

Strategic Priorities for 2025-2027

March 2025



Introduction



Since our establishment through two regulatory reforms in 2019 and 2022, the AFRC has built valuable experience, achieved significant milestones, and earned the trust of stakeholders as an independent regulator of the accounting profession in Hong Kong.

Today, the increasing complexity of accounting standards, globalisation, and a shortage of talent pose considerable challenges to the quality of financial reporting. At the same time, rapid technological advancement, particularly in artificial intelligence (AI), and the growing emphasis on sustainability bring unprecedented opportunities to Hong Kong's financial markets and the accounting profession. In this dynamic and evolving environment, the AFRC remains committed to being agile and responsive, adapting effectively to emerging challenges and opportunities.

Against this backdrop, the AFRC is focused on enhancing the quality of financial reporting, upholding market integrity and stability, safeguarding the public interest, and fostering market development and innovation. We are also dedicated to promoting the healthy and sustainable development of the accounting profession in support of Hong Kong's role as a leading international financial centre.

This three-year strategic plan for 2025–2027 sets out our priorities and approach to optimising organisational resources in pursuit of our mission.

AFRC Strategic Priorities 2025-2027



Regulation

Upholding the **quality of financial reporting and audit**, thereby safeguarding stakeholders and the public interest



Governance

Cultivating a **healthy ecosystem** grounded in quality financial reporting and auditor selection



Development

Promoting the **development of the accounting profession** by advocating sustainability, digital transformation, and talent management

Supported by



Organisational Effectiveness

Driving effective outcomes through efficient processes



Regulation

Upholding the quality of financial reporting and audit

High quality corporate financial reporting and audit are the cornerstones of market integrity. Accurate and reliable financial reporting enhances investor confidence and fosters transparency. It reduces the risk of financial misstatements and fraud, thereby protecting stakeholder interests and supporting sustainable economic growth. The AFRC is committed to maintaining rigorous standards in financial reporting and audit to ensure market stability and efficiency, ultimately contributing to the overall health of the economy.

Enhancing regulatory approach

Since our establishment, we have fully exercised our regulatory powers.

We will:

- ▣ Prioritise investigations into high-profile cases to deter misconduct.
- ▣ Strengthen our policies and practices to ensure that the auditors of public interest entities (PIE) meet the highest quality standards.

Strengthening regulatory collaboration

In today's interconnected financial markets, effective collaboration with other regulators is essential to safeguarding audit quality and financial reporting. We have worked closely with local financial regulators to combat misconduct through case referrals, information exchange, and joint investigations. We have also deepened our cooperation with the Ministry of Finance (MoF) of the People's Republic of China, enabling us to obtain audit working papers of Mainland companies listed in Hong Kong. Going forward, we will:

- ▣ Build strong relationships with other regulators and enhance collaboration with local and international counterparts through memoranda of understanding (MoUs), joint guidelines, and information sharing.
- ▣ Continue our collaboration with the MoF to maximise regulatory synergies.

- ▣ Provide platforms that foster cross-jurisdiction regulatory dialogue. Through initiatives such as the AFRC Regional Regulatory Forum (RRF), we bring together audit and securities regulators to share insights and best practices to enhance audit quality, address emerging challenges, and develop coordinated approaches to regulation.

Evolving regulations to meet current needs

To remain agile and responsive, we will continuously review and update our regulatory framework to address new risks and challenges. By proactively identifying areas for improvement, we aim to ensure that our regulations remain relevant, effective and aligned with market needs. In particular, we will:

- ▣ Expand and refine our regulatory toolkit to effectively fulfil our statutory functions.
- ▣ Monitor developments in audit regulation across Mainland jurisdictions, identifying areas that may require legislative amendments.



Governance

Cultivating a healthy ecosystem grounded in quality financial reporting and auditor selection

In recent years, a risk-based and proportional regulatory approach has led to observable improvements in audit quality among larger audit firms. However, further improvements are needed. Our ongoing efforts are outlined below.

Fostering a healthy audit market focused on quality

Our industry analysis indicates growing pressures on audit fees, and a rising number of audit firms taking up public interest entity (PIE) engagements without fully considering the resources required. In light of these developments, it is essential that listed entities select auditors based on audit quality and not solely on fee considerations, and that audit firms ensure that they are adequately resourced before accepting engagements. To promote a robust audit market that prioritises quality, we will:

- ▣ Publish research and guidelines to raise awareness of factors that negatively impact audit quality.
- ▣ Engage with stakeholders, including audit committees and audit firms, to tighten the application of AFRC audit committee guidelines.

Strengthening governance around financial reporting and auditor selection

Audit quality is a shared responsibility that extends beyond auditors to include audit committees, management, and capital providers across the financial reporting ecosystem. Our stakeholder engagements consistently highlight the need to strengthen governance mechanisms in financial reporting. To address this, we will:

- ▣ Develop an audit quality indicator (AQI) framework to assist audit committees in making more informed auditor selections, supported by stakeholder engagement and feedback.
- ▣ Collaborate with professional bodies and other key stakeholders to identify gaps across the ecosystem and issue guidelines to improve financial reporting quality.



Development

Promoting the healthy development of the accounting profession

We have strengthened our stakeholder engagements through seminars, briefings, surveys, and publications to improve market understanding and communicate our regulatory expectations transparently.

A significant challenge for the accounting profession is the ongoing talent shortage. There is a pressing need to raise the profession's profile and position accountants as trusted business advisors. Furthermore, emerging trends in technology, sustainability, and geopolitics present both opportunities and risks. Our objectives and approach to developing the profession are outlined below.

Effective talent management in the accounting profession

Our industry analysis reveals a decline in the number of students sitting for the HKICPA exam and only modest growth in HKICPA membership, both of which raise serious concerns about the profession's future talent pipeline. To address this, we will:

- ▣ Collaborate with universities to raise awareness among students about the value of the accounting profession and the benefits of an accounting career.
- ▣ Partner with the HKICPA to strengthen the talent pipeline, support career progression, and improve retention within the profession.

Strengthening the role of accounting and audit professionals as trusted and strategic business advisors

Our inaugural Regional Regulatory Forum (RRF) brought together regulators, accounting practitioners, and a wide range of stakeholders to highlight the vital role of financial reporting and auditing within the broad business landscape, and foster connections across the financial ecosystem. To further raise the profile of the profession in Hong Kong, we will:

- ▣ Leverage strategic platforms such as the RRF to showcase the value and relevance of the profession.
- ▣ Launch public awareness campaigns to promote the critical role of accountants as trusted and strategic business advisors.

Empowering accountants for a resilient and sustainable future

Technologies such as artificial intelligence (AI) offer significant potential to enhance audit quality by increasing efficiency and improving risk assessment. However, they also introduce new risks such as data security, bias, and transparency.

At the same time, corporate reporting is evolving globally, with sustainability information becoming a key consideration for investors in their investment decision making.

As the Hong Kong capital markets continue to attract listings and capital flows from the region, including the Greater Bay Area, there are growing prospects for the accounting profession to evolve and lead. To support this transformation, we will:

- ▣ Assess the opportunities and risks arising from the use of AI by audit firms, in alignment with the Government's policy on Responsible Application of Artificial Intelligence in the Financial Market.
- ▣ Develop a proposed regulatory framework for sustainability assurance and conduct public consultation.
- ▣ Monitor emerging trends and capitalise on opportunities shaping the profession, including developments in digital assets.



Improving Organisational Effectiveness

One of our core values is proficiency, which encompasses efficiency, effectiveness, and professionalism. As the external environment grows increasingly complex, we must strengthen our organisational processes and capabilities. Improving our proficiency enables us to innovate using existing resources while maintaining prudent budgetary controls and delivering on our mission.

Improving our internal processes

- ▣ Leverage technology automation and process improvements to enhance accuracy and usability for regulated entities.
- ▣ Invest in AI to improve data collection and analysis in support of our statutory functions.

Advancing our internal talent strategy to foster workforce excellence

- ▣ Build and redeploy technical expertise to improve our effectiveness and support professional development.
- ▣ Provide training and development in the areas of sustainability and AI to stay ahead of emerging trends.