For discussion on 2 March 2026

Legislative Council Panel on Financial Affairs

Accounting and Financial Reporting Council Budget for the Financial Year 2026-27

PURPOSE

This paper highlights the main features of the budget of the Accounting and Financial Reporting Council ("AFRC") for 2026-27 (at **Annex**).

BACKGROUND

2. The AFRC is a full-fledged independent regulator of the accounting profession which regulates Public Interest Entities[1] ("PIE") auditors as well as practice units[2] 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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[1] 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.

[2] 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[3] under the PIE auditor regulatory regime and the application fees for issuance of practising certificates and registration as well as the respective renewal[4] are the AFRC's main sources 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 2026-27

Income

5. The total estimated income is about $397 million, which is $92 million (30.2%) above the estimated income for 2025-26 of $305 million. It comprises:

(a) $242 million (61.0%) from the levies payable by sellers and purchasers of securities, PIE and PIE auditors;

(b) $46 million (11.6%) from application fees for issuance of practising certificates, registration as well as renewal of PIE and non-PIE auditors and practice units;

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[3] 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.

[4] 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).

(c) $5 million (1.3%) from interest, applications fees for recognition of overseas PIE auditors and recovery of costs for non-PIE investigations; and

(d) $104 million (26.2%) from Government funding[5].

6. The AFRC has adopted the following assumptions in projecting the estimated income –

(a) **levy income**: the average securities market turnover for 2026-27 will be $256 billion per day[6]; 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 CPA, partners of CPA firms and directors of corporate practices will remain unchanged and the fee schedule has remained unchanged.

Operating Expenditure

7. The total estimated operating expenditure is about $397 million, comprising:

(a) $243 million (61.2%) of staff costs and other staff-related expenses;

(b) $35 million (8.8%) of legal and professional fees;

(c) $34 million (8.6%) for information and systems expenses;

(d) $26 million (6.5%) for premises expenses[7];

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5 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.

6 For reference, the average securities market turnover for 2025 was about $250 billion per day.

7 The AFRC has secured a four-year lease agreement arrangement for its existing office premises with effect from 1 April 2023.

(e) $25 million (6.3%) for contingency; and

(f) $34 million (8.6%) for other expenditure, including corporate communication expenses, depreciation, etc.

8. The total estimated operating expenditure is $92 million (30.2%) above the latest estimated expenditure for 2025-26 of $305 million. This is mainly due to the following reasons –

(a) The establishment will expand by 15 headcount from the current 145 to 160 (increase by 10.3%) and the proposed salary increment is 3.5%[8]. The estimated staff costs and other staff-related costs[9] will increase by $49 million as compared with that in the 2025-26 forecast ($194 million);

(b) The estimated legal and professional fees ($35 million) is $19 million (118.8%) higher than the $16 million forecast for 2025-26, mainly taking into consideration the level of complexity of different cases, the likelihood and frequency of legal challenge, and the need for external legal assistance; and

(c) The estimated information and system expenses ($34 million) is $14 million (70%) higher than the $20 million forecast for 2025-26, mainly due to the projected increase in new data centre-related infrastructure maintenance and support expenditure as well as increased recurrent expenses (including annual license and system maintenance fees) associated with data security enhancement solutions. The AFRC will continue to enhance its IT system to strengthen cybersecurity and improve efficiency to cope with the regulatory scope and number of regulatees[10].

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8 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.

9 Including staff training and development expenses, etc.

10 Since the implementation of the new regulatory regime of the accounting profession in October 2022, apart from regulating registered local PIE auditors (currently about 70) and recognised overseas PIE auditors (currently about 30), the AFRC is also responsible for regulating more than 48 000 CPAs (among them over 5 000 are practising CPAs)

Manpower Plan

9. The headcount of the AFRC was approved to increase to 145 in 2023-24 and remained frozen at that level in the following two financial years. The AFRC proposes to expand its manpower by increasing its headcount by 15 from 145 to 160 in 2026-27. The proposed headcount increase will support regulatory oversight and market development in critical and emerging areas (such as artificial intelligence and virtual assets), oversight on audits with high public interest[11], and advancement of the profession through the provision of timely and practical resources and stakeholder engagements, etc.

Capital Expenditure

10. The estimated capital expenditure is about $22 million, mainly covering one-off expenses on development of IT systems, including the purchase of related hardware equipment.

Cash reserve

11. The AFRC estimates that by 31 March 2027, its cash reserve will stand at $281 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.

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and over 1 900 firms and corporate practice in Hong Kong.

11 These include audits of Mainland enterprises listed in Hong Kong, financial institutions, virtual asset trading platform operators and other licensed corporations, and mandatory provident fund/occupational retirement schemes.

COMPARISON OF THE 2025-26 APPROVED BUDGET WITH THE UPDATED FORECAST

Income

13. As regards actual income, the latest forecast for levy income ($231 million) is higher than originally expected ($156 million) by 48.1%. The projected growth is attributable to the higher-than-budgeted daily market turnover ($250 billion which is higher than $135 billion per day as originally budgeted). As actual income increased, the amount of government funding that the AFRC was required to draw upon decreased to $22 million, representing a reduction of $142 million (86.6%) from the originally budgeted amount of $164 million. The latest income forecast for 2025-26 is $305 million, representing a $65 million (17.6%) decrease as compared to the approved budget of $370 million.

Operating Expenditure

14. The latest operating expenditure forecast is $305 million, which is $65 million (17.6%) lower than the approved budget of $370 million. The reduced spending is mainly driven by the cost management measures across key areas, such as staff costs which were $48 million lower than budgeted. The information and systems expenses are also $9 million less than budgeted, arising from the AFRC's review of its relevant IT projects and re-allocation of financial resources to capital expenditure.

Capital Expenditure

15. The latest capital expenditure forecast is $25 million, which is $6 million (31.6%) higher than the approved budget of $19 million, reflecting the result of re-allocation of financial resources mentioned in paragraph 14 above.

THE GOVERNMENT'S VIEWS

16. The headcount of the AFRC was approved to increase to 145 in 2023-24 and remained frozen at that level in the following two financial years. Given the additional workload arising from the emerging regulatory areas and other developments as set out in paragraph 9 above, we consider it necessary for the AFRC to expand its establishment in order

to maintain the current regulatory standard and promote the development of the accounting profession.

17. Regarding the AFRC's long-term financial position, the strong securities market turnover over the past year has resulted in higher-than-expected levy income. Together with the AFRC's cost-saving measures, these have effectively alleviated AFRC's immediate financial pressure. Nevertheless, we are closely monitoring the AFRC's financial situation and working with the AFRC to review its operational resource needs, while urging it to continue exercising strict expenditure control. We will work with the AFRC to formulate the proposal for its long-term sustainable financial model, taking into account factors such as the actual market situation, the business environment and the capacity of the accounting sector, etc. As with the financial models of other financial regulatory bodies, our long-term objective is for the AFRC to achieve a balanced budget under the "user-pay" principle, thereby attaining financial independence from the Government.

ADVICE SOUGHT

18. Members are invited to note the proposed budget of the AFRC for 2026-27.

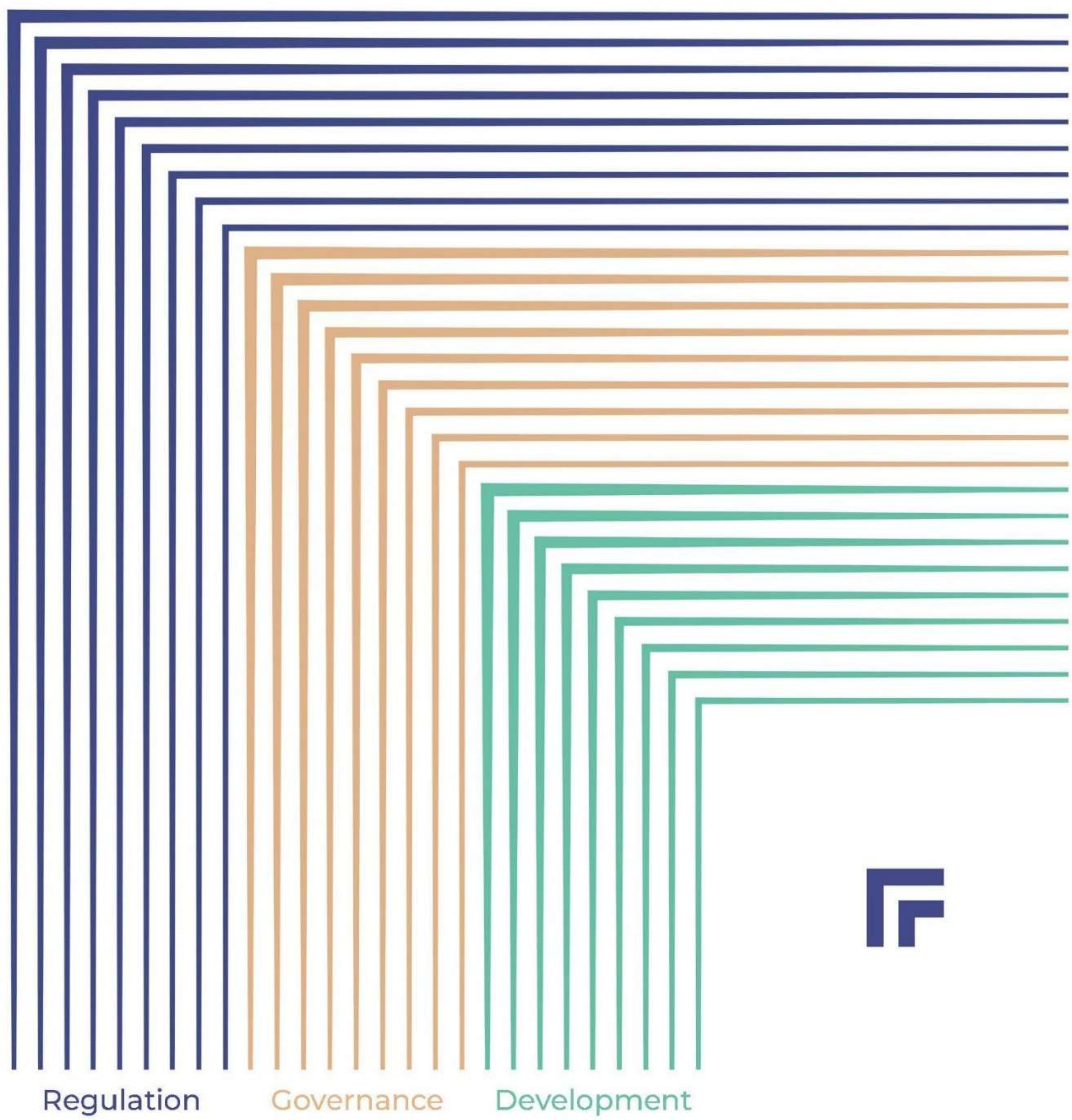
Financial Services Branch
Financial Services and the Treasury Bureau
February 2026

Annex

Accounting and Financial Reporting Council
會計及財務匯報局

Accounting and Financial Reporting Council Budget for FY 2026-27

March 2026



Accounting and Financial Reporting Council

Budgeted Income and Expenditure Statement

For the period from 1 April 2026 to 31 March 2027
(Expressed in Hong Kong dollars)

All in HK$'M, unless otherwise specified	Note	Proposed budget FY2026-27	Forecast FY2025-26	Approved Budget FY2025-26
Income				
Levy income	2	242	231	156
License fee income	3	46	43	44
Interest and other income		5	9	6
Grant income	10	104	22	164
		397	305	370
Expenditure				
Staff costs and other staff related expenses	4	243	194	242
Information and systems expenses	5	34	20	29
Premises expenses		26	26	26
Legal and professional fees	6	35	16	16
Corporate communication expenses	7	9	6	7
Other operating expenses		5	6	7
Depreciation	8	16	6	12
Contingency	9	25	27	27
Total operating expenditure		393	301	366
Non-executive directors' fees		4	4	4
Total expenditure		397	305	370
Operating Deficit		-	-	-
Capital expenditure	5	22	25	19
Headcount	4	160	145	145

1. Executive Summary

The AFRC is Hong Kong's independent accounting regulator. As of 31 December 2025, the AFRC is responsible for regulating some 67 registered local PIE auditors, 33 recognised non-Hong Kong PIE auditors, 5,051 CPAs (practising), 1,198 CPA firms, 779 corporate practice and 48,237 CPAs.

In March 2025, the AFRC published its three-year Strategic Plan for 2025-2027 with a clear mission to protect the public interest by upholding auditing and financial reporting quality, thereby fostering trust in Hong Kong's capital market and the accounting profession.

In the coming year, the AFRC will continue to strengthen its regulatory role through a combination of guidance, inspection and enforcement measures. We remain firmly committed to supporting the growth and sustainability of the accounting profession, with a focus on audit excellence, technology and AI transformation, and advancing sustainability reporting and assurance. Added support will be provided to small and medium practices through tailored guidance, training, and collaborative platforms to help them adapt to technological and regulatory changes.

The AFRC proactively engages the profession, regulatory counterparts and industry stakeholders in constructive dialogue on industry developments and matters that may impact the integrity of auditing and financial reporting. Our objective is to foster innovation and resilience across the profession while strengthening Hong Kong's position as a leading international financial centre.

We employ a disciplined and strategic approach that carefully balances regulatory oversight with development objectives. By implementing robust budget controls, we ensure resources are directed toward sustainability, operational efficiency, and achieving long-term goals. This principle underpins our budgeting framework for FY2026-27.

While maintaining strict cost controls, it is important to invest in critical areas that will drive the continued growth of the AFRC and the accounting profession as a whole. Our FY2026-27 key priorities include strengthening risk management measures to deter misconduct; embracing advanced technology to improve regulatory efficiency and effectiveness; and harnessing AI, cross-border and emerging market opportunities to build a profession that is positioned for resilience and sustainable success.

Key highlights of this budget include:

- **Headcount Management:** Expanding the team from 145 to 160 employees and providing competitive salaries and professional development opportunities to attract top talent, strengthen areas of specialisation, and retain experienced staff.

- **Investment in Technology and Systems:** Enhancing information technology and systems to strengthen data privacy, cybersecurity, process digitalisation in registration and case management for operational efficiency, improvement of external-facing platforms and internal collaboration tools.

- **Legal and Professional Fees:** Provision for legal and professional fees based on anticipated legal challenges, need for external counsel, and case complexity, informed by past experience with some buffer for unanticipated needs.

- **Developmental Activities:** Funding the annual Regional Regulatory Forum for the profession, international regulators and stakeholder communities to facilitate thought leadership and knowledge exchange. Providing workshops, webinars, guidelines, and videos to ensure continuous professional development, strengthen overall competency and resilience within the profession, ensuring Hong Kong remains at the forefront of global regulatory and professional excellence.

For FY2026-27, the AFRC will focus on spending strategically in areas that maximise impact. Our goal is to extend the grant's utilisation until the second quarter of FY2027-28. We recognise the urgent need for establishing a long-term sustainable funding model and are actively engaged in discussions with the Government to evaluate the various solutions.

2. Levy Income

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

Levy payable by:	FY2026-27	
	Assumption	$' million
Sellers and purchasers of securities		
• Average daily market turnover	$256 billion	
• Levy rate (seller and purchaser)	0.0003%	184
Public interest entities (PIEs)		
• Average annual listing fee per PIE	$272,000	
• No. of PIEs	2,686	
• Levy rate	4.2%	31
PIE auditors		
• No. of specified engagements (N) ($6,155 x N)	2,856	18
• Total remuneration (TR) (0.147% x TR)	$6.3 billion	9
	Total	**242**

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 $256 billion as projection basis.

2.3 Levy payable by PIEs – We estimate the number of PIEs using the latest published figure (31 Dec 2025) from the Exchange.

2.4 Levy payable by PIE auditors – We estimate the quantum of levy payable based on the amount collected in FY2025-26.

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 2025. There were 5,051 practising CPAs, 1,862 partners of CPA firms, and 1,873 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 has maintained a headcount freeze over the past two financial years and implemented efficiency measures to optimise existing resources. In the budget for FY2026-27, the AFRC proposes 15 new headcounts, bringing its total headcount to 160. The expanded headcount will strengthen regulatory oversight on PIEs, provide in-house technical expertise for fast emerging areas, speed up digital transformation, and boost the development of the audit and accounting profession.

4.2 The AFRC implemented a freeze on salary increments in FY2025-26. Should this measure continue, retaining employees may become progressively challenging due to ongoing talent shortages and market recovery.

4.3 The increase in FY2026-27 budgeted staff costs and other staff related expenses by 25.3% (or $49 million) from current year’s forecast is attributed mainly to (a) the direct cost impact from the 15 new headcounts; (b) the full-year impact from positions filled in the second half of the current year, along with (c) an average salary increment of 3.5% based on market trend data collected from consulting firms, inflation rate, etc.

4.4 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 current year's forecast, the increase is attributable to a 10% increase in the insurance premium.

5. Information Technology (IT) expenses, including operating (OPEx) and capital expenditure (CAPEx)

5.1 Safeguarding information system security and managing risks effectively becomes increasingly important in our operations, while digital transformation continues to be a critical factor in driving operational efficiency. For FY2026-27, we plan to:

a. Implement GIS governance standards to safeguard information system security and ensure data security compliance;
b. Enhance data centre infrastructure and security ongoing support to provide a sound and reliable foundation for digital transformation applications to build on; and
c. Prioritise application development in artificial intelligence (AI) and introduce an advanced case management system to automate workflows for operational efficiency improvement and build the internal databases essential to facilitate AI departmental data sharing in future.

6. Legal and professional fees

6.1 A provision for legal fees is allocated for contentious legal proceedings. For FY2026-27, the budget has been revised upward to account for the significant increase in both the volume and complexity of ongoing disciplinary cases reaching the Tribunal and Court of Appeal, as well as matters requiring external legal advice.

7. Corporate Communications Expenses

7.1 Engaging and fostering collaboration with our key stakeholders remains crucial for the effective discharge of our regulatory functions. In 2026, the Regional Regulatory Forum will enter its third year, continuing to serve as a platform for addressing regulatory challenges, promoting audit quality, and reinforcing a shared commitment to the integrity of our financial ecosystem, while cementing Hong Kong's role as a premier financial centre.

7.2 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 speeches and presentation materials made available on our website and social media channels. In addition, we will make use of appealing and engaging methods, such as videos and infographics, to make our messages more succinct and readily accessible through a variety of channels. These efforts remain 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 young 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 expense line in the budget equivalent to an additional month of expenditure to respond effectively to unexpected needs and challenges and ensure financial stability.

10. Grant income

10.1 To date, we have received grants of $600 million from the HKSAR Government, of which about 61.7% (or $370 million) is expected to be utilised to cover the shortfall in operation and capital expenditures by 31 March 2026 accumulatively. For FY2026-27 budget, we plan to utilise $126 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 FY2027-28. 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.

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