



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B1/21C

19 October 2018

The Chief Executive
All Authorized Institutions

Dear Sir / Madam,

BCBS Guidelines on Stress Testing

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued a document *Stress testing principles*¹ on 17 October 2018, which replaces the BCBS *Principles for sound stress testing practices and supervision* issued in May 2009².

Recognising that the role of stress testing has rapidly evolved and grown in importance for banks and regulatory authorities since the issuance of the 2009 document, the BCBS has updated the current set of principles to reflect that stress testing is now both a critical element of risk management for banks and a core tool for banking supervisors and macroprudential authorities. The updated principles are set at a high level so that they may be applicable across banks and jurisdictions and remain relevant as stress testing practices continue to evolve.

The principles are guidelines that focus on the core elements of stress testing frameworks, such as the objectives, governance, policies, processes, methodology, resources and documentation that guide stress testing activities and facilitate the use, implementation and oversight of stress testing frameworks. The principles are intended to be applied on a proportionate basis, having regard to the size, complexity and risk profile of a bank or banking sector. Each principle is followed by a short description of

¹ <https://www.bis.org/bcbs/publ/d450.htm>

² <https://www.bis.org/publ/bcbs155.htm>

considerations that are equally relevant for banks and authorities, with additional points applicable to either of them.

The HKMA intends to implement the BCBS *Stress testing principles* and update the Supervisory Policy Manual module IC-5 on stress-testing in due course in consultation with the industry. In the meantime, authorized institutions are expected to review and strengthen their stress testing frameworks and practices as necessary, taking account of the applicable principles set out in the BCBS document.

Yours faithfully,

Richard Chu
Acting Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association