立法會
Legislative Council

LC Paper No. CB(1)176/2026(09)

Ref: CB1/PL/FA

Panel on Financial Affairs
Meeting on 2 March 2026

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 the relevant issues.

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"). 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.

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").[1] Under this regime, FRC is responsible for **inspecting, investigating and disciplining** auditors of **PIEs** and their **registered responsible persons**, as well as **recognizing overseas PIE auditors**.

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").[2] 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's functions are as follows:
- (a) continuing to be responsible for conducting professional examinations;
- (b) registering CPAs;
- (c) arranging for mutual or reciprocal recognition of accountants from places outside Hong Kong;
- (d) setting continuing professional development ("CPD") requirements;
- (e) issuing or specifying standards on professional ethics, accounting, and auditing and assurance for CPAs; and
- (f) providing training for qualifying as CPAs and for CPD of CPAs.

Such functions of HKICPA are subject to AFRC's oversight.

<u>Composition of the Accounting and Financial Reporting Council</u>

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 members, who are either executive or non-executive directors of AFRC. As of February 2026, the Board of AFRC consists of a chairman, a chief

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1 The Financial Reporting Council (Amendment) Ordinance 2019 came into effect on 1 October 2019.

2 The Financial Reporting Council (Amendment) Ordinance 2019 came into effect on 1 October 2022.

executive officer and 13 other non-executive directors. There are seven committees 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.[3] 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 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 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,[4] 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.

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[3] 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.

[4] The funding was approved by the Finance Committee on 22 March 2024.

Members' major views and concerns

10. The major views and concerns of Members are summarized below.

Funding mechanism of the Accounting and Financial Reporting Council

11. Members noted that $394 million of a $600 million Government injection received by AFRC would be used to cover the shortfall in operating and capital expenditures by 31 March 2025. An additional $174 million from the injection was expected to be utilized in 2025-2026, bringing the injection close to depletion by the second quarter of 2026-2027. Members enquired **whether** AFRC **would seek further injections from the Government**. Furthermore, Members pointed out that when it injected $200 million into AFRC in 2024, the Government directed AFRC to exercise stringent cost control, **review its resource needs, and explore new income source with the Government**, with the aim of achieving financial sustainability in the long run. In this regard, Members sought details of **the plans to generate revenue and manage costs** formulated by AFRC and the Government.

12. AFRC advised that it was funded by three levies on securities transactions, PIEs and PIE auditors. Currently, the levies collected only covered about 50% of the cost of providing the relevant services. AFRC would continue to work with the Financial Services and the Treasury Bureau to explore different income sources and **examine how to achieve a balanced budget target based on the "user pays" principle**.

13. On **cost management**, AFRC pointed out that after reviewing the number and complexity of regulatory cases, as well as the need for organizational information and technology ("IT") system networks and information security, AFRC had **adjusted downward** its legal and professional fees and IT expenses **in the estimates of expenditure** for 2025-2026. AFRC would continue to **actively leverage technology and artificial intelligence ("AI") to streamline internal procedures and enhance efficiency**, thereby reducing its operating costs. The Administration added that AFRC had implemented cost-cutting measures, including **freezing the headcount** of 145, and would explore increasing revenue under the "user pays" principle to strengthen its financial soundness.

14. In response to Members' enquiries on AFRC's work and estimates of expenditure for **promoting the development of the accounting profession**, AFRC advised that over the past year, it had organized seminars, briefing sessions and speaking engagements to strengthen communication and liaison with the accounting industry and relevant stakeholders.

Given that many small and medium-sized accounting firms had faced considerable operational pressure in recent years, AFRC had **produced training videos** for these firms to use for internal training. In addition, the Government **launched** last year **the Roadmap on Sustainability Disclosure in Hong Kong**, which set out Hong Kong's approach to require publicly accountable entities ("PAEs") to adopt the International Financial Reporting Standards—Sustainability Disclosure Standards ("ISSB Standards"). It provided a well-defined pathway for **large PAEs to fully adopt the ISSB Standards no later than 2028**. AFRC would actively encourage industry participation in the aforesaid work.

<u>Staffing planning and recruitment expenditure of the Accounting and Financial Reporting Council</u>

15. At the Finance Committee meeting on 22 March 2024, Members raised concerns about AFRC's 20% staff turnover rate, suggesting that such high attrition may indicate issues with AFRC's personnel management. Meanwhile, Members questioned AFRC's recruitment expenditure of up to $12 million, recommending that AFRC should explore more cost-effective recruitment methods and not rely solely on executive search firms.

16. AFRC responded that, given the substantial increase in its workload and expanded remit in recent years, coupled with the need to recruit personnel with extensive experience and specialized expertise to fulfil its statutory duties, it had faced considerable challenges in attracting and retaining talent. AFRC indicated that its staff turnover rate was in line with industry standards, and that it was implementing various measures to retain talent. These included enhancing staff development, encouraging knowledge sharing, and providing greater employee support. Regarding recruitment of talents, AFRC's current understaffing and relatively high turnover rate meant that it must utilize a multi-pronged approach involving recruitment agencies, online platforms and its official website. AFRC emphasized that engaging executive search firms was not the only option for recruiting talents and that it was considering introducing more diverse recruitment methods.

<u>Regulating the accounting profession and promoting its development</u>

17. At the Finance Committee meeting on 22 March 2024, Members expressed concern about how AFRC would strike the right balance between regulating and developing the accounting profession. Some Members reflected that while AFRC had explicitly advocated a dual approach of development and regulation upon its establishment, some members from the sector noted a perceived overemphasis on regulatory aspects. They worried

that excessive regulation could make Hong Kong less attractive to international accounting talents. Some other Members were of the view that AFRC's allocation of resources and measures to development remained inadequate, and requested that AFRC should specify the proportion of its budget allocated to development versus regulation.

18. In its response, AFRC stated that around 8% of its staff were engaged in research and investigation work in the 2024-2025 budget year. In terms of supporting the profession, AFRC had organized numerous seminars and specialized lectures in recent years, issued guidance documents on professional accounting development and regulation, and uploaded educational videos for industry reference. In its regulatory work, AFRC had adopted the principles of proportionality and risk-based supervision, prioritizing higher-risk areas while avoiding the excessive oversight of small and medium-sized accounting practices.

Functions of the Accounting and Financial Reporting Council

19. Members enquired about the details of AFRC's work in **promoting the development of the accounting profession**, particularly its efforts to **enhance development opportunities for the profession in the Greater Bay Area**. AFRC responded that it had been working closely with HKICPA to further facilitate the accounting professionals in Hong Kong to pursue development opportunities in the Mainland. HKICPA had made multiple visits to cities in the Greater Bay Area for publicity and promotion and collaborated with the local industries to explore ways to strengthen further liaison and cooperation between the industries of the two places.

20. Members noted that the Stablecoins Bill which had been submitted to the Legislative Council ("LegCo") for consideration required stablecoin issuers to commission an independent attestation and audit on their reserve assets. They also enquired **whether** AFRC **had sufficient staff with the relevant knowledge** to **regulate audit work related to stablecoins**. AFRC advised that in recent years, it had **actively leveraged technology and AI** to enhance internal operational efficiency. Some staff members had thus been reassigned to new posts after training to handle various regulatory tasks, including regulating audit work related to digital assets or stablecoins.

Latest developments

21. In a paper submitted to the Panel on Financial Affairs in January 2026, the Administration indicated that it would continue to work

with AFRC and HKICPA to actively promote development of the accounting profession, including tracking and tackling cases of blindly signing off audit reports or pretending to be a CPA. Furthermore, the Administration is liaising with AFRC to review its operational resource requirements, so as to formulate proposals of its long-term funding model with a view to ensuring the sustainability and effectiveness of the new regulatory regime of the accounting profession which commenced in 2022.

Relevant documents

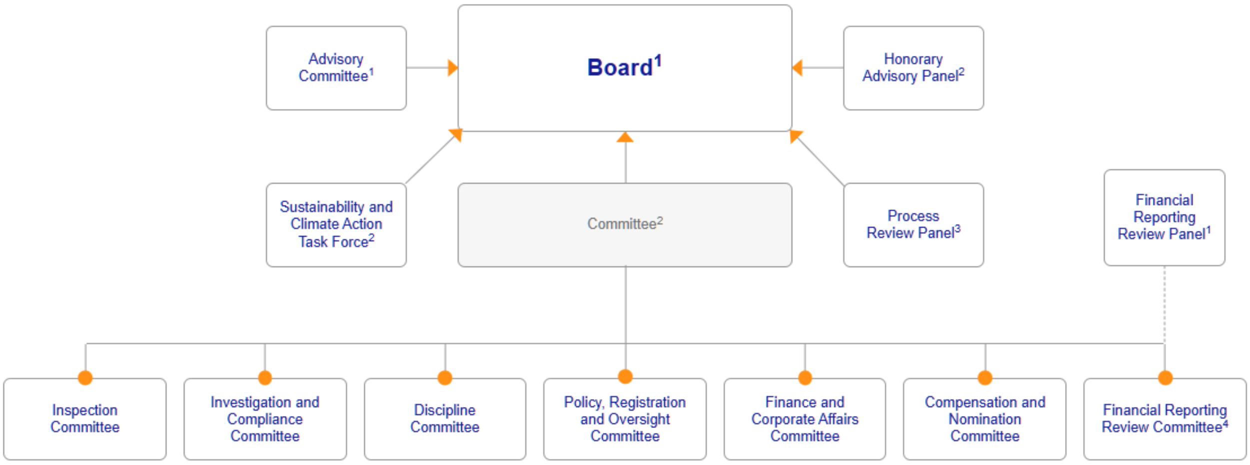
22. A list of relevant papers on LegCo website is in **Appendix 2**.

Council Business Divisions
Legislative Council Secretariat
27 February 2026

Appendix 1

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 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 February 2026] (https://www.afrc.org.hk/en-hk/corporate-governance/governance-structure/)

Appendix 2

The work of the Accounting and Financial Reporting Council

List of relevant documents

Committee	Date of meeting	Paper
Bills Committee on Financial Reporting Council (Amendment) Bill 2018	18 January 2019*	Report of the Bills Committee to the House Committee
Bills Committee on Financial Reporting Council (Amendment) Bill 2021	7 October 2021*	Report of the Bills Committee to the House Committee
Panel on Financial Affairs	17 March 2023	Agenda Item V: Budget of the Accounting and Financial Reporting Council for the financial year of 2023-2024 Minutes
	5 February 2024	Agenda Item V: Budget of the Accounting and Financial Reporting Council for the financial year of 2024-2025 and proposed funding injection Minutes
Finance Committee	22 March 2024	Agenda Item IV: Injection to the Accounting and Financial Reporting Council Minutes
Panel on Financial Affairs	3 February 2025	Agenda Item V: Budget of the Accounting and Financial Reporting Council for the financial year of 2025-2026 Minutes

*Date of issue

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