

## Note to IESBA:

**Agenda Item 1-A** corresponds to the draft “contextual piece” and explains the context and purpose of the draft IESBA FCG principles.

See **Agenda Item 1-B** for the draft “overarching piece” which explains the importance of ethical culture and the connectivity between the eight FCG elements.

## I. Background

1. In December 2024, the IESBA approved a [project proposal](#) to develop an accounting firm culture and governance (FCG) framework that promotes, supports and reinforces a high standard of ethical behavior by a firm's leadership, other partners and staff across all of the firm's services, thereby helping the firm develop a reputation as a highly ethical firm, mitigate the risks of unethical behavior and strengthen public trust and confidence in all of its services. The project proposal anticipated that an exposure draft would be approved by the end of 2025. The IESBA also agreed to initiate a separate workstream to develop non-authoritative materials (NAMs) that would complement the output of the standard-setting project.
2. The IESBA's decision to launch the standard-setting project was based on the extensive fact-finding work its FCG Working Group had undertaken over the course of 2024 and the Working Group's conclusions and recommendations as embodied in its [final report](#) to the IESBA.<sup>1</sup> The IESBA took on FCG as a strategic priority following recurrent high-profile cases of unethical behavior in accounting firms in several jurisdictions in recent years that resulted in damaging consequences for individual professional accountants (PAs) and their firms and staff.
3. As the project proposal explained, unethical behavior in a firm can significantly tarnish its reputation, result in the delivery of poor-quality services, and have major adverse impacts on the firm and its employees, the profession, and the public. Further, ethical failures in a firm's consulting service line may impact not only public trust in that service line but also all other service offerings of the firm, including its audit services. In this regard, consulting services, including tax advisory and services provided to government bodies, may also carry high levels of public interest. Additionally, where firms provide services that have banking, other industry or economy-wide effects or impact public services, the firms' actions may have broader impacts on industries and economies, with significant public interest implications.
4. Therefore, ensuring that ethics is a high priority across all of a firm's service lines is essential for the firm to maintain public trust and confidence in its work in the long term. As the project proposal stated, firms should recognize that adherence to the highest ethical standards across all service lines is a

---

<sup>1</sup> The Working Group's charge included, among other matters, gathering an understanding of culture and governance and their impact on compliance with ethical requirements in accounting firms and, where applicable, their networks and developing recommendations to the IESBA. The development of the report was informed by extensive outreach to stakeholders, including regulators and oversight bodies, investors and the corporate governance community, accounting firms, professional accountancy organizations, jurisdictional standard setters (JSS) and the [Stakeholder Advisory Council](#) (SAC), as well as a review of academic literature.

strategic value proposition, and this may be one of the best safeguards against reputational risks from unethical behavior and related consequences.

5. Thus, to facilitate firms operating as ethical firms and thereby mitigate the risk of ethical failure more holistically, it is essential to address not only ethical behavior at the individual level but also the broader organizational issues of ethical culture and governance, including leadership. These broader issues should be considered firm-wide, covering all service lines.

## **II. Resequencing of Standard-setting and NAM Workstreams**

6. As part of the public consultation process to inform the development of the proposed framework as well as the development of NAM, the IESBA embarked on a series of six global in-person and virtual [roundtables](#) in March and April 2025. The roundtable discussions generated rich and diverse perspectives, insights, observations and suggestions<sup>2</sup> regarding the eight elements of an FCG framework identified in the project proposal as fostering an ethical culture: (1) ethical leadership; (2) oversight and governance; (3) provision of independent input; (4) accountability; (5) incentives and rewards; (6) a culture of open discussion and challenge; (7) continuous education and training; and (8) transparency.
7. While there was broad agreement among roundtable participants that fostering an ethical culture requires more than just policy statements or compliance frameworks, there were also mixed views as to whether the IESBA should focus on developing a new standard, with some participants preferring a flexible, principles-based approach centered on NAM.
8. In addition to the global roundtables, the Project Team (PT) and Board Advisors to the PT also conducted additional outreach in Q2 2025, including meetings with the Forum of Firms, the International Forum of Independent Audit Regulators' (IFIAR) Standards Coordination Working Group, the IESBA-JSS liaison group and the International Federation of Accountants (IFAC) Small and Medium Practices Advisory Group. In gathering further input from these stakeholder engagements on the elements of the FCG framework, the IESBA noted support for setting clear expectations for those elements as part of the project. However, the IESBA also heard some questions regarding whether adding new provisions to the Code would be effective in terms of changing behaviors. Some of these stakeholders emphasized the relevance and usefulness of NAM over standard-setting.
9. Alongside the ongoing FCG work, the IESBA also engaged in discussions with the SAC and IESBA-JSS liaison group in Q2 2025 on key trends in the external reporting ecosystem and the potential implications for its standard-setting work.<sup>3</sup> Also in Q2, IFAC and IESBA convened a multi-stakeholder summit on global standards focused on furthering the public interest. Among the key takeaways from these discussions were (1) stakeholders need time to assimilate a number of recently issued standards, and (2) greater priority should be given to developing NAM and other supporting materials as opposed to new standards. In light of this feedback and as part of the mid-cycle review of its Strategy and Work Plan 2024-2027 at its June 2025 meeting, the IESBA determined to slow down standards issuance and devote a greater focus on reinforcing support for adoption and implementation of the Code, among other calibrated adjustments to its forward strategy for 2025-2026.

---

<sup>2</sup> See the [summary of feedback from the global roundtables](#).

<sup>3</sup> The discussion with the SAC was undertaken jointly with the International Auditing and Assurance Standards Board (IAASB).

10. Consistent with this strategic adjustment to the pace of standard-setting and the prioritization of NAM support, and taking into account the mixed feedback from the global roundtables and other outreach in Q2 2025 regarding the standard-setting work, the IESBA agreed in June 2025 to accept the PT's proposal to re-sequence the standard-setting and NAM workstreams. This resequencing involves the IESBA prioritizing a focus on the development of NAM and other supporting materials whilst continuing to explore the best approach to the FCG framework.

### III. From IESBA Viewpoints to Draft Principles of a Strong Ethical Culture

11. In deciding to re-sequence the standard-setting and NAM workstreams, the IESBA made it clear that the resequencing did not mean that it had abandoned the standard-setting workstream.<sup>4</sup> 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 as well as the global roundtables and other stakeholder outreach;
  - (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" into draft principles on the FCG elements by December 2025, which it would then use as a basis for further discussion with stakeholders in Q1-Q2 2026.
12. By taking this measured approach from a process standpoint, the IESBA aims to create the opportunity to socialize those draft principles with stakeholders and obtain their feedback as to the usefulness, clarity, implementability and proportionality of the principles, recognizing the public interest importance of establishing a *consistent*, baseline understanding of the essential *principles of a strong ethical culture* for all firms globally across all their service lines. The IESBA anticipates that by June 2026, with the benefit of further dialogue with stakeholders on the draft principles, it will be in a better position to assess the approach to the authority, presentation and location (i.e., whether inside or outside the Code) of the principles, to be contained in an FCG framework.
13. These draft principles are outcome-oriented and are aimed at supporting, driving and shaping ethical behavior within firms. The operationalization of the principles will differ from firm to firm, depending on factors such as a firm's characteristics, size, types of services rendered and nature of clients served.
14. While work on the draft principles progresses, the PT will also continue working on the development of NAM and other supporting materials or initiatives that will support or complement the FCG principles.

### IV. How the FCG Principles are Drafted

15. The draft principles are drawn from the FCG Working Group's final report and the input received from the extensive stakeholder outreach conducted since the commencement of the project, particularly the six global roundtables held in 2025.

---

<sup>4</sup> See the [June 2025 IESBA minutes](#), pages 10 and 11.

16. While they are intended to be high-level but actionable, the draft principles:
- Include certain organizational matters or factors to facilitate consideration and application of the principles.
  - Do not include practical examples or specify any processes. Implementation approaches will vary from firm to firm. The IESBA plans to develop supporting materials in 2026, such as illustrative examples or case studies, to complement the draft principles and provide practical guidance to help firms take steps towards strengthening their ethical culture.
17. The draft principles are primarily aimed at senior leadership of firms, given their central role in driving a strong ethical culture, regardless of the size of the firm and the types of professional services provided.
18. In terms of applicability, the draft principles:
- Are intended to be scalable and proportionate, given the wide diversity of firms and the types of services they provide. Where relevant, the draft principles incorporate specific scalability and proportionality considerations (e.g., see provision of independent input, and oversight and governance).
  - Are relevant to firms operating on their own or as part of a network. It will be important for network firms to apply the draft principles consistently across the network, irrespective of changes in their ownership or structure, while recognizing the need to take into account local context.
19. The IESBA will coordinate closely with the IAASB as it develops the draft principles as well as on the articulation of the linkage of the draft principles with the provisions of ISQM 1.<sup>5</sup>

---

<sup>5</sup> ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*