HONG KONG MONETARY AUTHORITY
香港金融管理局

*Banking Supervision Department* 銀行監理部

Our Ref.: B1/15C

7 January 2026

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

**Liquidity Risk Management**

I am writing to share good industry practices on liquidity risk management based on observations from recent supervisory reviews of authorized institutions (AIs) by the Hong Kong Monetary Authority (HKMA).

In the light of lessons learned from the 2023 Banking Turmoil in the US and Europe, the HKMA has provided guidance to assist AIs in enhancing interest rate risk and liquidity risk management amid the evolving operating environment for banks[1]. Meanwhile, the HKMA has conducted a range of reviews of AIs' liquidity risk management focusing on stress-testing, contingency planning and monitoring tools. Good practices identified from these reviews are highlighted below.

(i) Liquidity stress-testing

Growing digitalisation of banking services and popularity of social media may exacerbate the speed and scale of deposit outflows in times of stress. As pre-emptive measures, many AIs have already reviewed and enhanced their liquidity stress-testing framework by recalibrating the pace of deposit outflows to factor in characteristics of their deposit bases and the potential amplification of stress through digital channels. Several AIs have also fully deployed reverse stress tests to identify the levels of stress which might potentially threaten their resilience, and developed measures to address the identified vulnerabilities.

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[1] Including HKMA circulars on "Lessons drawn on the Banking Turmoil in the US and Europe" of 15 December 2023, and "Interest rate risk management" of 12 February 2025.

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(ii) Contingency planning

Putting in place robust and operationally feasible contingency funding plans (CFPs) would help AIs to respond swiftly to liquidity shocks. In addition to conducting regular and comprehensive drills, AIs have maintained a sufficient liquidity cushion for handling contingencies outside business hours, strengthened their funding arrangements with Head Offices or parent banks, and enhanced the capability to generate timely liquidity information in times of stress. The internal audit function of some AIs also evaluates periodically the adequacy of their CFPs and readiness of the AIs to execute the plans.

(iii) Monitoring tools

Effective tools and adequate capacity for identifying and managing emerging liquidity risk are important. As noted in the reviews, some AIs have adopted metrics beyond those specified in the supervisory guidance and banking returns to support internal surveillance. Several AIs have leveraged advanced technology tools to detect any emerging sentiment in social media.

Details of the good industry practices as well as related supervisory expectations are provided in the **Annex**. AIs should review and enhance their risk management systems and controls as appropriate, having regard to these expectations and practices. Should your institution have any questions about this circular, please feel free to contact us at bsliquidityrisk@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

Encl.