

Chapter 2

Supervisory processes and governance

2.1 Application and purpose

[**Note:** On 19 December 2014, the *EBA* published guidelines on common procedures and methodologies for the supervisory review and evaluation process. The *FCA* has confirmed its intention to make every effort to comply with these guidelines that can be found at: <http://www.eba.europa.eu/documents/10180/935249/EBA-GL-2014-13+%28Guidelines+on+SREP+methodologies+and+processes%29.pdf/>.]

Application

2.1.1

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■ IFPRU 2 applies in the following manner:

- (1) to an *IFPRU investment firm*, unless it is an *exempt IFPRU commodities firm*; and
- (2) the *general stress and scenario testing rule* (and related rules and guidance) applies only to a *significant IFPRU firm*.

Purpose

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This chapter implements certain provisions of CRD relating to governance and contains *guidance* related to Section III of Chapter 2, Title VII of CRD (Supervisory review and evaluation process).

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This section amplifies Principle 4, under which a *firm* must maintain adequate financial resources. It is concerned with the adequacy of the financial resources that a *firm* needs to hold in order to meet its liabilities as they fall due. These resources include both capital and liquidity resources.

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This section has *rules* requiring a *firm* to identify and assess risks to its ability to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the *firm* considers necessary. ■ IFPRU 2.2.43 R (Documentation of risk assessment) provides that a firm should document that assessment. The *FCA* will review that assessment as part of its own assessment of the adequacy of a *firm's* capital under its supervisory review and evaluation process (*SREP*). When forming a view of any *individual capital guidance* to be given to the *firm*, the *FCA* will also review the regulator's risk assessment and any other issues arising from day-to-day supervision.

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This section has *rules* requiring a *firm* to carry out appropriate stress tests and scenario analyses for the risks it has previously identified and to establish the amount of financial resources and internal capital needed in each of the circumstances and events considered in that analyses. The *FCA*

will consider, as part of its *SREP*, whether the *firm* should hold a *capital planning buffer* and the amount and quality of that buffer. The *capital planning buffer* is an amount separate, though related to, the *individual capital guidance* in so far as its purpose is to ensure that a *firm* is able to continue to meet the *overall financial adequacy rule* throughout the relevant capital planning period in the face of adverse circumstances, after allowing for realistic management actions. Therefore, when forming its view on a *firm's capital planning buffer*, the *FCA* will take into account the assessment made in relation to the *firm's ICG*.

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This section has *rules* on the individual, *sub-consolidated basis* and *consolidated basis* application of:

- (1) the *ICAAP rules* in ■ IFPRU 2.2.45R to ■ IFPRU 2.2.49R (Level of application: *ICAAP rules*);
- (2) the *risk control rules* in ■ IFPRU 2.2.58R to ■ IFPRU 2.2.60R (Level of application: *risk control rules*); and
- (3) the overall financial adequacy rule in ■ IFPRU 2.2.61R to ■ IFPRU 2.2.63R (Level of application: overall financial adequacy rule).