

Chapter 3

The concept and process of
wind-down planning

3.5 Making a decision to wind-down

- 3.5.1** **G** In the event of a severe stress, a *firm* may have one or more potential options that might enable it to recover and return to a viable position, for example, finding potential investors to acquire or invest in the failing business. However, in spite of management actions, there may be no effective way to recover from a severe stress; at that stage consideration of the wind-down plan becomes relevant.
- 3.5.2** **G** The *firm's governing body* will need to make a formal decision to wind down in a timely manner. The wind-down plan can help the *firm's governing body* evaluate how viable any potential recovery options are against the risk of a disorderly *failure* if the decision to wind down is delayed or deferred for too long.
- 3.5.3** **G** Establishing clear indicators and thresholds can help a *firm's governing body* to make timely decisions. The *governing body* can also refer to the *firm's* wind-down scenario analysis to provide an indication of the minimum financial and non-financial resources needed to ensure the orderly winding down of the *firm's* activities. Deferring the wind-down decision to a point where that level of resources is no longer available would significantly increase both the risk and scale of a disorderly *failure*.
- 3.5.4** **G** *Firms* may identify what *regulated activities* they will cease once the wind-down decision is made. For instance, a *firm* should not normally take on any more new *clients* once that decision is made.
- 3.5.5** **G** We remind *firm's senior management* that they need to be aware of their *directors' duties* and what they must not do if the *firm* becomes insolvent.
- 3.5.6** **G** Before the *governing body* takes the decision to wind down, it may find it useful to check that:
- (1) the wind-down plan is up-to-date; and
 - (2) the *firm's* compliance with basic regulatory requirements.
- 3.5.7** **G** If the *governing body* takes the decision to wind down, we would recommend allocating a person or group within the *senior management* team with the role of coordinating, directing and implementing the wind-down process and ensuring prompt dissemination of information relevant to

decision-making at the *governing body* level. Many elements of these governance, oversight and operational arrangements can be established, in principle, in advance as part of a *firm's* wind-down planning.

3.5.8

G *Firms* should inform the *FCA* as soon as there are signs of a potential *failure* or any other causes for winding down, as well as of the actual wind-down decision. Early engagement with the *FCA* will help to deal with relevant regulatory issues. They should also consider whether to start communications with various stakeholders (see ■ WDPG 4.2 (Communications plan)).

[**Note:** See also *Principle 11* (Relations with regulators) (■ PRIN 2.1.1R).]