



# Revised HKMA requirements on recovery planning - The supervisory policy manual RE-1 recovery planning

## Service offering brochure

### Background

**The recent global economic downturn has put tremendous pressure on financial systems globally and the resilience of banks is put under scrutiny. While regulators world-wide have been trying to support the economy via their respective banking systems by relaxing capital and liquidity requirements, it is necessary to prepare for the worst and demonstrate the banking sector's ability to withstand the crisis without public aid.**

**All Authorized Institutions (“AIs”) operating in Hong Kong are required to develop and maintain a recovery plan that is compatible with the nature, scale, structure, complexity, and systemic risks of their local operations. A recovery plan refers to**

**possible actions an AI may feasibly take in a range of stressful situations without considering any form of public support except the eligibility for Hong Kong Monetary Authority (“HKMA”) liquidity facilities.**

**The HKMA issued a revised version of the Supervisory Policy Manual (“SPM”) on Recovery Planning (“RE-1”) effective 19 June 2020. This RE-1 incorporates guidance set out in the HKMA circular as of 6 July 2017 and the latest developments in both local and international standards and practices.**

**Since all AIs have to submit their recovery plan to the HKMA on a regular basis and whenever the HKMA deems necessary, AIs should take action to address the changes in requirements set out in RE-1 and review their current recovery planning.**

**This document presents a summary of the key focus areas of the revised SPM for AIs’ reference and consideration.**

### **Recovery planning**

A recovery plan should consist of several main elements:



A recovery plan should form an integral part of an AI’s risk management framework and include some key requirements as prescribed by the RE-1. The table below presents a selection of requirements which should be viewed as supplementary to the revised requirements:

Selected key elements of the main content of the recovery plan	
Governance structure and oversight	<ul style="list-style-type: none"> <li>Governance regarding the development, review, approval, and ongoing maintenance of a recovery plan as well as the monitoring process for triggering and activating a recovery plan.</li> </ul> <p><b>The local senior management is expected to have a key role in the governance and the escalation framework.</b></p>
Menu of recovery options	<ul style="list-style-type: none"> <li>An AI should consider the full range of possible crisis situations and focus on actions that an AI itself (or other entities within its group) can take directly.</li> <li>Recovery options can cover measures which directly impact the business (e.g. disposal options) or focus on preserving or restoring liquidity and capital positions.</li> </ul> <p><b>The range of options should be credible, consider interdependencies between options, and able to be deployed in an acceptable timeframe. Local and Group recovery plans should be clearly articulated.</b></p>
Recovery triggers	<ul style="list-style-type: none"> <li>Triggers should be both qualitative and quantitative and be tailored to the full range of risks faced by the AI and its situation (e.g. foreign bank branches, foreign bank subsidiaries and other locally incorporated AI).</li> <li>Triggers can leverage the existing internal early warning indicators and should be calibrated by use of stress testing, amongst other approaches.</li> <li>An AI should notify the HKMA promptly of an actual or likely breach of a recovery trigger.</li> </ul> <p><b>Recent market developments should be considered when setting recovery triggers.</b></p>
Scenarios & Stress Test	<ul style="list-style-type: none"> <li>An AI should test its recovery plan against three types of scenario; e.g. an idiosyncratic scenario, a market-wide scenario and a scenario with a combination of both components.</li> <li>Scenarios should be severe enough, plausible and tailored to an AI's risk profiles as well as its capital and liquidity ratios to test the effectiveness, impact and feasibility of recovery plans.</li> <li>An AI should document and provide adequate details of its stress testing methodology: assumptions, qualitative and quantitative techniques, breach of recovery triggers, impacts on capital, liquidity and other metrics.</li> </ul> <p><b>An AI may leverage the scenarios developed under its existing stress-testing programmes and should assess the suitability of using Group recovery stress scenarios on its Hong Kong operations.</b></p>
Communication	<ul style="list-style-type: none"> <li>Communication plan should consider the identification of key stakeholders which may vary under each recovery option.</li> </ul> <p><b>The communication plan should manage both internal and external communications applicable to the AIs' circumstances.</b></p>

## How can Mazars help?

Recovery planning requires expertise in different aspects including governance, risk management, modelling and communication etc. Moreover, the development of a recovery plan requires the collaboration of experts in all these areas, and where possible, a benchmark against good industry practice.

At Mazars, we have extensive experience working within the diversity of Financial Services players. We assist Central Banks, national regulators, major financial institutions and small and mid-size entities in dealing with the implementation of complex projects with multiple impacts on business and international ramifications.

We can provide end-to-end support in the design of your recovery plan as well as improvements to the related risk management framework.

### Design or review of your recovery plan

- Develop an initial recovery plan given the size, business and structure of an institution
- Gap analysis of the existing recovery plan with relevant regulatory requirements (e.g. revised RE-1 on recovery planning, SPM on risk management, etc.)
- Enhance and tailor your recovery policy and procedure
- Benchmark and advise on best market practice to adopt considering an AI's specific situation

### Streamline your recovery plan and your risk management framework

- Review your stress testing framework including the applicability of reverse stress testing
- Identify relevant qualitative and quantitative recovery triggers and advise on the appropriate level of threshold
- Identify relevant recovery options, perform an impact assessment regarding each recovery option and assess their credibility and feasibility

### Streamline your recovery plan and your risk management framework

- Act as the contact point for the coordination and overall governance of the project to address interlinkage and ensure alignment with the Group's recovery planning
- Oversee the overall progress of the project and ensure the delivery of predetermined objectives
- Map out a communication strategy with all relevant stakeholders

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