



HONG KONG MONETARY AUTHORITY
香港金融管理局

Circulars

23 Nov 2006

Benchmarking of Stress-testing Practices in relation to Treasury Activities

Our Ref: B1/15C

23 November 2006

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Benchmarking of Stress-testing Practices in relation to Treasury Activities

The Hong Kong Monetary Authority ("HKMA") has completed a benchmarking exercise on the stress-testing practices of selected authorized institutions ("Als") in relation to market and interest rate risks associated with treasury activities. The objective of the exercise is to assess the effectiveness of selected Als' stress-testing practices and to identify good practices for sharing with the industry.

The majority of Als tested have put in place satisfactory stress-testing practices. We have also identified certain deficiencies in some cases that will require improvements to bring them in line with the requirements set out in Module IC-5 "Stress-testing" of the Supervisory Policy Manual ("SPM"). To help facilitate the effectiveness of stress-testing, some observed good practices are set out in the Annex for your reference.

In view of the important role stress-testing plays as an integral part of the risk management framework, management of Als must regularly review their stress-testing practices and actively introduce enhancements whenever necessary. In particular, management should be vigilant, proactive, and involved in reviewing the scenarios used in stress-testing to ensure that they are relevant and sufficiently vigorous, and defining clearly their risk tolerance level for immediate escalation and remedial actions.

Should you have any questions on the above, please feel free to approach your usual supervisory contact at the HKMA or Mr. Terry Sham on 2878 1443.

Yours faithfully,

Arthur Yuen
Executive Director
(Banking Supervision)

Encl. [Annex - Good Practices for Stress Testing](#) (Word file, 40KB)

Last revision date : 01 August 2011