



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

Our Ref: B1/15C
B9/81C
S4/11C

21 April 2021

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Principles for Operational Resilience and Revised Principles for Sound Management of Operational Risk

I am writing to draw to your attention that on 31 March 2021 the Basel Committee on Banking Supervision (“BCBS”) issued two sets of principles, viz., the *Principles for Operational Resilience* (“POR”)¹ and the *Revised Principles for Sound Management of Operational Risk* (“Revised PSMOR”)², amid the Covid-19 pandemic which has made operational resilience and mitigating operational risk in banks even more important.

POR

The BCBS observed that while much has been done since the Global Financial Crisis of 2007-2009 to strengthen banks’ financial resilience, more work is necessary to improve banks’ ability to withstand significant operational disruptions (including those arising from pandemics, technology failures, and natural disasters). It has therefore issued the POR, which contains a new set of principles aimed at improving banks’ operational resilience. The BCBS defines operational resilience as the ability of banks to deliver *critical operations* through disruptions, which requires banks to remain within their *tolerance for disruption* under a range of *severe but plausible scenarios*.

As noted within the POR, operational resilience is an outcome that benefits from the effective management of operational risk. Besides this, the POR also provides guidance in the following areas, including: governance, business continuity planning and testing, mapping interconnections and interdependencies, third-party dependency management, incident management, and management of information and communication technology (ICT)-related risks.

¹ Please see <https://www.bis.org/bcbs/publ/d516.htm>

² Please see <https://www.bis.org/bcbs/publ/d515.htm>

The HKMA notes that many of the concepts and requirements within the POR are already covered in its existing supervisory guidance³. The HKMA is nonetheless considering the need to provide additional guidance to implement the new principles in Hong Kong.

Revised PSMOR

Incorporated in the Revised PSMOR are: (i) further guidance to improve the overall clarity of existing principles; (ii) updates where needed in the areas of change management and ICT management; and (iii) changes to ensure consistency with the new operational risk framework in the 2017 Basel III final package. Elements of the revised PSMOR, which cover governance, risk management environment, ICT, business continuity planning and the role of disclosure, should be viewed as integrated components of the operational risk management framework and the overall risk management framework (including operational resilience) of banks.

AIs are expected to implement the Revised PSMOR as soon as practicable. To assist AIs in the process, the HKMA plans to provide relevant guidance through revising SPM module OR-1 on Operational Risk Management and will consult the industry about the proposed revisions in due course. In the meantime, AIs are strongly recommended to familiarise themselves with the revised requirements, and prepare for any system changes that may be necessary for the implementation of the Revised PSMOR.

Should you have any questions, please feel free to contact Ms Joanna Chan on 2878 8694 relating to the POR or Mr Andy Cheung on 2878 1022 relating to the Revised PSMOR.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairperson, The DTC Association
FSTB (Attn: Ms Eureka Cheung)

³ For example, these include the Supervisory Policy Manual modules “TM-G-1 General Principles for Technology Risk Management”, “TM-G-2 Business Continuity Planning”, “OR-1 Operational Risk Management” and “SA-2 Outsourcing”, as well as “Cyber Resilience Assessment Framework 2.0”.