, by extension, whether they are part of the audit client<sup>18</sup> for the purpose of assessing independence.

**Flowchart 2: Audit client and related entities under paragraph R400.27 of the Code**



<sup>16</sup> Section 600, *Non-assurance Services*

<sup>17</sup> For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others

<sup>18</sup> In accordance with the definition of audit client in the Glossary and paragraph R400.27 of the Code

30. Before applying the sections of the Code that are applicable to assessing independence, the auditor must determine who the audit client is. To guide this assessment, the scope of application of the independence provisions in Part 4A of the Code is determined by applying the definitions of “audit client” and “related entities,”<sup>19</sup> taking into consideration whether the client is a “publicly traded entity.”<sup>20</sup> The element of control, or significant influence through direct financial interest,<sup>21</sup> is fundamental in determining whether an entity should be classified as a related entity. Flowchart 2 (above) sets out the process by which auditors consider whether a related entity should be scoped in with the audit client for the purpose of evaluating independence.
31. All the requirements in Part 4A of the Code apply to the audit client (including its relevant “downstream” related entities), including prohibitions from providing certain non-assurance services to, or assuming management responsibility for, those related entities.<sup>22</sup> However, paragraph R600.27 of the Code allows an auditor to provide certain non-assurance services to, or assume management responsibility for, any relevant “upstream” or “sister” related entities<sup>23</sup> of the audit client provided that:
- The auditor does not express an opinion on the related entity’s financial statements;
  - The auditor does not assume management responsibility for the entity on whose financial statements the auditor will express an opinion;
  - The services do not create a self-review threat; and
  - The auditor addresses other threats created by such services that are not at an acceptable level.

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<sup>19</sup> The Code defines *related entity* as: “An entity that has any of the following relationships with the client:

- (a) An entity that has direct or indirect control over the client if the client is material to such entity;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
- (c) An entity over which the client has direct or indirect control;
- (d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
- (e) An entity which is under common control with the client (a “sister entity”) if the sister entity and the client are both material to the entity that controls both the client and sister entity.”

<sup>20</sup> Paragraph R400.27 of the Code refers to a publicly traded entity in accordance with paragraphs R400.22 and R400.23. The Code defines *publicly traded entity* as: “An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

*A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.”*

<sup>21</sup> Control and significant influence are not defined in the Code. These concepts are generally determined at a jurisdictional level and might be determined by financial reporting frameworks, laws or regulations.

<sup>22</sup> As per bullets (c) and (d) of the definition of related entity in the Code, where the audit client controls an entity or the audit client (or an entity it controls) has significant influence over an entity that is material and depending on whether the client is a publicly traded entity.

<sup>23</sup> As per bullets (a), (b) and (e) of the definition of related entity in the Code, where an entity controls the audit client or has significant influence over the client that is material, or an entity and the client are under common control and both that entity and the client are material to the controlling entity.



32. Even if an audit client is not a publicly traded entity or does not have control over a related entity, that related entity might still need to be included in the auditor's independence assessment. When the auditor knows or has reason to believe that a relationship or circumstance involving that related entity is relevant to the independence evaluation, the auditor must consider it when identifying, evaluating and addressing threats to independence.<sup>24</sup>

**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.

#### **IV. Application of the Code to Connected Parties**

33. The focus of this CP is on circumstances involving Connected Parties to an Investment Scheme. As noted in paragraph 9, the Project Team has identified situations in which these parties might not be covered by the Code's definitions of "audit client" or "related entity". Additionally, Part 4A of the Code lacks specific provisions directly addressing the issues that auditors should consider in such circumstances.
34. Investment Schemes typically do not employ their own staff; instead, they rely on other parties to provide functions or services for the Schemes that management or employees would provide in a conventional corporate structure. As a result, it is not unusual for an Investment Scheme to engage other parties, such as an asset management company or investment advisor to carry out vital functions (refer to [Section II](#)). The functions or services provided by these other parties can vary significantly depending on the jurisdictions or the Scheme structure.
35. In some cases, these parties might provide routine and mechanical services, like bookkeeping or administrative tasks. Alternatively, they might have significant responsibilities related to the Investment Scheme's policies and operations, such as making investment decisions, managing financial records and controls, managing the Scheme's overarching strategy, or selecting other service providers. In these circumstances, the other entity (referred to as a Connected Party) might:
- (a) Be responsible for the decision-making and operation of the Scheme;
  - (b) Substantially affect the financial performance of the Scheme; or
  - (c) Be in a position to exert significant influence over the preparation of its accounting records or financial statements.
36. If the Connected Party is not a related entity of the Investment Scheme under the Code, it would not be captured by the definition of "audit client" or the related entity provision in paragraph R400.27. Consequently, it would not be included in the scope of the specific independence provisions in Part 4A that apply to the audit client. In these circumstances, the auditor should apply the conceptual framework set out in Section 120 of the Code to independence.<sup>25</sup> However, the conceptual

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<sup>24</sup> Paragraph R400.27 of the Code

<sup>25</sup> Refer to paragraph 400.6 of the Code.

framework approach allows for potentially different interpretations or outcomes in these types of audit engagements.

37. Part 4A also addresses how to apply the conceptual framework to identify, evaluate and address threats to independence when the auditor has a relationship with, or provides non-assurance services to, the audit client. However, some provisions, such as the following, may not explicitly capture Connected Parties:
- Auditor independence provisions when the auditor has a relationship with a party that is in a position to exert significant influence over the Investment Scheme's accounting records or financial statements.<sup>26</sup>
  - A provision on assessing whether certain services that are provided to a separate entity are "indirectly" provided to an audit client and, therefore, might create threats to independence.<sup>27</sup>
38. The IESBA is seeking stakeholders' views on whether incorporating specific independence provisions for audits of Investment Schemes, based on the criteria outlined in paragraph 35, would serve the public interest and promote consistent application of the Code's principles. For example, the IESBA would welcome stakeholders' views as to whether the Code should provide greater clarity on requirements for auditors to evaluate whether certain interests, relationships, or circumstances between the auditor and Connected Parties pose any threats to the auditor's independence when conducting the audit of an Investment Scheme.

**The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:**

- (a) Responsible for its decision making and operations;**
- (b) Able to substantially affect its financial performance; or**
- (c) In a position to exert significant influence over the preparation of its accounting records or financial statements.**

**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 provide reasons for your response.

**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

<sup>26</sup> For example, paragraphs R520.4, R521.5 and R522.3 of the Code, among others.

<sup>27</sup> For example, paragraph 600.6 of the Code and paragraphs 72-73 of the [Basis for Conclusions](#) for the *Technology-related Revisions to the Code* and the application of the Conceptual Framework in Section 120 of the Code

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.

#### **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.

#### **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.

## **V. Research Findings on Jurisdictional Responses to Independence**

39. The Project Team researched various jurisdictions to better understand the global context of Investment Schemes and their relationships with other parties and to obtain insight into how different jurisdictions address potential independence matters involving the Schemes.
40. Paragraph 400.23 A2 of the Code anticipates that some jurisdictions may designate CIVs and pension funds to be public interest entities (PIEs).<sup>28</sup> The Project Team has observed that some jurisdictions have enacted laws, regulations or standards that include certain Connected Parties as part of the audit client, while others require auditors to be independent of certain Connected Parties.
41. Some stakeholders expressed the view that the principles underlying “control” in accounting frameworks do not work appropriately with respect to Connected Parties to Investment Schemes. Other stakeholders stressed that certain CIV frameworks<sup>29</sup> ensure that no single party “controls” the Scheme. Another stakeholder referred to the importance of the IOSCO principles of securities regulation<sup>30</sup> in the design of regulatory frameworks addressing auditor independence with respect to Investment Schemes.
42. The following table includes a high-level summary of the types of jurisdictional responses to auditor independence revealed from this research (refer [Appendix 2](#) for further details).

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<sup>28</sup> [IESBA Staff Releases Database of Public Interest Entity Definitions by Jurisdiction to Support Local Adoption and Implementation Efforts](#)

<sup>29</sup> For example, in the European Union, including Luxemburg and Ireland

<sup>30</sup> [Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation](#). For example, Principle 20 “Auditors should be independent of the issuing entity that they audit” sets out the critical role of independent auditors in enhancing the reliability of financial information.

Response to Auditor Independence	Details and variations
Additional requirements with respect to what the term “audit client” encompasses.	<ul style="list-style-type: none"> <li>Legislative requirement to include a CIV’s management company and its directors as part of the audit client for certain independence provisions.</li> <li>Legislation that stipulates that the term “audit client” includes the CIV and its management company.</li> </ul>
Specifically amending the definition of related entity / affiliate for CIVs.	A rule that includes an additional limb of the definition of affiliate, which among other things, means the CIV’s investment adviser or sponsor is always included as part of the audit client, and therefore within the scope of independence requirements.
Requiring the CIV auditor to be independent of certain other parties to the CIV.	<ul style="list-style-type: none"> <li>Regulation stipulates that the auditor must be independent of a CIV’s management company, trustees/custodians, and for corporate CIVs, the directors of that CIV.</li> <li>Legislative requirement that the CIV auditor must be independent of the CIV and its management company.</li> </ul>
Stipulating who can undertake the CIV audit.	<ul style="list-style-type: none"> <li>Regulation prevents a CIV auditor from being in any way associated with the auditor of the CIV’s management company.</li> <li>Legislation stipulates that the same auditor must audit the CIV and the CIV’s management company.</li> </ul>

**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.

## **VI. Way Forward**

43. The IESBA's issuance of this CP on auditor independence for Investment Schemes underscores the importance of high ethical standards as a basis for public trust in the audit of such Schemes. By seeking stakeholder feedback, the IESBA aims to ensure that the Code remains robust, clear and relevant in addressing the unique challenges posed by these Schemes. The insights gathered from this consultation will help inform the IESBA's deliberations on whether enhancements to the Code or non-authoritative material is needed to properly safeguard the public interest. The Project Team will analyze the responses to this CP in Q3 2025, with a view to finalizing a report and recommendations to the IESBA by the end of the year.

## Investment Scheme Structures

### Collective Investment Vehicles

Table 1: Typical CIV structures:

CIV Structure	Description <sup>31</sup>
Corporate	Investors acquire shares in an investment company whose main objective is to invest in a portfolio of securities. These structures operate as a corporate entity, with a Board of Directors that is usually ultimately responsible for corporate governance. The management of the CIV is generally conducted by a management company or an investment advisor that is appointed by the Board of Directors.
Contractual	Investors buy units in the CIV, which provides them with an interest in a portfolio of diversified securities. The CIV does not have a legal form or personality of its own, therefore the management of the portfolio is generally entrusted to a management company.
	Another type of contractual model is a unit trust which is established and governed under a trust deed. Investors receive units in the trust in proportion to the amount of money invested.
Hybrid <sup>32</sup>	A separate independent entity is responsible for certain oversight functions for the CIV.
Limited Partnerships	The fund is constituted in the form of a partnership where a general partner manages the fund on behalf of the other limited partners.

### Pension Funds

Pension funds are investment pools that accumulate contributions from employees, employers or both. The invested funds are generally distributed to the respective beneficiary upon retirement. There are two main types of pension funds: defined benefit<sup>33</sup> and a defined contribution<sup>34</sup> plans. Typically, professional managers select the investments in the defined benefit plans whereas individual participants in a defined contribution plan might be able to select their investments. Defined benefit plans have an insurance

<sup>31</sup> These descriptions are derived from the IOSCO report, [Examination of Governance for Collective Investment Schemes - Part I](#). The typical CIV structures observed through the IESBA Project Team's research are consistent and align with the governance models and descriptions in that IOSCO report.

<sup>32</sup> Hybrid between the Corporate and Contractual Models listed.

<sup>33</sup> A defined benefit plan pays out a guaranteed fixed income to the beneficiary after retiring and for life, regardless of the performance of the underlying investment pool. The benefit is not directly tied to the investment returns and the employer bears the investment risks.

<sup>34</sup> A defined contribution plan is based on employee/employer contributions with a payout based on the fund's performance. The employee bears the investment risks, and the employer is not responsible to make any benefit payment if the fund underperforms.

perspective, which focuses on providing guarantees with respect to beneficiaries, while defined contribution plans generally provide beneficiaries with a choice of investment options based on their risk appetite.

The IESBA Project Team’s jurisdictional analysis revealed that pension funds can also be structured under different legal frameworks, which subsequently determine the specific legal and regulatory obligations applicable.

## Roles and Responsibilities

This section outlines some of the functions, roles, and responsibilities of other parties that are engaged by CIVs.

*Table 2: Examples of key roles that are generally undertaken by other parties involved in CIVs, for the most common legal frameworks observed, and their respective responsibilities*

Role / Function	Investment / Asset Management Vehicle	Trust	Limited Partnership
<b>Governance and strategic direction</b>	Board of Directors (BOD) of the Investment / Asset Management Vehicle (AMV)	Board of Trustees	General Partner
<b>Management of investments in accordance with the founding document</b>	Investment Advisor <sup>35</sup> appointed by BOD of the Investment Company	Investment Advisor appointed by Board of Trustees	Investment Advisor appointed by General Partner
<b>Responsible for day-to-day operations</b>	Investment Advisor / Sub-advisor / AMV	Investment Advisor (or sub-advisor) appointed by Board of Trustees / AMV	General Partner / AMV
<b>Safeguarding of assets</b>	Custodian	Custodian	Custodian

<sup>35</sup> An individual or entity that manages a CIV’s investments in various portfolios and can also be responsible for the day-to-day operations of the CIV for certain CIV legal frameworks. Some of the responsibilities of the CIV Manager might include:

- Organizing, managing and controlling the CIV
- Maintaining accounting records of the CIV, including the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework
- Designing, implementing, monitoring or maintaining internal controls

### Research Findings on Jurisdictional Responses to Independence

The discussion below details some responses to auditor independence that have been implemented in certain jurisdictions with respect to Investment Schemes based on the IESBA Project Team's research. These summaries do not intend to cover all aspects of the relevant framework for Investment Schemes in these jurisdictions but focuses on specific auditor independence aspects. The IESBA Project Team's research also demonstrates that some jurisdictions have not specifically addressed auditor independence with respect to Investment Schemes. This is not a comprehensive list of all jurisdictions the Project Team engaged with in the outreach process.

#### Australia

The Australian corporation's legislation<sup>36</sup> includes specific provisions on auditor independence in addition to those in the local Code.<sup>37</sup> When applying certain provisions, the legislation requires the audit firm to include as part of the "audited body" the "responsible entity" (trustee and manager and a separate legal entity to the CIV) and its directors.<sup>38</sup>

#### Hong Kong SAR

There are three main funds in Hong Kong – Securities and Futures Commission (SFC)-regulated mutual funds, Mandatory Provident Funds (MPF) and Limited Partnership Funds.

SFC-regulated funds are unit trusts or open-ended fund companies subject to the SFC Code.<sup>39</sup> The SFC Code requires an independent Trustee (for unit trusts) or Custodian (for fund companies) and a management company to be appointed for each fund.<sup>40</sup> Due to the role of the Trustee/Custodian (and the directors of fund companies),<sup>41</sup> the management company is generally considered to be an agent, does not control the fund, and therefore, is generally not a related entity under Hong Kong's Code of Ethics.<sup>42</sup> However, the SFC Code requires the auditor to "*be independent of the management company, the trustee/custodian, and, in the case of a mutual fund corporation, the directors.*"<sup>43</sup>

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<sup>36</sup> Australia introduced a new type of investment company called a corporate collective investment vehicle (CCIV) which can be registered from 1 July 2022 – [Corporate collective investment vehicles | ASIC](#). CCIVs are not addressed in this Consultation Paper.

<sup>37</sup> APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

<sup>38</sup> Section 324CH(1) of the *Corporations Act 2001* sets out a table of relevant relationships for the auditor independence requirements set out in Sections 324CE, CF and CG of that Act. Under Section 324CH(2), if the audited body is a registered scheme (a type of CIV) then the responsible entity for the registered scheme is included as part of the audited body for certain provisions. Note there are similar provisions for a registrable superannuation entity (a type of pension fund).

<sup>39</sup> [Section II: Code on Unit Trusts and Mutual Funds](#).

<sup>40</sup> Paragraphs 4.1, 4.7, and 5.1 of the SFC Code.

<sup>41</sup> Chapter 4 and paragraph 5.11 of the SFC Code.

<sup>42</sup> Hong Kong Institute of Certified Public Accountants (HKICPA) *Code of Ethics for Professional Accountants* is based on the IESBA Code and has the same related entity definition.

<sup>43</sup> Paragraph 5.16 of the SFC Code.



## India

CIVs in India include mutual funds that are trusts and require a sponsor to set up a trustee company and an asset management company. The asset management company is responsible for day-to-day management, compliance with regulatory requirements, accounting and the financial statements for the fund.<sup>44</sup> The Securities and Exchange Board of India (SEBI) regulations<sup>45</sup> stipulate that the fund's auditor must not be in any way associated with the auditor of the asset management company.

## Italy

Italian CIVs are either contractual or statutory based:

- Contractual based Undertakings for Collective Investment management (mutual investment funds) do not have their own legal personality. A separate asset management company owns the fund's assets and liabilities in the fund's name and acts on its behalf, and the management company's Board of Directors is the ultimate decision maker for the fund. The asset management company possesses a distinct and separate capital from the fund. Under Italian law,<sup>46</sup> the "audit client" is the CIV itself and the Italian management company, the fund auditor must be the same as the management company auditor, and the auditor must be independent of both the fund and the management company.
- Statutory based Undertakings for Collective Investment management<sup>47</sup> are companies with their own legal personality, where the CIV's investors are also the CIV's shareholders; assets and liabilities of the CIV are managed directly within the company itself by their managers/directors elected by the shareholders (i.e., the investors) assembled in the general meeting. They can be also externally managed by a designated asset management company; in this case, managers/directors of the externally managed company must oversee the activities of the designated manager. The "audit client" is the CIV.

## United States (US) – SEC Rules on ICCs

Under the SEC rules and regulations, the "audit client" consists of the entity being audited and its affiliates.<sup>48</sup> The definition of "affiliate"<sup>49</sup> is similar to the definition of "related entity" in the Code.<sup>50</sup> However, the SEC rule includes an additional limb which applies when the entity under audit is an investment company or

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<sup>44</sup> Obligations of the asset management company are specified in the [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) and the [Master Circular for Mutual Funds](#)

<sup>45</sup> [Securities and Exchange Board of India \(Mutual Funds\) Regulations 1996](#) Clause 55

<sup>46</sup> Including [Legislative Decree No. 58 of 24 February 1998, TUF](#)

<sup>47</sup> Called a SICAV (variable capital investment company) or a SICAF (fixed capital investment company)

<sup>48</sup> Refer [SEC 17 CFR Parts 210 Final Rule December 11, 2020](#) Section 210.2-01 Qualifications of Accountants – § 210.2-01(f)(6) *Audit client means the entity whose financial statements or other information is being audited, reviewed, or attested to and any affiliates of the audit client, other than, for purposes of paragraph (c)(1)(i) of this section, entities that are affiliates of the audit client only by virtue of paragraphs (f)(4)(iii), (f)(4)(iv), or (f)(14)(i)(E) of this section.*

<sup>49</sup> § 210.2-01(f)(4) and the meaning of an affiliate of the audit client

<sup>50</sup> Also refer to paragraphs 58 of the IESBA Staff publication [Benchmarking International Independence Standards: Phase 1 Report: Comparison of IESBA and US SEC/PCAOB Independence Frameworks.](#)

investment adviser or sponsor, in which case “affiliates” are determined differently than for a conventional corporate structure, and consists of each entity in the ICC.<sup>51</sup>

The SEC rule includes the following notable inclusions of affiliates of the entity under audit in an ICC (assuming the entity under audit is an investment company):

- The ICC always includes the investment company’s investment adviser or sponsor.<sup>52</sup>
- The ICC includes an entity controlled by the investment adviser or sponsor if that entity provides administrative, custodial, underwriting, or transfer agent services to the investment company or investment adviser or sponsor.<sup>53</sup>
- The ICC includes any entity under common control (sister entity) with the investment company or investment advisor or sponsor if that entity is providing administrative, custodial, underwriting, or transfer agent services to the investment company or investment adviser or sponsor.<sup>54</sup>

## US – American Institute of Certified Public Accountants (AICPA)

The AICPA Code of Professional Conduct extends independence to certain entities or bodies based upon

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<sup>51</sup> § 210.2-01(f)(4)(v) *Each entity in the investment company complex as determined in paragraph (f)(14) of this section when the entity under audit is an investment company or investment adviser or sponsor, as those terms are defined in paragraphs (f)(14)(ii), (iii), and (iv) of this section.*

<sup>52</sup> SEC Rule 17 CFR § 210.02(f)(14)(i)(B) *The investment adviser or sponsor of any investment company identified in paragraph (f)(14)(i)(A)(1) of this section. Also refer to page 28 of the [SEC 2020 Final Rule on 17 CFR Part 210](#) “Even where an investment company has an independent board that oversees the investment company’s operations and approves the advisory contract, the services provided by the investment adviser are generally critical to the management of day-to-day operations and execution of policies for the investment company. Therefore, the investment adviser generally will have a controlling relationship over the investment company for purposes of Rule 1-02(g).”*

<sup>53</sup> SEC Rule 17 CFR § 210.02(f)(14)(i)(C) (noting it is a sister entity of any affiliate identified in A, B, or C of this section, so not just sister entities of the entity under audit) *Any entity controlled by or controlling:*

- 1) *An entity under audit identified by paragraph (f)(14)(i)(A) of this section, or*
- 2) *An investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section.*

*When the entity is controlled by an investment adviser or sponsor identified by paragraph (f)(14)(i)(B), such entity is included within the investment company complex if:*

- (i) *The entity and the entity under audit are each material to the investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section; or*
- (ii) *The entity is engaged in the business of providing administrative, custodial, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) or (B) of this section.*

<sup>54</sup> SEC Rule 17 CFR § 210.02(f)(14)(i)(D) *Any entity under common control with an entity under audit identified by paragraph (f)(14)(i)(A) of this section, any investment adviser or sponsor identified by paragraph (f)(14)(i)(B) of this section, or any entity identified by paragraph (f)(14)(i)(C) of this section; if the entity:*

- 1) *Is an investment company or an investment adviser or sponsor, when the entity and the entity under audit identified by paragraph (f)(14)(i)(A) of this section are each material to the controlling entity; or*
- 2) *Is engaged in the business of providing administrative, custodian, underwriting, or transfer agent services to any entity identified by paragraphs (f)(14)(i)(A) and (f)(14)(i)(B) of this section.*

their connection to the financial statement attest client<sup>55</sup> which are defined as “affiliates”<sup>56</sup>. The elements of “related entity” in the Code generally align to parts (a) to (e) of the AICPA Code’s “affiliate” definition. However, parts (g) to (l) of the AICPA Code’s “affiliate” definition includes entities involved with Investment Schemes.

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<sup>55</sup> Definition of “financial statement attest client” in the AICPA Code “An entity whose financial statements are audited, reviewed, or compiled when the member’s compilation report does not disclose a lack of independence.”

<sup>56</sup> An affiliate of a financial statement attest client is:

- (a) An entity (for example, subsidiary, partnership, or limited liability company [LLC]) that a *financial statement attest client* can control.
- (b) An entity in which a *financial statement attest client* or an entity *controlled* by the *financial statement attest client* has a direct financial interest that gives the *financial statement attest client* *significant influence* over such entity and that is material to the *financial statement attest client*.
- (c) An entity (for example, parent, partnership, or LLC) that *controls* a *financial statement attest client* when the *financial statement attest client* is material to such entity.
- (d) An entity with a *direct financial interest* in the *financial statement attest client* when that entity has *significant influence* over the *financial statement attest client*, and the interest in the *financial statement attest client* is material to such entity.
- (e) A sister entity of a *financial statement attest client* if the *financial statement attest client* and sister entity are each material to the entity that *controls* both.
- (f) A trustee that is deemed to *control* a trust *financial statement attest client* that is not an investment company.
- (g) The sponsor of a single employer employee benefit plan *financial statement attest client*.
- (h) Any entity, such as a union, participating employer, or a group association of employers, that has *significant influence* over a multiemployer employee benefit plan *financial statement attest client* and the plan is material to such entity.
- (i) The participating employer that is the plan administrator of a multiple employer employee benefit plan *financial statement attest client*.
- (j) A single or multiple employer employee benefit plan sponsored by either a *financial statement attest client* or an entity *controlled* by the *financial statement attest client*. All participating employers of a multiple employer employee benefit plan are considered sponsors of the plan.
- (k) A multiemployer employee benefit plan when a *financial statement attest client* or entity *controlled* by the *financial statement attest client* has *significant influence* over the plan and the plan is material to the *financial statement attest client*.
- (l) An investment adviser, a general partner, or a trustee of an investment company *financial statement attest client* (fund) if the fund is material to the investment adviser, general partner, or trustee that is deemed to have either *control* or *significant influence* over the fund. When considering materiality, members should consider investments in, and fees received from, the fund.

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