

Incident Management Plan

Incident Response Team (Finance & Fundraising)

Version 2

Last updated: June 2022

1. Introduction

- 1.1 The University has continually performed good financial planning, effective cost control and legitimate donation management in the following areas:
- (a) the financial planning for the Block Grant is completed for the entire triennium before it starts;
 - (b) self-financed activities must bear the full cost themselves;
 - (c) deposit limits have been set for different types of banks;
 - (d) only surplus funds without short-term need will be used for long-term investment;
 - (e) regular reporting will be made to the Finance Committee and the Council for governance purposes; and
 - (f) solicitation, acceptance, processing and deployment of donations are strictly guided by the “Guidelines for Solicitation and Acceptance of Donations and Sponsorships” and “Operating Guidelines for Due Diligence Review of Prospective Donors and Donations” approved by the Institutional Advancement Committee (IAC) and the University’s Council, and the “Procedure Manual for the Allocation, Usage, Monitoring and Reporting of Received Donations and Sponsorships” approved by the management of the University.
- 1.2 With good planning and effective cost control, the probability of a financial crisis occurring within the University is minimized, even though there may be crises in the external financial markets.
- 1.3 The University has a set of pre-determined procedures to deal with following financial crises and issues aroused during the solicitation, processing and deployment of donations and the organization of fundraising or donor-related events.
- (a) Substantial Unplanned Financial Loss;
 - (b) Collapse of the Equities Market;
 - (c) Debt Crisis;
 - (d) Bank Crisis;
 - (e) Donor’s credibility;
 - (f) Donation withdrawal;
 - (g) Mishandling of donations;
 - (h) Disclosure of donor’s confidential information;
 - (i) Donation misused; and
 - (j) Disruption of fundraising and donor-related events.

2. Purpose and Scope

This Incident Management Plan (“the Plan”) aims to explain the nature of each type of financial crisis that could be faced by the University, and defines a set of pre-determined procedures to achieve the following outcomes:

- 2.1 minimise the financial loss of the University;
- 2.2 preserve the liquidity of the University to enable it to meet its current financial obligations, such as payroll;
- 2.3 maintain good governance in terms of finance and fundraising;
- 2.4 maintain accountability to donors of the University.

3. Incident Response Procedures in relation to the Finance of the University

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
3.1	<p>Substantial Unplanned Financial Loss</p> <p>3.1.1 Nature of Substantial Unplanned Financial Loss</p> <p>It may be essential for the University to formulate a deficit budget for its long-term development and benefit, and such deficit shall not be regarded as “unplanned”. An unplanned deficit may be caused by substantial under-enrollments, natural disasters and frauds. Substantial Unplanned Financial Loss shall mean an adverse deviation of more than 30% from the financial plan.</p> <p>3.1.2 Pre-crisis Management</p> <p>(a) Comptroller shall be responsible for pre-crisis management and shall invoke the Crisis Management Procedures, if Comptroller finds that the threshold mentioned in 3.1.1 is met.</p> <p>(b) Comptroller has been making use of the following tools to help prevent the crisis from occurring:</p> <p>(i) At the start of a triennium, perform forward planning for the entire triennium so that a clear financial position of the Block Grant (which accounts for about 70% of the University income) can be ascertained; if a deficit budget is planned, appropriate funding sources for covering the deficit will be identified;</p> <p>(ii) before the start of a self-financed programme, a 3-year budget has to be prepared by the host</p>	<p>2 (Note 1)</p> <p>Likelihood: Very low</p> <p>Impact: Moderate</p>	<p>When a substantial unplanned financial loss is identified, the Comptroller will supply all members of the Incident Response Team with the following basic information:</p> <p>(a) nature of the incident; (b) the amount involved; (c) the proposed actions to be taken to contain the loss; (d) the proposed funding source(s), including the possibility of seeking Government funding, to absorb the loss.</p> <p>In addition, the Crisis Management Team (“CMT”) and the Treasurer will be informed of the incident, and may offer direction for remedial actions.</p>	Comptroller	2 days

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
	<p>department, and the budget has to be vetted by Comptroller;</p> <ul style="list-style-type: none"> (iii) an annual budget for all funding will be prepared in January/February to assess the financial health of each operating segment of the University; (iv) a mid-year budget review will be prepared in December each year to find out whether the annual financial plan can be achieved. If not, appropriate adjustments must be made; (v) every purchase and recruitment request must pass the budget clearance process; requests without sufficient budget will be stopped; (vi) as a general rule, all self-financed activities must bear their own costs. <p>3.1.3 Post-Crisis Review</p> <p>After the crisis, the Comptroller will draft a report detailing, for endorsement by the IRT and then the CMT:</p> <ul style="list-style-type: none"> (a) the cause of the incident; (b) the actual impact on the University; (c) the remedial actions taken to contain the loss; (d) suggested measures to prevent a repeat of the incident. <p>The endorsed report will be submitted to the Finance Committee and Council for governance purposes.</p>				
3.2	Collapse of Equity Market	2 (Note 2)	After receiving the crisis notification from the Comptroller, the ISC will discuss the actions, including liquidating some of the	Comptroller	3 hours

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
	<p>3.2.1 Nature of the Collapse</p> <p>The equities market may go up or down, to a large extent, in response to different geo-political events without any change in its fundamentals. A collapse should therefore be defined in such a way that will not treat normal fluctuations as crisis. With reference to the market conditions during the financial tsunami of 2008, when the Dow Jones Index plummeted by 774 points (or 7%) on 29 September 2008 and the Hang Seng Index dropped 1,603 points (or 12.7%) on 27 October 2008, a collapse of the equities market is defined as a drop of 8% of the market index in one day.</p> <p>3.2.2 Pre-crisis Management</p> <p>Comptroller will be responsible for monitoring whether the crisis condition, as defined in paragraph 3.2.1, has occurred, on a daily basis. If a crisis condition occurs, Comptroller will inform IRT and CMT, as well as the Investment Sub-Committee (“ISC”), via the pre-ordained WhatsApp group.</p> <p>3.2.3 Post-Crisis Review</p> <p>After the crisis is declared over, Comptroller will report the following facts and suggestions to IRT, CMT and ISC:</p> <ul style="list-style-type: none"> (a) the nature of and/or trigger point of the crisis; (b) the actions taken to minimise the impact on the University; 	<p>Likelihood: Moderate</p> <p>Impact: Moderate in the short-run but minimal in the long-run</p>	<p>holdings, that the University may take to minimise the potential loss. The Comptroller will be responsible for implementing the decision(s) of the ISC as soon as practicable and report back to the IRT, CMT and ISC once the execution is completed. The ISC will reassess the market conditions and may furnish further investment instructions.</p>		

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
	<p>(c) the market value of the investments before and after the crisis;</p> <p>(d) the suggested actions, if any, to be taken by the Administration if the crisis occurs again.</p> <p>Although the Administration cannot control or predict the collapse of an equity market, it is believed that its long-term impact on the University can be minimised by following the procedures as outlined in the Action(s) for paragraph 3.2.</p>				
3.3	<p>Debt Crisis</p> <p>3.3.1 Nature of Debt Crisis</p> <p>Debt crisis occurs when the debt issuing government/company cannot fulfill its obligations to pay interest or repay the principal in accordance with the conditions stipulated in the debt instruments. The University invests in debt instruments through two appointed investment managers, who are responsible for managing a portfolio consisting of 60 equities and 40 bonds. Both managers hold less than 1% bonds (out of 100% bonds) which are below investment grade, i.e. below the “Baa3” rating awarded by the Moody’s Investors Service. Debt crisis occurs when the issuers of major sovereignty bonds, such as the US Government and the European Central Bank, default in</p>	<p>1 – 2 (Note 3)</p> <p>Likelihood: Extremely low</p> <p>Impact: Moderate in the short-run but minimal in the long-run</p>	<p>If a debt issuing body is confirmed to have defaults in payment, the Comptroller will</p> <p>(a) check with the investment managers to ascertain if the University’s portfolio holds such bonds;</p> <p>(b) if “yes”, the amount involved and explore whether such holdings can be liquidated;</p> <p>(c) report the finding to the IRT, CMT and ISC; and</p> <p>(d) act in accordance with the direction offered by the ISC.</p>	Comptroller	3 hours

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
	<p>payment.</p> <p>3.3.2 Pre-crisis Management</p> <p>Comptroller will perform pre-crisis management as follows:</p> <ul style="list-style-type: none"> (a) The investment managers will submit quarterly report to the Comptroller, in which the breakdown of bonds holding by credit rating will be presented; (b) Ask the investment managers why the percentage of non-investment grade bonds exceed 5% (out of 100% of bonds), if that is the case; (c) Report the findings to the IRT, CMT and ISC via the WhatsApp group, which may give direction for action. <p>3.3.3 Post-Crisis Review</p> <p>After the crisis has stabilized, Comptroller will report the following facts and suggestions to IRT, CMT and ISC:</p> <ul style="list-style-type: none"> (a) the nature and/or trigger point of the crisis; (b) the actions taken to minimise the impact on the University; (c) the suggested actions, if any, to be taken by the Administration if the situation occurs again. 				
3.4	<p>Bank Crisis</p> <p>3.4.1 Nature of Bank Crisis</p>	<p>1 – 2 (Note 4)</p> <p>Likelihood:</p>	<p>When a bank is confirmed having a problem in fulfilling its withdrawal demand, the Comptroller’s Office will,</p>	Comptroller	3 hours

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame						
	<p>A bank crisis occurs when a bank cannot fulfill the withdrawal demand from its customers. If a bank goes into liquidation, all depositors will become its ordinary creditors and have to file Proof of Debt to the liquidator for recovering their deposits. However, depositors of a HK licensed bank can get back their money in full from the Deposit Protection Scheme, if the amount does not exceed HK\$500,000.</p> <p>3.4.2 Pre-crisis Management</p> <p>The University only opens bank accounts with licensed banks in Hong Kong approved by the Finance Committee, which has set deposit limits for each approved bank in accordance with their credit rating (Moody’s) as follows, to limit the University’s exposure to a particular bank:</p> <table border="1" data-bbox="311 906 840 1054"> <thead> <tr> <th>Moody’s Credit Rating</th> <th>Deposit Limit</th> </tr> </thead> <tbody> <tr> <td>A3 - Aaa</td> <td>HK\$150M</td> </tr> <tr> <td>Baa3 – Baa1</td> <td>HK\$50M</td> </tr> </tbody> </table> <p>The maximum tenure for each fixed deposit is 1 year. The aggregate amount of deposits with a bank shall not exceed its deposit limit.</p> <p>3.4.3 Post-Crisis Review</p> <p>After a crisis has stabilised, the Comptroller will report the following facts and suggestions to IRT, CMT and FC:</p> <p>(a) the nature and/or trigger point of the crisis;</p>	Moody’s Credit Rating	Deposit Limit	A3 - Aaa	HK\$150M	Baa3 – Baa1	HK\$50M	<p>Extremely low</p> <p>Impact: Low to Moderate</p>	<p>subject to the constraints promulgated by the Government:</p> <p>(a) report the incident to IRT, CMT and FC;</p> <p>(b) liaise with the bank manager to withdraw the University’s money, if any, in an orderly manner.</p>		
Moody’s Credit Rating	Deposit Limit										
A3 - Aaa	HK\$150M										
Baa3 – Baa1	HK\$50M										

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
	(b) the actions taken to minimise the impact on the University; (c) the suggested actions, if any, to be taken by the Administration if the crisis occurs again.				

4. Incident Response Procedures in relation to the Fundraising of the University

	Incident	Level*	Action(s)	Responsible parties within IRT	Time-frame
4.1	Donor's credibility 4.1.1 Suspicious donor or source of donation is identified during the solicitation process of donation	1	Conduct thorough due diligence review according to the Operating Guidelines for Due Diligence Review of Prospective Donors and Donations.	DIAAA	3 days
			Consult the President, Chairman of the Institutional Advancement Committee (IAC) or the Chairman of the Council, or any concerned members of the University for their opinions and advice on the acceptance of donations, if necessary.	DIAAA	3 days
	4.1.2 Donor/prospective donor dishonours a pledged donation(s)/amount of donation(s)	1	Contact and negotiate with the donor/prospective donor or referee(s), if any, to try to secure the pledged donations.	DIAAA	Nil
	4.1.3 Donation cheque is not honoured or credit card payment is rejected by the bank	1	Inform the OIAAA if a cheque has not been honoured or a credit card donation payment is rejected by the bank.	CO	Immediately

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			Inform the donor to check the problem(s) and arrange re-issuance of cheque or provide alternative credit card details, or arrange alternative payments, if necessary and appropriate.	OIAAA	Immediately
4.2	Donation withdrawal 4.2.1 Donor requests for a refund or withdrawal of paid donations	1-2	Liaise with donor to understand the reason of the refund request and propose alternatives on the usage of donations to avoid making the refund, if appropriate.	OIAAA	
			Inform the CO for the refund arrangements if the decision is mutually agreed by the donor and the University.	OIAAA	
			Report to the IRT, President or the IAC, depending on the amount of the withdrawn donations.	DIAAA	
	4.2.2 Monthly donor(s) terminate monthly donation(s)	1	Contact the donor(s) to understand the reason of termination.	OIAAA	Immediately
4.3	Mishandling of donations 4.3.1 Loss of cash/cheque donation during the donation processing	1	Inform the DIAAA if the donation is confirmed lost.	OIAAA	Immediately
			Inform the donor to explain the situation and follow up on the remedial actions.	OIAAA	Immediately
	4.3.2 A case of stealing or corruption is suspected during the donation processing	1-2	Inform the DIAAA of the situation.	OIAAA	Immediately
			Conduct investigation internally, and if situation has not been clarified, escalate the situation to the President, who will consider whether to escalate the issue to the police or ICAC.	OIAAA/DIAAA	1 day
4.4	Disclosure of donor's confidential information	1	Inform the DIAAA about the situation and scale of information leak.	OIAAA	Within an hour
			Inform the LU's Personal Data Privacy Committee and IRT.	DIAAA	1 day
			Follow the guidelines of the Code of Practice for Handling Personal Data when handling the incident.	OIAAA	1 day
			Inform the affected donor(s).	OIAAA	1 day

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4.5	Misused/mis-allocation of donations or in breach of MOU/regulations between the donors and the University is discovered/noticed	1	Inform the DIAAA about the situation	OIAAA	1 day
			Investigate the use of donations with CO and concerned department(s)/office(s) and discuss if any remedial actions to be taken.	OIAAA	3 days
			Report to the President and IRT	DIAAA	1 day
			Report to the donor(s) to explain the situation and provide remedial suggestions or seek endorsement on the change of donation purpose, depending on the case development.	DIAAA	5 days
4.6	Disruption of fundraising/donor-related events due to adverse weather, impaired facilities, or unexpected incidents/accidents	1-2	Follow the Incident Management Plan on Event Management under Crisis Management Plan.	OIAAA	Immediately

- * *Level 1 – Minor financial loss in the short-term, which will not affect the long-term financial sustainability of the University.*
Level 2 – Substantial financial loss in the short term but not in the long term and thus will not affect the long-term financial sustainability of the University.
Level 3 – Substantial financial loss, which will affect the long-term financial sustainability of the University.

Notes:

1. The probability of having an unplanned substantial financial loss (say larger than 50% of the planned figure) is close to zero because the Office of the Comptroller will stop most of the over-budgeted spending. As a result, unplanned financial loss will not reach a level that will affect the long-term financial sustainability of the University and thus Level 3 severity is not expected.
2. Although the equity market may collapse and the University will incur an unrealised financial loss in the year of the collapse, the loss will not be realised unless the University liquidates its holding. It has been proven in the past 3 collapses, i.e. 1987, 1997 and 2008, that the equity market will rebound after the collapse and investors who did not sell their holdings shortly after the collapse will eventually earn a very good return. The University has a long investment horizon (at least 10 years), so it will not sell its holdings due to short-term market turbulence, such as market collapse. Therefore the collapse of the equity market will not affect the long-term financial sustainability of the University.
3. In the University's investment portfolio, the share of Global Bonds is 40%, mainly consisting of investment-grade bonds issued by many governments around the world. It is impossible for all Governments to default simultaneously. If only a few of them default in payment (the probability is still extremely low), the impact on the University will be immaterial, and thus it will not affect the long-term financial sustainability of the University.
4. The University puts its money into HK licensed banks, which are monitored by the Hong Kong Monetary Authority. The University has set limits on deposit placed with banks in accordance with their credit rating, the loss of the University is therefore restricted to the set limit. In addition, when a bank runs into liquidation, the depositors will not incur a total loss. Based on the liquidation case of the Bank of Credit and Commerce International (HK) in 1991, depositors were able to recover over 90% of their money. Hence, the loss of the University due to a banking crisis will not affect the long-term financial sustainability of the University.