

Firm Culture and Governance (FCG) Proposed FCG Provisions – First Read

Note to IESBA

This paper is set out in three main sections:

- I. Proposed cross-reference from Section 120 to the specific provisions in Section 300
- II. Proposed overarching requirement and supporting application material in Section 300
- III. Extant Code provisions

For sections I to III, the proposed marked-up changes are to the 2025 version of the Code (i.e., the extant Code, including all revisions to the Code which become effective by the end of 2025). Reasons for proposed revisions by the FCG Project Team (PT) and the Board Advisors to the FCG project (BAs) are set out in grey boxes.

In Section III, relevant consequential amendments resulting from the insertion of a new definition (of “personnel”) only cover Parts 3, 4A and 4B. Relevant consequential amendments for Part 5 will be added after the September 2026 IESBA meeting.

In developing the proposed FCG provisions, the PT and BAs first and foremost considered the information gathered and analyzed over the past two and a half years since the FCG workstream was launched. This work involved extensive engagement with a wide range of stakeholders across jurisdictions, and led to:

- The [FCG Working Group's Final Report](#) (2024). The final report was informed by more than 50 stakeholder meetings, including many with senior leaders of stakeholder organizations.
- Six [Global Roundtables](#) (2025), which involved more than 160 stakeholders.

The Working Group's final report and the feedback from the global roundtables in turn led to the development of the [IESBA FCG Viewpoints](#) (2026), which provided the basis for the [FCG dialogues](#) with more than 130 stakeholders in Q1-Q2 2026.

Finally, the stakeholder [feedback](#) on the IESBA FCG viewpoints, ongoing coordination with the IAASB, and the feedback from the [Simulation Exercises](#) (which involved approximately 75 participants from two firms in different jurisdictions in Q2 2026), provided additional input that was considered in the development of the proposed FCG provisions.

The proposed FCG provisions therefore represent a synthesis of the cumulative evidence and stakeholder input gathered throughout the project. They also take into consideration IESBA members' feedback on the illustrative example in Appendix II of [Agenda Item 2A](#) of the June 2026 meeting.

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

SECTION 120

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Other Considerations when Applying the Conceptual Framework

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Organizational Culture

- 120.13 A1 The effective application of the conceptual framework by a professional accountant is enhanced when the importance of ethical values that align with the fundamental principles and other provisions set out in the Code is promoted through the internal culture of the accountant's organization.
- 120.13 A2 The promotion of an ethical culture within an organization is most effective when:
- (a) Leaders and those in managerial roles promote the importance of, and hold themselves and others accountable for demonstrating, the ethical values of the organization;
 - (b) Appropriate education and training programs, management processes, and performance evaluation and reward criteria that promote an ethical culture are in place;
 - (c) Effective policies and procedures are in place to encourage and protect those who report actual or suspected illegal or unethical behavior, including whistle-blowers; and
 - (d) The organization adheres to ethical values in its dealings with third parties.
- 120.13 A3 Professional accountants are expected to:
- (a) Encourage and promote an ethical ~~ethics-based~~ culture in their organization, taking into account their position and seniority; and
 - (b) Exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountants, the firm or the employing organization has a professional or business relationship.

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

- 120.44~~15~~ 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.

Independence

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Proposed new cross reference from Section 120 to Section 300 for an ethical culture and governance within firms under a new proposed subheading. It mirrors the extant pointer to ISQM 1¹ in Section 120. Furthermore, the PT and BAs propose replacing “ethics-based culture” where it is currently used in the extant Code with “ethical culture” to avoid using different terms with the same meaning.

SECTION 300

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300.3 In this Part, the term “professional accountant” refers to individual professional accountants in public practice and their firms.

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General

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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.

As discussed at the June 2026 IESBA meeting, the PT and BAs see merit in locating the new proposed FCG provisions right after extant paragraph R300.4 to make it clear that individual professional accountants' (PAs) compliance with the five fundamental principles in the Code does not occur in isolation from their surroundings but is influenced by the ethical culture and governance of the firm.

Since paragraph R300.4 refers to a PA's compliance with the fundamental principles in Section 110 and the application of the conceptual framework in Section 120, this follows the building blocks approach of the Code by building on the existing high-level material on organizational culture set out in Section 120 (paragraphs 120.13 A1 to A3).

Proposed new paragraph 300.4 A1 serves as a bridge and an introduction to the FCG-focused provisions (see below under a new subheading). It clarifies the role and significance of an ethical culture and governance that enable all firm personnel (i.e., partners and staff per proposed definition below) to develop the mindset, behaviors and judgment-making ability to comply with the fundamental principles.

While a firm's ethical culture and governance can significantly influence individuals' mindset, behaviors and judgments, it does not diminish or replace each individual PA's responsibility to comply with the

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

fundamental principles. This is consistent with the idea reflected in paragraph 60 of the [Role and Mindset basis for conclusions](#)² when the provisions on organizational culture were added in Section 120 of the Code.

Use of the term “personnel”

The term “personnel” is used in the extant Code, although it is not defined. To avoid any doubt as to whether a firm’s personnel include its partners/leaders for the purposes of the FCG-related provisions, the PT and BAs propose adding a new definition of “personnel” to the Glossary that is aligned with the definition used in ISQM 1, i.e. “partners and staff in the firm.” This new definition is added for the purposes of Parts 3, 4 and 5 of the Code since the scope of FCG covers specifically firms/ PAs in public practice. Relevant consequential amendments in Parts 3, 4A and 4B as a result of adding this new definition are also proposed below.

Some FCG-related provisions specifically call out “leadership” in addition to, or instead of, “personnel” (e.g., paragraphs 300.5 A2, 300.5 A4 first bullet, 300.5 A4 second bullet). This is intended to highlight the additional specific expectations applicable to leadership beyond those that apply to a firm’s personnel (including its partners/ leaders) more generally. Examples of the firm’s leadership are set out in paragraph 300.5 A2.

II. PROPOSED OVERARCHING REQUIREMENT AND SUPPORTING APPLICATION MATERIAL IN SECTION 300

SECTION 300

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General

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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.

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,

² “(...) paragraphs 120.13 A1 to 120.13 A2 do not suggest, or are not likely to be perceived as suggesting, that individual PAs can use a poor ethical culture within their organizations as a reason not to comply with the requirements of the Code.”

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.
- *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.
- *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.

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.

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.

At its June 2026 meeting, the IESBA agreed to develop FCG-related provisions within the Code that include an overarching requirement in Section 300 followed by concise application material (AM).

The objectives of having a single, high-level, overarching requirement with supporting AM are to:

- Anchor firm culture and governance in the Code as a baseline globally, allowing for the development of practical guidance outside the Code to support implementation.
- Minimize compliance burdens or costs by avoiding prescriptive provisions, while delivering the authority and global consistency of a framework in the Code.
- Ensure the coherence of the Code by bringing all eight FCG elements together holistically, replacing fragmented existing references.
- Apply FCG globally and proportionately across firms of all sizes and service lines, with scalability built in.
- Complement ISQM 1 by reinforcing the firm's quality objective to demonstrate a commitment to quality through a culture that recognizes and reinforces the importance of professional ethics, values, and attitudes.

New proposed paragraph R300.5 – Overarching requirement

Requirement addressed to the "firm"

The PT and BAs considered whether to draft the requirement addressed to the firm and its leaders and propose addressing it to the firm for the following reasons:

- Having a requirement aimed at the firm is premised on the fact that FCG applies to the firm as a whole, i.e., to all personnel regardless of their position or seniority and service line. This idea is reflected in the wording "(...) *throughout the firm*" – i.e., not only in the provision of professional services, but also across the functional departments of a firm (such as HR, IT, etc.) and in its internal operations.
- While some FCG elements are primarily addressed to firm leadership (e.g., ethical leadership, oversight and governance), others apply to – and require direct involvement by – all personnel working at the firm (e.g., accountability, open discussion and challenge). Referring to a "firm" as the subject of the overarching requirement is wide enough to adequately cover both realities.

- “Firm” is already used on its own in the extant Code as the subject of a requirement, recognizing that different firms will structure and allocate internal responsibilities differently to enable the firm to meet the requirement.³ See, for example, paragraph R310.12⁴ (relating to conflicts of interest in Part 3) and the independence standards. Therefore, it is not a new concept to either firms or local bodies⁵ when adopting, implementing and enforcing IESBA standards.
- Using “a firm” also aligns with ISQM 1’s use of the term “firm” in terms of how firms structure and allocate internal responsibilities, therefore supporting interoperability between both standards, considering their linkages and mutually supportive nature.
- Stating plainly that the requirement is targeted toward the firm as a whole is also aligned with the recommendation in the simulation report, *“From uncertain to certain purpose and audience.”*

Notwithstanding the above, the PT and BAs recognize the importance of being clear as to where the ultimate responsibility rests within the firm for establishing and maintaining an ethical culture and governance – see proposed paragraph 300.5 A2.

Requirement to establish and maintain an “ethical culture and governance”

The PT and BAs propose using both “ethical culture” and “governance” as the objects of the proposed requirement, building on the findings of the Working Group’s final report. To address questions on what an “ethical culture” means in substance, and what the scope of “governance” is in the requirement, both terms are then explained in proposed paragraph 300.5 A1.

Having both terms in the requirement acknowledges the essential role of governance as a conduit for ethical culture. For this reason, the viewpoints highlighted it as one of two key drivers⁶ to building and sustaining a strong ethical culture within a firm, ensuring the effective working of the other six elements in promoting ethical behavior.

Considering “ethical culture” and “governance” as two separate concepts is also aligned with the extant Code which refers to “ethical culture” or “ethics-based culture” and then also includes governance considerations to achieve such ethical culture – see references to processes, policies and procedures in paragraphs 120.13 A2(b) and (c), 200.5 A3 and 300.5 A2. This points to a common underlying premise in both the FCG provisions and the extant Code: that governance is a means of achieving an ethical culture.

³ Paragraph 400.4 explains this point in the context of independence: “(...) *The allocation of responsibilities within a firm will depend on its size, structure and organization. Many of the provisions of this Part do not prescribe the specific responsibility of individuals within the firm for actions related to independence, instead referring to “firm” for ease of reference. A firm assigns operational responsibility for compliance with independence requirements to an individual(s) in accordance with ISQM 1. In addition, an individual professional accountant remains responsible for compliance with any provisions that apply to that accountant’s activities, interests or relationships.*”

⁴ “*When making specific disclosure for the purpose of obtaining explicit consent would result in a breach of confidentiality, and such consent cannot therefore be obtained, the firm shall only accept or continue an engagement if: (...)*”

⁵ The PT and BAs acknowledge that different jurisdictions implement the IESBA standards in different ways, for instance, depending on whether the local laws and regulations recognize a “firm” as a subject of legal rights and obligations.

⁶ The other key driver being ethical leadership.

Use of the verbs “establish and maintain”

The PT and BAs propose using “establish and maintain” as these verbs convey an active and ongoing obligation, the practical meaning of which is articulated through the proposed supporting AM on the eight FCG elements (see proposed 300.5 A4). The use of both verbs also points to several actions that are continuously performed. This is appropriate for an ongoing, day-to-day goal like FCG and its underlying elements.

Other verbs were also considered but were not proposed by the PT and BAs, for instance:

- “embed” or “establish” – which point to an action that is done once and thereby fulfilled.
- “ensure” – which suggests a guarantee and therefore might set challenging compliance expectations.
- “promote” – which, although used in the extant Code within the application material in Section 120 on organizational culture, could be interpreted as merely advocating for or encouraging an ethical culture, without necessarily requiring concrete and sustained action to establish and maintain it.

New proposed paragraph 300.5 A1 – Explanation of “ethical culture” and “governance”

A couple of IESBA members at the June 2026 meeting were of the view that the term “ethical culture” is unclear as determining what constitutes an ethical culture is inherently subjective. Therefore, these IESBA members considered that this term could lead to inconsistent interpretation and application, and so it should be defined. On the other hand, an IESBA member favored not defining it, drawing a parallel with other international frameworks (such as the UN Convention against corruption) which do not define essential terms due to the potential different cultural or legal meanings they might have across jurisdictions. Some participants in the simulation exercises also considered the term unclear.

The PT and BAs note that such term has been used in the Code since 2020 – the extant Code already uses the term “ethical culture” in paragraph 120.13 A2 and “ethics-based culture” in paragraph 120.13 A3 (see above). These provisions were added as a result of the Role and Mindset project. Among other topics, that project elaborated on the importance of organizational culture, particularly *“the importance that a positive internal organizational culture has on the effective application of the conceptual framework (...)”*⁷ For this reason, the PT and BAs propose retaining the term where it is currently used.

To assist with potential interpretation doubts, the PT and BAs propose having a description of both terms in new paragraph 300.5 A1:

The first sentence explains that an ethical culture is: *“...one that encourages, enables and supports the firm’s personnel to comply with the fundamental principles.”* This is aligned with extant paragraph R300.4 from which the FCG provisions herein proposed directly flow. When developing this paragraph, the PT and BAs also considered referencing compliance to the Code but noted that it might imply that any instance of non-compliance with a requirement of the Code means that a firm did not have an ethical culture and appropriate governance, which is not necessarily the case. This is notwithstanding that the firm would have arrangements in place to monitor adherence to the Code’s provisions and be able to identify and rectify instances of non-compliance (see paragraph 300.5 A4 second bullet). The second sentence in proposed paragraph 300.5 A1 clarifies that governance provides the structures and mechanisms that help shape and reinforce an ethical culture.

⁷ See the [basis for conclusions](#), paragraph 53.

New proposed paragraph 300.5 A2 – Ultimate responsibility for the firm’s ethical culture and governance

The proposed requirement is addressed to the “firm” for the reasons mentioned above.

Notwithstanding this, the PT and BAs believe it is important to provide additional clarity regarding the allocation of roles and ultimate responsibility within the firm. Being clear and explicit about “who is responsible for what” contributes to the clarity, implementability and enforceability of the IESBA standards.⁸ This also responds to feedback from the simulation report which indicated some uncertainty regarding who “leaders” are, and the resulting recommendation, *“From uncertain to certain purpose and audience.”* This proposed AM does that in two ways:

The first sentence states who in the firm bears ultimate responsibility for the requirement – and that is the firm’s leadership. In describing who the firm’s leadership is, the PT and BAs were careful to ensure general consistency with existing explicit or implicit references to a firm’s leadership in both the Code and ISQM 1:

- Glossary definition of audit team in the Code: *“...including those at all successively senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent)”*
- Paragraph R524.7 of the Code: *“...an individual who was the Senior or Managing Partner (Chief Executive or equivalent) of the firm...”*
- Paragraph 20 of ISQM 1: *“...to the firm’s chief executive officer or the firm’s managing partner (or equivalent) or, if appropriate, the firm’s managing board of partners (or equivalent)”*

Considering the above, this proposed paragraph articulates, through illustrative guidance, who the firm’s leadership is for the purpose of the FCG provisions, recognizing singular and collective forms of a firm’s leadership.

The second sentence recognizes that, despite such ultimate responsibility resting with the firm’s leadership, there is a more general and diffuse responsibility for all of the firm’s personnel (including its leadership) to contribute to an ethical culture and governance.

New proposed paragraph 300.5 A3 – Identification of the elements of an ethical culture and governance

This AM highlights the elements that underpin an ethical culture and governance. These elements correspond to the eight FCG elements underpinning an FCG framework previously identified in the Working Group’s final report, incorporating the subsequent title adjustments per the viewpoints. It also highlights the fact that all eight elements are interconnected.

The PT and BAs propose a minor adjustment to the title of one of the elements – to add “arrangements” after “oversight and governance.” This is intended to enhance clarity and specificity and to distinguish the arrangements contemplated by this element from the broader concept and role of governance referred to in the requirement and explained in paragraph 300.5 A1. That is:

- R300.5 highlights that “governance” is what the firm must also establish and maintain alongside an ethical culture, as a conduit to the latter.
- 300.5 A1 explains the role of such governance in relation to ethical culture.

- 300.5 A4, element of “oversight and governance arrangements” speaks to a concrete way such governance is operationalized, specifically arrangements for monitoring adherence to the Code and embedding ethics in decision-making.

New proposed paragraph 300.5 A4 – Examples of actions under the elements of an ethical culture and governance

This proposed AM identifies key actions firms might take under each FCG element to establish and maintain an ethical culture and governance. The PT and BAs considered whether paragraphs 300.5 A3 and A4 could be combined for simplicity, given that both refer to the eight elements. However, both paragraphs serve distinct purposes: one identifies the eight elements that collectively contribute to an ethical culture and governance, while the other illustrates key actions a firm might take in relation to each of those elements. Combining both paragraphs could blur this distinction, potentially creating the impression that the actions are descriptions of the elements themselves. It could also reduce clarity as to either the identification of the eight elements or the actions a firm might take under each element.

The PT proposes ten bullets (instead of eight) as two FCG elements – incentives and disincentives, and transparency – include more than one fundamental idea. In addition, the number of bullets proposed below is aligned with the recommendation in the simulation report for “*The minimum amount of elements and viewpoints necessary for a proactive, principles-based framework that serves the user without sacrificing meaning or usefulness.*” For clarity, the title of the relevant FCG element has been added at the beginning of each bullet.

Given that the first two elements are key drivers of ethical culture and governance, the PT and BAs considered it important to identify who is expected to have primary responsibility for achieving the intended outcomes – namely, the firm’s leadership. For the remaining six elements, the PT and BAs deliberately avoided identifying specific individuals as responsible, recognizing that firms may allocate and structure responsibilities for these elements differently based on their circumstances. In addition, certain elements are intended to apply to, or involve responsibilities across, all personnel of the firm (see also extant paragraph 400.4). This is explained in the first sentence in proposed paragraph 300.5 A5.

First bullet

The first bullet highlights the FCG element of ethical leadership, focusing on the importance of the right tone being set at the top by the firm’s leadership (see proposed paragraph 300.5 A2) and all leaders leading by example.

The last part of the sentence (“*thereby ...*”):

- Is responsive to stakeholder feedback which noted that the tone at the top from leaders is essential to create an ethics-inducive environment but that active engagement from the rest of the team is also important.⁹ In other words, leaders are responsible for building the starting point

⁸ These are some of the qualitative characteristics that the IESBA standards should exhibit according to the [Public Interest Framework](#).

⁹ This idea had also been highlighted by respondents to the Role and Mindset exposure draft – see paragraph 56 of the [basis for conclusions](#): “Several respondents were of the view that the responsibility to promote an ethical culture within an organization is not restricted to those at the top. They suggested that the new application material should highlight a PA’s responsibility to promote such culture, irrespective of their role and the prevailing organizational ethical culture.” This feedback was addressed by the IESBA through the inclusion of extant paragraph 120.13 A3(a).

and then staff are expected to follow suit. This feedback highlights that ethical culture and governance are a joint, firm-wide effort – and this idea also supports a requirement addressed to the firm.

- Is aligned with the recommendation in the simulation report, *“From ethical leadership primarily from the top to ethical leadership by all.”*

Second bullet

The second bullet highlights the FCG element of oversight and governance (updated to “oversight and governance arrangements”). It speaks to the establishment and maintenance of arrangements (e.g., systems, mechanisms, processes, policies, procedures, etc.) that act as checks and balances, contributing to the detection and prevention of unethical behavior and ultimately the promotion of ethical behavior through adherence to the Code’s provisions. Although the requirement refers to the fundamental principles, as explained above, this element speaks to the firm having arrangements in place to identify and rectify instances of non-compliance with any of the Code’s requirements in order to promote ethical behavior and deter unethical behavior.

This bullet also clarifies that the responsibility for setting up and maintaining the oversight and governance arrangements rests with the firm’s leadership (see proposed paragraph 300.5 A2). This builds on viewpoint B4.

Stakeholders – including small and medium practices (SMPs) at the March 2026 focus group meeting within the FCG dialogues – highlighted that proportionality is an important consideration for this FCG element. See proposed paragraph 300.5 A5 which is dedicated to proportionality and includes a bullet on oversight and governance (based on viewpoint B7).

Third bullet

The third bullet highlights the FCG element of independent input. Some stakeholders have expressed confusion about the meaning of “independent”. Therefore, instead of using such term, this bullet explains what it means in this context, i.e., that the input sought/ obtained is impartial and free from conflicts of interest with the matter at hand. Such conflicts of interest may be actual or perceived, thus adopting terminology used elsewhere in the extant Code (i.e., paragraphs 120.6 A3(e) and 340.9 A3).

Similarly to the viewpoints (see viewpoints C1 and C2), independent input is limited to strategic, governance and business decisions of the firm on matters involving the public interest and, within those, the particular topics that the firm considers “significant”. The use of the word “significant” is intentional to incorporate an element of proportionality, since different firms will benefit from independent input on different topics depending on their specific circumstances. Each firm is therefore better positioned to identify such topics and/or consider relevant factors in assessing which topics are/are not significant. This is based on viewpoint C4.

Proportionality is addressed under this third bullet through (i) the use of the verb “considering”, (ii) the delimitation of independent input to certain topics, and (iii) the use of the adjective “significant.” See also proposed paragraph 300.5 A5 which is dedicated to proportionality and includes a bullet on independent input (based on viewpoint C7).

This bullet does not explicitly mention who in the firm is responsible for the action specified in the bullet as that is for each firm to determine – see the first sentence in proposed paragraph 300.5 A5.

Fourth bullet

The fourth bullet highlights the FCG element of accountability, underscoring an expectation for all firm personnel, individually taken, to act ethically. The bullet clarifies that acting ethically means to act in accordance with the fundamental principles – and to be answerable for conduct in that regard.

This bullet does not explicitly mention who in the firm is responsible for the action specified in the bullet as that is for each firm to determine – see the first sentence in proposed paragraph 300.5 A5.

Fifth and sixth bullets

The fifth and sixth bullets focus on the FCG element of incentives and disincentives.

The fifth bullet highlights that expectations of ethical behavior are critical and need to be considered with financial targets holistically when the firm designs and implements performance evaluation and compensation practices. This approach builds on viewpoint E2 and reflects stakeholder feedback that prioritizing ethical behavior may downplay or ignore other factors that may have an important role in incentivizing performance. Accordingly, the focus in this bullet is on appropriately integrating ethical considerations into performance evaluation and compensation practices alongside financial targets without creating motivations for personnel to act unethically.

The sixth bullet recognizes the importance of disincentives as an element to dissuade unethical behavior (both from a preventative and remedial perspective).

These bullets do not explicitly mention who in the firm is responsible for the specified actions as that is for each firm to determine – see the first sentence in proposed paragraph 300.5 A5.

Seventh bullet

The seventh bullet highlights the FCG element of open discussion and challenge, focusing on the significance of “psychological safety” in creating an environment where ethical matters can be discussed, ethical concerns raised and decisions challenged on the basis of ethics. Feedback from the simulation report, however, pointed to some uncertainty as to the meaning of “psychological safety.” In addition, the PT and BAs also observe that the term might not be fully understood in all jurisdictions. So, this bullet includes an explanation of what psychological safety is without using the term.

This bullet does not explicitly mention who in the firm is responsible for the specified action as all individuals in the firm can contribute to creating such an environment.

Eighth bullet

The eighth bullet highlights the FCG element of education and training. It focuses on the concept of developing an ethical mindset, i.e. one that helps firm personnel to abide by the Code. The wording is based on viewpoint G2.

The expression “taking appropriate steps” is deliberately broad to include not only the selection or development (depending on the firm’s internal resources) of educational materials and training programs, but also any other actions that may enhance education and training, such as having leadership involved (per viewpoint G5).

This bullet does not explicitly mention who in the firm is responsible for the specified action as that is for each firm to determine – see the first sentence in proposed paragraph 300.5 A5.

Ninth and tenth bullets

The ninth and tenth bullets focus on the FCG element of transparency.

The ninth bullet emphasizes how internal transparency on ethics matters can reinforce ethical behavior (and thereby contribute to other FCG elements such as accountability, open discussion and challenge, and education and training).

This bullet does not explicitly mention who in the firm is responsible for the specified action as all individuals in the firm can share ethics-related learnings and experiences, for instance at a team meeting.

The tenth bullet highlights the role of public disclosures on ethics, and the wording is based on viewpoint H5. Proportionality is addressed under this bullet through (i) the use of the verb “considering” and (ii) the use of the adjective “relevant”. See also proposed paragraph 300.5 A5 which is dedicated to proportionality and includes a bullet on external transparency.

This bullet does not explicitly mention who in the firm is responsible for the specified action as that is for each firm to determine – see the first sentence in proposed paragraph 300.5 A5.

New proposed paragraph 300.5 A5 – Proportionality considerations

Considering the stakeholder feedback consistently raised throughout the global roundtables and the FCG dialogues with regards to proportionality, the PT and BAs propose including a provision specifically addressing this matter.

The first part acknowledges that each bullet in the previous paragraph is a generic action that may be implemented through diverse specific actions. It also acknowledges that the specific action(s) the firm decides to implement and how it does so will vary depending on the firm’s characteristics and circumstances.

The second part recognizes that the consideration of the firm’s characteristics and circumstances is especially relevant for sole practitioners and small and medium practices, and for certain FCG elements in particular: oversight and governance, independent input, and external transparency. For the purposes of this paragraph, the [IFAC SMPAG](#) definition of SMPs was considered.¹⁰

This is notwithstanding that the paragraph is also relevant to larger firms and how they implement the specific actions for establishing and maintaining an ethical culture and governance, including for the three elements specifically highlighted for sole practitioners and SMPs.

New proposed paragraph 300.5 A6 – Considerations for network firms

The situation of firms that are part of networks has always been an important consideration for FCG, as highlighted in the Working Group’s final report and in the global roundtables and further stakeholder engagement. Viewpoints B8, F8 and H4 specifically addressed this matter. In addition, some stakeholders noted that the global firm within a network may sometimes influence decisions at the local level, thereby affecting to a certain extent some aspects of the local firm’s ethical culture and governance. At the same time, the actions of local firms can have consequences (e.g., reputational) for the global firm, which may lead it to adjust its global policies and procedures regarding ethical culture and governance.

For these reasons, the PT and BAs propose including a provision highlighting that in the case of network firms, each firm's ethical culture and governance do not sit in a silo since they can be affected by the actions and circumstances of the other firms in the network.

III. EXTANT CODE PROVISIONS

PART 2

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General

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200.5 A3 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the employing organization. To the extent that they are able to do so, taking into account their position and seniority in the organization, accountants are expected to encourage and promote an ethical ~~ethics-based~~ culture in the organization and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the employing organization has a professional or business relationship in accordance with paragraph 120.13 A3. Examples of actions that might be taken include the introduction, implementation and oversight of:

...

PART 3

...

General

...

Ethical Culture and Governance within Firms

...

Considerations for Professional Activities Pursuant to the Professional Accountant's Relationship with the Firm

R300.56 When dealing with an ethics issue, the professional accountant shall consider the context in which the issue has arisen or might arise. Where an individual who is a professional accountant in public practice is performing professional activities pursuant to the accountant's

¹⁰ "The definition of SMP will vary from one jurisdiction to another. IFAC describes SMPs as practices that exhibit the following characteristics: their clients are mostly SMEs; they use external sources to supplement limited in-house technical resources; and they employ a limited number of professional staff."

relationship with the firm, whether as a contractor, employee or owner, the individual shall comply with the provisions in Part 2 that apply to these circumstances.

300.56 A1 Examples of situations in which the provisions in Part 2 apply to a professional accountant in public practice include:

...

300.56 A2 The more senior the position of a professional accountant, the greater will be the ability and opportunity to access information, and to influence policies, decisions made and actions taken by others involved with the firm. To the extent that they are able to do so, taking into account their position and seniority in the firm, accountants are expected to encourage and promote an ethical ~~ethics-based~~ culture in the firm and exhibit ethical behavior in dealings with individuals with whom, and entities with which, the accountant or the firm has a professional or business relationship in accordance with paragraph 120.13 A3. ~~Examples of actions that might be taken include the introduction, implementation and oversight of:~~

- ~~• Ethics education and training programs.~~
- ~~• Firm processes and performance evaluation and reward criteria that promote an ethical culture.~~
- ~~• Ethics and whistle-blowing policies.~~
- ~~• Policies and procedures designed to prevent noncompliance with laws and regulations.~~

The PT and BAs propose the following consequential amendments resulting from adding the FCG provisions after extant paragraph R300.4:

- Introducing a new subheading for the paragraphs related to the applicability provision (i.e. extant paragraph R300.5, renumbered here to R300.6), and
- Eliminating the last sentence in extant paragraph 300.5 A2 due to redundancy as the bullets are already covered by certain FCG elements – education and training (first bullet), incentives and disincentives (second bullet), open discussion and challenge (third bullet), oversight and governance (fourth bullet).

The PT and BAs also considered whether to retain, move, amend or delete the rest of extant paragraph 300.5 A2 (which was introduced by the technology revisions). The PT and BAs are of the view that:

- The first sentence should be retained (unchanged) as it is broad in nature and not specific to FCG. It also introduces an element of proportionality within the context of the applicability provision that should be retained.
- Although linked to the FCG topic, the second sentence should also be retained (unchanged) as it (i) is sufficiently high level not to contradict or repeat the content proposed to be added now, (ii) is linked to extant paragraph 120.13 A3 which applies not only to PAPPs but also to PAIBs, and (iii) is consistent with Part 2 (see the equivalent provision in extant paragraph 200.5 A3).

310.8 A2 Factors that are relevant in evaluating the level of a threat created by a conflict of interest include measures that prevent unauthorized disclosure of confidential information when

performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. These measures include:

...

- Confidentiality agreements signed by the firm's personnel ~~and partners of the firm.~~

...

PART 4A

521.2 Family or personal relationships with a director, officer or employees of a client ~~personnel~~ might create a self-interest, familiarity or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

...

523.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as ~~personnel~~ human resources management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm or a network firm serves as Company Secretary for an audit client. (More information on providing non-assurance services to an audit client is set out in Section 600, Provision of Non-assurance Services to an Audit Client.)

...

PART 4B

923.4 A1 The position of Company Secretary has different implications in different jurisdictions. Duties might range from: administrative duties (such as ~~personnel~~ human resources management and the maintenance of company records and registers) to duties as diverse as ensuring that the company complies with regulations or providing advice on corporate governance matters. Usually this position is seen to imply a close association with the entity. Therefore, a threat is created if a partner or employee of the firm serves as Company Secretary for an assurance client. (More information on providing non-assurance services to an assurance client is set out in Section 950, Provision of Non-assurance Services to an Assurance Client.)

PART 5

(to be added after the September 2026 IESBA meeting)

GLOSSARY

Office A distinct sub-group, whether organized on geographical or practice lines.

Personnel Partners and staff.

(Professional
Accountants in
Public Practice)

Personnel Leaders and staff.

(Sustainability
Assurance
Practitioners)

Predecessor accountant A professional accountant in public practice who most recently held an audit appointment or carried out accounting, tax, consulting or similar professional services for a client, where there is no existing accountant.

...

Those charged with governance The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance might include members of management ~~personnel~~, for example, executive members of a governance board of a private or public sector entity, or an owner-manager.

Proposed new definition of “personnel” aligned with the definition used in ISQM 1 – “*Partners and staff in the firm.*”

Since Parts 3 and 4 apply to PAs, the term “partners” was retained. However, Part 5 uses “leaders” instead of partners and therefore two definitions are proposed. This follows the format used for the extant definition of “Non-compliance with laws and regulations” which includes one definition for PAs in business, another for PAs in practice, and a third for sustainability assurance practitioners.

Relevant consequential amendments for Parts 3 and 4 have also been added. The necessary consequential amendments in Part 5 will be added after the September 2026 IESBA meeting.