

Agenda Item 10-A of the IAASB December 2025 meeting is a replica of **Agenda Item 3-D** of the IESBA December 2025 meeting.

Linkages between Draft IESBA FCG Viewpoints and ISQM 1

I. Introduction

1. This paper¹ explains at a high level the linkage, as well as the key differences, between the draft IESBA Firm Culture and Governance (FCG) viewpoints (IESBA viewpoints) posted for the December 2025 IESBA meeting and ISQM 1.² It demonstrates the mutually supportive nature of the draft IESBA viewpoints and ISQM 1 while recognizing the distinctions in their objectives, scope, output and focus.
2. This paper also presents, for illustrative purposes, the linkages between the draft IESBA viewpoints and ISQM 1 in relation to two of the elements of the FCG framework (FCG elements) – (a) Ethical Leadership, and (b) Incentives and Disincentives.

Background to this Paper

3. This paper responds to calls from a number of stakeholders as well as IESBA and IAASB members to recognize and clarify the linkages between the draft IESBA viewpoints and ISQM 1.
4. The information presented in this paper helps a firm that has implemented a system of quality management (SOQM) in accordance with ISQM 1 to understand how its SOQM could be leveraged to meet the objectives and outputs of the draft IESBA viewpoints if the latter were to be adopted and implemented.
5. Whilst this paper seeks to explain the linkages between the draft IESBA viewpoints and ISQM 1, it does not purport to be a like-to-like assessment for the following reasons:
 - ISQM 1 is a standard that came into effect on December 15, 2022. The draft IESBA viewpoints do not constitute a standard and therefore do not have the level of authority of ISQM 1. They are a tool that the IESBA intends to use for further stakeholder engagement in Q1-Q2 2026 to inform its future work regarding how best to approach the development of an FCG framework.
 - Unlike ISQM 1, the draft IESBA viewpoints have not been subject to due process, including public consultation. These draft viewpoints are a work-in-progress. The IESBA will consider them with a view to agreeing them at its December 2025 meeting.
6. Further information about the IESBA FCG project, including the nature and purpose of the draft IESBA viewpoints, is provided in **Agenda Item 3-A**.

¹ This paper was developed in coordination with representatives of the International Auditing and Assurance Standards Board (IAASB).

² ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

II. The Relationship Between Ethical Culture and a Firm's System of Quality Management

7. ISQM 1 requires all firms that perform engagements within the scope of the IAASB's engagement standards³ to establish an SOQM designed, implemented and operated to provide the firms with reasonable assurance that the objectives of the SOQM are achieved, thereby enabling the consistent performance of quality engagements.
8. The draft IESBA viewpoints highlight how a firm can develop a strong ethical culture by prioritizing ethical values within the whole firm through the eight FCG elements. Such culture is important in driving ethical behavior within the firm.
9. There is an inherent connection between a firm's ethical culture and the firm's SOQM. In highlighting the importance of ethical culture, ISQM 1 recognizes that quality management is not a separate function of the firm, but that it is the integration of a culture that demonstrates a commitment to quality with the firm's strategy, operational activities and business processes.⁴ ISQM 1 also recognizes that the firm's culture is an important factor in influencing the behavior of personnel.⁵ It requires, under the governance and leadership component, that the firm demonstrates a commitment to quality *through a culture that exists throughout the firm* which recognizes and reinforces:⁶
 - (a) The firm's role in serving the public interest by consistently performing quality engagements; and
 - (b) The importance of professional ethics, values and attitudes.
10. The professional ethics that ISQM 1 refers to are those in relevant ethical requirements as defined in ISQM 1,⁷ such as the IESBA Code. Ethical values and attitudes are promoted, supported and reinforced through the firm's ethical culture.
11. As recognized by the IESBA Code,⁸ ISQM 1 contributes to an ethical culture within the firm through requirements and application material relating to firm culture *in the context of a firm's responsibilities to design, implement and operate an SOQM*. In particular, ISQM 1 requires that the firm establishes quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements to which the firm and the firm's engagements (those engagements that are within the scope of ISQM 1) are subject. This includes that the firm and its personnel (as well as others⁹ who are also subject to the same requirements):¹⁰

³ The IAASB's engagement standards are the International Standards on Auditing (ISAs), the International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE), International Standards on Assurance Engagements (ISAEs), International Standards on Sustainability Assurance (ISSAs), International Standards on Review Engagements (ISREs), and International Standards on Related Services (ISRSs).

⁴ ISQM 1, paragraph A30

⁵ ISQM 1, paragraph A55

⁶ ISQM 1, paragraph 28(a)(i) and (ii)

⁷ ISQM 1, paragraph 16(t)

⁸ Section 120, *The Conceptual Framework*, paragraph 120.14 A1

⁹ Under ISQM 1, paragraph 29(b), others include the firm's network, network firms, individuals in the network or network firms, or service providers.

¹⁰ ISQM 1, paragraph 29(a) and (b)

- (a) Understand the relevant ethical requirements; and
 - (b) Fulfill their responsibilities in relation to those relevant ethical requirements.
12. When firm personnel understand and fulfill their responsibilities in accordance with relevant ethical requirements such as the IESBA Code, this contributes to the firm's efforts to build and maintain an ethical culture within the firm.
13. Therefore, whilst the draft IESBA viewpoints focus on articulating the characteristics of the elements of a firmwide ethical culture and ISQM 1 focuses on the components of a firm's SOQM to support the consistent performance of quality engagements as further explained in the sections below, there is a mutually supportive and reinforcing relationship between the draft IESBA viewpoints and ISQM 1.

III. Key Differences Between Draft IESBA Viewpoints and ISQM 1

Objectives

14. The draft IESBA viewpoints and ISQM 1 have different objectives and are intended to serve the public interest in different ways:
- ISQM 1¹¹ deals with a firm's responsibilities to design, implement and operate an SOQM for audits or reviews of financial statements, or other assurance or related services engagements, with the objective of providing the firm with reasonable assurance that:
 - The firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory requirements, and conduct engagements in accordance with such standards and requirements; and
 - Engagement reports issued by the firm or engagement partners are appropriate in the circumstances.
- As per ISQM 1, the public interest is served by the consistent performance of quality engagements.¹²
- The objectives of the draft IESBA viewpoints are to enable a firm to build and sustain a strong ethical culture at all levels within the firm and across all the services it provides. A strong ethical culture helps the firm enhance its reputation and reduce organizational risks arising from unethical behavior within the firm. Ultimately, embedding ethical values into the firm's culture and governance helps the firm fulfil its responsibility to act in the public interest and builds public trust in the firm.
15. This difference in objectives may be demonstrated through some of the themes, concepts and mechanisms common to both the draft IESBA viewpoints and ISQM 1. For instance:
- The draft IESBA viewpoints on Ethical Leadership highlight senior leadership's responsibility for the firm's **ethical culture** and the demonstration of their commitment to **ethical values** through their decisions and actions.

ISQM 1's component on Governance and Leadership establishes the environment that supports the SOQM. The firm is required to establish certain **quality objectives**, which, among

¹¹ ISQM 1, paragraphs 1 and 14

¹² ISQM 1, paragraph 15

others, include that the firm demonstrates a commitment to **quality** through a culture that exists throughout the firm (see also paragraph 9) and that leadership is responsible and accountable for **quality** and demonstrates a commitment to **quality** through their actions and behaviors.¹³

- The draft IESBA viewpoints on Incentives and Disincentives point out that performance evaluation, incentives and disincentives that prioritize expected **ethical behavior** alongside other performance goals help encourage enduring **ethical behavior** and the long-term sustainability and reputation of a firm.

ISQM 1 requires, through the establishment of **quality objectives** addressing resources, that personnel demonstrate a commitment to **quality** through their actions and behaviors and are held accountable or recognized through timely evaluations, compensation, promotion or other incentives.¹⁴ ISQM 1 also gives examples of actions a firm may take when personnel demonstrate actions or behaviors that negatively affect **quality**.¹⁵

16. See the Appendix for a comparison between the draft IESBA viewpoints and ISQM 1 on two of the FCG elements – (a) Ethical Leadership, and (b) Incentives and Disincentives.

Scope

17. The draft IESBA viewpoints and ISQM 1 have different scopes:
 - The draft IESBA viewpoints apply to all firms and across all their service lines, including advisory and other service lines not covered by the IAASB's engagement standards, as well as to firms that do not perform engagements covered by IAASB standards (e.g., advisory-only firms).
 - ISQM 1 applies to firms performing audits or reviews of financial statements, or other assurance or related services engagements.¹⁶ When a firm performs other types of engagements (e.g., tax or consulting services), ISQM 1 recognizes that designing the SOQM and the firm's operational activities and business processes in an integrated manner may promote a harmonious approach to managing the firm, and enhance the effectiveness of quality management.¹⁷

Output

18. Implementing ISQM 1 leads a firm to establish an **SOQM** that provides the firm with reasonable assurance that the objectives of the **SOQM** are achieved, thereby enabling the consistent performance of quality engagements. ISQM 1 is a principles-based standard that requires the firm to apply a risk-based approach in establishing an **SOQM** in an interconnected and coordinated manner.¹⁸ Because of this, the implementation and application of ISQM 1 are scalable and, therefore, will vary from firm to firm. Two of the eight components of ISQM 1 also involve the **establishment of processes**: the firm's risk assessment process and its monitoring and remediation process.

¹³ ISQM 1, paragraph 28(a) to 28(c)

¹⁴ ISQM 1, paragraph 32(b)

¹⁵ ISQM 1, paragraph A93

¹⁶ ISQM 1, paragraph 5

¹⁷ ISQM 1, paragraph A30.

¹⁸ ISQM 1, paragraph 7

19. The draft IESBA viewpoints address in a principles-based way the eight elements of an FCG framework necessary for a firm to develop an *ethical culture* that will promote, support and reinforce ethical behavior within the firm. Whilst the draft IESBA viewpoints include references to a firm's systems, policies and procedures, it is in the context of the firm's ethical culture.

Specificity and Granularity of Focus

20. The draft IESBA viewpoints focus on the eight FCG elements as identified in the [IESBA FCG Working Group Final Report](#). They elaborate at a principles level and in a holistic way the characteristics of each FCG element that altogether contribute to a strong ethical culture within the firm.
21. ISQM 1 refers to some of the FCG elements at different levels of detail, some in requirements and some in application material.
22. Because ISQM 1's focus is on quality management, it does not address all the FCG elements to the same degree of specificity and granularity as the draft IESBA viewpoints with respect to ethical culture. The draft IESBA viewpoints focus on the ethical values and behaviors that permeate every aspect of a firm culture, from strategy to operations to relationships between partners and staff, among others.
23. Therefore, the draft IESBA viewpoints are intended to help firms strengthen their ethical culture by providing a global and consistent point of reference with respect to the eight FCG elements.

APPENDIX

Linkages between Draft IESBA Viewpoints and ISQM 1 on Two FCG Elements

NOTE

The tables below illustrate the linkages, as well as the key differences, between the draft IESBA viewpoints and ISQM 1 on two FCG elements: Ethical Leadership, and Incentives and Disincentives.

The first column includes the draft IESBA viewpoints as presented in **Agenda Item 3-C**. The second column identifies ISQM 1 requirements and application material that correspond to each draft IESBA viewpoint where there is a linkage.

The third column “Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1” highlights where there is a mutually supportive relationship between the draft IESBA viewpoints and ISQM 1 (see paragraphs 7-13 above) as well as where there are differences (see paragraphs 14-23 above).

These tables are set out as comparisons between the draft IESBA viewpoints and ISQM 1. Because of the scalability of ISQM 1, the tables do not capture the variability of its implementation and therefore do not reflect how a firm might be addressing firm culture as part of its SOQM in accordance with ISQM 1. Paragraph 5 above also provides important context when reading these tables.

Ethical Leadership

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p><u><i>Public Interest Rationale</i></u></p> <p>1. The senior leadership of an accounting firm (“firm”) play a pivotal role in driving and fostering a strong ethical culture within the firm.</p>	<p>28. The firm shall establish the following quality objectives that address the firm’s governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>...</p> <p>(b) Leadership is responsible and accountable for quality.</p> <p>(c) Leadership demonstrates a commitment to quality through their</p>	<p>The draft IESBA viewpoint highlights the pivotal role played by senior leadership in driving ethical culture.</p> <p>ISQM 1 requires leadership to take responsibility and accountability for quality and to demonstrate such commitment through their actions and behaviors.</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	actions and behaviors.	
<p>2. As ethical leaders, a firm's senior leadership demonstrate that they understand that they and the firm have an overarching responsibility to act in the public interest under the IESBA's <u>International Code of Ethics for Professional Accountants (including International Independence Standards)</u> ("the Code") in all of the firm's professional services. This responsibility permeates the ethical culture of the firm and is fundamental to safeguarding public trust in, and the reputation of, the firm.</p>	<p>5. This ISQM applies to all firms performing audits or reviews of financial statements, or other assurance or related services engagements (i.e., if the firm performs any of these engagements, this ISQM applies and the system of quality management that is established in accordance with the requirements of this ISQM enables the consistent performance by the firm of all such engagements).</p> <p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:</p> <p>(i) The firm's role in serving the public interest by consistently performing quality engagements;</p> <p>(ii) The importance of professional ethics, values</p>	<p>Both the draft IESBA viewpoint and ISQM 1 recognize the role of firms to act in the public interest.</p> <p>The draft IESBA viewpoint highlights that abiding by the Code underpins a firm's ethical culture and that such culture is essential for the firm to fulfil its responsibility to act in the public interest.</p> <p>Professional ethics and fulfillment of responsibilities in accordance with relevant ethical requirements, and the firm's role in serving the public interest are embedded in a firm's SOQM under ISQM 1.</p> <p>The commitment to quality is reinforced through the establishment of specific quality objectives, including in relation to the other components of the SOQM. Whilst ISQM 1 refers to a culture that recognizes and reinforces the importance of professional ethics, it does not articulate ethics standards or the characteristics of a strong ethical culture. Those ethics standards are reflected in the IESBA Code. The draft IESBA viewpoints endeavor to articulate in a holistic and comprehensive way the characteristics of the elements of a firmwide ethical culture.</p> <p>The draft IESBA viewpoints apply to all firms</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>and attitudes;</p> <p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence:</p> <p>...</p>	<p>and across all their service lines. ISQM 1 applies to firms performing audits or reviews of financial statements, or other assurance or related services engagements.</p>
<p><u><i>Ethics-Driven Senior Leadership</i></u></p> <p>3. Senior leadership that are ethics-driven are committed to ensuring ethical conduct at every level of the firm and across all its professional services. They demonstrate this commitment when exercising their role as senior leaders by prioritizing ethics above all other considerations, including commercial considerations, in all their decisions and actions.</p>	<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:</p> <p>...</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>...</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and</p>	<p>Both the draft IESBA viewpoint and ISQM 1 highlight that leadership plays a <i>primary</i> role through their decisions and actions (focusing on ethical culture in the IESBA viewpoint) or their actions and behaviors (focusing on quality management in ISQM 1).</p> <p>The draft IESBA viewpoint highlights that ethics-driven senior leadership prioritize ethics above all other considerations, including commercial considerations.</p> <p>Considerations relating to financial and operational priorities not compromising the achievement of quality objectives and not leading to inappropriate judgements about client relationships and engagements are embedded in ISQM 1.</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>operational priorities.</p> <p>...</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors.</p> <p>A56. The firm's strategic decision-making process, including the establishment of a business strategy, may include matters such as the firm's decisions about financial and operational matters, the firm's financial goals, how financial resources are managed, growth of the firm's market share, industry specialization or new service offerings. The firm's financial and operational priorities may directly or indirectly affect the firm's commitment to quality, for example, the firm may have incentives that are focused on financial and operational priorities that may discourage behaviors that demonstrate a commitment to quality.</p> <p>30. The firm shall establish the following quality objectives that address the acceptance and continuance of client relationships and specific engagements:</p> <p>...</p>	

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>(b) The financial and operational priorities of the firm do not lead to inappropriate judgments about whether to accept or continue a client relationship or specific engagement.</p> <p>A73. Financial priorities may focus on the profitability of the firm, and fees obtained for the performance of engagements have an effect on the firm's financial resources. Operational priorities may include strategic focus areas, such as growth of the firm's market share, industry specialization or new service offerings. There may be circumstances when the firm is satisfied with the fee quoted for an engagement but it is not appropriate for the firm to accept or continue the engagement or client relationship (e.g., when the client lacks integrity and ethical values).</p>	
<p>4. Senior leadership have an ethical mindset with a strong knowledge and understanding of the Code. They take an uncompromising stance in abiding by the Code's principles when making judgments and decisions, especially in difficult situations involving ethical conflicts</p>	<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a</p>	<p>The draft IESBA viewpoint highlights that ethics-driven senior leadership have a strong knowledge and understanding of the Code and abide by the Code's principles – behavior grounded in ethics in all circumstances.</p> <p>Commitment to quality under ISQM 1 includes a commitment to professional ethics and</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p>or dilemmas.</p>	<p>culture that exists throughout the firm, which recognizes and reinforces:</p> <p>...</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>29. The firm shall establish the following quality objectives that address the fulfillment of responsibilities in accordance with relevant ethical requirements, including those related to independence: (Ref: Para. A62–A64, A66)</p> <p>(a) The firm and its personnel:</p> <p>(i) Understand the relevant ethical requirements to which the firm and the firm’s engagements are subject; and (Ref: Para. A22, A24)</p> <p>(ii) Fulfill their responsibilities in relation to the relevant ethical requirements to which the firm and the firm’s engagements are subject.</p>	<p>fulfillment of ethical responsibilities and is part of leadership’s responsibility and accountability for quality.</p>
<p>5. In their oversight capacity, these leaders embed the firm’s ethical values in the firm’s overall business</p>	<p>28. The firm shall establish the following quality objectives that address the firm’s governance and leadership, which</p>	<p>The draft IESBA viewpoint highlights the importance of embedding ethical values in the firm’s overall business strategy. ISQM 1</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p>strategy. They ensure that the firm's governance, systems, policies, and procedures prioritize those values and minimize the risk of ethical failures. They accept full accountability for maintaining a strong ethical culture within the firm at all times.</p>	<p>establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:</p> <p>...</p> <p>(ii) The importance of professional ethics, values and attitudes;</p> <p>...</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and operational priorities.</p> <p>(b) Leadership is responsible and accountable for quality.</p>	<p>highlights the importance of quality in the firm's strategic decisions and actions.</p> <p>The draft IESBA viewpoint highlights the role of senior leadership in ensuring the firm's governance, systems, policies, and procedures – which apply to the whole firm – prioritize ethical values and minimize the risk of ethical failures.</p> <p>In ISQM 1, the importance of quality in decisions and actions includes not compromising on quality for financial and operational priorities. In addition, leadership's responsibility and accountability for quality include their and others' commitment to professional ethics and fulfilment of ethical responsibilities.</p> <p>The draft IESBA viewpoint is therefore more specific from the perspective of establishing an ethical culture.</p>
<p>6. In maintaining a strong ethical culture, senior leadership understand the value of independent input in strategic and governance matters, and they seek such input as needed.</p>	<p>N/A</p>	<p>N/A</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p>7. They recruit and promote partners and staff who demonstrate alignment with the firm’s ethical values. They also reward those who exemplify outstanding ethical behavior and hold partners and staff accountable for unethical behavior.</p>	<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p><i>Human Resources</i></p> <p>(a) Personnel are hired, developed and retained and have the competence and capabilities to:</p> <p>(i) Consistently perform quality engagements, including having knowledge or experience relevant to the engagements the firm performs; or</p> <p>...</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation,</p>	<p>The draft IESBA viewpoint highlights the specific role of senior leadership in connecting recruitment, promotion and reward decisions to outstanding ethical behavior and accountability for unethical behavior.</p> <p>ISQM 1 does not articulate this specific role of leadership from the perspective of ethical culture. However, in the context of promoting the consistent performance of quality engagements, it recognizes the importance of personnel (i.e., partners and staff) demonstrating a commitment to quality, which includes a commitment to professional ethics.</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>promotion and other incentives.</p> <p>A88. Competence is the ability of the individual to perform a role and goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of technical competence, professional skills, and professional ethics, values and attitudes. Competence can be developed through a variety of methods, including professional education, continuing professional development, training, work experience or coaching of less experienced engagement team members by more experienced engagement team members.</p> <p>A92. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p>	
<p><u><i>Tone at the Top</i></u></p> <p>8. Senior leadership that are ethics-driven set the tone at the top on ethical behavior at all levels within the firm by demonstrating their</p>	<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p>	<p>Both the draft IESBA viewpoint and ISQM 1 recognize that leadership sets the tone at the top through their decisions and actions (draft IESBA viewpoint) or their actions and behaviors (ISQM 1).</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p>commitment to the firm's ethical values through their decisions and actions. Their ethical behavior serves as a model for all partners and staff to follow.</p>	<p>...</p> <p>(c) Leadership demonstrates a commitment to quality through their actions and behaviors.</p> <p>...</p> <p>A58. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm's culture and demonstrates a commitment to quality.</p>	<p>The draft IESBA viewpoint focuses the tone at the top on senior leadership's commitment to the firm's ethical values.</p> <p>ISQM 1 focuses more broadly on leadership's commitment to quality.</p>
<p>9. The tone of senior leadership influences and impacts every aspect of the firm, including how ethics contributes to the strategic direction and overall governance of the firm.</p>	<p>28. The firm shall establish the following quality objectives that address the firm's governance and leadership, which establishes the environment that supports the system of quality management:</p> <p>(a) The firm demonstrates a commitment to quality through a culture that exists throughout the firm, which recognizes and reinforces:</p> <p>...</p> <p>(iv) The importance of quality in the firm's strategic decisions and actions, including the firm's financial and</p>	<p>Both the draft IESBA viewpoint and ISQM 1 recognize leadership's role in creating an environment where ethics (draft IESBA viewpoint) or quality (ISQM 1) contributes to the firm's strategy.</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	operational priorities.	
<p>10. They emphasize in their communication to all partners and staff the firm’s ethical expectations and the importance of adhering to the Code in all professional activities and services. They reflect these expectations in the firm’s performance evaluation, incentives and disincentives.</p>	<p>A58. Although leadership establishes the tone at the top through their actions and behaviors, clear, consistent and frequent actions and communications at all levels within the firm collectively contribute to the firm’s culture and demonstrates a commitment to quality.</p>	<p>The draft IESBA viewpoint highlights the importance of internal communications by leadership from the perspective of ethical culture.</p> <p>ISQM 1 highlights that frequent internal communications by leadership contribute to the firm’s culture and demonstrate a commitment to quality.</p>
<p>11. Senior leadership are transparent in their decision-making, demonstrating how they have prioritized ethics in their decisions and actions, for which they are accountable.</p>	N/A	N/A

Incentives and Disincentives

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p><u><i>Public Interest Rationale</i></u></p> <ol style="list-style-type: none"> Incentives and disincentives that promote ethical behavior strengthen an accounting firm's ("firm") ethical culture and underscore its commitment to ethical values and the public interest. Performance evaluation and incentives and disincentives that prioritize expected ethical behavior alongside other performance goals help encourage enduring ethical behavior and the long-term sustainability and reputation of a firm. Designing and implementing incentives and disincentives that recognize, support and promote ethical behavior, and establish clear consequences for unethical behavior, signal to all partners and staff the importance of ethical values. They also act as motivating factors to achieve the expected ethical behavior and set up a 	<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p>...</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.</p> <p>...</p>	<p>Both the draft IESBA viewpoints and ISQM 1 highlight the use of incentives and related mechanisms.</p> <p>The draft IESBA viewpoints focus on using incentives, disincentives and performance evaluation to promote ethical values and behavior.</p> <p>ISQM 1 focuses on demonstrating a commitment to quality by holding personnel accountable or recognized through timely evaluations, compensation, promotion and other incentives.</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p>“standback” mindset, reducing the risk of unethical behavior.</p>		
<p><u>Incentives Aligned with Ethical Behavior</u></p> <p>4. Incentives that promote and recognize ethical behavior reinforce a firm’s expectations on all partners and staff to act in accordance with the firm’s ethical values and the public interest.</p>	<p>N/A</p>	<p>N/A</p>
<p>5. Rewarding outstanding ethical behavior (such as proactively championing the importance of ethical behavior) by partners and staff, whether through compensation, promotion or other incentives, reinforces the firm’s commitment to ethical values and contributes to the development of ethical leaders.</p>	<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p>...</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.</p>	<p>The draft IESBA viewpoint highlights the role of incentives and disincentives in promoting ethical behavior across the firm and strengthening the firm’s ethical culture.</p> <p>ISQM 1 highlights the role that recognition and accountability play in the design, implementation and operation of the SOQM. It does not specifically focus on the role of recognition and accountability in promoting ethical behavior.</p> <p>The draft IESBA viewpoint focuses on outstanding behavior, i.e. behavior that goes beyond the expected ethical behavior. ISQM 1 focuses on “positive actions or behaviors” (in paragraph A92).</p>

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>...</p> <p>A57 The responses designed and implemented by the firm to hold leadership responsible and accountable for quality include the performance evaluations required by paragraph 56.¹⁹</p> <p>A92. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p>	
<p>6. Factoring the ethical behavior of partners and staff, such as acting with integrity when confronted with difficult situations, into promotion decisions helps firms select partners and staff with the right ethical values and mindset for leadership positions.</p>	<p>A92. Positive actions or behaviors demonstrated by personnel may be recognized through various means, such as through compensation, promotion, or other incentives. In some circumstances, simple or informal incentives that are not based on monetary rewards may be appropriate.</p>	<p>The draft IESBA viewpoint focuses on taking into account a partner's or staff's <i>ethical behavior</i> in promotion decisions.</p> <p>In ISQM, personnel's positive actions or behaviors that demonstrate a commitment to <i>quality</i> may be recognized through promotion.</p>

¹⁹ ISQM 1, paragraph 56 states that: The firm shall undertake periodic performance evaluations of the individual(s) assigned ultimate responsibility and accountability for the system of quality management, and the individual(s) assigned operational responsibility for the system of quality management. In doing so, the firm shall take into account the evaluation of the system of quality management.

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
<p><u>Disincentives</u></p> <p>7. Implementing disincentives reinforces the importance of acting ethically and promotes accountability.</p>	<p>32. The firm shall establish the following quality objectives that address appropriately obtaining, developing, using, maintaining, allocating and assigning resources in a timely manner to enable the design, implementation and operation of the system of quality management:</p> <p>...</p> <p>(b) Personnel demonstrate a commitment to quality through their actions and behaviors, develop and maintain the appropriate competence to perform their roles, and are held accountable or recognized through timely evaluations, compensation, promotion and other incentives.</p>	<p>Both the IESBA viewpoint and ISQM 1 recognize the importance of holding firm personnel accountable.²⁰</p> <p>The IESBA viewpoint focuses on acting ethically. ISQM 1 focuses on personnel's commitment to quality through actions and behaviors.</p>
<p>8. Regularly communicating the consequences of unethical behavior helps deter behaviors that fail to meet the firm's ethical values and expectations.</p>	<p>34. In designing and implementing responses in accordance with paragraph 26, the firm shall include the following responses:</p> <p>(a) The firm establishes policies or procedures for:</p> <p>...</p>	<p>The draft IESBA viewpoint specifically highlights how regular communication about the consequences of unethical behavior deters such behavior and contributes to reinforcing the firm's ethical values and expectations.</p> <p>ISQM 1 recognizes more broadly the importance of the firm having a quality response to communicate any breaches of the relevant</p>

²⁰ Accountability across the firm is the subject of a separate set of IESBA viewpoints.

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	(ii) Identifying, communicating, evaluating and reporting of any breaches of the relevant ethical requirements and appropriately responding to the causes and consequences of the breaches in a timely manner.	ethical requirements and to appropriately respond to the causes and consequences of the breaches in a timely manner.
9. Responding to unethical behavior in a timely, decisive, and fair manner demonstrates to internal and external stakeholders that senior leadership prioritizes ethical behavior as a key performance measure and a strategic objective. This, in turn, contributes to building public trust in the firm.	A119. Matters the firm may address relating to breaches of the relevant ethical requirements include: ... • Determining the appropriate actions to be taken in relation to the individual(s) responsible for the breach.	In appropriately responding to breaches of relevant ethical requirements, ISQM 1 highlights taking action in relation to the individual(s) involved. The draft IESBA viewpoint focuses on the decisive nature of the response and connects this with leadership's prioritization of ethical behavior and the impact on building public trust through its ethical culture.
10. The manner in which firms apply disincentives depends on factors such as the nature of the unethical behavior, including its severity and frequency of occurrence, and the roles of the offending partners or staff.	A93. The manner in which the firm holds personnel accountable for actions or behaviors that negatively affect quality, such as failing to demonstrate a commitment to quality, develop and maintain the competence to perform their role or implement the firm's responses as designed, may depend on the nature of the action or behavior, including its severity and frequency of occurrence. Actions the firm may take when personnel	The draft IESBA viewpoint focuses on unethical behavior. ISQM 1 focuses on the SOQM holding personnel accountable for actions or behaviors that negatively affect quality.

Firm Culture and Governance – Linkages between Draft IESBA FCG Viewpoints and ISQM 1
 IAASB Meeting (December 2025)

IESBA Viewpoint	ISQM 1	Observations Regarding Connection Between Draft IESBA Viewpoints and ISQM 1
	<p>demonstrate actions or behaviors that negatively affect quality may include:</p> <ul style="list-style-type: none"> • Training or other professional development. • Considering the effect of the matter on the evaluation, compensation, promotion or other incentives of those involved. • Disciplinary action, if appropriate 	