

Session 4 – Private Equity Investment in Firms and Firm Culture and Governance

Stakeholder Advisory Council

IESBA and IAASB Staff

New York | October 20 - 21



Focus of Discussion



SSBs' Collaborative PE&OEI Workstream

JOINT INFORMATION GATHERING

Joint information gathering

IESBA and IAASB are examining evolving firm ownership, governance, and financing arrangements.

The work considers ethics, independence, quality management, audit and other assurance quality, and public interest implications.

It follows the Terms of Reference the IESBA approved in June 2026 and builds on its July 2025 Staff Alert.

Opportunities and risks

External capital can fund growth and acquisitions, innovation, technology, and talent.

Investor influence and commercial or exit pressures may affect professional judgment, independence, ethical culture, and quality.

Governance and control may affect compliance with the IESBA Code and IAASB quality management standards.

Regulatory responses

Singapore, the Netherlands, and the UK emphasize professional control and safeguards against investor influence and commercial pressures.

The focus extends beyond legal ownership to governance, independence, transparency, accountability, and ethical culture.

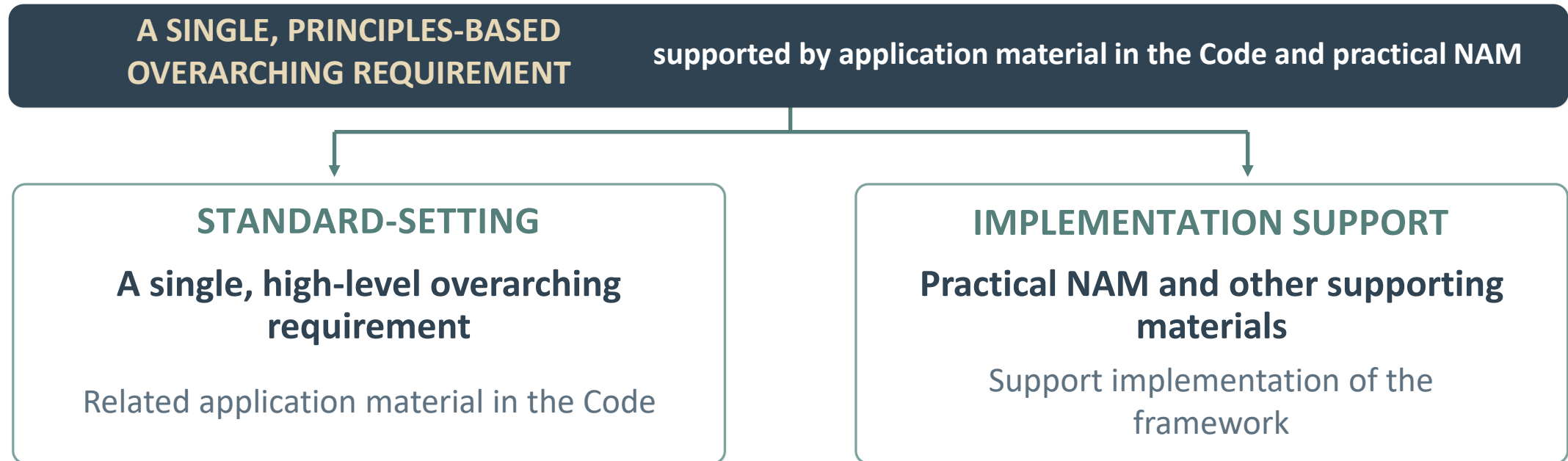


Interrelationship Between PE&OEI and Firm Culture and Governance (FCG)

Firm Culture and Governance

IESBA June 2026 Decision: Anchor FCG in the Code

A progressively stronger evidence base, accumulated over 2.5+ years, to support the Board's deliberations and decisions



The proposed FCG Framework would establish a global baseline for ethical culture and governance across all ownership and legal structures, helping firms address the ethical implications of PE&OEI

FCG Interaction with PE&OEI

TWO COORDINATED WORKSTREAMS, DISTINCT OBJECTIVES

01 PE&OEI INVESTMENT

Opportunities and risks

- Growth, technology, and enhanced expertise
- Conflicts, commercial pressures, and culture challenges
- Potential implications for long-term ethical culture and governance



02 FCG WORKSTREAM

Set the global baseline

- Strong FCG practices safeguard ethical culture and governance
- High-level, principles-based FCG framework in the Code
- FCG Framework applies to all firms regardless of legal or ownership structure



03 PE&OEI WORKSTREAM

Assess implications of PE&OEI developments

- Ongoing consideration as the PEI landscape develops
- Determine whether targeted Code changes are needed
- Coordinate with FCG as framework is finalized

Interrelationship Between PE&OEI and FCG

OWNERSHIP AND FINANCING MAY AFFECT A FIRM'S GOVERNANCE, ETHICS AND AUDITOR INDEPENDENCE

Ethical Leadership and Decision-making

- Investor influence may extend beyond ownership rights
- Considerations around how firm leaders uphold ethical values and embed public interest responsibilities in strategy

Incentives and Pressures

- Incentives linked to growth and profitability could support strategic objectives
- Could also create pressure on those within the firm making professional or business decisions

Governance, Oversight and Accountability

- Considerations around how governance may extend beyond formal compliance with ownership or control requirements to include how influence is exercised in practice

Auditor Independence and Conflicts of Interest

PE&OEI often increases the number and complexity of relationships that may need to be considered for auditor independence purposes

Transparency

Transparency about governance structures, accountability, quality measures, and management of potential conflicts or pressures may contribute to stakeholder confidence



Matters for SAC Discussion

Ethics, Independence, and Public Interest Implications

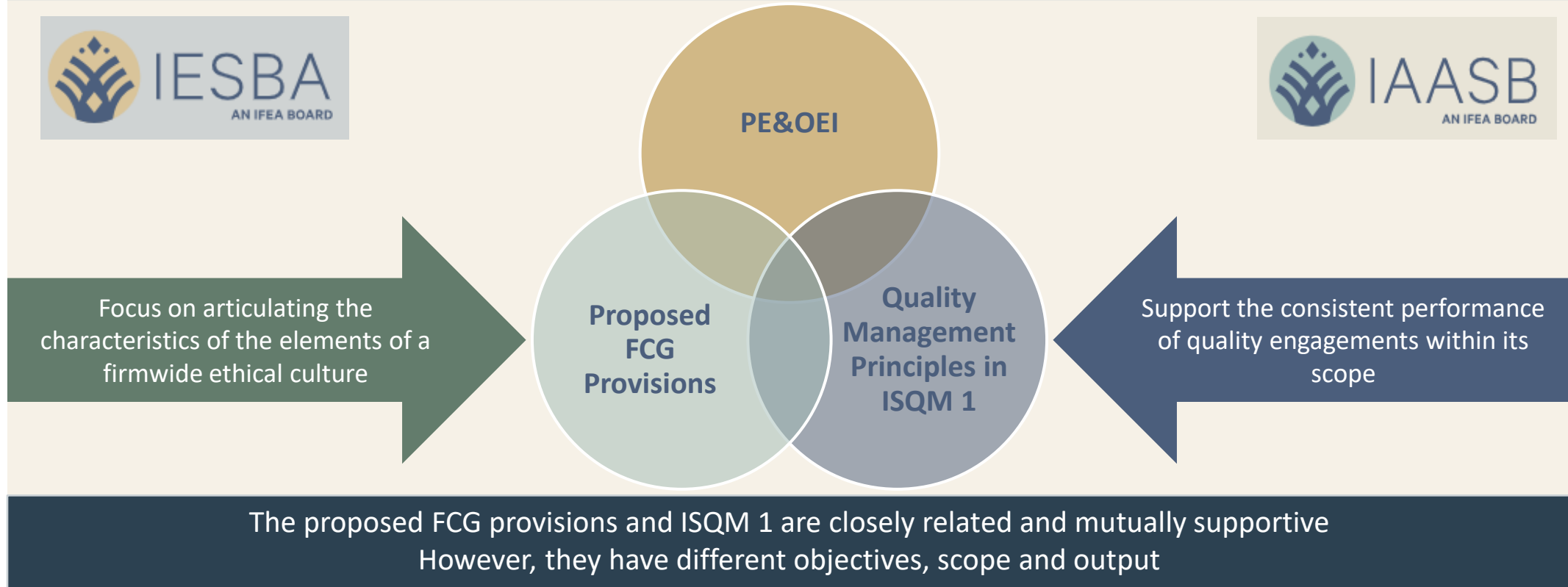
- How PE&OEI might influence a firm's ethical culture and governance, positively or negatively?
- What role PE&OEI investors and firm leadership should play in reinforcing an ethical culture and ensuring that ethical considerations remain embedded in strategic and commercial decision-making?
- How the IESBA might most effectively respond to these interconnected considerations through its PE&OEI and FCG workstreams?



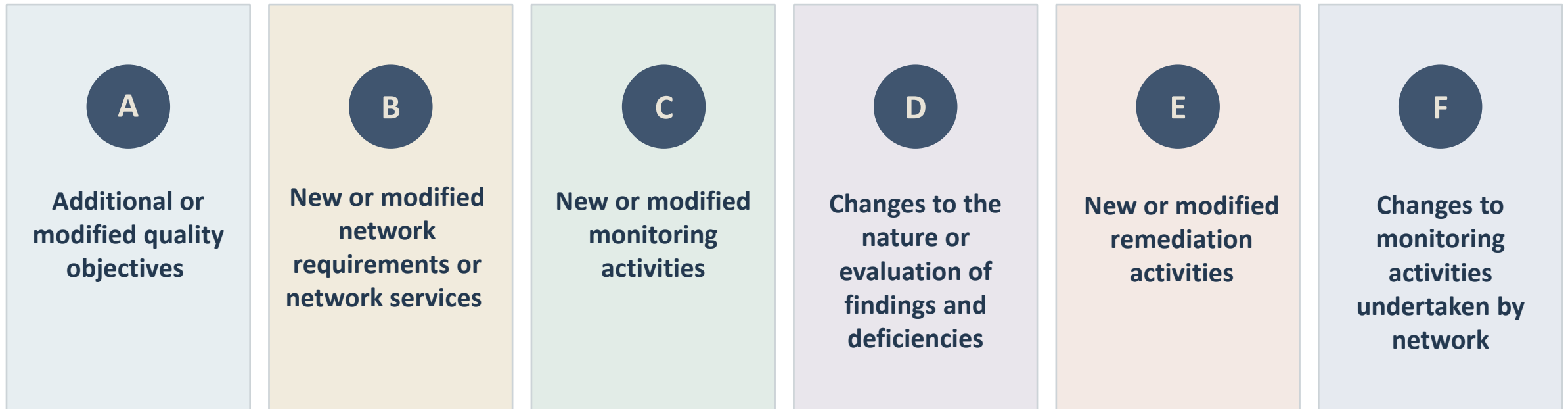
Interaction with Quality Management

Interaction between PE&OEI, FCG and ISQM 1

PE&OEI arrangements may affect a firm's culture and governance and the management and maintenance of quality at the firm and engagement levels



Possible Impact on Firm's Quality Management Processes



Possible Impact on Other Components of SOQM

Governance & Leadership

- How responsibility and accountability for quality are assigned and exercised
- How the firm's culture reinforces the public interest

Relevant Ethical Requirements

- Increase range or complexity of relationships to be identified
- Adapt policies or procedures to comply with relevant ethical requirements

Acceptance & Continuance

- Affect the firm's decision to accept or continue client relationships and specific engagements

Engagement Performance

- Policies or procedures to support the consistent performance of quality engagements
- Exercise of professional judgment and maintaining professional skepticism

Resources

- How the firm obtains, develops, uses, maintains, allocates and assigns resources

Information & Communication

- The nature, timing and flow of information within the firm and, across its network or with service providers and to external parties

Possible Impact on Specified Responses under ISQM 1



Policies or procedures that address communication about an audit firm's SoQM with those charged with governance or other external parties



Policies or procedures that address engagement quality reviews



Matters for SAC Discussion

Quality Management, Audit and Other Assurance Quality, and Public Interest Implications

- Whether the quality management considerations as set out in paragraphs 16–19 of Agenda Item 4 reflect the interaction between PE&OEI, FCG and a firm’s system of quality management; and
- Whether there are other quality management matters arising from this interaction that should be considered as part of the IAASB’s information-gathering activities.

Ways Forward



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