AGENDA PAPER

Item Number:	7
Date of Meeting:	4 September 2026
Subject:	Update on IESBA's Firm Culture and Governance Project

☐	**Action required**	x	**For discussion**	x	**For noting**	☐	**For information**

Purpose

To update the Board on the IESBA's Firm Culture and Governance (FCG) Project.

Background

Given the significant public interest consequences that arise when unethical behaviour occurs in firms, the International Ethics Standards Board for Accountants (IESBA) determined to take a leadership role as the global ethics standard-setter in addressing firm culture and governance as a strategic priority in its current 2024-27 Strategy and Work Plan.

In December 2023, the Firm Culture and Governance Working Group (the Working Group) was formed, with its Terms of Reference approved at the IESBA March 2024 meeting. APESB CEO and IESBA member Channa Wijesinghe chaired this Working Group.

The Working Group undertook extensive global stakeholder outreach, including with international and national regulators, standard setters, those charged with governance, finance executives and global and national firm leaders. The Working Group also commissioned academic research.

In December 2024, the IESBA approved the Working Group's Final Report that sets out its findings and recommendations, including key drivers of ethical firm culture. The IESBA also approved a Project Proposal to commence two new workstreams in 2025: the standard-setting project and the development of non-authoritative materials (NAM). APESB CEO and IESBA Vice Chair Channa Wijesinghe was appointed as the Lead Board Advisor to the project.

At the IESBA June 2025 meeting, the IESBA approved a revised strategic approach to the FCG Project, aligned with its revised overall forward strategy for 2025-2026. In July 2025, the IESBA also released Firm Culture and Governance: Summary of Feedback from Global Roundtables, which captures stakeholder perspectives from six global roundtables.

At the IESBA September 2025 and October 2025 meetings, the IESBA considered draft "Viewpoints" on the eight elements of firm culture and governance of the FCG framework identified in the project proposal.

The IESBA also agreed to develop a "Contextual Piece" to explain the nature and purpose of the Viewpoints and acknowledged the importance of clearly explaining the connectivity between the Viewpoints and the IAASB's *International Standard on Quality Management 1* (ISQM 1).

At the IESBA December 2025 meeting, the IESBA agreed to use the Viewpoints as a tool for further dialogue with stakeholders to better inform its deliberations on how best to approach developing the FCG framework at its June 2026 meeting.

In January 2026, the IESBA launched a series of materials marking the start of the FCG Dialogues, a six-month global engagement initiative, comprising a booklet presenting the Viewpoints on the eight elements of the FCG Framework, a Briefing Note setting out the Viewpoints, their context and objectives, engagement questions and next steps, and a high-level paper outlining linkages between the Viewpoints and ISQM 1.

Project status updates were provided at APESB's December 2025 (Agenda Item 9) and March 2026 (Agenda Item 5) Board Meetings.

Current developments

This paper sets out key developments since the last update to the Board at the March 2026 Board Meeting.

IESBA and IAASB complete analysis on Linkages Between ISQM 1 and FCG Viewpoints

In late March 2026, the IESBA and IAASB released an analysis of the linkages between ISQM 1 and the IESBA's FCG viewpoints. The analysis explains, at a high level, the linkages between the FCG viewpoints and ISQM 1, highlights their mutually supportive nature and identifies clear distinctions in their objectives, scope, output and focus. and level of specificity as regards firm culture and governance. Further details are available in the IESBA's media release.

IESBA June 2026 meeting – decision on the way forward

At the IESBA June 2026 meeting, the IESBA considered the Project Team's analysis of key stakeholder feedback gathered from the Firm Culture and Governance (FCG) dialogue series since March 2026, an update on recent coordination activities with the International Auditing and Assurance Standards Board (IAASB), as well as a presentation on the findings from two "simulation" exercises conducted at two firms on the IESBA viewpoints on FCG from Christine Schaefer, Ph.D. and Enrique Martínez-González, two human behaviour experts who facilitated the simulation exercises.

The IESBA also deliberated the Project Team's proposed options and recommendation on how best to approach developing the FCG framework in the public interest. After considering all the feedback from the FCG dialogues, the insights from the simulation exercises, the liaison with the IAASB, and the Project Team's analysis and recommendation, the IESBA agreed to develop a single, high-level, overarching requirement and related application material in the Code to anchor the FCG framework in the Code, accompanied by practical non-authoritative material (NAM) to support implementation of the framework.

Targeted Ethics Code revision to address Firm Culture and Governance

In June 2026, the IESBA announced that FCG will be addressed through a targeted update to the IESBA Code, following a decision on the way forward by the IESBA at its June 2026 Board meeting. The approach aims to:

- Minimise compliance burden and 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 proposed FCG elements together holistically, replacing fragmented existing references;
- Complement ISQM 1 by reinforcing the firm's quality objective to demonstrate a commitment to quality through a culture that recognises and reinforces the importance of professional ethics, values, and attitudes; and
- Apply globally and proportionately across firms of all sizes and service lines, with scalability built in.

Practical guidance and educational materials will be developed in parallel in collaboration with firms, jurisdictional standard setters and professional accountancy organisations.

At its September 2026 meeting, the IESBA will consider the proposed FCG provisions in the Code for a first read, along with the proposed work plan for developing NAM.

An Exposure Draft is planned for December 2026, with final approval targeted by the end of 2027. Further details are available in the IESBA's media release.

IESBA Snapshot on the FCG Project

In June 2026, the IESBA published a Snapshot of the IESBA's FCG Project. The Snapshot provides a short, non-technical overview of the project, explaining its purpose, direction and current focus in clear and accessible terms, alongside the more detailed technical materials.

IESBA September 2026 Board Meeting – to be held 14-18 September 2026

The IESBA FCG Project Team considered the first draft of the proposed FCG provisions in the Code and the NAM work plan at its August 2026 project team meeting. These draft proposals will be presented to the IESBA for consideration at its September 2026 meeting to be held during the week of 14th September 2026 in Madrid, Spain.

Further details about the project are available on the IESBA's project page.

A journal article on building an ethical culture in professional firms

In May 2026, APESB CEO and IESBA Vice-Chair Channa Wijesinghe authored an article, *Building an Ethical Culture in Professional Firms: Governance, Leadership, and Accountability*, featured in the Centenary Special Issue of The Chamber's Journal, published by The Chamber of Tax Consultants (CTC) in India (refer agenda item 7(a)). Read more at the IESBA's LinkedIn post.

Way Forward

Technical Staff will continue to monitor the progress of this IESBA project, including the IESBA's exposure draft expected in December 2026, and report back to the Board at its November 2026 meeting.

Material Presented

Agenda Item 7 (a)	Journal Article: *Building an Ethical Culture in Professional Firms: Governance, Leadership, and Accountability*

Recommendation

That the Board note the update on the IESBA's Firm Culture and Governance Project.

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