

## Operational resilience in view of Covid Fifth Wave

On 6 January 2022, the Hong Kong Government announced new restrictions in response to the latest Covid Fifth Wave. With this in mind, the SFC expects Licensed Corporations (“LCs”) to implement Operational Resilience measures in line with its [Report on Operational Resilience and Remote Working Arrangements](#), published in October 2021. It is important for LCs to adopt a comprehensive approach to achieve its operational resilience objectives based on the practical operational disruptions and risks. The SFC sets out in the report certain techniques and procedures and encourages LCs to adopt these suggestions as appropriate to your individual circumstances.

We recommend you consider certain operational resilience standards, and have summarised these below:

- **Operational Resilience Standard 1:** Senior Management are required to assume full responsibility for setting operational objectives and implementing necessary arrangements.

Practical suggestions:

- Management meetings to discuss and document your individual LC’s operational resilience strategy, in response to this Covid Fifth Wave.

- **Operational Resilience Standard 2:** LCs should have an Operational Risk Management framework including having in place policies and procedures to ensure proper management of the operational risks to which LCs are exposed. This should include identifying 1) the operational risks posed by potential disruptions, 2) the roles of senior management in developing the policies and 3) arrangements for ensuring operational resilience will not be affected by the absence of certain members.

Practical suggestions:

- Document the LC’s arrangements with respect to: back up systems, split team locations and any third party reliance on support.
- Have in place contingency plans which cover potential disruptive events and their corresponding response measures: e.g., quarantine, hospitalisation and alternative work arrangements. Split teams, extended rotational working locations and physical segregations are some of the suggestions.

- **Operational Resilience Standard 3:** LCs are expected to ensure their IT systems are resilient in order to support business operation of business in the event of disruptions, ensure confidential data and information are protected and cybersecurity risks are managed.

Practical suggestions:

- The remote access of the systems should require multi-factor authentication. LCs should closely monitor the use of remote access, e.g., If staff did not use the remote access in any 30 days, the remote access should be disabled.
- To prevent the leakage of data and information, LCs are recommended to have traders perform their duties in separate rooms which are not shared with other parties when working from home or outside office premises.
- Liaise with IT consultants to deploy software to perform system and antivirus checks every time an employee accesses its network remotely.

- **Operational Resilience Standard 4:** LCs are expected to identify dependencies on key third parties (including intragroup entities) and evaluate the resilience of third-party service providers.

Practical suggestions:

- Have in place contingency plans in case key service providers (e.g., prime brokers, fund administrators) are unable to perform their functions. Backup service providers shall be appointed where necessary.
  - Make enquiry to key service providers to understand their business continuity plans.
- **Operational Resilience Standard 5:** LCs should have an effective business continuity plan in place to respond to disruptive incidents.

Practical suggestions:

- Critically review the business contingency plan to ensure that the plans could be properly implemented when disruptive events occur, particularly due to pandemic outbreak (e.g., When key staff members are admitted to a quarantine centre, the LC could deliver the necessary equipment to the quarantine centre so that these staff could access the firm's system remotely and carry out key functions.)
- Consider impact to resourcing and capacity: speed, latency and bandwidth affects on trading and settlements. Consider if there are enough staff under a split team to check and process operations and trade settlements.

## Contacts

To have a deeper discussion about how this topic might impact your business, please contact Optima Partners.

### **Katrina Banh**

Partner

Phone: +852 3166 5286

Email: Katrina.Banh@optima-partners.com

### **Kevin Yung**

Associate Director

Phone: +852 3163 8119

Email: Kevin.Yung@optima-partners.com

### **Justin Kai**

Associate

Phone: +852 3163 8118

Email: Justin.Kai@optima-partners.com