

**For discussion  
on 3 February 2025**

**Legislative Council Panel on Financial Affairs**

**Accounting and Financial Reporting Council  
Budget for the Financial Year 2025-26**

**PURPOSE**

This paper highlights the main features of the budget of the Accounting and Financial Reporting Council (“AFRC”) for 2025-26 (at Annex).

**BACKGROUND**

2. The AFRC is a full-fledged independent regulator of the accounting profession which regulates Public Interest Entities<sup>1</sup> (“PIE”) auditors as well as practice units<sup>2</sup> and certified public accountants (“CPA”). It also oversees the Hong Kong Institute of Certified Public Accountants (“HKICPA”)’s performance of various statutory professional functions, and promotes and supports the development of the accounting profession.

3. Section 17(3) of the Accounting and Financial Reporting Council Ordinance (Chapter 588) (“AFRCO”) requires the AFRC to submit the estimates of its income and expenditure for each financial year to the Financial Secretary (“FS”) for approval.

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<sup>1</sup> A PIE refers to a corporation with issued shares or stocks listed in Hong Kong or a collective investment scheme with interests listed in Hong Kong.

<sup>2</sup> A practice unit is (i) a certified public accountant (practising) who practises accountancy on the accountant’s own account under the accountant’s own name; (ii) a certified public accountant (practising) who practises accountancy on the accountant’s own account under a firm name; (iii) a firm of certified public accountants (practising) which practises accountancy in partnership; or (iv) a corporate practice.

4. At present, the relevant levies<sup>3</sup> under the PIE auditor regulatory regime and the application fees for issuance of practising certificates and registration as well as the respective renewal<sup>4</sup> are the AFRC's main source of income. In 2019, the Government injected a seed capital of \$400 million to the AFRC to help it migrate to the PIE auditor regulatory regime; and in 2024, \$200 million was injected to help the AFRC tide over the resources needs arising from the expanded functions under the new regulatory regime of the accounting profession.

## **BUDGET FOR 2025-26**

### **Income**

5. The total estimated income is about \$379 million, which is \$101 million (36.3%) above the latest estimated income for 2024-25 of \$278 million. It comprises around \$156 million from levies, \$44 million from application fees for issuance of practising certificates, registration and renewal, and \$174 million from Government funding<sup>5</sup>. The AFRC has adopted the following assumptions in projecting the estimated income –

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<sup>3</sup> The relevant levies are:

- (1) the levies payable for a sale and purchase of securities –
  - (a) for the seller – 0.00015% of the consideration for the sale; and
  - (b) for the purchaser – 0.00015% of the consideration for the purchase;
- (2) the levies payable by a PIE for a calendar year is 4.2% of the prepaid annual listing fee; and
- (3) the levies payable by a PIE auditor for a calendar year –
  - (a) \$6,155 × the number of PIEs for which the auditor is carrying out, as at 31 December of the preceding calendar year, a specified engagement; and
  - (b) 0.147% of the total remuneration paid to the auditor, in the preceding calendar year, by the PIEs for which the auditor carried out specified engagements.

The levies were exempted for the period between 1 October 2019 and 31 December 2021.

<sup>4</sup> The current fee levels of the AFRC are set at levels adopted by the HKICPA immediately before the launch of the new regulatory regime of the accounting profession. The fees were exempted in the first year of implementation of the new regime (i.e. from 1 October 2022 to 30 September 2023).

<sup>5</sup> According to the AFRC's financial reporting method, the amount of Government funding disbursed in the financial year is recognised as "grant income" in the financial statement in that year for offsetting the operating expenditure funded by the Government funding.

- (a) **levy income:** the average securities market turnover for 2025-26 will be \$135 billion per day (the average securities market turnover for 2024 was about \$132 billion per day); and the number of PIEs, average annual listing fee per PIE as well as the number of PIE engagements will remain unchanged; and
- (b) **licencing fee income:** the numbers of practising certified public accountants (“CPA”), partners of CPA firms and directors of corporate practices will remain unchanged.

## Operating Expenditure

6. The total estimated operating expenditure is about \$379 million. The largest expenditure item is “staff salaries, bonuses, variable pay and Mandatory Provident Fund contributions”, which is estimated at about \$237 million, of which –

- (a) around \$163 million is attributed to the 100 existing headcount for the PIE-related functions;
- (b) around \$74 million is for the 45 existing headcount for the non-PIE-related functions; and
- (c) for budgetary purpose, a provisional average salary increment of 3.9%<sup>6</sup> has been factored in.

7. The total estimated operating expenditure is \$101 million (36.3%) above the latest estimated expenditure for 2024-25 of \$278 million. This is mainly due to the following reasons –

- (a) A number of vacancies will be completely filled only by the end of 2024-25. The estimated staff salaries, bonuses, variable pay and Mandatory Provident Fund contributions as well as other staff-related costs<sup>7</sup> will reflect the expenses arising from the 145 headcount of the AFRC in full, which as compared with that in 2024-25 will increase by \$61 million;

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<sup>6</sup> The final approved average salary increment will be subject to the Government’s further consideration and approval, while the actual salary adjustment for individual staff will be subject to performance.

<sup>7</sup> Including staff training and development expenses, etc.

- (b) Given the increase in the AFRC's regulatory caseload and the corresponding number of review applications<sup>8</sup>, it is expected that the need to seek external legal advice and engage external lawyers and expert witnesses for assistance in handling review and appeal cases will increase accordingly, resulting in the increase in legal and professional fees by around \$11 million;
- (c) The AFRC is enhancing its IT systems to support the operational needs arising from a significantly expanded regulatory scope and increased number of regulatees<sup>9</sup>, as well as to strengthen the corporate cyber and information security. Hence, there will be a net increase of information and system services expenses by around \$7 million; and
- (d) The AFRC proposes to set aside an additional amount of \$9 million as contingency provision.

8. The increased expenditure will be partially offset by decrease in premises expenses; while corporate communication and other operating expenses<sup>10</sup> remain the same.

### **Manpower Plan**

9. The AFRC proposes to maintain its manpower at 145 headcount, which includes 100 headcount for PIE-related functions and 45 headcount for non-PIE-related functions.

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<sup>8</sup> As at 31 December 2024, the total number of cases (including complaints, investigation, enquiries and review cases) being handled by the Investigation and Compliance Department is 430, which has increased by 36 cases (9.14%) as compared with 394 cases as at end of 2023-24. As for the number of applications for review against the AFRC's regulatory decisions, there were only one case in 2023-24 and as at 31 December 2024 there were two cases already.

<sup>9</sup> Prior to the implementation of the new regime, the AFRC regulated some 70 registered local PIE auditors and some 30 recognised overseas PIE auditors. Under the new regime, apart from regulating PIE auditors, the AFRC is also responsible for regulating more than 48 000 CPAs (among them over 5 100 are practising CPAs) and over 1 800 firms and corporate practice in Hong Kong.

<sup>10</sup> They include professional liability and office insurance, other office supplies and consumables etc.

## **Capital Expenditure**

10. The estimated total capital expenditure is about \$19 million, mainly covering expenses on development of IT systems.

## **Cash reserve**

11. The AFRC estimates that by 31 March 2026, its cash reserve will stand at \$152 million.

12. According to Part 4A of the AFRCO on the levies, the AFRC may, after consultation with the FS, recommend to the Chief Executive-in-Council that the rate or amount of levies be reduced if the reserves of the AFRC are more than twice its estimated operating expenses for that financial year. Since the estimated cash reserve of the AFRC is less than twice its estimated operating expenses, the above mechanism for adjustment to the rate or amount of levies will not be triggered.

## **COMPARISON OF THE 2024-25 APPROVED BUDGET WITH THE UPDATED FORECAST**

### **Income**

13. The forecast income for 2024-25 is \$278 million, which is \$41 million (17.3%) higher than the approved budget of \$237 million. The higher income is mainly due to the higher-than-budgeted market turnover, as well as the higher-than-budgeted Government funding available for disbursement.

### **Operating Expenditure**

14. The updated forecast operating expenditure is \$278 million, which is \$126 million (31.2%) lower than the approved budget of \$404 million. The underspending is mainly due to the time lag in filling vacancies, and lower expenses on information and systems, premises, legal and professional fees, corporate communication, other operating expenses and depreciation.

## **Capital Expenditure**

15. The updated forecast capital expenditure is \$28 million, which is \$16 million (133.3%) higher than the approved budget of \$12 million. The overspending is mainly due to the AFRC's regular evaluation of the scope and priorities of its enhancement of IT systems based on IT risks, of which the expenses are mainly capital expenditure.

## **THE GOVERNMENT'S VIEWS**

16. The Government injected \$200 million to the AFRC in 2024, and tasked it to appropriately prioritise its work and deploy manpower flexibly while exercising stringent cost control to maintain its regulatory standard. The AFRC has implemented cost-cutting measures gradually, including (i) automation of registration processes; (ii) adoption of Artificial Intelligence to gather market intelligence to be used in the risk profiling for determination of regulatory approach; and (iii) reaching early settlement with regulatees in disciplinary cases as far as appropriate and practicable. These measures are conducive to enhancing regulatory efficiency to release the potential of existing resources for meeting the increasing regulatory needs, thereby enabling the AFRC to continue its headcount freeze in 2025- 26 to further contain growth of expenditure.

17. We will continue to closely monitor the financial position of the AFRC, and urge it to strictly control its financial situation through re-prioritisation of regulatory work and strategic re-deployment of manpower and resources, with a view to operating within its existing income and Government funding. We, together with the AFRC, will continue to explore different income sources meanwhile.

## **ADVICE SOUGHT**

18. Members are invited to note the proposed budget of the AFRC for 2025-26.

**Financial Services Branch  
Financial Services and the Treasury Bureau  
January 2025**

**Accounting and Financial Reporting Council**  
**Budgeted Income and Expenditure Statement**  
**For the period from 1 April 2025 to 31 March 2026**  
**(Expressed in Hong Kong dollars)**

All in HK\$'M, unless otherwise specified	Note	Proposed Budget FY2025-26			Forecast FY2024-25			Approved Budget FY2024-25		
		PIE	Non-PIE	Total	PIE	Non-PIE	Total	PIE	Non-PIE	Total
<b>Income</b>										
Levy income	2	156	-	<b>156</b>	157	-	<b>157</b>	129	-	<b>129</b>
License fee income	3	-	44	<b>44</b>	-	44	<b>44</b>	-	44	<b>44</b>
Interest and other income		3	2	<b>5</b>	7	4	<b>11</b>	-	-	<b>-</b>
Grant income	10	102	72	<b>174</b>	16	50	<b>66</b>	5	59	<b>64</b>
		<b>261</b>	<b>118</b>	<b>379</b>	<b>180</b>	<b>98</b>	<b>278</b>	<b>134</b>	<b>103</b>	<b>237</b>
<b>Expenditure</b>										
Staff costs and other staff related expenses	4	173	78	<b>251</b>	122	68	<b>190</b>	151	86	<b>237</b>
Information technology expenses	5	20	9	<b>29</b>	9	4	<b>13</b>	23	13	<b>36</b>
Premises expenses		18	8	<b>26</b>	17	10	<b>27</b>	18	10	<b>28</b>
Legal and professional fees	6	11	5	<b>16</b>	3	2	<b>5</b>	22	10	<b>32</b>
Corporate communication expenses	7	4	3	<b>7</b>	4	3	<b>7</b>	7	4	<b>11</b>
Other operating expenses		5	2	<b>7</b>	6	1	<b>7</b>	11	6	<b>17</b>
Depreciation	8	8	4	<b>12</b>	4	3	<b>7</b>	5	4	<b>9</b>
Contingency	9	19	8	<b>27</b>	12	6	<b>18</b>	19	11	<b>30</b>
Total operating expenditure		<b>258</b>	<b>117</b>	<b>375</b>	<b>177</b>	<b>97</b>	<b>274</b>	<b>256</b>	<b>144</b>	<b>400</b>
Non-executive directors' fees		3	1	<b>4</b>	3	1	<b>4</b>	3	1	<b>4</b>
Total expenditure		<b>261</b>	<b>118</b>	<b>379</b>	<b>180</b>	<b>98</b>	<b>278</b>	<b>259</b>	<b>145</b>	<b>404</b>
<b>Operating Deficit</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(125)</b>	<b>(42)</b>	<b>(167)</b>
<b>Capital expenditure</b>	5	<b>13</b>	<b>6</b>	<b>19</b>	<b>18</b>	<b>10</b>	<b>28</b>	<b>8</b>	<b>4</b>	<b>12</b>
<b>Headcount</b>	4	<b>100</b>	<b>45</b>	<b>145</b>	<b>93</b>	<b>52</b>	<b>145</b>	<b>93</b>	<b>52</b>	<b>145</b>

## 1. Executive Summary

As Hong Kong's independent accounting regulator, the AFRC is responsible for regulating some 81 registered local PIE auditors, 34 recognised overseas PIE auditors, 1,209 CPA firms, 738 corporate practices, 5,126 CPAs (practising) and 48,055 CPAs. The AFRC remains steadfast in its mission to promote audit quality, uphold market integrity and safeguard public interest.

For the upcoming fiscal year, we will continue to refine our regulatory tools, enhance compliance and professionalism, and nurture the sustainability and growth of the accounting profession, thereby supporting Hong Kong's status as a leading international financial centre.

Fostering the development, progress and sustainability of the accounting industry is a key priority for the AFRC. Achieving this requires us to recognise, anticipate, and address systemic and operational risks while maintaining resilience and high audit standards. Emerging trends and threats - such as market volatility, cross border audits, technological disruptions, governance issues, and talent shortage - add complexity to our work.

We follow a strategic and measured approach, striking a balance between regulation and development. We maintain strict budget controls and focus our resources on sustainability, efficiency, and long-term success. This principle is the foundation of our budgeting strategy for FY2025-26.

While we will maintain stringent cost control measures, we recognise the importance of allocating resources strategically to areas critical to the AFRC's progressive development and the accounting profession as a whole. This includes prioritising the investigation of high-profile cases and leveraging technology to enhance regulatory efficiency and effectiveness.

Key highlights of this budget include:

- **Headcount Management:** Maintaining a headcount at 145 for the second consecutive year, coupled with competitive remuneration package to attract and retain skilled professionals capable of navigating challenges and seizing new opportunities;
- **Investment on Technology and Systems:** Increasing expenditure on information and systems to ensure compliance with data privacy and cyber security requirements, digitalising processes within our registration function; and
- **Legal and Professional Fees:** Budgeting legal and professional fees based on a better understanding of the likelihood and frequency of legal challenge, the need for external legal assistance and the length and complexity of the cases, gained from prior experience.

For FY2025-26, we will draw on the existing grant, with a focus on spending strategically in areas that maximise impact. Our goal is to extend the grant's



utilisation until the second quarter of FY2026-27. We recognise the need for establishing a sustainable funding model and are engaged in discussions with the Government to explore various options.

By adopting a strategic and measured growth approach, along with strict budget controls and prioritised resources allocation, we aim to strengthen our regulatory capabilities and contribute to the continued development of Hong Kong's accounting industry.

## 2. Levy Income

2.1 We collect levies from three stakeholder groups to fund our operations under the PIE auditor regime.

Levy payable by:	FY2025-26	
	Assumptions	\$' million
<b>Sellers and purchasers of securities</b> <ul style="list-style-type: none"> <li>Average daily market turnover</li> <li>Levy rate (seller and purchaser)</li> </ul>	\$135 billion 0.0003%	97
<b>Public interest entities (PIEs)</b> <ul style="list-style-type: none"> <li>Average annual listing fee per PIE</li> <li>No. of PIEs</li> <li>Levy rate</li> </ul>	\$280,000 2,631 4.2%	31
<b>PIE auditors</b> <ul style="list-style-type: none"> <li>No. of specified engagements (N) (\$6,155 x N)</li> <li>Average total remuneration (TR) per specified engagement (0.147% x TR)</li> </ul>	2,808 \$2.6 million	17 11
	<b>Total</b>	<b>156</b>

2.2 Levy payable by sellers and users of securities - We adopt the Securities and Futures Commission's estimates of average daily market turnover of \$135 billion.

Although the actual average daily market turnover in calendar year 2024 was 33% higher than the last year's budget, our forecast levy income only increased marginally by \$21 million.

2.3 Levy payable by PIEs – We estimate the number of PIEs using the latest published figure (31 Dec 2024) from the Exchange. No increment is budgeted as the number of PIEs increased marginally (by 22 companies) in 2024, from 2023.

2.4 Levy payable by PIE auditors – We estimate the quantum of levy payable based on the amount collected in FY2024-25.

**3. License Fee Income**

3.1 The AFRC waived the collection of registration and renewal fees in its first year of acquiring the registration functions and began collecting them only from 1 October 2023. The fee schedule has remained unchanged for over a decade, last updated in 2013.

3.2 The license fee income is determined based on the fee schedule below and the number of applications received in 2024. There were 5,126 practising CPAs, 1,903 partners of CPA firms, and 1,745 directors of corporate practices. As a marginal fee is charged to become a PIE auditor, the fee collected from PIE auditors is minimal.

	Registration fee (one-off) \$	Annual renewal fee \$
Issue of a practising certificate	3,500	5,050
Registration of a CPA firm	3,500	5,050 per partner
Registration of a corporate practice	5,250	5,050 per director
Registration of a PIE auditor (for local auditors)	250	200
Recognition of a PIE auditor (for overseas auditors)	250	200

**4. Staff Costs and Other Staff Related Expenses**

4.1 The AFRC continues to leverage efficiencies for its progressive development. Headcount for 2025-26 will be maintained at 145, making it the second consecutive year of headcount freeze. As our regulatory functions expand, our headcount remains unchanged, and we must navigate the increasing challenges posed by talent shortage and market volatility.

4.2 Staff costs are estimated based on the existing staff remuneration. The increase of 6% (or \$14 million) from last year’s budget is attributed mainly to (a) the full-year impact from positions filled in the last quarter of the current year, along with (b) an average performance-based salary increment of 3.9% based on market trend data collected from consulting firms, inflation rate, etc.

4.3 The other staff related expenses include training programmes essential to equip our staff with the necessary regulatory competencies, as well as staff insurance benefits. Compared to last year’s budget, the increase is attributable to an 8% increase in the insurance premium.

**5. Information Technology (IT) expenses, including operating (OPEX) and capital expenditure (CAPEX)**

5.1 In light of increasing cybersecurity risks, it is vital to invest in IT systems that enhance security while addressing the need for improved efficiency amid a headcount freeze. For FY2025-26, we plan to:

- a. Implement advanced security solutions to safeguard data collected from regulatees and mitigate cyber risks, aligned with the Baseline IT Security Policy and IT Security Guidelines issued by the Digital Policy Office and other international standards;
- b. Develop a new digital registration system to replace manual processes, improving efficiency and effectiveness in the registration function; and
- c. Redesign our website to enhance navigation and provide a centralised learning resource, ensuring that regulatees have timely access to the relevant information, publications and guidelines to stay informed regarding industry developments and policies.

**6. Legal and professional fees**

6.1 A provision for legal fees is allocated for contentious legal proceedings. This year's estimate has been revised downward, reflecting our improved understanding of the frequency and likelihood of legal challenges, the circumstances necessitating external legal services, and the potential length and complexity of such cases.

6.2 "Investigation costs" include professional fees incurred for transcription of investigation interviews. These costs are included in the budget for investigations requiring such evidence.

## **7. Corporate Communications Expenses**

- 7.1 Engaging and fostering collaboration with our key stakeholders is crucial for the effective discharge of our regulatory functions. In 2024, we held our inaugural Regional Regulatory Forum, attracting over 370 international, mainland, and local participants to address observed gaps and strengthen a shared commitment to maintaining the integrity of our financial ecosystem.
- 7.2 Building on this success, we plan to host our second forum in late 2025. The event will aim to promote audit quality, provide high-quality training for accounting professionals, foster knowledge exchange among regulatory peers and industry leaders, and further reinforce Hong Kong's position as a competitive international financial hub.
- 7.3 To ensure the public understands our regulatory principles and expectations, we continue to invest in stakeholder engagement through seminars, briefing sessions, and speaking opportunities, with presentation slides made available on our website. In addition, we are exploring innovative methods, such as videos, to make our messages more succinctly and accessibly, thereby improving market visibility. These efforts are vital for enhancing the professional competency of regulatees and maintaining public trust in our regulatory functions.

## **8. Depreciation**

- 8.1 The rise in depreciation charges is primarily due to higher capital expenditures on IT systems.

## **9. Contingency**

- 9.1 As a relatively new regulator, we have yet to build a substantial reserve in our general fund. To mitigate the risk of unforeseen expenses, we propose maintaining a contingency fund equivalent to an additional month of expenditure to ensure financial stability to respond effectively to unexpected challenges.

## **10. Grant income**

- 10.1 To date, we have received grants of \$600 million from the HKSAR Government, of which about 66% (or \$394 million) is expected to be utilised to cover the shortfall in operating and capital expenditures by 31 March 2025. For 2025-26 budget, we plan to utilise \$174 million of the grant.
- 10.2 We will continue to draw from the grant, and by prioritising strategic spending, we aim to extend the grant's utilisation until the second quarter of FY2026-27. The AFRC is in discussions with the Government to explore a sustainable funding model that ensures the efficient and effective discharge of our regulatory functions.