

Meeting: Stakeholder Advisory Council (SAC)

Meeting Location: New York City, United States

Meeting Dates: October 20–21, 2026

Agenda Item

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Interrelationship Between Private Equity and Other External Investment in Firms (PE&OEI) and Firm Culture and Governance

Focus of Discussion

1. The purpose of this session is to seek the SAC's strategic perspectives on how PE&OEI may affect an accounting firm's ethical culture and governance (FCG).
2. Developments in PE&OEI and FCG and related standard-setting initiatives potentially interconnect with a number of other matters, in particular audit quality and ISQM 1.¹ The session therefore includes an opportunity to also discuss how PE&OEI may affect a firm's system of quality management and audit and other assurance quality.

Introduction of SSBs' Collaborative PE&OEI Information-Gathering Workstream

3. The IESBA and the IAASB (together referred to as the Standard Setting Boards (SSBs)) are undertaking a coordinated PE&OEI² information-gathering workstream. This work is being undertaken in accordance with the [Terms of Reference](#) the IESBA approved at its June 2026 meeting and builds on its July 2025 [Staff Alert on Private Equity Investment in Accounting Firms](#). This includes collaborative information-gathering activities with the IAASB to develop an evidence-based understanding of evolving ownership, governance, and financing arrangements in accounting firms, and their potential ethics, independence, quality management, audit and other assurance quality, and public interest implications.³
4. PE&OEI can provide accounting firms with access to capital to support growth (including through acquisitions) and innovation, invest in technology, and secure talent.⁴ At the same time, these developments raise important public interest considerations, including:

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

² This paper uses the term "accounting firm" or "firm" to refer to a firm that provides professional services performed by professional accountants, for example, accounting, auditing, other assurance, tax advisory and compliance, consulting, etc. When the paper refers to a firm that provides only audit and/or other assurance engagements or a firm that provides only non-assurance services, the terms "audit firm" and "non-audit firm" are used, respectively.

³ Additional background information is available on the [IESBA PE&OEI Project Page](#) and in the [Joint SSBs Paper](#) for their respective September 2026 Board meetings.

⁴ [Beyond Private Equity: Third-Party Ownership in the Accountancy and Audit Sector, November 2025](#)

- The external investors' potential influence on professional judgment, integrity, objectivity, independence⁵ (where relevant), and FCG.
- Pressures related to profitability, growth and exit strategies.
- Strategic decisions and actions, including financial and operational priorities in the context of a firm's system of quality management, and audit and other assurance quality.
- More broadly, governance and control arrangements potentially affecting compliance with:
 - The [IESBA's International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (IESBA Code); and
 - The IAASB's quality management standards.⁶

Regulatory Responses to PE&OEI in Accounting Firms

5. Recent regulatory developments increasingly recognize that external investment may present both opportunities and risks for accounting firms. The emerging focus is not limited to legal ownership, but extends to how external capital may affect governance, control, incentives, ethical culture, independence and audit quality. Recent measures in Singapore,⁷ the Netherlands⁸ and the United Kingdom⁹ emphasize professional control, appropriate safeguards against investor influence and commercial pressures, and the need to preserve ethical conduct, independence, audit quality and public interest responsibilities as firms' structures evolve.
6. More broadly, recent comparative research¹⁰ on audit firm governance has identified a global trend towards stronger governance arrangements, with increasing emphasis on independence, transparency, accountability and ethical culture. However, approaches differ considerably across jurisdictions. Some jurisdictions, such as the United Kingdom, have developed dedicated audit firm governance codes, while others rely on combinations of ownership and control requirements, and

⁵ Independence comprises:

- Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity, and exercise objectivity and professional skepticism.
- Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's, or an audit or assurance team member's, integrity, objectivity or professional skepticism has been compromised.

⁶ The IAASB's quality management standards comprise ISQM 1, ISQM 2, *Engagement Quality Reviews* and International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*.

⁷ [The Singapore Accounting and Corporate Regulatory Authority Practice Direction No.1 of 2026 on External Private Capital Arrangements in Accounting Entities](#)

⁸ [Interpretation of the Dutch Audit Firms Supervision Act Sections 16 and 16b](#)

⁹ [United Kingdom Financial Reporting Council Letter: External private capital and audit firms, September 2024](#)

¹⁰ [Corporate Governance in Audit Firms: A comparative study at international Level](#)

compliance with quality management standards, independence requirements and transparency obligations.

Update on the IESBA's FCG Project

7. At its [June 2026 meeting](#), the IESBA considered cumulative input on the FCG project since 2024 including extensive global feedback across stakeholder groups, desktop research, commissioned academic literature review, and simulation exercises with two firms. After deliberating options for the development of an FCG framework in light of this input, the IESBA agreed to develop a single, principles-based overarching requirement and related application material in the IESBA Code (FCG Framework).¹¹ These provisions will be accompanied by practical non-authoritative materials (NAM) and other supporting materials.
8. Since then, the FCG Project Team has developed a first-read draft of the proposed provisions and an action plan for NAM and other supporting materials. These were considered by the IESBA at its September 2026 meeting. The FCG Project Team also liaised with the IAASB to ensure the interoperability of the proposed provisions with ISQM 1.
9. The [September 2026](#) IESBA meeting materials also identified PE&OEI as an emerging topic with potential impact on FCG, for example, due to commercial pressures, conflicts of interest, culture clashes arising from mergers and acquisitions, and the risk that business strategy and commercial priorities may undermine ethical values, professional responsibilities and the public interest.

Interrelationship Between PE&OEI and FCG

10. A firm's ownership and financing arrangements may influence leadership decisions, incentives, governance and accountability, with implications for ethical behavior, auditor independence, conflicts of interest, and transparency. For example:
 - *Ethical Leadership and Decision-making* – The introduction of external investors may affect who participates in, influences or has oversight of the firm's strategic and operational decisions. This raises questions about how the firm's leadership continues to establish and reinforce ethical values and how professional and public interest considerations are incorporated into strategic decisions given that the external investors might not have the same professional responsibilities, including acting in the public interest. The issue may extend beyond formal voting or ownership rights to other means of influence, including board representation, contractual arrangements, financing arrangements, performance targets and economic incentives.
 - *Incentives and Pressures* – Financial incentives are an important point of intersection between PE&OEI and FCG. Incentives linked to growth, profitability, acquisition activity, operational

¹¹ The eight elements that form the structure of an FCG Framework are: (1) ethical leadership; (2) oversight and governance; (3) independent input; (4) accountability across the firm; (5) incentives and disincentives; (6) open discussion and challenge; (7) education and training; and (8) transparency.

efficiency or investment returns could support legitimate strategic objectives. However, the design of incentives can also influence behavior and priorities throughout a firm.

For example, expectations concerning financial performance, resource allocation, business growth or the nature and timing of an investor's exit could potentially create pressure on those within the firm making professional or business decisions.

- *Governance, Oversight and Accountability* – External investment may also raise broader questions about how governance arrangements support the firm's professional responsibilities. Relevant considerations could include decision-making authority; the role of professional accounts in governance; mechanisms for independent input and challenge; accountability for ethical outcomes; and understanding of the firm's professional and public interest responsibilities by board representatives of the external investors.

These considerations may become particularly relevant where the economic interests of an investor and formal control of the professional practice are separated. Effective governance therefore potentially extends beyond formal compliance with ownership or control requirements to include consideration of how influence is exercised in practice. This is consistent with the regulatory focus on substance over form, and whether appropriate mechanisms exist to ensure that ethical considerations are given sufficient weight in decision-making.

- *Auditor Independence and Conflicts of Interest* – PE&OEI also often increases the number and complexity of relationships that may need to be considered for auditor independence purposes. Investors may have interests in multiple entities, and investment structures may change over time through acquisitions, disposals, reorganizations or other subsequent transactions. For example, the International Forum of Independent Audit Regulators (IFIAR) has identified the resulting complexity of identifying independence threats and conflicts of interest as a potential challenge.¹²
- *Transparency* – Changes in ownership and governance may also raise questions about what information stakeholders need in order to understand how the firm protects its professional and public interest responsibilities. Depending on the circumstances, transparency about governance structures, accountability, quality-related measures and how potential conflicts or pressures are managed may contribute to stakeholder confidence.

11. In this context, an effective ethical culture and related governance are particularly important during periods of change and uncertainty, such as when PE&OEI changes ownership, financing or leadership, or influence strategic and commercial decision-making.
12. The proposed FCG Framework is intended to establish a global baseline that supports the establishment and maintenance of an effective ethical culture and related governance in firms. It would be applicable regardless of a firm's ownership or legal structure. The FCG Framework can support firms in addressing the ethical implications arising from PE&OEI.

¹² [IFIAR Statement on Private Equity Investment in Audit Firms, December 2024](#)

Matters for SAC Members' Consideration

1. *SAC Members are invited to share their views on:*
 - (a) *How PE&OEI might influence a firm's ethical culture and governance, positively or negatively;*
 - (b) *What role PE&OEI investors and firm leadership should play in reinforcing an ethical culture and ensuring that ethical considerations remain embedded in strategic and commercial decision-making; and*
 - (c) *How the IESBA might most effectively respond to these interconnected considerations through its PE&OEI and FCG workstreams.*

Interaction with Quality Management

13. PE&OEI arrangements can affect a firm's culture and governance and its ability to manage and maintain quality at the firm and engagement levels through their impact on the firm's strategy, decision-making, commercial incentives, governance and leadership, and operational arrangements.
14. The proposed FCG provisions and ISQM 1 are closely related and mutually supportive, while having different objectives and having different scopes. The proposed FCG provisions focus on articulating the characteristics of the elements of a firmwide ethical culture, while ISQM 1 requires all firms that perform engagements within the scope of the IAASB's engagement standards to establish a system of quality management that enables the consistent performance of quality engagements.¹³
15. Together, the proposed FCG provisions and the quality management principles underpinning ISQM 1 provide complementary perspectives for understanding and addressing the implications of PE&OEI. The interconnected elements discussed in paragraph 10 provide example considerations as to how PE&OEI may affect a firm's culture, governance and organizational environment. In addition, from a quality management perspective, it is important to understand how firms that are subject to ISQM 1 address the events, conditions or circumstances related to accepting PE&OEI through their system of quality management.

Impact on Firm's Quality Management Processes

16. The firm's risk assessment, monitoring and remediation processes are central to how the firm addresses the events, conditions or circumstances relating to accepting PE&OEI within its system of quality management. For example, PE&OEI may result in:
 - (a) Additional or modified quality objectives;

¹³ The paper [Linkages between IESBA Viewpoints and ISQM 1](#) further explains the relationship, between the IESBA FCG viewpoints and ISQM 1. It demonstrates the mutually supportive nature of the IESBA viewpoints and ISQM 1 while recognizing the distinctions in their objectives, scope, output and focus. The IESBA developed the FCG viewpoints for purposes of further dialogue with stakeholders in Q1-Q2 2026.

- (b) New or modified network requirements or network services;
- (c) New or modified monitoring activities;
- (d) Changes with respect to the nature or evaluation of findings and deficiencies in the system of quality management;
- (e) New or modified remediation activities; or
- (f) Changes to monitoring activities undertaken by the network.

Impact on Other Components of a Firm's System of Quality Management

17. A firm's system of quality management under ISQM 1 operates in a continual and iterative manner and is responsive to changes in the nature and circumstances of the firm and its audit and other assurance engagements. PE&OEI may have quality management implications relating to various components of that system, for example:
- (a) *Governance and Leadership* – PE&OEI may affect how responsibility and accountability for quality are assigned and exercised, and how the firm establishes and reinforces a culture that recognizes its role in serving the public interest by consistently performing quality engagements.
 - (b) *Relevant Ethical Requirements* – Evolving investment structures and related entities may increase the range or complexity of relationships that need to be identified and evaluated and may require the firm to adapt its policies or procedures to comply with relevant ethical requirements, particularly those related to independence.
 - (c) *Acceptance and Continuance of Client Relationships and Specific Engagements* – External investment arrangements may affect decisions about whether to accept or continue client relationships or specific engagements, for example, due to potential conflicts of interest or other relationships arising from the investment arrangement.
 - (d) *Engagement Performance* – The firm may need to consider whether policies or procedures continue to support the consistent performance of quality engagements, including those relating to direction, supervision and review, consultation and differences of opinion. Also relevant are possible impacts on the exercise of professional judgment and maintaining professional skepticism.
 - (e) *Resources* – Changes arising from PE&OEI may affect the firm's resources, including how the firm obtains, develops, uses, maintains, allocates and assigns human, technological and intellectual resources, or uses service providers, to support its system of quality management and the consistent performance of quality engagements.
 - (f) *Information and Communication* – PE&OEI-driven changes may affect the nature, timing and flow of information within the firm and, where applicable, across its network or with service providers and to external parties (e.g., regulators and oversight bodies). Effective information and communication are important for the timely identification and escalation of quality and ethical matters to those with appropriate responsibility and authority.

Impact on Certain Specified Responses Under ISQM 1

18. PE&OEI in accounting firms may impact the following specified responses under ISQM 1:
- (a) Policies or procedures that address communication about an audit firm's system of quality management with those charged with governance or other external parties; or
 - (b) Policies or procedures that address engagement quality reviews.
19. The IAASB is seeking to understand how PE&OEI interact with a firm's system of quality management in practice and whether the existing quality management principles enable firms to identify, assess and respond appropriately to changes arising from PE&OEI, or whether gaps or implementation challenges are emerging.

Matters for SAC Discussion

2. *SAC Members are asked for their views on:*
- (a) *Whether the quality management considerations as set out in paragraphs 16–19 reflect the interaction between PE&OEI, FCG and a firm's system of quality management; and*
 - (b) *Whether there are other quality management matters arising from this interaction that should be considered as part of the IAASB's information-gathering activities.*

Material Presented

For Discussion

- Agenda Item 4-A** Presentation: Interrelationship between Private Equity Investment in Accounting Firms and FCG