AGENDA PAPER

Item Number:	11
Date of Meeting:	25 November 2026
Subject:	Update on key IESBA projects

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

Purpose

To update the Board on developments in the key IESBA projects.

Background

This paper updates the Board on developments in the IESBA's key projects since they were last reported.

The IESBA met in Madrid, Spain, from 14 to 18 September 2026 and online on 29 October 2026. The key IESBA projects covered in this agenda paper are:

- Firm Culture and Governance (FCG) project, which was last reported at the September 2026 Board meeting (Agenda Item 7); and
- IESBA Strategy and Workplan 2028–2031 project, which was last reported to the Board at the June 2026 Board meeting (Agenda Item 6).

Appendix A provides further background on the FCG project.

APESB CEO and IESBA Vice Chair Channa Wijesinghe is the Lead Board Advisor to IESBA's FCG project, the FCG liaison Board Member for the Private Equity and Other External Investments in Accounting Firms Project and a Member of the Joint IAASB-IESBA 2028-2031 Strategic Work Plan Working Group.

Firm Culture and Governance (FCG)

IESBA September 2026 Board Meeting – first-read draft of proposed FCG provisions

At the IESBA September 2026 meeting, the IESBA considered the Project Team's first-read draft of the proposed FCG provisions in the Code. The IESBA discussed a range of matters, including:

- the scope of application and the enforceability of the proposed overarching requirement;

- whether the requirement should refer to the intended outcome of the FCG framework;
- the role of governance in relation to ethical culture;
- the approach to describing the FCG elements in the application material and whether each element is intended to be mandatory;
- the extent to which firms could leverage their implementation of ISQM 1 in establishing and maintaining an ethical culture and related governance;
- the proportionality of the proposed provisions; and
- network-related considerations.

The IESBA also considered an update on coordination with the International Auditing and Assurance Standards Board (IAASB) and the planned development of FCG-related non-authoritative materials (NAM) and other supporting materials. These will complement the proposed FCG provisions in the Code and will include a brief joint IESBA–IAASB paper highlighting the linkages between the proposed FCG provisions and ISQM 1.

The IESBA also considered a presentation by Professor Begoña Navallas of the Universidad Autónoma de Madrid on a comparative study of audit firm governance regulation across jurisdictions, undertaken for the Spanish audit regulator, the Instituto de Contabilidad y Auditoría de Cuentas (ICAC).

The IESBA agreed to consider a revised draft of the proposed provisions at its October 2026 meeting.

IESBA October 2026 meeting – second-read draft of proposed FCG provisions

At its virtual meeting on 29 October 2026, the IESBA considered a second-read draft of the proposed FCG provisions in the Code (Agenda Item 1A), together with a report-back on the key takeaways from stakeholder outreach undertaken in October 2026.

IESBA Stakeholder outreach – October 2026

In October 2026, IESBA representatives met with the IAASB-IESBA User Advisory Group, the IESBA Jurisdictional Standard Setters (JSS) liaison group, the Forum of Firms, the Stakeholder Advisory Council (SAC), and representatives of the IFAC Small and Medium Practices Advisory Group (SMPAG). Key themes from these meetings included:

- concerns about whether changes to the Code are necessary, as opposed to non-authoritative material (NAM) alone, and what the proposals add beyond the extant Code and ISQM 1;
- SMP's concerns about proportionality, scalability and documentation, and a caution that the application material, the FCG elements or NAM could come to be treated as de facto requirements;
- concerns about how regulators would interpret and assess an "effective ethical culture", and requests for practical guidance on scalability, network firms and the interaction with ISQM 1; and
- strong support from the SAC and the User Advisory Group for the importance of the project, including support for a succinct, principles-based framework in the Code as a "middle of the road" approach, together with a suggestion that the Exposure Draft be explicit about the related cost-benefit of ethical culture and gap analyses with existing standards.

Further outreach is planned in November 2026 with the International Forum of Independent Audit Regulators' Standards Coordination Working Group and IOSCO Committee 1.

Key changes in the second-read draft – October 2026

The key changes to the proposed FCG provisions since the September 2026 meeting include:

- redrafting the overarching requirement (paragraph R300.5) to align with the structure of paragraph 19 of ISQM 1. The revised requirement provides that a firm shall take appropriate steps to establish and maintain an ethical culture throughout the firm that supports compliance with the fundamental principles by its personnel and, in doing so, shall exercise professional judgment, taking into account the nature and circumstances of the firm and its professional services. It also states that ethical leadership and governance are key drivers of such a culture;

- removing "effective", "including governance arrangements" and "thereby contributing to public trust in the profession" from the requirement. The purpose of the provisions is instead expressed in the introductory paragraph (paragraph 300.4 A1), which now refers to helping a firm's personnel meet their responsibility to act in the public interest;

- revising the lead-in to the FCG elements (paragraph 300.5 A2) to remove "most effective when it involves", which could have been read as requiring all eight elements. The paragraph now states that an ethical culture and related governance are more likely to support compliance with the fundamental principles when the firm takes appropriate steps in relation to the elements;

- combining the incentives and disincentives elements, and the internal and external transparency elements, into single elements with sub-bullets, and refining several other elements (for example, education and training now refers to regular training that develops professional judgment); and

- retaining the term "personnel" without a new Glossary definition, to avoid unintended consequences elsewhere in the Code.

The Project Team also clarified that an individual breach of a fundamental principle would not, of itself, mean that a firm has breached the overarching requirement, in the same way that a deficiency in a firm's system of quality management does not, of itself, mean that the firm has failed to comply with ISQM 1.

Coordination with the IAASB and next steps

The second-read draft incorporates input from IAASB representatives on interoperability with ISQM 1. The Project Team and Board Advisors will meet the IAASB liaison team in November 2026 to progress joint guidance on the relationship between the proposed FCG provisions and ISQM 1, particularly for firms that have implemented a system of quality management under ISQM 1. The guidance will build on the March 2026 linkages paper and is expected to be released alongside the Exposure Draft in December 2026.

The Project Team will consider the IESBA's feedback in developing a third-read draft of the proposed provisions and a draft Explanatory Memorandum for the IESBA's consideration at its December 2026 meeting, with a view to approving the Exposure Draft.

Other FCG developments – IESBA publication on leaders' perspectives

In October 2026, the IESBA published Leaders on Firm Culture and Governance, which brings together condensed written versions of five video interviews released between March and July 2026. The interviewees comprise a global corporate governance standard-setter, a central banker and global financial stability policymaker, an audit firm leader, an international investor representative and the IESBA Chair. Collectively, the interviews emphasise that trust in financial markets depends on the culture, incentives and governance that shape behaviour, and not on rules alone.

Further details about the project are available in the IESBA's October 2026 meeting papers and on the IESBA's project page.

IESBA Strategy and Work Plan (SWP) 2028-2031

The IESBA and the International Auditing and Assurance Standards Board (IAASB) are developing their respective Strategies and Work Plans (SWPs) for 2028-2031. In January 2026, the two Boards issued a joint stakeholder survey to inform the development of their strategies, focusing on strategic positioning for 2028-2031, the key trends impacting the Boards (including digital transformation, sustainability, and geopolitical and regulatory developments), and opportunities for closer coordination between the two Boards. The survey was open for a 114-day comment period, which closed on 15 May 2026. The joint survey attracted 108 responses.

On 16 April 2026, APESB and the Auditing and Assurance Standards Board (AUASB) held a joint roundtable to obtain Australian stakeholder feedback on the survey, which was attended by 18 stakeholders. Based on that feedback, APESB prepared a response to the joint survey.

IESBA September 2026 meeting – analysis of survey responses and strategic direction

At its September 2026 meeting, the IESBA considered:

- An overview of responses to the joint IAASB-IESBA stakeholder survey (joint survey) conducted to inform the development of the IESBA's and IAASB's Strategies and Work Plans (SWPs) 2028-2031;
- The IESBA Planning Committee and Staff reflections on the trends in the external environment and the related analysis of the joint survey feedback; and
- The Joint IAASB-IESBA SWP Working Group and Staff's initial views on the joint survey feedback relating to coordination between the two Boards.

The IESBA discussed key environmental trends and possible strategic objectives for its next SWP. Among other matters, it considered how best to address the needs of professional accountants in business (PAIBs) and professional accountants in firms outside audit, as well as professionals in firms who are not professional accountants.

The IESBA emphasised that the next SWP should reflect evidence-based priorities, be deliverable within available resources, maintain close coordination with the IAASB, and retain the flexibility to respond to evolving risks of the greatest public interest significance.

Further details are available in the IESBA's September 2026 meeting highlights.

IESBA October 2026 meeting – First draft of the Consultation Paper

At its virtual meeting on 29 October 2026, the IESBA considered the general approach to, and structural elements of, the first draft of the Consultation Paper (CP) on the IESBA SWP 2028–2031 (Agenda Item 2A). A supporting paper (Agenda Item 2B) maps how the draft CP responds to the joint survey feedback.

Following the IESBA's September 2026 discussion, the number of proposed strategic objectives has been reduced from six to four, with the needs of professional accountants in business and professional accountants in public practice other than auditors addressed across all four objectives. The draft CP identifies four environmental trends: interconnected markets and fragmenting rules; erosion of institutional trust and a new architecture of accountability; AI, sustainability and other new frontiers; and evolving ethical expectations beyond audit.

The four proposed strategic objectives are:

- SO1 – An effective, agile and connected IESBA, including a framework for timely responses developed with deeper collaboration the IAASB and broader stakeholder engagement;

- SO2 – A clearer, more usable Code that supports global adoption and consistent implementation, including evidence-based targeted simplification, reinforcing proportionality, and adoption and implementation support;

- SO3 – Strengthening the foundations of trust in firms, including supporting implementation of the FCG provisions, private equity and other external investment in firms, business relationships with AI and technology providers, and data governance; and

- SO4 – A future-ready Code that supports the profession in addressing technology, sustainability and financial crime challenges, with the Code to be amended only where the evidence shows a gap.

Under the proposed work plan, the IESBA would assess possible initiatives across all four objectives each year against their strategic significance, urgency and resource demand, while holding some capacity in reserve for new and emerging issues.

Indicative priority actions include completing the FCG project, post-implementation reviews of the non-assurance services and fees provisions and of the public interest entity definition (with the IAASB), follow-up to the NOCLAR post-implementation review, and work on financial crime (subject to an assessment in 2028).

The IESBA also received feedback from the October 2026 SAC meeting, which was generally supportive of the strategic direction, emphasised implementation support and agility, and cautioned against the IESBA extending its mandate into broader governance and financial crime matters.

The IESBA will consider a full draft of the CP, including its vision and value proposition, at its December 2026 meeting. The CP is expected to be approved in February 2027, following a joint IAASB-IESBA plenary session, and published for public consultation in the first quarter of 2027. Both Boards' SWPs for 2028–2031 are targeted for approval in December 2027.

Other IESBA projects

The IESBA also progressed several other projects at its September 2026 meeting, as highlighted below.

- **Technology** – the IESBA supported the plan for targeted NAM on the ethical implications of generative and agentic AI. IESBA agreed that the scale, intensity, pace and strategic importance of these alliances, together with AI's growing autonomy and reach, warrant priority attention and further information gathering to assess the ethical and independence implications and determine appropriate responses. The IESBA will consider the draft targeted NAM plan with a view to agreeing it at its December 2026 meeting. At that meeting, the IESBA will also consider next steps relating to the topic of alliances between firms and AI and other technology providers.

- **Private Equity and Other External Investments in Accounting Firms** – the IESBA considered an update from the Project Team on its information-gathering activities since the June 2026 meeting. A joint IESBA-IAASB Action Plan has been developed setting out the approach to Phase 1 information gathering, including desktop research and stakeholder outreach, with an update on emerging themes expected at the December 2026 meeting.

Way Forward

Technical Staff will continue to monitor the progress of IESBA projects, including the IESBA's consideration of the FCG Exposure Draft for approval in December 2026 and the SWP Consultation Paper, which is expected to be approved in February 2027, and report back to the Board at its March 2027 meeting.

Recommendation

That the Board note and discuss the developments on the key IESBA's projects.

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Appendix A – 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.

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.

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.

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 considered the proposed FCG provisions in the Code for a first read, along with the proposed work plan for developing NAM. A second read of the FCG provisions was performed by IESBA at its virtual board meeting on the 29th of October.

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.