Chapter 15

Prudential requirements

15.2 General solvency requirement

15.2.1 R A *firm* must at all times maintain overall financial resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. This includes capital resources and liquidity resources.

15.2.2 G The liabilities referred to in the *general solvency requirement* include:

(1) a *firm's* contingent and prospective liabilities;

(2) liabilities that arise both in scenarios where the *firm* is a going concern and where the *firm* ceases to be a going concern; and

(3) claims that could be made against a *firm* which ought to be paid in accordance with fair treatment of *customers*, even if such claims could not be legally enforced.

15.2.3 G The liabilities referred to in the *general solvency requirement* exclude liabilities that might arise from transactions that a *firm* has not entered into and which it could avoid. This could include, for example, taking realistic management actions such as ceasing to transact new business after a suitable period of time has elapsed.

15.2.4 G A *firm* should therefore make its assessment of adequate financial resources on realistic valuation bases of assets and liabilities, taking into account the actual amounts and timings of cash flows under realistic adverse projections.

15.2.5 G Risks may be addressed through holding capital to absorb losses that unexpectedly materialise. The ability to pay liabilities as they fall due also requires liquidity. Therefore, *firms* should consider both capital and liquidity needs in assessing the adequacy of their financial resources. A *firm* should also consider the quality of its financial resources, such as the loss-absorbency of different types of capital and the time required to liquidate different types of asset.

15.2.6 G As part of its day-to-day supervision of a *firm*, the *FCA* may review whether the amount and quality of capital and liquidity resources that a *firm* holds to comply with its *general solvency requirement* is sufficient.

15.2.7 G Where necessary, the *FCA* may consider the use of its powers under section 166 of the *Act* (Reports by skilled persons) to assist with the review referred to in FPCOB 15.2.6.

15.2.8 G

(1) Following such a review, the *FCA* may conclude that a *firm* should hold an additional amount or quality of capital or liquidity resources to comply with the *general solvency requirement*.

(2) Where this is the case, the *FCA* will normally specify an amount or quality of capital or liquidity resources that the *firm* should hold by:

   (a) issuing *individual capital guidance*;

   (b) issuing *individual liquidity guidance*; or

   (c) imposing a *requirement* on the *firm*.

(3) The amounts in (2) will typically represent the *FCA's* assessment of the *firm's general solvency requirement*. However, in some cases, it may be specified on a different basis (such as by reference to a specific component of the *general solvency requirement* or to a particular risk or harm).

(4) The *FCA* may choose to conduct reviews of the *regulated funeral plans activities* sector, or aspects of it. In such cases, the *FCA* may subsequently choose to issue *guidance* on a sectoral basis or to impose additional *requirements* on all, or only a subset of, the entities included within that review. The *guidance* or *requirement* may relate to:

   (a) additional amounts or quality of capital or liquidity resources that such *firms* must hold; or

   (b) other actions that such *firms* must undertake.

15.2.9 G The *FCA* will determine whether a *requirement* or *guidance* is more appropriate. Where the FCA chooses to issue guidance, this will normally explain how the *FCA* will approach supervising the *general solvency requirement* in relation to the *firm*. The *FCA* expects that the *firm* would normally confirm to the *FCA* that the *firm* will hold the amounts specified in that *guidance* going forward (and will therefore hold the relevant capital and or liquidity resources to comply with the *general solvency requirement*), unless the *firm* subsequently determines that higher amounts are required.

15.2.10 G Where the *FCA* considers that it is appropriate to apply a *requirement* in connection with the *general solvency requirement*, it may invite a *firm* to make a voluntary application under section 55L(5) of the *Act* to impose a *requirement* on the *firm* to hold the level of capital or liquidity resources that the *FCA* has assessed as being required by the *firm* in order to meet the *general solvency requirement*.

15.2.11 G *Guidance* on the *general solvency requirement* issued by the *FCA* will apply until the *FCA* issues revised *guidance* (or varies or removes the *requirement* relating to the *general solvency requirement*) in relation to the *firm*.

15.2.12 G If a *firm* subsequently determines, as a result of its own assessment, that it needs to hold a higher level or quality of capital or liquidity resources to satisfy the *general solvency requirement*, it must hold that higher level. This is because the *FCA's* assessment (or a *requirement* applied to the *firm* by the *FCA*) reflects an assessment carried out at that point in time and does not relieve the *firm* of its obligation to ensure that it is meeting the *general solvency requirement* at all times.

15.2.13 G A *firm's* business model or operating model may undergo a significant change, with the result that the *firm* considers that the amount or quality of capital or liquidity resources specified in the *guidance* issued by, or the requirement applied by, the *FCA* exceeds the amount or quality of capital or liquidity resources that the *firm* requires to comply with the *general solvency requirement*. In this case, the *firm*:

(a) should undertake its own assessment of the amounts that the *firm* now requires to comply with the *general solvency requirement* or, where applicable, to address the risks in relation to which the *requirement* was imposed; and

(b) having undertaken the determination in (a), may contact the *FCA* to request a review of the existing *guidance* or *requirement*.

15.2.14 G The *FCA* will not give *individual capital guidance* or *individual liquidity guidance* to the effect that the amount of capital advised in that *guidance* is lower than the amount of capital which a *firm* should hold to meet its *core capital resources requirement*.