

Resolution Planning

On 7 July 2017, the Hong Kong Monetary Authority (HKMA) Resolution Office issued the Financial Institutions Resolution Ordinance (FIRO) guidelines.

The FIRO aims to establish a resolution regime for Hong Kong financial institutions, in line with the international resolution standards set out by the Financial Stability Board (FSB), and allows the HKMA to have tighter regulatory control over systemically important banks and take direct action.

The HKMA has already issued core information requests to the Designation of Domestic Systemically Important Authorized Institutions (DSIBs) and the first wave of data submission is expected in Q4 2017. Whilst the guidelines do not specify the exact timing for including all in scope parties, it is expected that the HKMA will follow a similar “wave” approach to the one used for Recovery Planning.

Relevant documentation

CI-1 (which supercedes RE-2): core information submission requirements;
RA-1: HKMA’s code of conduct; **RA-2**: HKMA’s approach to resolvability assessments and stabilisation options.

Overview of resolution regime for financial institutions

Under the FIRO, the HKMA will be responsible for setting resolution standards, undertaking resolution planning and resolvability assessments, identifying and addressing impediments to resolution and executing a resolution strategy for banks.

Information Request

The HKMA will require banks to prepare two sets of information. The core set will need to be submitted to the HKMA within 6 months of notification, whilst the supplementary set will be submitted on demand as the HKMA performs resolvability assessments to support the resolution strategy.

Subsequently, core and supplementary information should be updated and submitted every 2 years or on demand from the HKMA.

Core information

- Relevant entities and material entities
- Core business line and reporting model
- Key legal, financial, operational and external dependencies
- Financial functions, including but not limited to deposits, lending and loan servicing, payments, clearing, custody and settlement, wholesale funding markets, and capital markets and investments

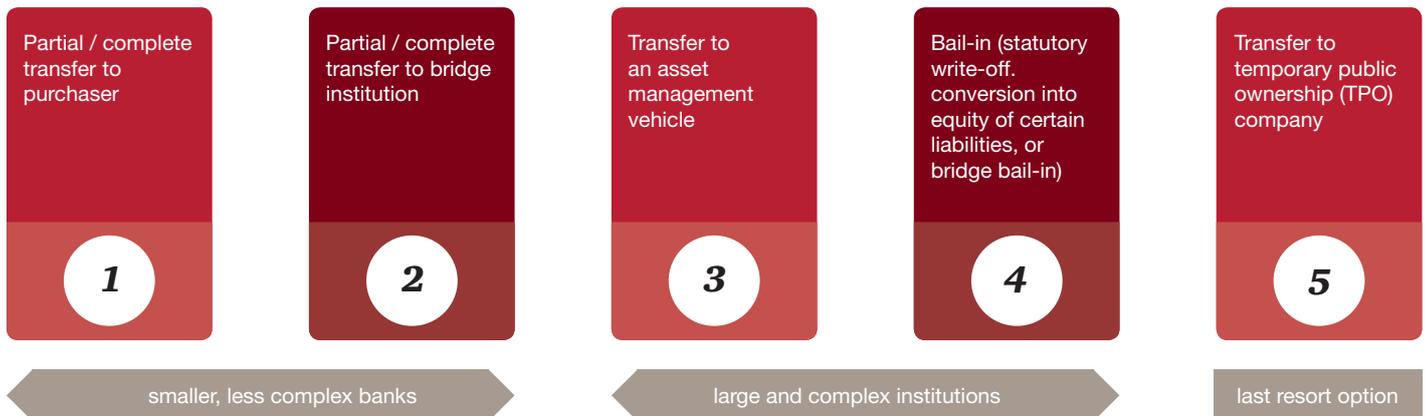
Supplementary information

- For partial transfer strategies:
 - Asset and liability packages
 - Asset valuation capabilities
 - Operational continuity arrangements
- For bail-in strategies:
 - Capital and liability structure
 - Operational shared services
 - Contract documentation
 - Valuation capabilities

Challenge : Our experience suggests that most of the institutions will be familiar with synthesising the Core information packs. However, most of the challenges will be in consolidating the Supplementary information, and in particular, the capital structure requirements and the documentation of the inter-entity shared services.

Stabilisation Options

Considering each bank's legal entity structure, nature and scale of businesses, nature of operational dependencies and funding arrangements, the HKMA will select an appropriate stabilisation option.



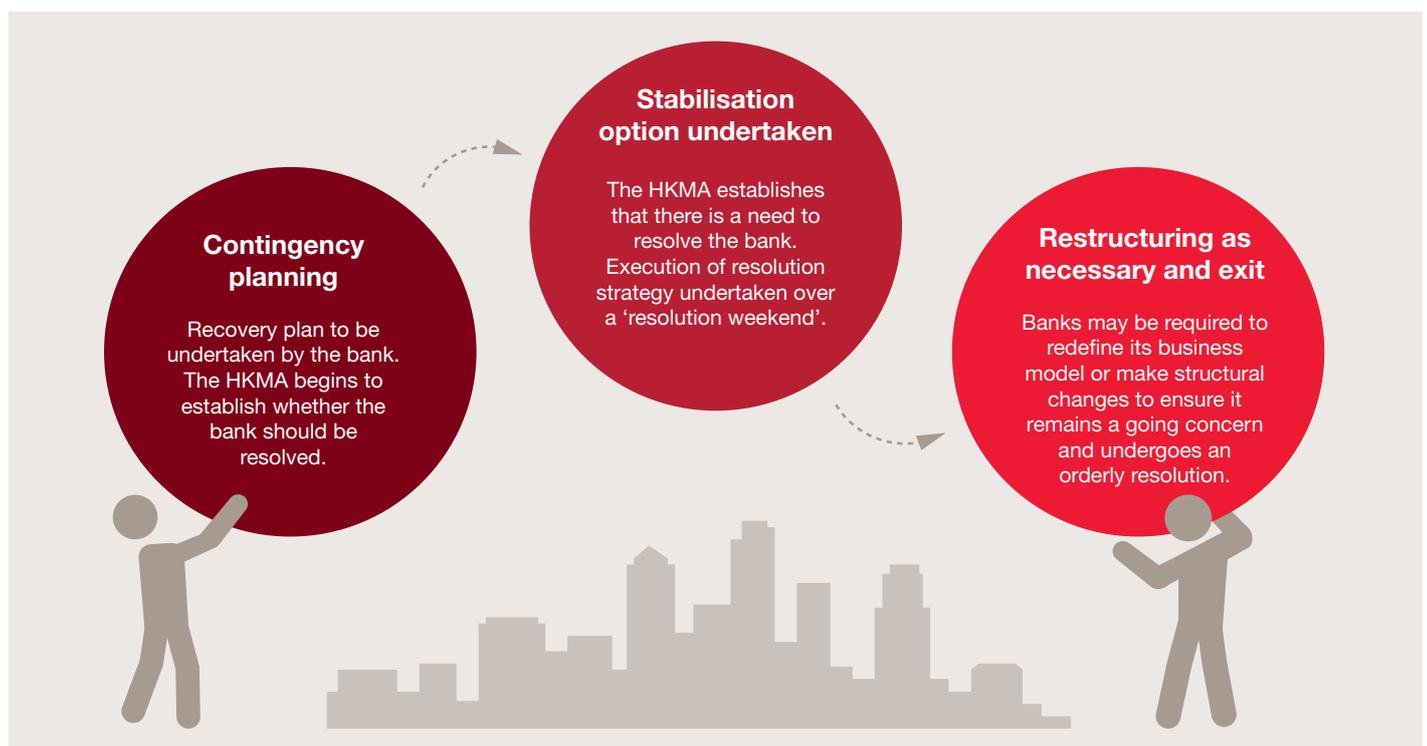
Resolvability assessment

The HKMA will conduct resolvability assessments across the areas below with the objective to identify impediments to the resolution strategy and will expect banks to take appropriate mitigating actions.

- Loss absorbing and recapitalisation capacities
- Operational services continuity in resolution
- Termination rights risks
- Resolution valuation capabilities
- Access to payment, settlement and clearing services
- Liquidity
- Post-stabilisation restructuring

Resolution Execution Timeline

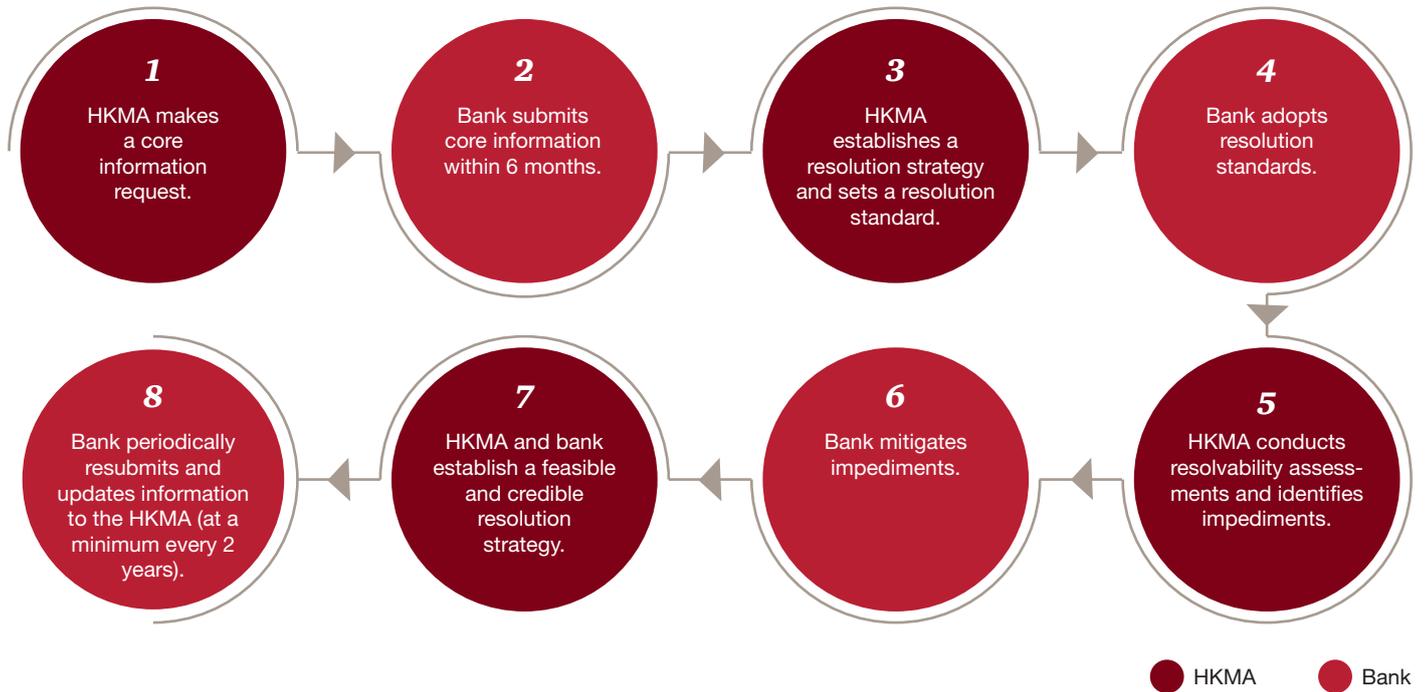
In the event a bank approaches resolution, HKMA envisages three stages to the execution of the resolution strategy



To know more about PwC's viewpoint on recovery planning, please refer to our publication <http://www.pwchk.com/en/services/consulting/publications/recovery-planning-wave3.html>

Resolution planning timeline

The timeline below summarises HKMA's expectation for adoption of resolution planning and standards and sequence of proposed changes.



What banks should be doing

Banks should be mobilising their resources to assess their Core and Supplementary information and remediate any gaps, and leverage any recovery plan information where relevant. Good practice would be for banks to perform their self-assessment on preferred resolution strategy, identify impediments and work collaboratively with the HKMA. From our experience, banks should mobilize and leverage their internally shared resources to collect substantial contract level information to address the regulatory need.



Governance Requirements

- Banks need to identify the executive management responsible for engaging with the HKMA and executing the resolution plan.
- Banks need to establish a program office responsible for the coordination of responses and ongoing monitoring of the resolution plan.
- Banks must clearly define a governance structure and organisational arrangement to support the HKMA's resolution process.



Data Requirements

- Core information must be based on the bank's most recent year-end accounting data.
- Banks should develop a detailed view of contracts with critical service providers, and review whether they are resolution-proof.
- Banks should assess whether risk and data reporting capabilities are sufficient to provide the necessary amount and granularity.



Technology Requirements

- Banks must ensure their risk data and reporting aggregation capabilities are able to support HKMA's timeline.
- Banks should maintain a central repository for all key information.
- Data must be updated periodically at a minimum of every 2 years, and reflect any significant operational or structural changes.
- Key information must be readily available at HKMA's request.

Resolution Strategy and Impediment Mitigation

While it is the HKMA's responsibility to determine a resolution strategy and conduct resolvability assessments, it is advisable for banks to perform a self-assessment against suggested criteria and form their own view on a preferred stabilisation option and identify potential impediments to its resolution strategy.

How PwC can help



Data collection and assessment

Provide assistance in data collection, gap assessment and remediation, assess key areas of regulatory focus, map critical functions, shared services and arrangements with financial market infrastructures.



Develop house view of preferred resolution strategy & resolvability assessment

Assess current capabilities across the resolvability assessment criteria proposed by HKMA and develop remediation plans prior to regulatory submission.



Provide subject matter advice

Our experiences of working with the HKMA and other global regulators and advising our international clients with their resolution plan developments give us unique insights and guidance in addressing these regulations.



Education and training

Provide tailored training across the banks' key functions on the new regulatory requirements and best market practices.



Planning

Set-up of a project team to be responsible for the planning and establishing of a roadmap to fulfill and assist the HKMA in preparing a robust resolution plan, as well as to coordinate between local and group stakeholders, centralization of deliverables and tracking of remediation actions.

Our Team



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