

## LegCo Panel on Financial Affairs - AFRC Budget for FY2023-24

17 March 2023

### Remark by Mr Marek Grabowski, CEO

I will now highlight some key points in the 2023-24 budget.

The AFRC is now responsible for discharging our PIE-related and non-PIE-related functions under the new regulatory regime for the accounting profession. As anticipated in our previous budget, we are adopting a progressive approach in the implementation of the non-PIE-related functions in the initial years. We have also been experiencing an increasing investigation caseload in our PIE-related functions due to a rise in the number of complaints from the public and whistleblowers and of referrals from local regulators and enforcement agencies.

Of the 30 new headcounts proposed in the budget, 26 represent a corresponding expansion for our non-PIE-related functions and 4 will be allocated to handling the increased investigation caseload in our PIE-related functions. This will bring the total headcount from 115 at present to 145.

With moderate headcount increases proposed in light of our current funding position, retention and recruitment of a proficient and stable staff force is critical to enable the AFRC to deliver our mission efficiently and effectively. We are integrating our growing staff force to create one team with one culture and a passion to make an impact where it matters most. In the highly competitive market for talent we face, and relatively high staff turnover consistent with the local profession and local regulators, we propose a provisional average salary increment of 3.7%.

#### Expenditure

The total budgeted expenditure is HK\$340 million (HK\$219 million for PIE-related functions and HK\$121 million for non-PIE-related functions). Staff salaries and other staff-related expenses amount to HK\$232 million representing approximately 68% of the total budgeted expenditure.

#### Income

The AFRC has two main sources of regular income: (i) PIE levy income; and (ii) non-PIE licence fees.

(i) PIE levy income

Total budgeted PIE levy income is HK\$135 million (62% of expenditure for PIE-related functions). The budgeted levy income from sales and purchases of securities is HK\$77 million (57% of total PIE levy income). This makes reference to SFC's estimate on the average rate of securities market turnover of HK\$107 billion per day.

The budgeted levy income from PIEs and PIE auditors are respectively HK\$33 million and HK\$25 million (24% and 19% of total PIE levy income).

(ii) Non-PIE licence fees

The budgeted non-PIE licence fees are HK\$9.1 million for 2023-24 (8% of expenditure for non-PIE-related functions). Non-PIE licence fees have been waived for the year from 1 October 2022 to 30 September 2023. The budgeted amount therefore only represents about one quarter of the estimated annual renewal fees.

The AFRC received a seed capital (Grant) of \$400 million from the Government in August 2019. The balance of the Grant as at 31 March 2022 was HK\$212 million. As identified in the budget papers submitted to the Panel last year, given the shortage of income for our non-PIE-related functions in the initial period, we need to continue to use part of the Grant to fund our non-PIE-related functions.

For FY2023-24, HK\$111.4 million will be utilised from the Grant to fund expenditure for our non-PIE-related functions in excess of budgeted non-PIE licence fees. The Grant will be fully depleted by the end of March 2024.

The AFRC has been prudent in our expenditure. However, due to (i) fluctuation in the securities market turnover; (ii) the lower-than-expected PIE levy income from the PIE auditors; and (iii) the depletion of the Grant by the end of March 2024, the AFRC estimates an operating deficit of \$77 million for 2023-24.

In future, we will explore new income source with the Government.

We are more than happy to answer any questions. Thank you.