

Recovery Planning

Updates to HKMA Supervisory Policy Manual (SPM) RE-1

July 2020

Subsequent to the review of recovery plans submitted to the regulator by banks in Hong Kong, **the HKMA has recently issued an update to the SPM RE-1 in June 2020 which is effective immediately.**

The HKMA's updates were designed to provide greater clarity on its expectations around the recovery planning process and establish a linkage between the SPM regulations and Banking Ordinance laws. The key updates are highlighted below:

Key Updates to RE-1

RE-1 Ref #	Areas of Focus	Requirements	Foreign Bank Branches	Foreign Bank Subsidiaries	Other locally incorporated AIs
1.4.4	Market Developments	Assess the implications of recent market developments that may pose a risk to the viability of the bank.	✓	✓	✓
1.4.8, 1.4.10	Interlinkage between Group and local operations	Assess the materiality of its Hong Kong operations to its wider group and the banking sector in Hong Kong, through which the bank may adjust the scope of its recovery plan.	✓	✓	
		Ensure the interlinkage between the Group and local Branch's / subsidiary's recovery planning efforts are considered and clearly articulated, including the impact of Group level recovery options on local operations.	✓	✓	
2.2.3	Governance	Review governance framework in light of the above materiality assessment. Banks that are not significant to the Hong Kong banking sector and their wider group may be eligible for less onerous approval requirements.	✓	✓	
2.4	Recovery Triggers	Tailor recovery triggers to each bank's business model, ensuring they are sufficiently broad to capture the deteriorating financial position of the bank. The HKMA has provided more examples of potential recovery triggers such as " <i>Rapid decline in profitability and asset quality</i> " and " <i>major compliance incidents or operational issues</i> ".	✓	✓	✓
		Establish pre-defined thresholds for the bank's quantitative triggers, ensuring they are well calibrated and maintained above the regulatory minimums, if applicable.	✓	✓	✓
2.10	Communication	Ensure all notification requirements are satisfied with procedures documented within the recovery plan.	✓	✓	✓

Key Updates to RE-1

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2.6	Stress Testing	Ensure that recovery stress testing is adequately documented within the recovery plan , covering a qualitative description of the approach, list of assumptions, description of the stress testing techniques used, quantification of the impact of each scenario and assessment of the feasible recovery options.	✓	✓	✓
		Estimate the impact of the stress scenarios on its recovery triggers (e.g. Capital Adequacy Ratio, Liquidity Maintenance Ratio).	✓	✓	✓
		Illustrate the evolution of the stress scenarios with and without the implementation of the recovery options.	✓	✓	✓
		Deploy more sophisticated stress testing techniques, including reverse stress testing. While this is not mandatory for foreign bank branches, they are encouraged by the HKMA to conduct reverse stress testing.	✓		
		If leveraging on overseas Group-wide scenarios for stress testing, banks should ensure their applicability to the Hong Kong operations.	✓	✓	
2.7, 2.9	Recovery Options	Provide sufficient details with respect to the analysis of the recovery options. The HKMA has provided more clarity around the assessment, including detailed impediment analysis and mitigation measures, interdependencies between options and acceptable timeframe for implementing recovery options.	✓	✓	✓
		Consider updates to the HKMA liquidity facilities , i.e. replacing the LOLR funding with the Liquidity Facilities Framework.	✓	✓	✓



What should Banks do now?

In lieu of the recent updates, banks should review their entire recovery plan as part of their annual refresh and have them approved through the relevant governance authorities. The following actions should be taken if they have not been already:



- 1 Perform a gap analysis against the updated SPM RE-1 and identify key gaps;
- 2 Review stress testing framework, enhance the related documentation and policy, update required calculations and methodology considering the applicability of reverse stress testing;
- 3 Initiate communication with the Head Office, if applicable, to ensure alignment with the Group's recovery planning; and
- 4 Revise the local Hong Kong recovery plan and obtain approvals from the relevant governance authorities.

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