

Firm Culture and Governance (FCG) Proposed FCG Provisions – First Read (Turnaround) Mark-Up from the Clean Version of Agenda Item 2A

Note to IESBA: Following the IESBA's discussion of Agenda Item 2A during the FCG session on Day 1, the FCG Project Team and Board Advisors (PT and BA) have prepared a revised draft of selected provisions to address the IESBA comments received.

It is marked up against the clean version of Agenda Item 2A for the Board's initial reactions and comments. Any written comments on the proposed revisions can be provided to the PT (kamleung@ethicsboard.org, lauraleal@ethicsboard.org and joanneholt@ethicsboard.org) by September 25, 2026.

The provisional revisions seek to:

- Incorporate the intended outcome and purpose of an ethical culture into the requirement.
- Address concerns about the enforceability of the requirement.
- Clarify “governance” in the context of an ethical culture.
- Combine the two paragraphs that repeat the eight FCG elements and replace examples of possible firm actions by element, with descriptions of each element.
- Withdraw the separate paragraph on network firms and instead address network arrangements as a consideration in how a firm implements an ethical culture.
- Separated the paragraph on proportionality into two.
- Aligned the proposed definitions with ISQM 1's “personnel” and “staff.”

Specifically for discussion during the FCG session on Day 5 are only the provisions highlighted in **yellow**—paragraphs R300.5, 300.5 A2, 300.5 A3 and the withdrawal of the proposed definition of “personnel” in Part 5 of the Code. During the session, the PT will also address the comment regarding whether other entities in a network should be covered by the proposed requirement.

The paragraphs highlighted in **grey** will be considered subsequently by the PT and BA in light of the Board's comments on Day 1.

SECTION 300

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300.4 A1 **(to be considered later)** 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.

(to be considered later) *Ethical Culture and Governance within Firms*

R300.5 A firm shall take appropriate steps, including governance arrangements, to establish and maintain an effective ethical culture and governance throughout the firm that supports compliance with the fundamental principles by its personnel, thereby contributing to public trust in the profession.

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 A12 **(to be considered later)** 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 A23 The establishment and maintenance of an A firm's ethical culture and governance is most effective when it involves are generally framed by the following eight interconnected elements: ethical leadership, oversight and governance arrangements, independent input, accountability across the firm, incentives and disincentives, open discussion and challenge, education and training, and transparency.

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

- **Ethical leadership:** **(to be considered later)** 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:** **(to be considered later)** The firm's leadership establishing and maintaining arrangements that monitor adherence to the Code and embed ethics in decision-making.
- **Independent input:** **(to be considered later)** 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:** **(to be considered later)** 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:** **(to be considered later)** Designing and implementing performance evaluation and compensation practices that consider ethical behavior alongside financial targets and do not motivate personnel to act unethically.
- **Disincentives:** **(to be considered later)** Deterring unethical behavior and responding to it in a consistent and timely manner with appropriate measures and consequences.
- **Open discussion and challenge:** **(to be considered later)** 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: (to be considered later)* 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: (to be considered later)* Sharing ethics-related learnings and experiences within the firm to reinforce the importance of ethical behavior.
- *External transparency: (to be considered later)* 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 A35 The ~~steps specific actions~~ under paragraph R300.5 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 and structure of the firm.
- ~~The structure of the firm, for example, the number and geographic location of offices.~~
- The size and nature of the firm's client base.
- ~~The nature of the professional services provided by the firm.~~
- Whether the firm is part of a network.

300.5 A4 Such considerations are ~~especially relevant~~, especially 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.~~

GLOSSARY

Personnel Partners and staff in the firm.

(Professional
Accountants in
Public Practice)

Staff Professionals, other than partners, including any experts the firm employs.

(Professional
Accountants in
Public Practice)

~~Personnel~~ ~~Leaders and staff.~~

~~(Sustainability~~
~~Assurance~~
~~Practitioners)~~