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| **Meeting:** | IESBA | **Agenda Item** |
| **Meeting Location:** | New York | **2** |
| **Meeting Date:** | December 7-10, 2026 | |

# Firm Culture and Governance (FCG)

## Objectives

1. To consider:
   (a) Key stakeholder feedback from the outreach activities in October and November 2026;
   (b) An update on recent coordination activities with the International Auditing and Assurance Standards Board (IAASB);
   (c) The third-read draft of the proposed FCG provisions;
   (d) The draft Explanatory Memorandum (EM); and
   (e) The draft joint IAASB-IESBA guidance on the interaction between the proposed FCG provisions and ISQM 1[1] to accompany the release of the Exposure Draft (ED).
2. To approve the proposed FCG provisions for exposure.

**Note to IESBA:** Advance comments and drafting suggestions on **Agenda Items 2A-2C** are welcome. They will be considered alongside comments received during the IESBA's Day 1 discussions at the December 2026 meeting. Please email comments to kamleung@ethicsboard.org, lauraleal@ethicsboard.org, and joanneholt@ethicsboard.org.

## Activities since the October 2026 IESBA Meeting

3. At its October meeting, the IESBA considered a second-read draft of the proposed FCG provisions in the Code. The IESBA was also briefed on the key feedback from select outreach activities in October 2026.[2]
4. The Project Team[3] (PT) met with the Board Advisors three times during November 2026 to develop the agenda materials for the December 2026 Board meeting.
5. During November 2026, IESBA representatives conducted further outreach on the second-read

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

[2] During October 2026, IESBA representatives conducted outreach activities related to the first-read turnaround draft FCG provisions with:
- The IESBA-Jurisdictional Standard Setters (JSS) liaison group;
- The Forum of Firms (FoF);
- The Stakeholder Advisory Council (SAC); and
- The Chair and Staff of the IFAC Small and Medium Practices Advisory Group (IFAC SMPAG).

[3] 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 Lehuedé (IESBA Member) and Jon Walters (IESBA Member).

draft FCG provisions with:

- The Committee of European Auditing Oversight Bodies (CEAOB);
- The International Forum of Independent Audit Regulators' Standards Coordination Working Group (IFIAR SCWG); and
- The International Organization of Securities Commissions' Accounting, Disclosure and Auditing Committee (IOSCO ADA Committee).

6. See the **Appendix** for a summary of the key takeaways from the October and November 2026 meetings.

*Coordination with the IAASB*

7. The PT and Board Advisors met with the IAASB liaison team[4] in November 2026 to advance the development of joint guidance on the interaction between the proposed FCG provisions and ISQM 1 for firms that have implemented a system of quality management in accordance with ISQM 1. See **Agenda Item 2C** for the draft joint guidance, which will be released with the ED.
8. **Agenda Item 2A** also incorporates the IAASB representatives' input from an ISQM 1 interoperability perspective.

**Matters for IESBA Consideration**

9. IESBA members are asked to:
   (a) Provide feedback on **Agenda Items 2A to 2C**; and
   (b) Subject to the Board discussion, approve the proposed provisions in **Agenda Item 2A** for exposure.

**Next Steps**

10. Subject to the Board's approval of the ED, the PT will prepare the ED package for issuance by the end of December 2026. The PT recommends a 90-day comment period.

**Materials Presented**

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| Agenda Item 2A | Proposed FCG Provisions – Third Read |
| Agenda Item 2B | Draft Explanatory Memorandum |
| Agenda Item 2C | Draft Joint Guidance on the Interaction between the Proposed FCG Provisions and ISQM 1 |

[4] Greg Schollum, IAASB Member, Misha Pieters, IAASB Technical Advisor, Willie Botha, IAASB Program and Senior Director, and Jasper van den Hout, IAASB Director

## Appendix

# Key Takeaways from October and November 2026 Stakeholder Outreach

### Introduction

1. During October and November 2026, the FCG PT and IESBA representatives engaged with several stakeholders to discuss the direction of travel on the FCG project, select proposed FCG provisions in the Code, and the interrelationship between Private Equity and Other External Investments in Firms (PE&OEI) and FCG.

2. The key takeaways from the feedback received on the FCG project and select proposed FCG provisions are set out below. During the meetings, IESBA representatives responded to the questions, concerns and suggestions raised, many of which had been addressed in the June 2026 Agenda Item 2A. Where appropriate, specific feedback on the draft FCG provisions has been considered in developing the third-read draft or addressed through the explanation of the rationale underlying the provisions in **Agenda Item 2A**.

3. Feedback concerning the interrelationship between PE&OEI and FCG has been considered as part of the broader analysis of thematic information gathered for the PE&OEI project in **Agenda Item 4**.

### IESBA-Jurisdictional Standard Setters (JSS) liaison group Meeting[5] – October 13, 2026

4. A few participants expressed support for aspects of the proposed approach to the draft provisions, including:

   - Having a single, overarching requirement, which links to the fundamental principles.
   - Maintaining a principles-based approach that allows for proportionate application, with non-authoritative material (NAM) providing further details, including examples, to support implementation of the high-level provisions.
   - The element of oversight and governance to strengthen adherence to ethical standards throughout the firm.

5. Several JSS participants raised a number of questions and concerns, including:

   - Whether changes to the Code are necessary, or whether FCG could instead be addressed through NAM.
   - What the proposed provisions would add beyond the existing Code provisions and how firms should consider the relationship with ISQM 1, including whether firms would need to take additional steps beyond those taken in implementing ISQM 1.

     In this regard, there was a request for the exposure draft to explain more clearly why the proposed provisions are needed and how they can address ethical failures.
   - How the proposed provisions would be adopted and enforced consistently across jurisdictions.
   - Whether individual ethical breaches would lead to a breach of the proposed requirement.

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[5] The discussion with the JSS covered select proposed FCG provisions in the Code that were presented on the last day of the September 2026 Board meeting (see September 2026 IESBA Meeting, Agenda Item 2A (Turnaround)), as well as the interrelationship between PE&OEI and FCG.

In this regard, there were a few views that a single act of misconduct should not, in itself, mean that a firm had failed to establish an ethical culture. One participant observed that individual breaches might reveal underlying cultural factors contributing to ethical failures and should therefore not be excluded when examining ethical culture.

- That the applicational material describing the FCG elements may be interpreted as requirements or become a de facto obligation, resulting in additional compliance and documentation burden.

6. Some participants emphasized the importance of proportionality, particularly for small-medium practitioners (SMPs), including consideration of the nature and formality of governance arrangements and potential documentation burdens.

7. There were also some requests for practical examples or other guidance, including on scalability, consideration of network firms, and on the interaction with ISQM 1.

8. Some JSS participants also provided suggestions on proposed drafting, including:

   - To avoid using superlatives such as “most effective,” and to consider alternative wording to “public trust” as it is not defined in the Code.
   - To clarify that proportionality considerations take into account a firm’s risks and circumstances and also apply to the element of transparency.
   - To include the embedding of ethics in conduct as well as decision-making within the description of the element of oversight and governance.

**Forum of Firms (FoF) Meeting[6] – October 14, 2026**

9. While some FoF participants recognized the importance of ethical culture, they questioned whether the provisions should be included in the Code and whether they would drive behavioral change. Several FoF participants also raised a number of questions and concerns, including:

   - The rationale for the June 2026 Board decision to proceed with the current approach given the range of views expressed by Board members, including why “doing nothing” was not deemed a viable option.

     In this regard, there was also a view that the FCG dialogues have already helped emphasize the importance of ethical behavior, raising the question of whether further action through the Code was necessary.
   - What the proposed provisions would add beyond the existing provisions in the Code addressing culture, whether a root-cause analysis of ethical failures at firms had been undertaken as a basis for the project, whether the FCG framework could have prevented past ethical failures and how the success of the FCG framework would be measured.
   - Whether JSS would adopt the proposed overarching requirement, as some JSS do not have requirements on firms in their ethics provisions.
   - With regard to the reference to an “effective” ethical culture in the proposed requirement, how a regulator would determine that a firm has an “effective” ethical culture and what the firm would need to do to demonstrate that.

[6] The discussion with the FoF focused on select proposed FCG provisions in the Code that were presented on the last day of the September 2026 Board meeting.

- The importance of explaining in NAM what governance arrangements might be.
- Whether the proposed provisions would extend to entities, say, within a network, other than those meeting definition of "firm" in the Code.
- With respect to the definition of a firm, whether the FCG framework would scope in a private equity investor that owns a controlling interest in the firm.
- A concern about the implications for documentation.
- Whether the word "involves" in the application material describing the FCG elements would be interpreted as a requirement.
- Whether NAM would be viewed as de facto requirements.

10. Some FoF participants also provided suggestions on proposed drafting, including to clarify the relationship between culture and governance and to consider the importance of leadership alongside governance.

**Stakeholder Advisory Council (SAC) Meeting[7] – October 21, 2026**

11. A few SAC members highlighted the importance and potential benefits of the FCG project, including:
    - Contributing to public trust in firms, their reputation and brand value, given the potential adverse consequences of unethical behavior that can extend across different service lines operating under the same firm name.
    - Providing a global baseline for firm accountability in relation to ethical culture, especially for investors as well as beyond capital markets to broader stakeholders.
12. A few SAC members supported the proposed approach to an FCG framework in the Code comprising an overarching principles-based requirement and targeted application material, and a few others viewed the approach as a balanced way forward.
13. On the other hand, a few other SAC members questioned whether the issues being addressed by the FCG project arose from gaps in the Code and ISQM 1, or shortcomings in their application and enforcement.

    In this regard, one SAC member suggested that the exposure draft set out the cost-benefit and gap analyses for an FCG framework, while another SAC member questioned whether the FCG framework would help address audit inspection findings.
14. Questions and observations were also raised, including:
    - Whether it is within IESBA's remit to set standards applicable across the firm.
    - Whether individuals in leadership or management positions would have additional responsibilities under the proposed provisions.
    - A caution that regulators might perceive the eight FCG elements and NAM as mandatory.
    - That there might be proportionality challenges, particularly for smaller firms, alongside jurisdictional differences in the use of independent non-executives.

[7] The discussion with the SAC covered the direction of travel on developing the proposed FCG provisions in the Code as well as the interrelationship between PE&OEI and FCG.

**Meeting with the Chair and Staff of the IFAC Small and Medium Practices Advisory Group (IFAC SMPAG)[8] – October 22, 2026**

15. The IFAC SMPAG Chair and Staff expressed the SMPAG's willingness to work constructively with the IESBA towards the shared objective of promoting the widest possible adoption of the Code.

16. On FCG, the importance of ethical culture and leadership was recognized, although a preference was expressed for addressing these matters outside the Code. The importance of reinforcing ethical culture through ongoing discussion within firms, rather than treating it solely as a compliance matter, was emphasized.

17. Feedback on the proposed provisions was provided, including:

    - Support for the use of "taking appropriate steps" in the requirement from an enforceability perspective, and for linking the requirement to the exercise of professional judgment and consideration of a firm's nature and circumstances.
    - Concerns about the terms "effective" or "more likely," which might lead regulators and other users to interpret the application material describing the FCG elements as mandatory.

      Accordingly, there was a suggestion to clarify that, depending on the nature and circumstances of each firm, the relevance of each FCG element might vary, especially for SMPs. It was also pointed out that the element of governance and oversight can involve both formal and informal arrangements.
    - A suggestion to describe the FCG elements in NAM rather than in the Code, which could be adapted more readily as circumstances evolve.

18. Several questions were also raised, including:

    - What additional actions a firm would be expected to take in relation to the proposed provisions compared with their existing practices.
    - Whether the proposed provisions would introduce a documentation requirement.
    - Whether regulators would treat NAM as de facto requirements.

**Meeting with CEAOB[9] – November 4, 2026**

19. Views shared in this meeting were in participants' individual capacity rather from the CEAOB collectively.

20. Questions and observations raised by participants included:

    - That there are varying views within the audit oversight community about the proposed provisions.
    - How to distinguish between standard-setting and NAM, and whether development of NAM might lead to reconsideration of the proposed provisions or incorporation of some aspects on the NAM into the Code over time.

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[8] The discussion with the Chair and Staff of the IFAC SMPAG focused on select proposed FCG provisions in the Code that were presented on the last day of the September 2026 Board meeting.

[9] The discussion with the CEAOB covered select proposed FCG provisions in the Code that were presented at the October 2026 virtual Board meeting (see October 2026 virtual IESBA Meeting, Agenda Item 1A).

- The need to think about enforceability in developing the proposed provisions, particularly with regards to the elements of ethical leadership and oversight and governance.
- How firms would exercise professional judgment in implementing the proposed provisions.

**Meeting with IFIAR SCWG[10] – November 12, 2026**

21. Views shared in this meeting were in participants' individual capacity rather than from the IFIAR SCWG collectively.

22. A few participants acknowledged the importance of ethical culture. Views, questions and concerns included:

    - The rationale underlying the June Board decision to proceed with the FCG framework and why ISQM 1 was considered insufficient to address the issues identified.
    - A view that ISQM 1 is better placed to address ethical culture through a firm's system of quality management, given that ISQM 1 operationalizes how a firm is governed, resourced, etc.
    - Whether the proposed requirement provides a sufficiently strong and clear basis for enforceability, particularly through the use of the words "appropriate steps," and how responsibilities and accountability would be established under the proposed provisions as compared to ISQM 1.
    - The rationale for directing the proposed requirement at firms rather than individual professional accountants, and for extending its scope beyond firms performing audit and other assurance engagements.
    - Whether the FCG provisions will create additional complexities for firms.
    - The need to achieve a solution that will have the greatest impact.

23. One participant noted that they had observed how the IESBA had listened to stakeholders and taken into account their feedback to date, while another participant questioned whether feedback, in particular related to ISQM 1, had been reflected in the proposed approach and June 2026 Board decision.

24. The value of continued engagement and open dialogue with stakeholders as the project progresses was highlighted, as was the importance of critical evaluation of all views.

**Meeting with IOSCO ADA Committee[11] – November 17, 2026**

25. Views shared in this meeting were in participants' individual capacity rather than from the IOSCO ADA Committee collectively.

26. A few participants acknowledged the importance of ethical culture. In particular, one participant supported the project's objectives of encouraging ongoing dialogue within firms and promoting behavioral change, noting the importance of understanding the root causes of unethical behavior. Another participant suggested examining past ethical failures, including the actions taken by firms following such incidents.

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[10] The discussion with the IFIAR SCWG covered select proposed FCG provisions in the Code that were presented at the October 2026 virtual Board meeting.

[11] The discussion with the IOSCO ADA Committee covered select proposed FCG provisions in the Code that were presented at the October 2026 virtual Board meeting.

27. A number of questions were raised, including:

    - What the rationale and context underlying the June 2026 Board decision was, including why an approach based on ISQM 1 had not been included among the options presented, and what was the extent of Board support for the approach taken.
    - Who were the investors and other users who had expressed support for an FCG framework in the Code. In this regard, another participant noted investor representatives on the SAC had expressed support for the proposed FCG framework in the Code.
    - Whether it is within the IESBA's remit to establish requirements for firms, including those who are not professional accountants (non-PAs), and whether the definition of a firm includes firms with non-PAs or those controlled by private equity entities.
    - Whether the proposed provisions would prevent future ethical failures.
    - Whether the overarching requirement is strong enough to achieve the intended behavioral change, noting that the ability of regulators to hold firms accountable would be limited to the requirement and not necessarily extend to the application material.
    - Whether introducing the FCG framework in the Code would have potential implications for adoption of the Code more broadly.

28. The importance of continued dialogue on the project was highlighted.

29. A few participants also expressed that the meeting was helpful in clarifying various matters on the project.