

Operational Resilience

HKMA's new standard issued on 31 May 2022

June 2022




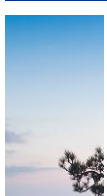

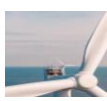

The HKMA's latest initiative

The Hong Kong Monetary Authority (HKMA) issued a new SPM module OR-2 on “Operational Resilience” on 31 May 2022. Operational Resilience is the ability of a bank to deliver critical operations through disruption. It enables a bank to identify and protect itself from threats and potential failures, respond and adapt to, as well as recover and learn from disruptive events in order to minimise their impact on the delivery of critical operations through disruption.



What has changed from the consultation?

The final standard has clarified timelines, responsibilities and integration with other frameworks:

<p>1+3 Years Timeline</p> 	<p>31st May 2022 31st May 2023 31st May 2026</p> <p>Planning (1 year): Develop OR framework</p> <p>Implementation (3 years): Become operationally resilient</p> <p>▲ We are here</p> <ul style="list-style-type: none"> • Implementation period of the framework has been extended from 2 to 3 years
<p>Board Responsibility</p> 	<ul style="list-style-type: none"> • The finalised OR-2 has shifted the active role of the Board to senior management. Rather than taking direct action, the Board is now only required to review and oversee the OR framework • AIs would also need to start considering how to properly allocate the workload without affecting the daily operations
<p>Development of Operational Resilience Framework</p> 	<ul style="list-style-type: none"> • With HKMA's consent, AIs can now leverage on their group's existing operational resilience frameworks, where appropriate • The Incident Management Programme under OR-2 can be constructed on top of the Bank's BCP Recovery Strategy
<p>Third Party Dependency</p> 	<ul style="list-style-type: none"> • AIs need to take extra steps to ensure that the third parties that they are engaging with would not weaken their level of resilience in the event of a disruption
<p>Mapping Documentation</p> 	<ul style="list-style-type: none"> • AIs have more flexibility when consolidating their mapping documentation – update of mapping will only be required when necessary instead of annually

The HKMA also concurrently updated TM-G-2 Business Continuity Planning to align with the new OR-2. Updates were made to:

- ✓ Introduce work-from-home arrangements;
- ✓ Enhance descriptions of roles and responsibilities in the decision making process;
- ✓ Align consistency to specify that the delivery of critical operations should be consistent with the Bank's operational resilience; and
- ✓ Introduce flexibility on testing frequency with clear guidelines.



How can KPMG help with the new regulatory requirements?

2022 - 2023
Planning

Gap Assessment

- 01**
- ✓ Perform **gap analysis** between the Bank's current state against the new HKMA requirements of OR-2, based on:
 1. Review of relevant policies and procedures
 2. Conduct interviews and workshops to **align understanding of current functional operating model** with relevant stakeholders and management
 - ✓ Conduct discussion forums on our findings identified from the gap analysis, including our **recommendations and suggested enhancement/remediation roadmap**

OR Framework Development

- 02**
- ✓ Propose criteria in determining critical operations based on size, nature and complexity of the AI's operations, and identify **a list of critical operations**
 - ✓ Identify a list of **severe but plausible scenarios** that will impact critical operations
 - ✓ Formulate a set of criteria in determining **tolerance for disruptions** and determine the tolerance for severe but plausible scenarios using **time-based metrics**

OR Strategy & TOM Design

- 03**
- ✓ Conduct stakeholder interview and strategy workshop to map out vision and aspirations
 - ✓ Define **strategic principles** with expected outcomes
 - ✓ Analyse **current state of operating components** including people, processes, technology, facilities, data and third party
 - ✓ Conduct **stakeholder meetings to propose and validate target state of operating components**

Service Assessment Pilot

- 04**
- ✓ Define **pilot scope, purpose, resilience control framework and metrics** across resource types
 - ✓ **Map out interconnections & interdependencies** and **complete scenario testing**
 - ✓ **Validate operational resilience operating model** governance, organisation design and processes, and conduct refinement based on testing outcome

Implementation Planning for the next 36 months

- 05**
- ✓ Refine the strategy and operating model **based on the observations made from the pilot**
 - ✓ **Outline an indicative roadmap** that leads to implementation
 - ✓ Develop **business case** for implementation support for management approval



2023 - 2026
Implementation

Implementation Support based on the Implementation Plan

- 06**
- ✓ Provide Operational Resilience implementation support in various workstreams: **PMO Office, Data & Tooling, Policies & Procedures, Testing, Incident Management, and Training**
 - ✓ Support banks to implement OR into BAU and fulfill HKMA requirements

KPMG has a global, multi-disciplinary team with subject matter advisors who have significant depth and capability across the Resilience, Operational Risk, Business Continuity Plan / Business Continuity Management, Recovery and Resolution Planning, Cyber and Technology domains. We draw on this depth to ensure that our clients have access to the right perspectives as we collaborate on an Operational Resilience Programme that meets your needs.

Contact us

If you would like to further discuss the implications of the new Operational Resilience standard, please contact us:



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