

Meeting: IESBA

Meeting Location: AICPA Offices, New York

Meeting Date: December 8-12, 2025

Agenda Item

3

Firm Culture and Governance (FCG)

Objectives of the Agenda Item

1. To consider:
 - (a) The draft contextual piece which sets out the background, nature and purpose of the draft IESBA viewpoints on each of the eight elements of an FCG framework (FCG elements) as identified in the [project proposal](#);
 - (b) The draft overarching piece that provides an overview of the eight FCG elements, including their connectivity;
 - (c) The draft IESBA viewpoints;
 - (d) A paper explaining the linkages between the draft IESBA viewpoints and ISQM 1;¹ and
 - (e) The plan for targeted outreach and additional materials or initiatives in Q1-Q2 2026.
2. To agree the draft contextual piece, overarching piece and IESBA viewpoints to be used for purposes of engagement with stakeholders during the first half of 2026 to inform the IESBA's further consideration on how best to approach the development of the FCG framework.

Activities since the October 2025 IESBA Virtual Meeting

3. Taking into account the feedback from the October 2025 IESBA meeting, the project team (PT) met with the Board Advisors² to develop the agenda material for the December 2025 meeting.
4. Further, IESBA representatives met with the following stakeholders to discuss FCG or spoke on FCG at the following events:
 - The International Organization of Securities Commissions Committee 1 (IOSCO C1)
 - The Stakeholder Advisory Council (SAC)
 - The Forum of Firms (FoF)
 - IFAC's Small and Medium Practices Advisory Group (SMP AG)
 - The IESBA-Jurisdictional Standard Setters liaison group (JSS)
 - The Committee of European Auditing Oversight Bodies (CEAOB)
 - Hong Kong Accounting and Financial Reporting Council (HK AFRC) Regional Regulatory Forum 2025

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

² Channa Wijesinghe and Richard Huesken

5. See the **Appendix** for a summary of the feedback received from the stakeholder outreach in Q4 2025.³
6. The PT also met with Christine Shaefer, Ph.D. and Enrique Martínez-González from the consultancy “LiveBothAnd” to explore leveraging their expertise to assist with possible initiatives relating to (a) the IESBA viewpoints in Q1-Q2 2026, and (b) the non-authoritative material (NAM) workstream. The PT will brief the IESBA on this discussion during the session.

Coordination with IAASB

7. As part of the ongoing coordination efforts, the PT and Board Advisors met with IAASB representatives, including Greg Schollum, IAASB Member, Misha Pieters, IAASB Technical Advisor, and IAASB Staff, to:
 - (a) Provide an update on the FCG project; and
 - (b) Discuss the IAASB representatives’ feedback on the agenda materials for the December 2025 IESBA meeting, including a paper explaining the linkages between the draft IESBA viewpoints and ISQM 1.
8. Feedback from the IAASB representatives was considered by the PT when finalizing the agenda materials for the December 2025 IESBA meeting. The PT also reported back to the IAASB representatives regarding how their feedback had been addressed to ensure that the coordination feedback loop is complete.
9. The IESBA will be briefed on the coordination outcomes during the session.
10. Additionally, IESBA Staff will provide a project update at the IAASB’s December 2025 meeting.

Matters for IESBA Consideration

11. On Days 1 and 2 of the meeting, the IESBA will be asked to consider and share views on **Agenda Items 3-A to 3-E**.
12. On Day 5 of the meeting, the IESBA will be asked to agree the draft contextual and overarching pieces, as well as the draft IESBA viewpoints to be used for purposes of engagement with stakeholders during the first half of 2026 (**Agenda Items 3-A to 3-C**).

Materials Presented

Agenda Item 3-A	Draft Contextual Piece
Agenda Item 3-B	Draft Overarching Piece
Agenda Item 3-C	Draft IESBA Viewpoints
Agenda Item 3-D	Linkages between Draft IESBA FCG Viewpoints and ISQM 1
Agenda Item 3-E	Plan for Targeted Outreach and Additional Materials or Initiatives in Q1-Q2 2026

³ The IOSCO C1 and SAC October meetings took place prior to the October 2025 IESBA virtual meeting.

Appendix

Summary of Outreach in Q4 2025

Introduction

1. In Q4 2025, the FCG PT and IESBA representatives engaged with several stakeholders to discuss the ongoing development of the FCG project. The key takeaways from these meetings are provided below.

IOSCO C1 – October 9, 2025

2. Key comments raised by members of IOSCO C1 included:
 - Clear support for the development of an FCG framework.
 - To be clear as to who the intended audience for the draft IESBA viewpoints is, especially from a proportionality perspective.
 - The importance of continued coordination with IAASB.
 - A suggestion for the IESBA to engage with the leadership of the large firms on the topic.
 - To perform a “gap analysis” and address what is not covered by the Code⁴ and ISQM 1.
 - Whether a level of transparency be achieved through some form of reporting.
 - The FCG element of transparency might be relevant to private equity investments in accounting firms, as ethical leadership in the firm needs to balance public interest and private interest.

SAC – October 21, 2025

3. SAC members generally supported the IESBA's direction in focusing on developing a series of principles-based viewpoints and engaging with stakeholders on them, as part of the resequencing of the standard-setting and NAM workstreams. The importance of coordination with IAASB and the need to highlight linkages with ISQM 1 were also emphasized.
4. Other comments raised on the FCG framework and the viewpoints included:
 - Questions around how firms would adopt an FCG framework, whether it would function similarly to corporate governance frameworks, and how the viewpoints would help firms in practice.
 - Suggestions for the IESBA to consider the root causes of past cases of unethical behavior and how those connect to ethical culture.
 - The importance of addressing incentives and accountability, and the need for ethics to be embedded throughout a firm.

FoF – October 28, 2025

5. Key comments from FoF participants included:

⁴ The IESBA's [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#)

- If the FCG framework were to be incorporated into the Code, there would be potential complexity in terms of who within a firm it would apply to, as well as in translating the principles into responsibilities of each individual.
- Using clear terminology is crucial to avoid stakeholder confusion around whether the viewpoints are referring to a standard.
- The importance of care in distilling and synthesizing feedback and suggestions from different stakeholders, including using anecdotal information without all the relevant facts.
- It would be helpful to understand how the viewpoints would address the root causes of unethical behavior.
- Suggestions for the IESBA to speak with firm leaders involved with ISQM 1 implementation, and to convene a meeting among the IESBA, firms and regulators to share perspectives.
- A few views that the FCG framework would be of value to the whole profession given the IESBA's authority and global remit.
- The importance of articulating the principles so that they are operable and not impediments to firms adopting the FCG framework.
- Questions over:
 - The relationship between the FCG framework and ISQM 1 and how they work together.
 - What the viewpoints on transparency are suggesting regarding external disclosures, for example, whether firms need to produce transparency reports.
 - Why the viewpoints on incentives and disincentives seem to suggest there is a spectrum of ethical behavior, when in fact individuals are either ethical or unethical.
 - How the incentives viewpoints will cover individuals within firms who are not professional accountants, especially given the increasing trend of private equity investment in firms in some jurisdictions.

IFAC's SMP AG – October 31, 2025

6. Key comments from IFAC SMP AG participants included:

- It will be important to provide stakeholders with a clear understanding of what the FCG framework is, its authority, and whether it will be inside or outside the Code.
- Questions over whether the viewpoints or FCG framework:
 - Would fall under "other IESBA pronouncements," which are recognized under IFAC's SMO 4.⁵
 - Are part of the standard-setting or NAM workstream, and what the due process around the development of an FCG framework would be, including whether the FCG framework would still be released for public consultation even if it is NAM.

⁵ All IFAC member bodies are required to comply with [IFAC's Statement of Obligations \(SMOs\)](#). SMO 4 sets out the requirements of an IFAC member organization with respect to the IESBA Code. SMO 4 requires adoption and implementation of standards no less stringent than the IESBA Code (paragraph 17 of the Preface to the SMOs). The current reference point for compliance with SMO 4 is the 2018 version of the Code.

- Would address the root causes of ethical failures.
- Would add much to the Code given that the Code is already quite comprehensive.
- Concerns that an FCG framework may be disproportionate to SMPs.
- In the context of private equity investment in accounting firms, whether senior leadership includes individuals from the private equity organization.

JSS – November 3, 2025

7. There was broad agreement around the importance of culture and governance, including the importance of senior leadership and tone at the top. Key comments from JSS participants included:
- The importance of clarity around the nature of the documents, the project direction and any associated due process.
 - Questions over:
 - The root causes of ethical failures in accounting firms.
 - Whether something is missing in the Code that an FCG framework would fill.
 - How an FCG framework would interact with ISQM 1.
 - Whether the project is within the IESBA's remit and how an FCG framework, as a whole-of-firm framework, would be enforced.
 - Whether the viewpoints are measurable and actionable.
 - The types of questions the IESBA intends to ask during stakeholder outreach.
 - Whether the IESBA would consider removing some content in the Code relating to ethical culture, if new material were to be created on the topic.

CEAOB – November 5, 2025

8. CEOB members agreed on the importance of the FCG project, and that ethical culture is a prerequisite to audit quality.
9. There was clear support for the direction of travel for the project, and agreement that the viewpoints are a good start to provide the appropriate messages around how to establish a strong ethical culture.
10. Key comments from CEOB members also included:
- Questions around the content of an FCG framework, whether the end product is a NAM or a standard, and how it would achieve the objective of changing culture and governance.
 - The importance of coordination with IAASB and highlighting the connection with ISQM 1.
 - An observation that although some accounting firms are separating their audit, tax and consulting businesses, these separated business lines should be considered as being part of the same network when considering FCG.
 - Enforceability is an important consideration for audit regulators.

HK AFRC's Panel on Governance and Culture, the Role and Auditors and Audit Committees – November 10, 2025

11. IESBA's work to date on FCG was shared, including what the critical aspects of a firm's culture are, and how governance mechanisms can contribute to building such a culture.
12. Another panelist representing a firm spoke about the importance of firm culture and governance, including ethical leadership, and open discussion and challenge. The panelist shared how their firm is exploring independent non-executives (INEs) and incorporating incentives and disincentives in their approach to ethical culture.