



IESBA

International Ethics Standards Board for Accountants
AN IFEA BOARD

Update on IESBA's Firm Culture & Governance Project

IAASB Meeting

September 15, 2026

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Recap: Public Interest Objective

Problem Statement

- Persistent high-profile cases of unethical behavior in accounting firms & their adverse impacts on stakeholders and on reputation of, and public trust in, the profession
 - Requests for IESBA to consider a strategic and constructive response in 2023

Public Interest Objective of the Project

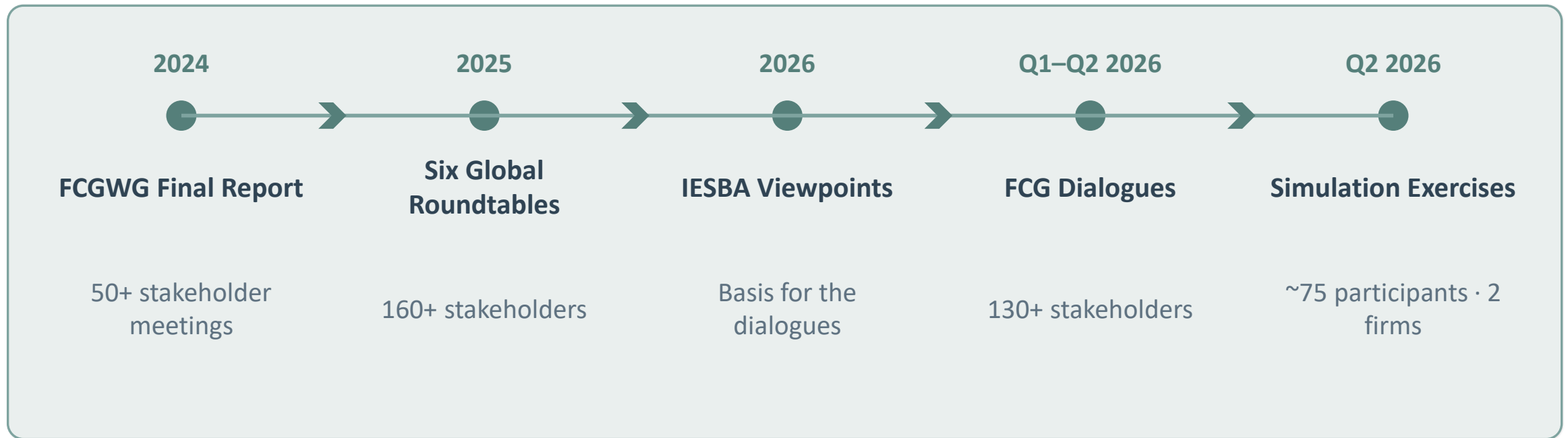
To strengthen the ethical foundations of accounting firms by fostering organizational cultures and governance arrangements that consistently support ethical behavior and high-quality professional judgments, thereby better protecting the public interest

IESBA's Action and Response

- To develop a global culture and governance framework that can help firms build and sustain a strong ethical culture across the whole firm
 - Gather a robust evidence base to support development of such framework

Journey to Date

EXTENSIVE EVIDENCE INCLUDING STAKEHOLDER INPUT GATHERED OVER 2.5 YEARS



A progressively stronger, cumulative evidence base, to support the Board's deliberations and decisions

IESBA June 2026 Decision to Anchor FCG in the Code



Key Considerations for Proposed FCG Framework

1 CROSS-CUTTING CONSIDERATIONS FOR THE PROPOSED PROVISIONS

ENFORCEABILITY

Clear accountability

Clarifies ultimate responsibility for ethical culture and governance

SCALABILITY & PROPORTIONALITY

Fit for different firms

Addresses differences in firm size and complexity

NETWORK FIRMS

Recognize mutual influence

Covers influence between global and network firms, in both directions

2 RELATIONSHIP WITH PEI

PRIVATE EQUITY INVESTMENTS Addressed separately through PE&OEI

FRAME WORK

Applies regardless of legal or ownership structure

MAR 2027

PE&OEI workstream considers FCG implications

CODE

Resulting changes addressed through PE&OEI

H2 2027

Short FCG–PE&OEI publication

IESBA-IAASB Coordination



To help firms that have implemented a system of quality management (SOQM) under ISQM 1 to understand how it can be leveraged to meet the objectives and intended outcomes of the proposed FCG provisions

Since June 2026

- August 2026 IAASB-IESBA coordination meeting: Agreed approach and outcomes on way forward
- Incorporated IAASB representatives' input in draft FCG provisions and preliminary NAM plan

Approach

- FCG and ISQM 1 should be seen as complementary and more holistically taken together, not in competition
- See Linkages paper

Way forward

To accompany ED:

- ☐ High-level explanation in EM: how the FCG framework is intended to interact with and complement ISQM 1 (leveraging Linkages paper)
- ☐ 1-2 pager: linking draft FCG provisions in ED to ISQM 1 provisions

After ED comments received:

- ☐ Reassess, based on comments received, whether additional NAM would be necessary

Proposed Text for Draft FCG Provisions

PROPOSED APPLICATION MATERIAL TO BRIDGE EXISTING AND NEW PROVISIONS IN SECTION 300

- New AM -- serves as bridge & introduction to FCG provisions
- Clarifies role and significance of an **ethical culture and governance** that enable all **personnel** to develop the mindset, behaviors and judgment-making ability to comply with fundamental principles

R300.4 A professional accountant shall comply with the fundamental principles set out in Section 110 and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to compliance with the fundamental principles.

300.4 A1 Compliance with the fundamental principles and the application of the conceptual framework within a firm are influenced by its ethical culture and governance. Such culture and governance play a significant role in shaping the mindset, behaviors and judgments of a firm's personnel.

NEW
DEFINITION



PERSONNEL



Partners
and staff
(for PAPPs)

Leaders and
staff (for
SAPs)

Proposed Text for Draft FCG Provisions

PROPOSED OVERARCHING REQUIREMENT & SUPPORTING APPLICATION MATERIAL IN SECTION 300

- Simple, high-level, principles-based requirement
 - Addressed to the **firm**
 - To **establish and maintain**
 - An **ethical culture and governance** 300.5 A1
- **Ultimate responsibility** for complying with the requirement rests with firm **leadership** 300.5 A2

Ethical Culture and Governance within Firms

R300.5 A firm shall establish and maintain an ethical culture and governance throughout the firm.

300.5 A1 An ethical culture is one that encourages, enables and supports the firm's personnel to comply with the fundamental principles. Governance provides the structures and mechanisms that help shape and reinforce an ethical culture.

300.5 A2 The ultimate responsibility for establishing and maintaining an ethical culture and governance rests with the firm's leadership, such as the senior or managing partner (chief executive or equivalent) and, if applicable, the managing board of partners (or equivalent). However, all personnel have a role in shaping and embodying the ethical culture of the firm.

Proposed Text for Draft FCG Provisions

PROPOSED OVERARCHING REQUIREMENT & SUPPORTING APPLICATION MATERIAL IN SECTION 300

- Identification of the FCG framework underpinned by eight interconnected FCG elements
- Examples of actions under the eight FCG elements that firms might take to comply with the requirement

300.5 A3

300.5 A3 A firm's ethical culture and governance are generally framed by the following eight interconnected elements: ethical leadership, oversight and governance arrangements, independent input, accountability across the firm, incentives and disincentives, open discussion and challenge, education and training, and transparency.

300.5 A4 Actions that the firm might take to establish and maintain an ethical culture and governance include:

- *Ethical leadership:* The firm's leadership setting the tone at the top and every leader at all levels within the firm embodying ethical behavior in their judgments, decisions and actions, thereby setting the expectation for all personnel to comply with the fundamental principles.
- *Oversight and governance arrangements:* The firm's leadership establishing and maintaining arrangements that monitor adherence to the Code and embed ethics in decision-making.

300.5 A4

Ethical leadership

Oversight and
governance
arrangements

Proposed Text for Draft FCG Provisions

PROPOSED OVERARCHING REQUIREMENT & SUPPORTING APPLICATION MATERIAL IN SECTION 300

Proportionality considerations

300.5 A5

300.5 A5 The specific actions under paragraph 300.5 A4 that the firm might take and how they are implemented will vary according to the firm's characteristics and circumstances. Factors to consider include:

- The size of the firm.
- The structure of the firm, for example, the number and geographic location of offices.
- The size and nature of the client base.
- The nature of the professional services provided by the firm.

Such considerations are especially relevant for sole practitioners and small and medium practices when determining:

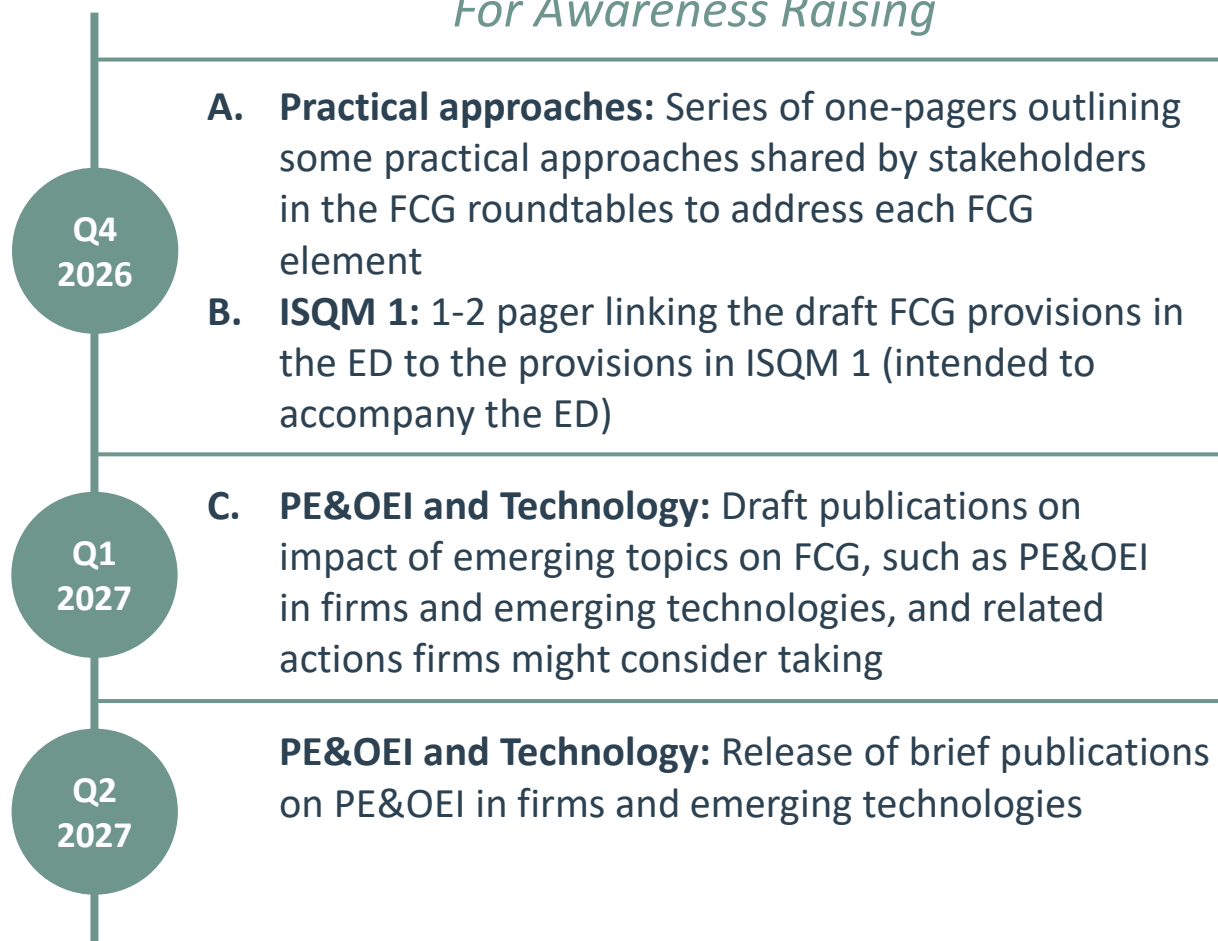
- The type of arrangement(s) for oversight and governance.
- If independent input is sought, the source(s) of that input.
- Whether to publicly disclose relevant information under external transparency.

Preliminary NAM and Other Supporting Materials Plan

INDICATIVE TIMELINE

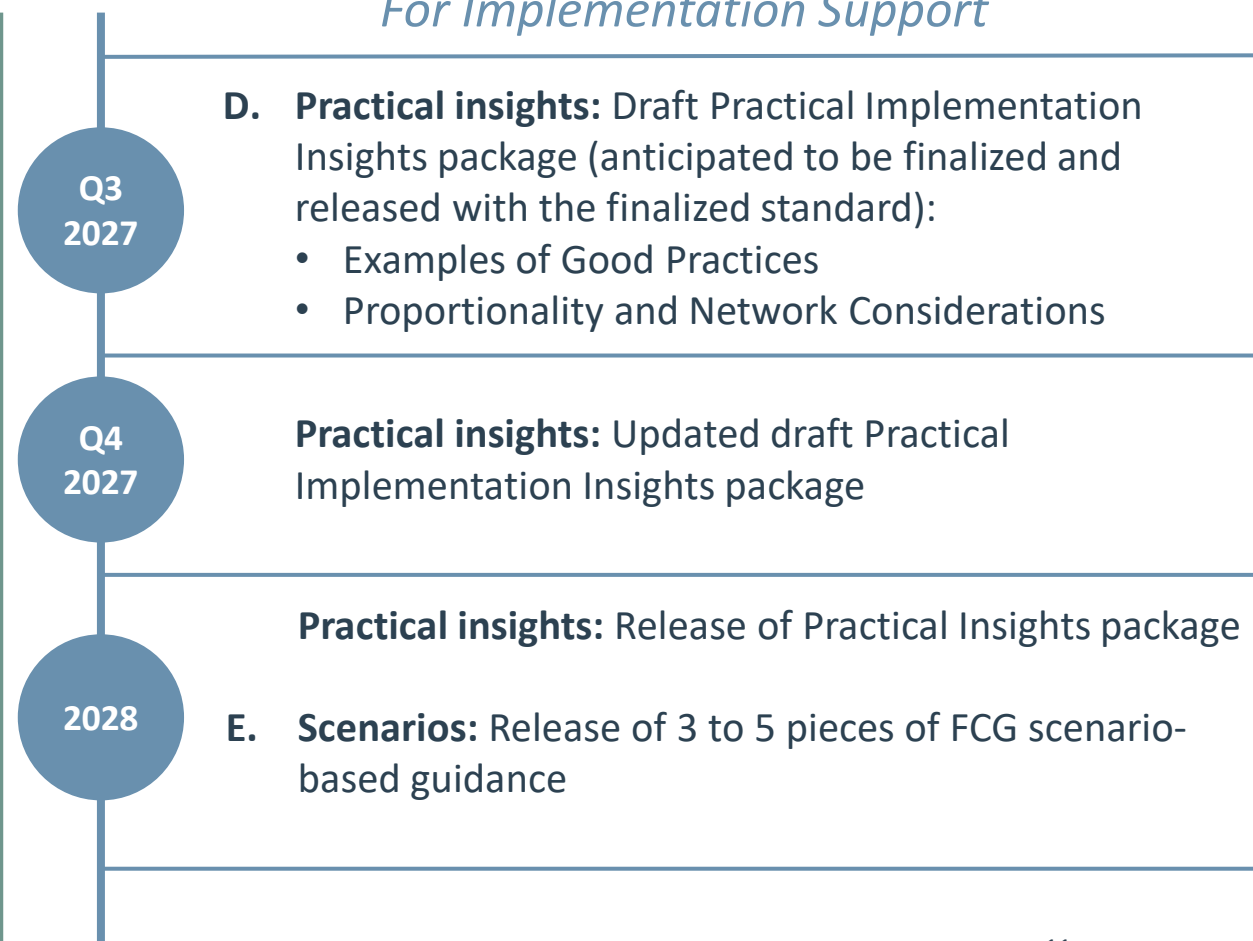
Other supporting materials

For Awareness Raising



NAM

For Implementation Support



Next Steps



October 2026 Board

Taking into account September Board feedback, discuss with Board the Revised text for draft FCG provisions



Q4 Stakeholder outreach

For example:

- UAG
- IOSCO C1
- IFIAR SCWG
- CEA OB
- JSS
- FOF
- SAC



December 2026 Board

Anticipated approval:

- Proposed text for Exposure Draft
- Exposure Draft package
 - ☐ Draft Explanatory Memorandum
 - ☐ NAM and other supporting materials action plan



Questions?

IAASB members are asked for any comments or questions in light of the update

APPENDIX

For reference only – full text of proposed provisions in the Code (excluding consequential and conforming amendments)

Proposed text for draft FCG provisions

PROPOSED CROSS-REFERENCE FROM SECTION 120 TO THE SPECIFIC PROVISIONS IN SECTION 300

- Mirrors extant pointer to ISQM 1 in Section 120
- Cross reference covers overarching requirement and supporting AM
- Wording aligned with proposed requirement in Section 300

Considerations Relating to Ethical Culture and Governance within Firms

120.14 A1 Paragraphs R300.5 to 300.5 A6 set out a requirement and application material relating to the establishment and maintenance of an ethical culture and governance throughout a firm.

Considerations for Audits, Reviews, Other Assurance and Related Services Engagements

Firm Culture

120.4415 A1 ISQM 1 sets out requirements and application material relating to firm culture in the context of a firm's responsibilities to design, implement and operate a system of quality management for audits or reviews of financial statements, or other assurance or related services engagements.

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PROPOSED OVERARCHING REQUIREMENT & SUPPORTING APPLICATION MATERIAL IN SECTION 300

- Examples of actions (cont'd)

- Independent input: For significant strategic, governance and business decisions of the firm on matters involving the public interest, considering obtaining input from individual(s) who are impartial and free from actual or perceived conflicts of interest with respect to such matters.
- Accountability across the firm: Setting clear expectations for all personnel to act ethically in accordance with the fundamental principles and holding all personnel responsible for meeting those expectations.
- Incentives: Designing and implementing performance evaluation and compensation practices that consider ethical behavior alongside financial targets and do not motivate personnel to act unethically.
- Disincentives: Deterring unethical behavior and responding to it in a consistent and timely manner with appropriate measures and consequences.

Independent
input

Accountability

Incentives

Disincentives

Proposed text for draft FCG provisions

PROPOSED OVERARCHING REQUIREMENT & SUPPORTING APPLICATION MATERIAL IN SECTION 300

- Examples of actions (cont'd)

- Open discussion and challenge: Fostering an environment where personnel feel safe to discuss ethics-related matters, raise concerns or challenge decisions from an ethical perspective without fear of adverse consequences.
- Education and training: Taking appropriate steps to educate and train personnel to develop an ethical mindset that helps them identify and address ethical dilemmas when performing their professional activities.
- Internal transparency: Sharing ethics-related learnings and experiences within the firm to reinforce the importance of ethical behavior.
- External transparency: Considering publicly disclosing relevant information on how the firm demonstrates its commitment to establishing and maintaining an ethical culture and governance throughout the firm.

Open discussion
& challenge

Education &
training

Internal
transparency

External
transparency

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Considerations for network firms

300.5 A6

300.5 A6 For a firm that is a member of a network, a relevant consideration is the impact the network may have on the firm's ethical culture and governance.

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