Our Ref.: B1/15C

15 January 2026

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

<u>Good practices on managing operational risk associated with trading activities</u>

I am writing to share good industry practices that the Hong Kong Monetary Authority (HKMA) identified from its ongoing on-site examinations on the operational risk management of authorized institutions (AIs) in respect of their trading activities, with a view to assisting AIs in strengthening their controls and capabilities for managing relevant risks.

AIs conduct various trading activities as part of their day-to-day business operations. These activities range from those of AIs' treasury functions for managing balance sheets and liquidity, to more complex trading operations undertaken by some AIs for market-making and carrying out client-driven transactions. Operational risk events may arise from these activities, such as unauthorised trading, deal input errors (i.e. fat finger), rogue trading and settlement failures. Historical episodes indicated that such events could result in significant financial losses as well as severe reputational damages to a financial institution, and could have been avoided if the institution had put in place a robust framework for managing the risk.

Recognising this importance, the HKMA conducts regular reviews of AIs' operational risk management in respect of their trading activities, with a focus on the relevant governance arrangements, oversight mechanisms, and monitoring and control processes. AIs have generally put in place effective frameworks for managing the risk, with some good practices worth sharing with the industry.

Good practices as well as key observations on the approaches adopted by the reviewed AIs are summarised in the Annex. AIs are expected to review from time to time their operational risk management for trading activities, giving due consideration to these good practices and observations, and take steps to strengthen risk management practices and control frameworks as appropriate.

Should you have any questions on the above, please contact us at bsdmarketrisk@hkma.gov.hk.

Yours faithfully,

Carmen Chu
Executive Director (Banking Supervision)

Encl.