



Our Ref.: S4/3C  
B1/15C  
B1/21C

7 February 2014

The Chief Executive  
All Authorized Institutions

Dear Sir/Madam,

### **BCBS Guidance on A Sound Capital Planning Process**

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued on 23 January 2014 a document on *A Sound Capital Planning Process: Fundamental Elements* (see <http://www.bis.org/publ/bcbs277.pdf>) setting out observed sound practices for banks' capital planning processes.

Sound capital planning by banks is a necessary complement to a robust regulatory framework, and is critical for determining the amount, type and composition of capital that should prudently be held by banks so that they will be able to continue pursuing their business objectives, while also withstanding stressful situations. Reflecting on lessons from the global financial crisis in relation to the strengthening of capital planning, the BCBS identifies four fundamental components for a sound capital planning process in its paper, viz. (i) internal control and governance, (ii) capital policy and risk capture, (iii) forward-looking view, and (iv) management framework for preserving capital. The paper then explores sound practices observed at some banks in relation to these four components, with a view to fostering overall improvement in banks' capital planning processes.

The HKMA's supervisory review process covers authorized institutions' capital planning practices. In the light of the sound practices guidance issued by the BCBS, the HKMA will consider the extent to which the existing guidance on capital planning in the Supervisory Policy Manual module "Supervisory Review Process" (CA-G-5) should be enhanced to incorporate the sound practices identified. In the meantime, all authorized institutions are encouraged to review their capital planning process

against the four fundamental components identified by the BCBS and take appropriate action to address any material deficiencies or gaps identified.

Should you have any questions relating to this letter, please feel free to contact Ms Rita Yeung at 2878-1388 or Mr Andy Cheung at 2878-1022.

Yours faithfully,

Karen Kemp  
Executive Director (Banking Policy)

c.c. FSTB (Attn: Mr Jackie Liu)