



Our Ref: B1/15C

4 August 2011

The Chief Executive
All authorized institutions

Dear Sir/Madam,

Benchmarking: Stress-testing Practices and Liquidity Risk Management

The Hong Kong Monetary Authority (“HKMA”) recently completed a benchmarking exercise on (i) the stress-testing practices and (ii) the liquidity risk management of selected authorized institutions (“AIs”). The aim was to assess the effectiveness of AIs’ risk management practices in these two areas and to identify sound practices which it would be helpful to share with the industry.

While the majority of the AIs covered in the benchmarking exercise have put in place reasonable policies and procedures to guide their stress-testing and liquidity risk management activities and operations, deficiencies were noted in some areas where stronger governance, stricter control processes, more prudent business assumptions, and greater discipline in respect of the taking of risk-mitigating actions, would ensure the more effective implementation of the relevant policies and procedures. In this regard, Annex 1 and Annex 2 set out some observed sound practices in relation to stress-testing and liquidity risk management respectively for your reference.

Please note that the benchmarking exercise was focused on the practical aspects of the effective implementation of risk management techniques and control procedures adopted by the industry. AIs should in parallel take steps to achieve compliance with the recommendations set out in the relevant chapters of the HKMA’s Supervisory Policy Manual¹ and those made by the Basel Committee on Banking Supervision (BCBS)².

...../2

¹ LM-1 (Liquidity Risk Management); LM-2 (Sound Systems and Controls for Liquidity Risk Management); IC-5 (Stress-testing)

² Principles for Sound Stress Testing Practices and Supervision (May 2009)

Should you have any questions on the above, please feel free to approach your usual supervisory contact at the HKMA.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.