Appendix 5
QRG: wind-down scenarios and relevant management information

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5.1 Generating wind-down scenarios and identifying relevant management information to monitor

App5.1.1 G To generate wind-down scenarios, a *firm* may consider the following:

(1) which are the critical revenue drivers and business lines for the *firm* to sustain;

(2) which are the business areas subject to the greatest risks, e.g. if a sudden large volatility in the currency market will lead to great losses;

(3) the infrastructure, resources or third parties upon which the *firm* heavily depends;

(4) the *firm's* agreed (qualitative and quantitative) risk appetite and risk thresholds;

(5) internal audit reports; and

(6) compliance monitoring processes and reporting.

App5.1.2 G The above thinking will help a *firm* to find out its 'risk fault lines', i.e. those critical areas where *failure* would severely affect the business.

App5.1.3 G Based on the risk fault lines identified, a *firm* can decide the plausible scenario(s), i.e. the wind-down scenarios, under which its regulated business will likely no longer be viable. We give some examples in the table under WDPG App 5.1.4G.

App5.1.4 G After outlining the wind-down scenario(s), a *firm* identifies the key management information that is most directly related to those scenario(s) and the relevant indicators it will want to monitor for danger signs.

Effective	**Less effective**
Sample wind-down scenarios (covering those that are fast and slow-moving, *firm* specific and macro-economic) might include: •severe economic downturn leading to continual losses with no sign of recovery; and •loss of critical IT infrastructure (especially if the *firm's* business is largely technology-based). Some management information which a *firm* could constantly monitor: •profitability; and •net current and future cash-flow. [**Note:** these are not definitive lists. *Firms* will need to analyse their business and work out their own scenarios.]	The *firm* takes the view that the *firm* is running well and will never fail. Even if it were failing, it believes that it could sell the business to another *firm* in short order or obtain generous *cash* infusions from a parent. [**Note:** No business can categorically guarantee it will never fail. A failing business is not always able to find an acquirer/investor for the business and the process to effect due diligence and a change in control can be very lengthy.]