

### Firm Culture and Governance – Cover Note

#### Objective

The objective of the discussion in December 2025 is to:

- (a) Update the Board on the progress of the International Ethics Standards Board for Accountants' (IESBA) Firm Culture and Governance (FCG) project;
- (b) Update the Board on the Coordination activities between the IAASB and IESBA; and
- (c) Obtain the Board's views on the matters in (a) and (b) above.

#### Introduction

1. In the June and September 2025 IAASB meetings, the IESBA Staff provided the IAASB with an update on their FCG project. Given the importance of close coordination on this project, IESBA staff will regularly join IAASB meetings to keep the IAASB informed on the progress and obtain the IAASB's feedback on identified matters.

#### Materials Presented

2. This paper sets out the following:
  - **Part A:** Contextual Matters.
  - **Part B:** Coordination Activities.
  - **Part C:** Way forward.
3. This agenda item includes the following appendices and other agenda items:

<b>Appendix 1</b>	Overview of the IAASB's Project Team
<b>Appendix 2</b>	Coordination relating to Agenda Item 10-A
<b>Agenda 10-A<sup>1</sup></b>	Linkages between Draft IESBA FCG viewpoints and ISQM 1 <sup>2</sup>

#### IESBA Materials Presented

4. IESBA's FCG Project Team presented the following papers to the IESBA for their December 2025 meeting, which are available on the IESBA meetings webpage:
  - Agenda Item 3 – [Cover Note](#)
  - Agenda Item 3-A – [Draft Contextual piece](#)
  - Agenda Item 3-B – [Draft overarching piece](#)

<sup>1</sup> **Agenda Item 10-A** of the IAASB December 2025 meeting is a replica of **Agenda Item 3-D** of the IESBA December 2025 meeting.

<sup>2</sup> International Standard On Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

- Agenda Item 3-C – [Draft IESBA viewpoints](#)
  - Agenda Item 3-D – [Linkages between IESBA FCG Viewpoints and ISQM 1](#)
  - Agenda Item 3-E – [Plan for Targeted Outreach and Additional Materials or Initiatives in Q1-Q2 2026](#)
5. The IESBA also discussed the FCG project in its October 2025 mid-quarter call. For that call IESBA's FCG Project Team presented the following papers to the IESBA, which are available on the IESBA meetings webpage:
- Agenda Item 1 – [Cover Note](#)
  - Agenda Item 1-A – [Draft Contextual piece](#)
  - Agenda Item 1-B – [Draft overarching piece](#)
  - Agenda Item 1-C – [Revised Draft Principles – Incentives and Disincentives](#)<sup>3</sup>

## Part A: Contextual Matters

6. As noted in Agenda Item 8 of the IAASB September 2025 meeting, IESBA decided in its June 2025 meeting to re-sequence the standard-setting and non-authoritative material workstreams of its FCG project. The resequencing involves the IESBA:
- a) Developing a plan for practical guidance and other initiatives in 2026 to create awareness and dialogue among stakeholders around the elements of the FCG framework, and help firms foster an ethical culture that supports long-term public trust in all their services and activities; and
  - b) With a view to determining by June 2026 how best to approach the development of the FCG framework, developing by December 2025 a set of IESBA FCG viewpoints (IESBA viewpoints) on each of the eight elements of an FCG framework for purposes of further engagement with stakeholders in Q1–Q2 2026.
7. In its papers for the December 2025 meeting, the IESBA highlights that the resequencing did not mean that it had abandoned the standard-setting workstream. Instead, the resequencing will create space for the IESBA to:
- a) Analyze the input it has collected from its extensive information-gathering activities on the topic, including the research and other fact-finding as summarized in the Working Group's [final report](#) (January 2025) as well as the global roundtables and other stakeholder outreach in Q1–Q2 2025;
  - b) Distill from this analysis the essential, consensus-driven messages the IESBA heard from stakeholders concerning the eight elements of the FCG framework; and
  - c) With the benefit of its own perspectives and reflections on the outputs from (a) and (b), develop and refine a series of IESBA viewpoints on the FCG elements by December 2025, which it will then use as a basis for further discussion with stakeholders in Q1–Q2 2026.

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<sup>3</sup> For the October 2025 IESBA meeting, IESBA's FCG Project Team proposed to develop and refine a series of "IESBA viewpoints" into draft principles on the FCG elements. Based on the feedback received, it was decided to continue to refer to them as viewpoints.

8. Through the engagement with stakeholders around the IESBA viewpoints in Q1–Q2 2026, the IESBA will:
  - a) Seek their feedback on the usefulness, clarity, implementability and proportionality of the IESBA viewpoints; and
  - b) Explore which of those IESBA viewpoints could evolve into draft FCG principles or guidance, forming a framework to guide firms' efforts to build and sustain a strong ethical culture and related governance practices.

Whether some of the IESBA viewpoints could evolve into draft FCG principles will depend on whether there is a broad consensus among stakeholders that they are fundamental levers to promote ethical culture and can do so effectively without necessarily requiring prescriptive requirements.

9. As part of the engagement with stakeholders around the IESBA viewpoints, the IESBA will also seek feedback on how best to approach the development of the FCG framework, including its content, presentation, authority and location.<sup>4</sup>

## Part B: Coordination Activities

10. Since the September 2025 IAASB meeting, as part of the ongoing coordination efforts, Staff and Project Board Member met twice with IESBA representatives, including Channa Wijesinghe (IESBA Vice Chair), Rich Huesken (IESBA Member) and IESBA Staff (together referred to as IESBA representatives). In these meetings IESBA representatives provided an update on the project and the materials to be presented at the IESBA's October 2025 and December 2025 meetings were discussed. In addition, the IESBA FCG Project Team and IAASB Project Team met throughout the quarter to facilitate effective and efficient coordination, including the involvement of both Boards' Program and Senior Directors in providing direction and input.
11. Among other matters, in the coordination meetings, the following matters were discussed:
  - a) The draft IESBA viewpoints; and
  - b) The linkages between the draft IESBA viewpoints and ISQM 1.

## Draft IESBA Viewpoints

12. IESBA's FCG Project Team has drafted eight sets of IESBA viewpoints relating to the eight elements of the FCG framework (see **Agenda Item 3-C** of the IESBA December 2025 meeting), being:
  - a) Ethical leadership;
  - b) Oversight and governance;
  - c) Provision of independent input;
  - d) Accountability across the firm;
  - e) Incentives and disincentives;
  - f) Open discussion and challenge;
  - g) Education and training; and

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<sup>4</sup> That is, whether the FCG framework should be incorporated into the Code

- h) Transparency.
- 13. As noted in IESBA's Contextual paper (see **Agenda Item 3-A** of the IESBA December 2025 meeting), the IESBA viewpoints are intended to be high-level but actionable. However:
  - a) Some of them recognize that their application will vary depending on various factors.
  - b) The IESBA viewpoints do not include practical examples or specify any processes. The IESBA plans to develop supporting materials in 2026 to complement the IESBA viewpoints and provide practical guidance to help firms take steps towards strengthening their ethical culture.
- 14. The draft IESBA viewpoints reflect the fact that building and sustaining an ethical culture in a firm is a long-term commitment that extends to all levels of the firm. Importantly, they recognize the special responsibility of senior leadership of the firm, given their central role in driving a strong ethical culture, regardless of the size of the firm and the types of professional services provided and clients served.
- 15. In terms of applicability, the draft IESBA viewpoints:
  - a) Are intended to be scalable and proportionate, given the wide diversity of firms, the types of clients they serve and the types of services they provide. Where relevant, the draft IESBA viewpoints incorporate specific scalability and proportionality considerations.
  - b) Are relevant to firms operating on their own or as part of a network. It will be important for network firms to apply the key characteristics reflected in the draft IESBA viewpoints consistently across the network, irrespective of changes in their ownership or structure, while recognizing the need to take into account local context.

#### *Coordination*

- 16. The IAASB Project Team and Project Board Member have provided comments to IESBA's FCG Project Team on the eight IESBA viewpoints. The IAASB Project Team and Project Board Member shared various suggestions on the eight Viewpoints, including suggestions on how the wording in the Viewpoints could be further aligned with ISQM 1. These comments have been taken into account by the IESBA FCG Project Team.

#### **Linkages between the Draft IESBA Viewpoints and ISQM 1**

- 17. As noted in IESBA's Contextual paper (see **Agenda Item 3-A** of the IESBA 2025 December meeting), the IESBA recognizes that there is an important question regarding the nature and extent of the linkages between the FCG framework and ISQM 1, given that the latter speaks to some aspects of FCG as they relate to designing, implementing and operating a system of quality management.
- 18. In response to this question, the IESBA representatives have developed, in coordination with the IAASB Project Team and Project Board Member, a paper that explains at a high level the linkages between the draft IESBA viewpoints and ISQM 1 (see "*Coordination*" below).

#### *Coordination*

- 19. Throughout the coordination with IESBA's FCG Project Team, the IAASB Project Team and Project Board Member have highlighted the importance of explaining the linkages between the IESBA viewpoints and ISQM 1 (see **Agenda Item 8**, paragraph 23 of the IAASB September 2025 meeting) because of recurring questions from stakeholders in this regard. The IAASB's Project Team and

Project Board Member continued to share this view with IESBA's Project Team after the September 2025 IAASB meeting.

20. In response to calls from a number of stakeholders as well as IESBA and IAASB members, the IESBA representatives have prepared the linkage paper (**Agenda Item 10-A** of the IAASB December 2025 meeting) which explains at a high level the linkages, as well as key differences, between the draft IESBA viewpoints posted for the IESBA December 2025 meeting and ISQM 1. This involved input from and discussion among the two project teams, the Program and Senior Directors, and the IESBA Board Advisors and IAASB Project Board Member. It was agreed that the paper would include for two of the eight IESBA viewpoints (ethical leadership, and incentives and disincentives) a comparison between the draft IESBA viewpoints and ISQM 1.
21. As highlighted in paragraph 16 of **Agenda Item 3-E** of the IESBA December 2025 meeting, the IESBA FCG Project Team has proposed that further comparison work with ISQM 1 resumes only after a draft FCG framework has been developed, given that **Agenda Item 10-A** provides a sufficient illustration of how the draft IESBA viewpoints and ISQM 1 interact and differ from each other.
22. Given comments from firms and others on the linkages between the IESBA viewpoints and ISQM 1 during the development of the IESBA viewpoints, the IAASB Project Team and Project Board Member noted that some stakeholders (especially firms who have implemented ISQM 1) may still want to reflect on the linkages between the IESBA viewpoints on the six other elements of the FCG framework and ISQM 1 as they may see the eight sets of IESBA viewpoints as a package and would like to understand the collective impact.
23. See **Appendix 2** for more details relating to the coordination as it relates to **Agenda Item 10-A**.

**Matters for IAASB Consideration:**

1. Board members are asked to share their observations based on the update received from IESBA Staff on the progress of the IESBA FCG project.
2. The Board is asked to share their views on:
  - (a) The coordination activities undertaken; and
  - (b) The paper that discusses the linkages between the draft IESBA viewpoints and ISQM 1 (**Agenda Item 10-A**), including:
    - (i) Whether the appendix to **Agenda Item 10-A** is useful in illustrating the linkages, as well as key differences, between the draft IESBA viewpoints and ISQM 1; and
    - (ii) Whether there is value in preparing a similar comparison for the remaining six sets of IESBA viewpoints before the IESBA has developed a draft FCG framework (see paragraphs 20–22 above).

## Part C: Way Forward

24. The IESBA plans to agree on the draft IESBA Viewpoints (**Agenda Item 3-C** of the IESBA December 2025 meeting), the draft contextual piece (**Agenda Item 3-A** of the IESBA December 2025 meeting) and the draft overarching piece (**Agenda Item 3-B** of the IESBA December 2025 meeting) in its December 2025 meeting.

25. During Q1–Q2 2026, the IESBA will continue to raise awareness of the FCG project and dialogue with stakeholders about the IESBA viewpoints through:
  - (a) Targeted engagement with stakeholders using the IESBA viewpoints as a tool for these outreach activities; and
  - (b) The development of additional materials or initiatives (see **Agenda Item 3-E** of the IESBA December 2025 meeting).
26. In June 2026 the IESBA will determine how to best approach the development of the FCG framework.
27. The IAASB Project Team and Project Board Member will continue to liaise with the IESBA FCG Project Team throughout Q1–Q2 2026 to be informed about matters related to the linkages between ISQM 1 and the IESBA viewpoints or the FCG Framework.

## Appendix 1

### Project Team Members and Activities

1. Information about IESBA's FCG project can be found [here](#).

#### Project Team Member

2. The Project Team consists of the following member:

- Jasper van den Hout

#### Project Board Member

3. The IAASB Project Board Member is:

- Greg Schollum (Supported by Misha Pieters)

#### Activities in the Period

4. Since the June 2025 IAASB meeting, the Project Team met every three weeks with the Project Board Member virtually.
5. As noted in paragraph 10 above, Staff and Project Board Member met twice since the September 2025 IAASB meeting with IESBA representatives.

## Appendix 2

## Coordination Relating to Agenda Item 10-A

## Messaging and Technical Aspects in the Linkages Paper

1. The IAASB's Project Team and Project Board Member had extensive engagement with IESBA's FCG Project Team on the messaging and technical aspects in the paper (see **Agenda Item 10-A** of the IAASB December 2025 meeting) explaining the linkages between the draft IESBA viewpoints and ISQM 1, including the appendices explaining the linkages between the draft IESBA viewpoints on Ethical Leadership and Incentives and Disincentives, and ISQM 1. The discussions focused on:
  - (a) The messaging in the paper. The IAASB's Project Team and Project Board Member and the IESBA's FCG Project Team discussed the messaging of **Agenda Item 10-A** and agreed that, 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. In that regard the paper highlights both areas where there are differences between the draft IESBA viewpoints and ISQM 1 and the linkages between a firm's ethical culture and its system of quality management.
  - (b) Technical aspects related to the linkages, as well as the key differences, between the draft IESBA viewpoints on ethical leadership and incentives and disincentives to ISQM (see the appendix to **Agenda Item 10-A** of the IAASB December 2025 meeting). The IAASB's Project Team and Project Board Member and the IESBA's FCG Project Team discussed, and agreed on, which paragraphs of ISQM 1 link to the paragraphs in the draft IESBA viewpoints on ethical leadership and incentives and disincentives.

The IAASB's Project Team and Project Board Member and the IESBA's FCG Project Team also discussed how to best describe the observations regarding the connection between the IESBA viewpoints and ISQM 1 (see the right-hand column of the appendix to **Agenda Item 10-A** of the IAASB December 2025 meeting) and agreed that it was best to remain factual.

## Alignment with ISQM 1

2. In paragraph 23 of Agenda Item 8 of the IAASB September 2025 meeting, the IAASB's Project Team and Project Board Member noted the importance of aligning the wording in the draft IESBA viewpoints with ISQM 1. In that agenda item it was noted that "even though one of the drafting principles is that the Viewpoints do not reference existing FCG-related provisions, either in the IESBA Code<sup>5</sup> or ISQM 1, the IAASB's Project Team and Project Board Member noted that questions will likely remain on how the Viewpoints link to ISQM 1. Therefore, it was recommended to align the wording in the Viewpoints and leverage concepts already included in ISQM 1, even if the concepts are not referenced in the Viewpoints, as this may avoid confusion in the marketplace."
3. In developing the draft IESBA viewpoints, the IESBA's FCG Project Team took into account this feedback, endeavoring to align wording in the draft IESBA viewpoints to relevant wording in ISQM 1 to the extent possible. However, in the development of the appendix to **Agenda Item 10-A**, the

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<sup>5</sup> IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code)



IAASB's Project Team and Project Board Member have not specifically focused on the alignment of the wording in the draft IESBA viewpoints with ISQM 1, because the IESBA viewpoints are meant to be tools for stakeholder engagement in Q1–Q2 2026 and they are not the FCG framework. However, if the IESBA decides to use the IESBA viewpoints as the basis for a FCG framework, the IAASB's Project Team and Project Board Member are of the view that alignment in wording to the greatest extent possible will remain important.