

Chapter 2

The threshold conditions

2.7 Business model

Paragraph 2F to Schedule 6 of the Act

- 2.7.1UK
- (1)

A’s business model (that is, A’s strategy for doing business) must be suitable for a person carrying on the regulated activities that A carries on or seeks to carry on.

(2)

The matters which are relevant in determining whether A satisfies the condition in sub-paragraph (1) include-

(a)

whether the business model is compatible with A’s affairs being conducted, and continuing to be conducted, in a sound and prudent manner;

(b)

the interests of consumers;

(c)

the integrity of the UK financial system.

(3)

This paragraph does not apply where the only regulated activities that the person concerned carries on, or seeks to carry on, are-

(a)

relevant credit activities, and

(b)

if any, activities to which, by virtue of section 39(1D), sections 20(1) and (1A) and 23(1A) do not apply when carried on by the person.

2.7.2G

Paragraph 2F of Schedule 6 to the Act sets out the business model *threshold condition* for *firms* carrying on, or seeking to carry on, *regulated activities* which do not include a *PRA-regulated activity*.

2.7.2AG

For the purposes of paragraph 2F(3) of Schedule 6 to the Act, relevant credit activity is defined in paragraph 2G of Schedule 6 to the Act. Guidance on the meaning of relevant credit activity is given in ■ COND 1.1A.5A G.

Paragraph 3E to Schedule 6 of the Act

2.7.3UK

B’s business model (that is, B’s strategy for doing business) must be suitable for a person carrying on the regulated activities that B carries on or seeks to carry on, having regard to the FCA’s operational objectives.

2.7.4G

Paragraph 3E of Schedule 6 to the Act sets out the business model *threshold condition* which is relevant to the discharge by the FCA of its functions under the Act in relation to *firms* carrying on, or seeking to carry on, *regulated activities* which include a *PRA-regulated activity*.

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■ Release 37 ● Jun 2024

- 2.7.5** **G** The *guidance* in ■ COND 2.7 should be read as applying to both paragraph 2F of Schedule 6 to the *Act* and, as far as relevant to the discharge by the *FCA* of its functions under the *Act* in respect of *firms* carrying on, or seeking to carry on, a *PRA-regulated activity*, paragraph 3E of Schedule 6 of the *Act*.
- 2.7.6** **G** *Firms* carrying on, or seeking to carry on, a *PRA-regulated activity*, should note that the *PRA* states in its Approach Documents that analysis of such *firms'* business models will form an important part of the *PRA's* supervisory approach. For the avoidance of doubt, this guidance does not apply to the *PRA's* own assessment of the *firms'* business models.
- 2.7.7** **G** In assessing whether the *threshold conditions* set out in paragraphs 2F and 3E of Schedule 6 to the *Act* are satisfied, the *FCA* may consider all matters that might affect the design and execution of a *firm's* business model, taking into account the nature, scale and complexity of a *firm's* business.
- 2.7.8** **G** In deciding how they will satisfy and continue to satisfy the *threshold conditions* set out in paragraphs 2F and 3E of Schedule 6 to the *Act*, *firms* should consider matters including (but not limited to) the following:
- (1) the assumptions underlying the *firm's* business model and justification for it;
 - (2) the rationale for the business the *firm* proposes to do or continues to do, its competitive advantage, viability and the longer-term profitability of the business;
 - (3) the needs of and risks to *consumers*;
 - (4) the expectations of stakeholders, for example, shareholders and regulators;
 - (5) the products and services being offered and product strategy;
 - (6) the governance and controls of the *firm* and of any member of its *group* (if appropriate);
 - (7) the growth strategy and any risks arising from it;
 - (8) any diversification strategies; and
 - (9) the impact of the external macroeconomic and business environment.
- 2.7.9** **G** *Firms* should consider the manner in which they intend to bring their business model into operation. This plan could, for example, include matters such as procurement, outsourcing, and recruitment.
- 2.7.10** **G** *Firms* should consider scenarios which may negatively impact on the *firm's* business model with a view to ensuring the sustainability of the *firm* and, further, to consider the vulnerability of the business model to specific events and the risks and consequences that might arise. Where appropriate, this might include reverse stress-testing. A *firm* should put in place a credible

2.7.11	<div>G</div>	<p>plan to minimise the risks that it identifies from, or in relation to, its business model and a contingency plan for dealing with risks that have crystallised.</p> <p>Firms should ensure that any adjustments to its business model:</p> <ul style="list-style-type: none">(1) are approved at an appropriate level in the business;(2) are considered in the light of any potential risks, impacts and consequences of the proposed changes; and(3) appropriately take into account the needs of and risks to <i>clients</i> and relevant <i>consumers</i>.
2.7.12	<div>G</div>	<p>The <i>FCA's</i> assessment of a <i>firm's</i> satisfaction of the <i>threshold conditions</i> set out in paragraphs 2F and 3E of Schedule 6 to the <i>Act</i> will not necessarily be limited to a <i>firm's regulated activities</i> if the <i>FCA</i> believes the <i>firm's</i> other business activities, if any, may impact on a <i>firm's regulated activities</i>.</p>