

Meeting: IESBA
Meeting Location: New York
Meeting Date: June 8-11, 2026

Agenda Item 2

Firm Culture and Governance (FCG)

Objectives

1. To consider:
 - (a) Key stakeholder feedback from the FCG dialogue series since March 2026;
 - (b) An update on recent coordination activities with the International Auditing and Assurance Standards Board (IAASB);
 - (c) The report on the simulation exercises for the IESBA FCG viewpoints;¹ and
 - (d) In light of the stakeholder feedback from the FCG dialogue series, the Project Team's² (PT's) analysis and recommendation on how best to approach the development of the FCG framework.
2. To determine the way forward regarding the development of the FCG framework.

Activities since the March 2026 IESBA Meeting

FCG Dialogues March to June 2026

3. Building on the launch of the [FCG Dialogues](#) in Asia during January 2026, IESBA members and the PT continued the dialogues with stakeholders on the IESBA FCG viewpoints with the objective of informing the IESBA's deliberations on how best to approach the development of the FCG framework. The dialogues included:
 - Three focus group meetings to gather in-depth feedback on the questions as set out in the [FCG Briefing Note](#), attended by representatives of:
 - The Global Public Policy Committee (GPPC);
 - The IFAC Small and Medium Practices Advisory Group (IFAC SMPAG); and
 - Regulatory and oversight bodies.
 - A multi-stakeholder meeting with participants from the three focus group meetings to advance discussions on how best to approach the development of an FCG framework, leveraging the key feedback from the focus groups.
 - A meeting with the IAASB-IESBA User Advisory Group (UAG) to gather perspectives from investors and other users.

¹ The IESBA FCG viewpoints are contained in the [FCG Dialogues](#) publication.

² The Project Team comprises Kam Leung (IESBA Director and Project Lead), Laura Leal (IESBA Principal) and Joanne Holt (IESBA Senior Manager). The Board Advisors to the Project Team are Channa Wijesinghe (IESBA Vice Chair), Hector Lehuédé (IESBA Member) and Jon Walters (IESBA Member).

- Meetings with institutional stakeholders, including:
 - The International Forum of Independent Audit Regulators' Standards Coordination Working Group (IFIAR SCWG);
 - The International Organization of Securities Commission Committee 1 (IOSCO C1);³
 - The Stakeholder Advisory Council (SAC); and
 - The IESBA-Jurisdictional Standard Setters (JSS) liaison group.
- 4. See the **Appendix** for a summary of the key takeaways from these meetings.
- 5. **Agenda Item 2A** sets out the PT's responses to the key matters raised and suggestions heard, as well as an analysis of possible options for the way forward, with a recommendation for the IESBA to consider.

Coordination with the IAASB and Completion of Linkages Paper

- 6. On March 30, 2026, the complete [linkages paper](#) which compares the similarities and key differences between the IESBA FCG viewpoints and ISQM 1⁴ was published, covering all eight elements of an FCG Framework. The linkages paper was completed in close coordination with IAASB representatives.⁵
- 7. **Agenda Item 2A** also incorporates the IAASB representatives' input with regard to references to ISQM 1.
- 8. Finally, as part of ongoing coordination efforts, IESBA staff will meet with the IAASB representatives in early June 2026 to provide an update on the FCG project.

Simulation Exercises on the IESBA Viewpoints

- 9. In April and May 2026, the PT held simulation exercises on the IESBA viewpoints with two firms – one large firm in Europe and one medium sized firm in Asia – to gain deeper insights as to how the FCG viewpoints might be contextualized and implemented within each firm's environment.
- 10. The report on the simulation exercises is presented as **Agenda Item 2C**. Given that the report was not available before the finalization of the issues paper, the PT's analysis of possible options for the way forward in **Agenda Item 2A** does not incorporate the feedback from the simulation exercises.
- 11. The researchers who facilitated the simulation exercises, Christine Shaefer, Ph.D. and Enrique Martínez-González, will brief the IESBA on the findings from the simulation exercises during the session.

Other Stakeholder Feedback Received During May 2026

- 12. The IESBA received a letter from the Global Accounting Alliance (GAA) setting out comments they offered to the FCG Briefing Note questions. See the **Appendix** for a summary of the feedback received.

³ The IOSCO C1 meeting will take place on June 3, 2026, and an update will be provided at the June IESBA meeting.

⁴ ISQM 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

⁵ Greg Schollum, IAASB Member, Misha Pieters, IESBA Technical Advisor, and IAASB Staff

13. The Joint Stakeholder Survey to inform the Strategy and Work Plan (SWP) for 2028-2031 closed for comment on May 15, 2026. During the session, the PT will share relevant comments from stakeholders who provided perspectives on the FCG project.

Communications and Other Awareness Raising Initiatives

14. The PT, in conjunction with the communications team, also held a series of interviews with representatives of four firms to understand practices already in place that are deemed successful from the perspective of their individual firms. The interviews were included as part of a five-part IESBA LinkedIn newsletter series focused on FCG, with the last newsletter scheduled to be published in early June 2026.

Matters for IESBA Consideration

15. IESBA members are asked to:
- (a) Consider the key takeaways from the FCG dialogue series and other stakeholder feedback received as set out in the **Appendix** and presented during the session;
 - (b) Consider the report on the simulation exercises;
 - (c) Consider the PT's analysis, options presented and recommendation as set out in **Agenda Item 2A**; and
 - (d) Agree the way forward with regard to the development of the FCG framework.

Materials Presented

Agenda Item 2A	Issues Paper
Agenda Item 2B	Proposed Viewpoints to Form Potential Enduring Principles of an FCG Framework
Agenda Item 2C	Report on the FCG Simulation Exercises

Appendix

Key Takeaways From FCG Dialogues and Other Stakeholder Feedback

Focus Group Meeting with Representatives from SMPs – March 25, 2026

1. Generally, overriding concerns about proportionality of an FCG framework
 - Potential implementation costs (e.g., independent input, oversight and governance), especially on top of ISQM 1
 - More documentation expectations
 - Context of increasing regulatory burden
 - Level of public interest significantly lower than for large firms
2. A number of questions, including:
 - Need for an FCG framework as it seems to address problems that have occurred at large firms, not SMPs?
 - Whether ethical failures arise from lack of proper enforcement of existing requirements as opposed to the lack of a framework or rules?
 - Whether implementation of viewpoints will make a real impact?
 - Whether viewpoints already covered by ISQM 1 and the Code?
 - Whether a framework outside the Code would risk being enforced by regulators?
3. However, some openness to limited additions to the Code but not a whole set of new requirements or the detailed VPs
4. Also recognition of:
 - Foundational role of ethical leadership
 - Challenges of enforcement – some regulators have limited staff resources
 - Not having right tone at the top from leadership is a significant root cause
 - Importance of conversations about FCG and having a global view on state of play
5. A number of suggestions for further consideration
 - Exempt SMPs through a size threshold?
 - Adopting a phased approach (e.g., starting with high level guidance, then phasing into the Code in the future); would allow time for adoption and capacity building
 - Disseminating good practices
 - Importance of raising awareness and understanding of the Code
 - Reconsider level of some of the viewpoints – appear too detailed and operational

Focus Group Meeting with Representatives from Regulators and Oversight Bodies – March 26, 2026

6. General support for an FCG framework
 - Global reference point for FCG will support consistency

- Ethical leadership widely seen as the most critical element
 - Ethical culture can help improve attractiveness of the profession
 - General principles should not create a compliance mindset
 - Recognize that improving culture is a slow-moving process
7. ISQM 1 covers aspects of the framework but recognition that FCG is broader than engagement quality; framework will complement ISQM 1
8. Some discussion around enforceability of viewpoints if some were to become enduring principles in the Code
- Current material in the Code on organizational culture is not enforceable as it is only application material
 - Some support for placing framework in the Code for enforceability
 - Some views that enforcing against a failure to maintain an ethical culture is difficult; enforcement really comes after an actual ethical failure; better to incentivize a positive culture
9. Find the right balance – no one right answer
- Options:
 - Hybrid approach – high-level principles as Code baseline combined with NAM as practical guidance for flexibility
 - Phased approach – start with NAM, then codify key principles over time
 - Tiered approach, e.g., only firms doing public interest work; proportionality is key for SMPs
 - Address framework through strengthening ISQM 1; would lead to greater enforceability as ISQM 1 is more widely adopted than the Code
 - Need to be thoughtful about documentation burden
 - Some changes to the Code potentially beneficial but need to be clear what the requirements would look like; guidance on good practices would be helpful and quicker to develop, even if not enforceable
10. Other matters
- Work closely with IAASB
 - Consider addressing developments in (1) private equity investment in firms, and (2) technology as part of the framework

IFIAR SCWG – March 31, 2026

11. The following matters related to the FCG project were discussed:
- The approach to the IESBA's analysis of ethical behavior in firms, for example, whether the link between ethical culture and incentives was studied
 - Whether there has been any study of the impact of external audit inspections on unethical behavior, such as exam cheating

- Whether there are any examples of good practices that firms could apply with respect to incentives
- Whether there is anything significant in the IESBA FCG viewpoints that is missing in ISQM 1 that would warrant a revision of ISQM 1

Focus Group Meeting with Representatives from GPPC – April 14, 2026

12. Acknowledgment of importance of a strong ethical culture in firms
13. Generally, overriding concerns about placing FCG framework in the Code
 - Requirements are rigid; may conflict with local laws, regulations and other frameworks
 - Will drive compliance mindset and more documentation
 - Cost-benefit unclear – extant Code already contains strong principles
 - Firms already contending with significant burden of standards and regulations and challenge of attracting and retaining talent
 - Cultural change best driven from behavioral changes within the firm than through more requirements
14. A number of questions, including:
 - Whether the framework would address the root causes of ethical failures?
 - Whether ethical failures don't simply reflect breaches of the existing Code?
 - Whether inconsistent implementation would lead to more fragmentation?
 - E.g., could firms that are more transparent about their FCG practices suggest they have more ethical issues than firms disclosing less?
15. Much more support to deal with FCG outside the Code
 - Principles-based framework outside the Code can be beneficial, but support with NAM to help educate and train
 - Principles can drive consistency across service lines
 - Global consistency important – fragmentation doesn't serve global firms
 - More flexible for firms of varying sizes and operational structures
 - Significant value in IESBA providing practical NAM
 - Can evolve dynamically and be more timely, e.g., with AI developments
 - Scenario-based materials can help train younger staff but also provide guidance to senior leaders – what does good look like; how to navigate gray areas?
 - Some openness to sharing good practices with smaller firms
 - A caution that some types of IESBA NAM can be treated as quasi-standards
16. A suggestion to engage with PAOs – their buy-in important as they adopt the Code; consider partnering with them to develop practical NAM

17. Drafting of viewpoints needs careful review:

- A view that articulation of public interest rationale in each set of viewpoints seems straightforward
- However, some viewpoints may create implementation challenges and documentation expectations
- A number of views around specific FCG elements and viewpoints, including:
 - Ethical leadership widely supported as foundational
 - Need to better understand expectations created, especially across network firms
 - Principle of independent voice makes sense and it should not be in all circumstances, but recognize practical challenges around recruitment of the right individuals and context of jurisdictional laws and regulations
 - Some perceptions of ethics being presented as binary or a simplistic choice (e.g., “prioritizing ethics”); it’s more that ethics needs to be embedded into the judgment and decision-making processes
 - Does it make sense to reward ethical behavior when it is a baseline expectation?

SAC Meeting – April 28, 2026

18. There was broad support for the objectives of the project. SAC members recognized the importance of ethical culture to audit quality, ethical behavior, independence, public trust, firms’ reputation, and the profession’s social license to operate.
19. SAC members noted that changes in firm structures and ownership models (including as a result of private equity investment), technology, and business models are increasing the importance of strong ethical culture and governance in firms.
20. Specific to the FCG project and the IESBA FCG viewpoints:
- Some SAC members encouraged the IESBA to clarify the scope of the project, including whether the FCG framework is intended to apply across the whole firm or mainly to the audit and assurance practice, and how it would interact with ISQM 1 and existing provisions in the IESBA Code. There was also a question as to whether the IESBA had obtained legal advice about the applicability of the Code to firm personnel who are not professional accountants.
 - There was support for exploring options for the location of the framework but views differed on the appropriate form and authority of the final output. Some SAC members supported incorporation into the Code, while others favored practical guidance, a nonauthoritative framework, or a phased approach before considering whether any of the elements of the FCG framework should become authoritative.
 - Proportionality and scalability were emphasized, particularly for SMPs. SAC members remarked that concepts such as independent input or oversight should be framed flexibly, and cautioned against pursuing governance structures or arrangements that may only be feasible for larger firms.
 - SAC members encouraged the IESBA to further consider the implementability of the IESBA FCG viewpoints, including by clarifying key terminology and focusing on elements that can be applied, assessed or evidenced in practice.

- Incentives and disincentives, accountability, leadership commitment, conflicts of interest, oversight and governance, independent challenge and transparency were identified as important areas for further consideration.
 - SAC members encouraged the IESBA to ensure that the work remains clearly grounded in public interest considerations, including the perspectives of investors and other users of firms' services.
 - There were a few suggestions to revisit the wording of some of the viewpoints as they seemed absolute.
21. From a broader perspective, there was a suggestion that more explicit attention should be given to structural and agency issues in the audit ecosystem, including how firm governance can better support independence, professional judgment and accountability to users.
22. Finally, SAC members also supported continued outreach and evidence gathering before any decision is made on the next phase of the project, including further consideration of root causes, gaps in existing standards, and expected benefits vs. potential costs.

IESBA-JSS Meeting – April 30, 2026

23. General support for the FCG project, with a recognition that it has been welcome in stimulating discussions on FCG
24. There were differences of views on the preferred output to be developed by the IESBA:
- Most participants expressed a preference for materials outside the Code that could be used for education and training and awareness-raising. Examples of such materials that were suggested include self-assessment tools, implementation guides, good practices, and real life scenarios, especially targeting smaller firms.
 - Arguments against standard setting include (i) difficulty of measuring culture and consequent difficulty of overseeing and enforcing an FCG framework, (ii) the potential to create a compliance or check-box exercise, and (ii) the sufficiency of the extant Code in addressing ethical failures. There was also a suggestion not to develop a complex, process-oriented output similar to ISQM 1.
 - An observation that the framework would become regulation in some jurisdictions if it were introduced in the Code. Nevertheless, the viewpoints were seen as logical, aspirational to encourage continuous improvement in FCG, and a useful tool to promote ongoing dialogue on the topic.
 - There was also a view regarding the usefulness of having an FCG framework inside the Code as a tool to make leaders more accountable. In this regard, a JSS participant shared the approach taken in their jurisdiction to ethics and risk management, under which there are ways to measure governance and culture.
 - There was also a suggestion to emphasize the risk of cultural normalization of bad behaviors, and accordingly, the need to address the collective tolerance or inaction by firms through FCG.
25. There was also a request for clarifications regarding the linkages between the IESBA FCG viewpoints and ISQM 1, as well as the meaning of “principles” in the context of an FCG framework as compared to its use in the extant Code.

26. Regarding specific FCG elements and viewpoints:

- Ethical leadership was viewed as foundational.
- The need to take a proportionate approach was emphasized given that high-profile cases of unethical behavior have been more linked to larger firms. In this regard, it was suggested that scalability could be further built in for SMPs with regard to oversight and governance, and independent input.
- Whether ethical behavior should be incentivized as it is a baseline behavior
- A view that some of the FCG viewpoints may be difficult to operationalize as they appear overly rigid

Multi-stakeholder Meeting with Representatives from SMPs, Regulators and Oversight Bodies, GPPC – May 5, 2026

27. Acknowledgement of the importance of a strong ethical culture, including to the attractiveness of the profession.

28. Concerns about introducing a Firm Culture and Governance (FCG) framework and incorporating new requirements in the Code, leading to questions around:

- A root cause analysis to support an FCG framework.
- What “gaps” exist in the Code and ISQM 1 that might warrant changes from a standard-setting perspective with regards to FCG.
- The effectiveness of a potential FCG framework and whether it would have prevented ethical failures.

29. Regarding Question 1 on the potential approaches regarding the location and related authority of an FCG framework:

- Some support for a hybrid approach⁶ which would help to provide a level of enforceability, in addition to guidance to support implementation.
- Some views for and against a phased⁷ approach – it would allow the key principles to be tested before incorporation into the Code; however, there would be no enforceability while the provisions sit outside the Code.
- A threshold approach⁸ (a) would detract from proportionality, as it is about how to implement FCG, not lowering expectations, and (b) could lead to a two-tiered approach to ethics and inconsistent practices across firms and jurisdictions.
- Views that an ISQM 1 approach⁹ would not be appropriate as ISQM 1 alone cannot deal with FCG, although culture is part of it; instead, ISQM 1 and the Code should complement each other.

⁶ A hybrid approach consists of high-level provisions in the Code, complemented by non-authoritative material outside the Code.

⁷ A phased approach consists of guidance outside the Code first, with consideration over time to codifying key principles and/or application material in the Code.

⁸ A threshold approach means the framework would be incorporated into the Code but scoped only to firms that perform “public interest work”.

⁹ An ISQM 1 approach consists of revising ISQM 1 to incorporate more comprehensive material on FCG.

30. A suggestion that being clear about the purpose of the framework will better help inform the approach to developing it.
31. Some views that having a global baseline can help increase consistency of practices across firms, jurisdictions and global networks.
32. Regarding Question 2 on the practical impact of IESBA developing non-authoritative material (NAM) on the topic of FCG and as a vehicle for a global FCG framework:
 - Broad agreement on the significant need for practical NAM to support education and training; a view that insufficient awareness and understanding of the Code's provisions is often a root cause of breaches of the Code.
 - Support for developing NAM such as scenario-based guidance and practice examples showing what 'good' looks like. Views that such NAM would be more impactful in terms of driving individual behaviors, rather than a compliance-oriented framework in the Code that could lead to a box ticking exercise.
 - Regarding the development of NAM, a number of other suggestions for IESBA to consider:
 - Reaching out to PAOs and firms to explore opportunities for collaboration and sharing of good practices.
 - Coordinating with IAASB to ensure interoperability with ISQM 1 (a view that such coordination could assist with the operationalization of ISQM 1 as it is still being implemented).
 - Developing practical guidance on ethical leadership, accountability, and open discussion and challenge.
 - Considering leveraging AI to generate scenarios, including exploring "what if" scenarios in the context of developments such as AI, private equity investment in firms, etc. which are impacting firms' business models.

GAA Letter on the IESBA Firm Culture and Governance Project – May 8, 2026

33. A view that the FCG project is outside of the IESBA's remit and a suggestion that the IESBA focus on ethics standards and NAM for individual PAs and not firms
34. Concern about placing an FCG framework in the Code:
 - Requirements would be prescriptive, impractical, and not proportionate
 - May not meaningfully improve ethical outcomes
 - There are no deficiencies in the Code – the existing fundamental principles are sufficient
 - A root cause analysis was not performed to identify Code deficiencies
35. A recognition that several aspects of firm culture and governance are addressed in the application material in paragraph 120.13 of the Code addressing organizational culture
36. Support for the development of NAM:
 - An opportunity to share lessons learned and practical considerations
 - NAM could be updated more readily as the business environment and societal expectations evolve

- It would be important to be explicit about the status of NAM and its limitations to mitigate the risk that regulators and oversight bodies would treat the NAM as a de facto requirement
37. Openness to sharing examples of scalable practices, especially from an SMP perspective, and offering feedback on whether the guidance is beneficial
38. Regarding the FCG elements and specific viewpoints:
- A view that the FCG elements should be positioned as operational mechanisms for firm leaders to support to ensure adherence to Code's fundamental principles
 - A recognition that the application of the FCG elements may differ based on firm size, structure, service lines, and jurisdiction
 - A view that some elements or aspects of the elements may create disproportionate burdens on SMPs, e.g., independent input, formalized incentive structures, and a separate governance body
 - A view that the use of the term "ethical values" may inadvertently dilute the importance of the Code's fundamental principles

IAASB-IESBA Users Advisory Group – May 12, 2026

39. General agreement that ethical culture and governance are central to firm performance and behavior, ultimately impacting audit integrity and market confidence
40. Support for a set of mandatory, proportionate, high-level principles in the Code that establish a global baseline to strengthen trust, consistency and comparability across firms and to help avoid "ethics washing"
41. Suggestions for the approach to:
- Avoid being overly prescriptive so that firms can implement the principles in a way that fits their structure and context
 - Be mindful of implementation costs for firms, including introducing a documentation burden, so that the principles do not become counterproductive
42. Regarding specific FCG elements:
- Ethical leadership was viewed as foundational. Accountability, incentives, and open discussion and challenge were also highlighted as important aspects of an effective framework
 - Support for external transparency, which was seen as being important for investors and a means of building trust, and in the long term, perhaps a competitive advantage for firms that embrace it. In this regard, there were views that disclosures should focus on describing how firms implement ethical culture and governance in practice, rather than on specific ethical incidents
 - While markets do not expect firms to be free from ethical failures, firms are expected to learn from issues, demonstrate accountability, and show that effective systems and governance are in place