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).]