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APCC MEMBER

Regulatory Updates

Key COVID-19 compliance requirements

16 June 2020

About This update

In this update we highlight the key considerations for firms when assessing financial resource adequacy; as per FG20/1 (assessing adequate financial resources). It is important to note that firms are **required to conduct proportionate financial adequacy assessment annually**; including all firms subject to the Threshold conditions and/or Principles of Business.

If you need further help

Should you require any further support regarding this update, please do not hesitate to contact us. We could support you further by:

- Providing Financial Adequacy Assessment Policy template
- Review and amend the risk assessment processes to be compliant with the new requirements
- Review and evaluate your financial adequacy assessments
- Conduct your financial adequacy assessment.

As a general note, the FCA's aim with these requirements is to enable:

- **firms to remain financially viable and to provide services through the economic cycle**
- **an orderly wind-down without causing undue economic harm to consumers or to the integrity of the UK financial system**

Assessing Adequacy of Financial Resources

The FCA published its final guidance on a framework to help financial services firms ensure they have adequate financial resources and to take effective steps to minimise harm. It includes a range of information that applies to all FCA solo-regulated firms subject to threshold conditions and/or the Principles for Businesses (PRIN); including firms with limited consumer credit permissions.

What is this publication about?

This framework document explains the purpose of, and the FCA's approach to the assessment of adequate financial resources for all FCA solo-regulated firms (who are subject to threshold conditions and/or the Principles for Businesses (PRIN)).

It also provides further guidance on the meaning of 'adequate financial resources'. It sets out:

- the role of assessing adequate financial resources
- what the FCA look for from firms when assessing adequate financial resources
- The FCA's expectations as to the practices firms should adopt in their assessment of adequate financial resources

Key Publications

Publisher	Description	Link
FCA	Guidance Paper – FS20/1	Click Here

For record keeping

See "Note section at the end"

Aim of financial resource assessment

Through conducting the financial resource assessments, firms should envisage to:

- ensure firms have robust systems and controls, governance, leadership and a culture that reduces the risk of harm to consumers and markets
- ensure there is a proportionate and consistent approach in the assessments of adequate financial resources
- have firms hold adequate resources that reflect the harm they may cause to consumers or UK financial markets
- reduce the likelihood that failure would impact consumers and the UK financial system
- minimise harm in the event of firms' failure as they exit the market, by having firms hold adequate resources and effective wind-down arrangements

Key components of the assessment

The assessment of appropriate resources under threshold conditions considers:

- the nature and scale of a firm's business model; the risks to the continuity of the services provided
- the impact of other members of the firm's group on the adequacy of its resources
- has the ability to meet its debts when they fall due (only one related to limited consumer credit firms)
- appropriate systems and controls and human resources to measure risks prudently at all times
- access to adequate capital to support the business, and that client money and custody assets are not placed at risk
- resources which are commensurate with the likely risks it faces
- consider a forward-looking approach to risks and how these evolve throughout the economic cycle
- reflect the risks to which the firm is exposed and the amount of risk it poses
- be proportionate to the likelihood of the risks occurring ensure they are financially sound while avoiding excessive costs, which could hinder firms from carrying out their business in a viable way happen at least annually, reflecting the fact that the business environment is dynamic so the assessments of risk and harm should be dynamic too

What to consider…

Ensure Robust Systems

- Is there clear ”risk appetite”
- Is the risk management system robust and pass the “use test”?
- Is the systems and controls, governance, leadership and a culture robust enough to reduce the risk of harm to consumers and markets?
- Does our framework consider internal, group level and external risks?
- Can risks be quantified?

Stress Test

- Are risks stress tested?
- Are the scenarios that lead to wind-down identified (eg identified triggers)?
- Are the risks “sensible”?
- Do the assessments have a “forward looking” approach?
- Is it articulated how changes in operational and economic circumstances might affect the risks to which the firm is exposed and the ability to generate acceptable returns?

Maintain Resources

- Is there appropriate capital available?
- Is there appropriate “liquid resources” available?
- Are these requirements regularly reviewed?
- Can it be evidenced how the risks been quantified?

Wind-down

- Are wind-down scenarios identified?
- Is potential impact on consumers and financial markets considered?
- Is there an operational document to manage wind-down?
- Is there sufficient capital to absorb winding-down costs and additional losses

Note section

You may use this section to take notes of key actions or assessments, by way of evidential record keeping.

Contact

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