

# 立法會 *Legislative Council*

LC Paper No. CB(1)117/2025(06)

Ref: CB1/PL/FA

## **Panel on Financial Affairs**

**Meeting on 3 February 2025**

### **Background brief on the work of the Accounting and Financial Reporting Council**

#### **Purpose**

This paper provides background information on the Accounting and Financial Reporting Council (“AFRC”), including its establishment, functions, composition and funding arrangement. This paper also summarizes the major views and concerns expressed by Members on AFRC’s budget and work since the 2020-2021 session.

#### **Background**

##### Establishment of the Financial Reporting Council and the Accounting and Financial Reporting Council

2. The Financial Reporting Council Ordinance (Cap. 588) (“FRCO”) which was enacted in July 2006 provides legal basis for the establishment of the Financial Reporting Council (“FRC”).<sup>1</sup> At its inception, while FRC would initiate investigation into possible auditing and reporting irregularities in relation to listed entities, and conduct enquiries into possible non-compliance with accounting requirements by listed entities, it was not empowered to discipline. All regulatory powers of the accounting profession were vested with the Hong Kong Institute of Certified Public Accountants (“HKICPA”). FRC would refer relevant cases to other parties, such as HKICPA and the Securities and Futures Commission, for follow-up as necessary after performing its investigation/enquiry function.

---

<sup>1</sup> FRC was established in December 2006 and became fully operational in July 2007.

3. The Financial Reporting Council (Amendment) Ordinance 2019 (“the Amendment Ordinance 2019”) enacted in February 2019 establishes a new regulatory regime for auditors of public interest entities (“PIEs”) by transferring HKICPA’s regulatory powers in respect of PIE auditors to FRC (“PIE regulatory regime”).<sup>2</sup> Under the regime, FRC is responsible for the inspection, investigation and discipline of PIE auditors and registered responsible persons of the PIE auditors, as well as the recognition of PIE auditors from overseas.

4. The Financial Reporting Council (Amendment) Ordinance 2021 (“the Amendment Ordinance 2021”) enacted in October 2021 further reforms FRC to develop it into a full-fledged independent regulatory and oversight body for the accounting profession (“the new regulatory regime for the accounting profession”).<sup>3</sup> By virtue of the Amendment Ordinance 2021, FRC takes over the major regulatory powers of HKICPA in respect of issuing practising certificates to certified public accountants (“CPAs”), registering CPA firms, corporate practices and local PIE auditors, as well as taking inspection, investigation and disciplinary actions of CPAs and practice units. FRC is renamed as AFRC in light of its expanded functions and FRCO is also renamed as the Accounting and Financial Reporting Council Ordinance (“AFRCO”).

5. Under the new regime, HKICPA continues to be responsible for conducting professional examinations; registering CPAs; arranging for mutual or reciprocal recognition of accountants from places outside Hong Kong; setting continuing professional development (“CPD”) requirements; issuing or specifying standards on professional ethics, accounting, and auditing and assurance for CPAs; and providing training for qualifying as CPAs and for CPD of CPAs. Such functions of HKICPA are subject to AFRC’s oversight.

#### Composition of the Accounting and Financial Reporting Council

6. Section 7 of AFRCO stipulates that AFRC is to consist of: (a) a chairperson, who is a non-executive director of AFRC; (b) a chief executive officer, who is an executive director of AFRC; and (c) at least seven other

---

<sup>2</sup> The Financial Reporting Council (Amendment) Ordinance 2019 came into effect on 1 October 2019.

<sup>3</sup> The Financial Reporting Council (Amendment) Ordinance 2021 came into effect on 1 October 2022.

members, who are either executive or non-executive directors of AFRC.<sup>4</sup> As of January 2025, the Board of AFRC consists of a chairman, a chief executive officer and 15 other non-executive directors. There are seven committees<sup>5</sup> established by the Board to advise and assist the Board in overseeing the functions of AFRC. The governance structure of AFRC is given in [Appendix 1](#).

### Funding of the Accounting and Financial Reporting Council

7. The Amendment Ordinance 2019 introduces a new funding model for FRC under which FRC is funded by three levies on: (a) securities transactions (to be paid by sellers and purchasers in securities transactions); (b) PIEs; and (c) PIE auditors.<sup>6</sup> To help FRC migrate to the PIE regulatory regime and to exempt the relevant levies for the first two years of implementation of the regime, the Government provided a seed capital of \$400 million to FRC in 2019. FRC had started collecting the relevant levies since 1 January 2022.

8. Upon the commencement of the Amendment Ordinance 2021 on 1 October 2022, AFRC became the authority for issuing practising certificates to CPAs and registration of practice units, and thus could collect relevant application fees previously payable to HKICPA. These fees were exempt in the first year of operation of the new regulatory regime, and AFRC has been collecting application fees for issuance of practising certificates and registration of practice units, as well as the respective renewal fees starting from 1 October 2023 upon the end of the one-year exemption period. The fees have initially been set at the same levels as those adopted by HKICPA

---

<sup>4</sup> Section 7 of the AFRCO also provides that:

- (a) all members of AFRC must be non-practitioners appointed by the Chief Executive (“CE”), and a public officer is not eligible for appointment as a member;
- (b) among the members of AFRC, the number of non-executive directors must exceed the number of executive directors; and
- (c) among the members of AFRC, at least one-third must be appointed from among persons who appear to CE to be suitable for appointment because of their knowledge and experience in PIE engagements; and the others must be appointed from among persons who appear to CE to be suitable for appointment because of their knowledge in accounting, auditing, finance, banking, law, administration or management; or their professional or occupational experience.

<sup>5</sup> The seven committees are: Inspection Committee; Investigation and Compliance Committee; Discipline Committee; Policy, Registration and Oversight Committee; Finance and Corporate Affairs Committee; Compensation and Nomination Committee, and Financial Reporting Review Committee.

<sup>6</sup> Before the commencement of the Amendment Ordinance 2019, FRC was jointly funded by the Companies Registry Trading Fund, the Securities and Futures Commission, the Hong Kong Exchanges and Clearing Limited and HKICPA on an equal share basis.

immediately before the launch of the new regime. AFRC would need to make use of the unspent balance of the seed capital to cover the expenses arising from the expanded functions.

9. In its 2024-2025 budget, AFRC pointed out that an operating deficit of about \$168 million would be recorded, and the unspent balance of the seed capital would be depleted by the third quarter of 2024. AFRC envisaged that cash shortfall would arise in 2024-2025. Hence, the Government made a non-recurrent commitment of \$200 million in 2024 for injection to AFRC<sup>7</sup> to cover its expenses in 2024-2025. AFRC will review its resource needs and explore new income source with the Government, with the aim of achieving financial sustainability in the long run.

### **Concerns and views expressed by Members**

10. The major views and concerns expressed by Members during relevant discussions since the 2020-2021 session are summarized in the ensuing paragraphs.

#### Funding mechanism of the Accounting and Financial Reporting Council

11. Members expressed concern on whether AFRC would use its levies from PIEs and securities transactions to fund its new regulatory duties relating to CPAs and practice units who did not conduct PIE engagements. The Administration pointed out that the income and expenditure for AFRC's regulatory work in respect of PIE auditors and other practice units and CPAs **would be planned on the "user pays" principle** to avoid unreasonable cross-subsidization. This would be suitably reflected in AFRC's annual budgets.

12. Members relayed the concerns of the accounting profession about a **possible surge in AFRC's fees** for issuing CPA practising certificates and registration of practice units. Members also urged the Administration to **extend the fee exemption period** for issuance of practising certificates and registration of practice units after commencement of the new regulatory regime and freeze such fees at HKICPA's prevailing level for a certain period thereafter.

13. The Administration responded that the **fees relating to AFRC's new functions** would be **exempt in the first year** of implementation of the new regulatory regime for the accounting profession. As regards the fees to be collected thereafter, the Administration planned to **freeze them for the first few years** of implementation at a level no higher than those collected by

---

<sup>7</sup> The funding was approved by the Finance Committee on 22 March 2024.

HKICPA prior to the implementation of the new regulatory regime. In the initial stage of discharge of expanded functions by AFRC, the deficit resulted from the exemption and freeze on the relevant fees would be met by the unspent balance of the seed capital provided by the Government in 2019.

14. Members noted that AFRC envisaged that an operating deficit would continue to be recorded in 2024-2025, followed by a budget deficit. The unspent balance of the seed capital injected by the Government was expected to be depleted by the third quarter of 2024. There would be a consistent lack of funds to cover the expenditures arising from AFRC's two functions, i.e. PIE auditors and non-PIE auditors regulatory functions ("PIE-related and non-PIE-related functions"), yet there was at present no room to open up new income source. Given the projected cash shortfall of AFRC, Members were concerned about whether AFRC had plans to **generate revenue and manage costs**, including whether the levels of levies and fees of the two functions would be increased to achieve the objective of "user pays"; or whether **internal manpower resources would be deployed to take up certain work which currently required the engagement of external lawyers and expert witnesses for assistance**. Members also enquired whether the Administration had drawn up a timetable for AFRC to implement its measures to generate revenue and manage costs, with a view to enabling AFRC to expeditiously achieve financial sustainability in the long run.

15. The Administration advised that taking into consideration Hong Kong's overall economy and the conditions faced by the industry, there was at present no room to open up new income source for AFRC. As the new regulatory regime for the accounting profession had only been implemented for one year, the Administration was of the view that it would be more appropriate to **first seek funding of \$200 million to cover AFRC's short-term financial needs**, while allowing time to consolidate the experience in implementing the new regime and review the market situation, economic environment and affordability of the industry before considering its overall long-term financial arrangement. In the long run, the Government would explore ways to enable AFRC to achieve the "user pays" principle and ensure adequate consultation with Members and the industry before implementing any concrete plans. Regarding the engagement of external lawyers and expert witnesses, AFRC advised that while its legal department had already assisted in handling most of the legal issues, **there remained a need for individual departments, in particular the investigation and compliance department and the discipline department, to seek the advice of external expert witnesses or lawyers in different areas**.

## Manpower plan of the Accounting and Financial Reporting Council

16. Members asked how AFRC would recruit new staff for carrying out functions under the new regulatory regime for the accounting profession. The Administration replied that AFRC planned to **recruit new staff** in 2022-2023 for the phasing-in of the new regulatory regime. HKICPA's existing staff of suitable calibre and with experience on the functions to be transferred to AFRC would also be considered for recruitment. The new staff to be recruited would be responsible for tasks such as issuing practising certificates and registration of practice units, and following up on the investigation and disciplinary cases handed over by HKICPA or newly arising, and preparing for the inspection of practice units.

17. Members noted that in 2022-2023, AFRC had a headcount of 26 for non-PIE-related functions and an additional headcount of 26 were proposed in 2023-2024. Members sought information on whether the existing manpower was inadequate for the proper discharge of AFRC's non-PIE-related functions, and the **main duties** of the new headcount.

18. For the new non-PIE-related functions, AFRC advised that it would adopt a progressive approach in the discharge of the functions and the corresponding expansion of its establishment in the initial years of the new regime. As for the 26 new headcount for 2023-2024, 9 would be deployed to handle **inspection work**, 5 to **discipline-related work**, 7 to **policy and governance, registration and oversight-related tasks**, and the remaining 5 to **legal and administration**, etc. It was expected that additional manpower would be needed in the future to discharge the various non-PIE-related functions.

19. Some Members expressed concern on whether AFRC's salary increment level could effectively **attract and retain talent**, considering the serious problem of staff turnover in various professional sectors in recent years. AFRC responded that it considered the average salary increment for its staff appropriate. Besides, staff joining AFRC should have a sense of mission to engage in regulatory work. As the regulatory work of AFRC might have certain influence on the development of the accounting profession, engaging in such work would give staff a sense of fulfilment and this could probably help retain talent and foster AFRC's team spirit. The Administration added that apart from the various measures introduced to recruit and retain overseas talent for the overall labour market in Hong Kong, the current-term Government was discussing with the accounting profession, AFRC and the Advisory Committee to AFRC established last year on how to attract more local graduates with professional accounting training to join the accounting profession in Hong Kong, so as to address the manpower shortage in the industry.

## Functions of the Accounting and Financial Reporting Council

20. Some Members opined that AFRC should be responsible for **promoting the development of the accounting profession**, in particular enhancing development opportunities for the profession in the Mainland and overseas in collaboration with the Government and HKICPA.

21. The Administration pointed out that AFRCO clearly provides that AFRC's functions must include promoting and supporting the development of the accounting profession. It was envisaged that HKICPA would concentrate its resources on promoting the professional development of the accounting profession after implementation of the new regulatory regime with HKICPA's major regulatory powers transferred to AFRC. AFRC added that **one of its missions and objectives was to promote the healthy development of the market in the long run through effective and appropriate regulation, taking into account market conditions**. In recent years, AFRC had deployed considerable resources to conduct policy research, formulate financial reporting guidelines for the industry and listed companies, and maintain communication with various stakeholders, so as to help enhance the operational efficiency of the accounting and auditing professions. On the development opportunities in the Mainland, the Administration remarked that it would continue to work at the government level for further measures to **facilitate the accounting professionals in Hong Kong to pursue development opportunities in the Mainland**, and facilitate them in working and expanding services in the Guangdong-Hong Kong-Macao Greater Bay Area in particular.

### **Relevant questions raised at Council meetings**

22. At the Legislative Council meetings of 11 May 2022, 2 November 2022 and 28 February 2024, Members raised Council questions concerning the Agreement on Development Strategies for the Accounting Profession in Guangdong, Hong Kong and Macao, the supply of talents for the accountancy sector, and combating unlicensed persons conducting audits. Matters covered by the questions included whether the Administration would instruct AFRC to enhance its work in strengthening the exchanges and training for the talents in the accountancy sectors of the three places; whether the Administration would formulate targeted policies and measures to increase the supply of accounting talents; and whether AFRC would formulate policy initiatives or mechanisms to combat persons impersonating qualified practising accountants and unlicensed audit business intermediaries (commonly known as "agents"). Details of the questions are available in [Appendix 2](#).

**Relevant papers**

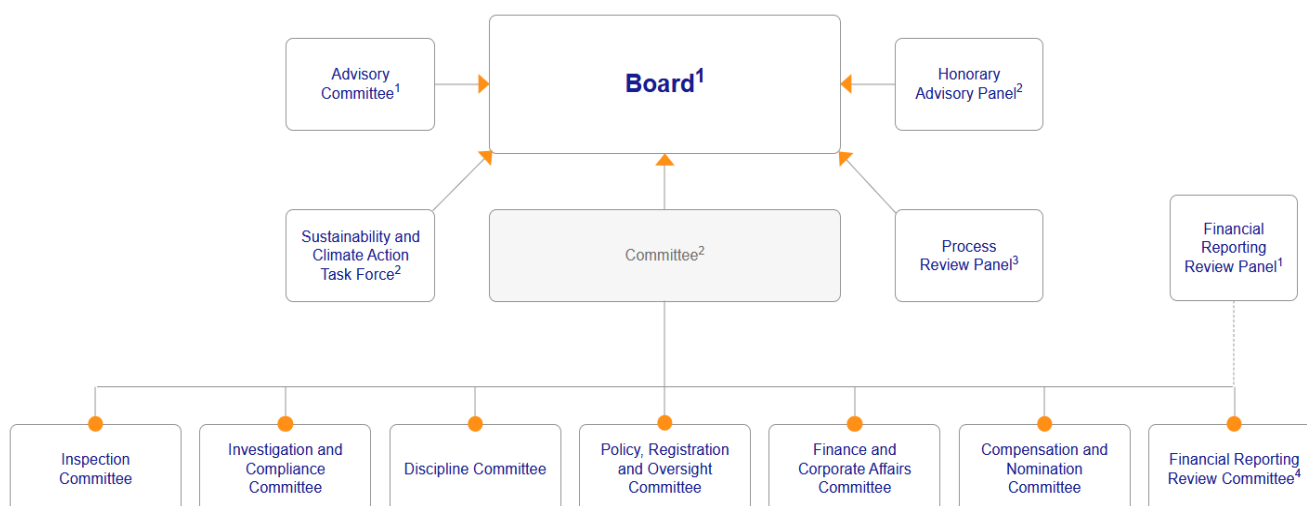
23. A list of relevant papers is in [Appendix 2](#).

Council Business Divisions  
Legislative Council Secretariat  
27 January 2025



## Governance structure of the Accounting and Financial Reporting Council ("AFRC")

### Governance Structure



Footnotes:

1. Established under the Accounting and Financial Reporting Council Ordinance (“AFRCO”) and their members are appointed by Government Officials designated under the AFRCO.
2. Established by and their members appointed by the Board.
3. Established in 2008 by the Chief Executive (“CE”) of the Hong Kong Special Administrative Region and its members are appointed by CE to enhance the accountability of AFRC.
4. The members are appointed from amongst the members of the Financial Reporting Review Panel.

Source: AFRC’s website [Accessed in January 2025]  
[\(https://www.afrc.org.hk/en-hk/corporate-governance/governance-structure/\)](https://www.afrc.org.hk/en-hk/corporate-governance/governance-structure/)

## The work of the Accounting and Financial Reporting Council

### List of relevant papers

Committee	Date of meeting	Paper
Bills Committee on Financial Reporting Council (Amendment) Bill 2018	18 January 2019*	<a href="#">Report of the Bills Committee to the House Committee</a>
Bills Committee on Financial Reporting Council (Amendment) Bill 2021	7 October 2021*	<a href="#">Report of the Bills Committee to the House Committee</a>
Panel on Financial Affairs	1 March 2021	<a href="#">Agenda</a> Item VI: Budget of the Financial Reporting Council for the financial year 2021-2022  <a href="#">Minutes</a>
	5 July 2021	<a href="#">Agenda</a> Item V: Further Reform of the Regulatory Regime of Accounting Profession  <a href="#">Minutes</a>
	4 April 2022	<a href="#">Agenda</a> Item V: Preparation for the commencement of the new regulatory regime of accounting profession  <a href="#">Agenda</a> Item VI: Revising the election arrangements of the Council of the Hong Kong Institute of Certified Public Accountants  <a href="#">Minutes</a>

Committee	Date of meeting	Paper
Panel on Financial Affairs	17 March 2023	<a href="#">Agenda</a> Item V: Budget of the Accounting and Financial Reporting Council for the financial year of 2023-2024  <a href="#">Minutes</a>
	5 February 2024	<a href="#">Agenda</a> Item V: Budget of the Accounting and Financial Reporting Council for the financial year of 2024-2025 and proposed funding injection  <a href="#">Minutes</a>

\* Issue date

Council meeting	Paper
11 May 2022	<a href="#">Council question 2</a> : Agreement on Development Strategies for the Accounting Profession in Guangdong, Hong Kong and Macao
2 November 2022	<a href="#">Council question 20</a> : Supply of talents for the accountancy sector
28 February 2024	<a href="#">Council question 14</a> : Combating unlicensed persons conducting audits