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Chapter 1

Introduction
1.1 Overview

1.1.1 An effective wind-down plan aims to enable a firm to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on its clients, counterparties or the wider markets. This includes scenarios where the firm undertakes a strategic exit as well as unexpected crisis or insolvency that makes the firm unviable.

1.1.2 A wind-down plan can also help a firm to assess if it would have adequate resources (e.g. capital, liquidity, knowledge and manpower) to wind down in an orderly manner, especially under challenging circumstances.

1.1.3 The Quick Reference Guide at WDPG Appendices 1 to 12 is intended to help firms (especially those of a smaller size or a simpler operating model) to apply the concepts to develop an effective wind-down plan.
Chapter 2

Application and interpretation
2.1 Application and interpretation

2.1.1 This guide aims to assist FCA solo-regulated firms authorised with a Part 4A permission and for which the FCA is the Home State regulator with wind-down planning. It is not relevant where a firm is already in administration or liquidation, nor is it directly relevant to recovery strategies a firm may engage in as part of its recovery plan. While the guide does not impose any obligation on a firm to create a wind-down plan, it shows what an effective wind-down plan might include.

2.1.2 This guide is general guidance given under section 139A of the Act.

2.1.3 Interpretative provisions (including definitions in the Glossary) of the FCA Handbook apply to this guide in the same way they apply to the FCA Handbook. Where a definition is defined in the Act that definition applies in this guide.
Chapter 3

The concept and process of wind-down planning
3.1 What is wind-down planning?

3.1.1 Wind-down planning is a process in which the firm’s governing body:

(1) identifies the steps and resources it needs to wind down its business, especially in a situation where resources are limited; and

(2) evaluates the risks and impact of a wind-down and considers how to mitigate them.

3.1.2 The objective of wind-down planning is to help to reduce the risk of negative effects on consumers and market participants when a firm winds down its regulated business.

3.1.3 The following list is not exhaustive, but an effective wind-down plan typically includes the following components:

(1) The scenarios that could lead to a firm no longer being viable, adequate governance processes, management information monitoring and other control processes to support timely wind-down decision making.

(2) A plan to steer the firm to wind down its business in an orderly manner once exiting the business has been voluntarily decided or rendered unavoidable by external circumstances.

(3) An assessment of the resources, both financial and non-financial, that are needed to support an orderly wind-down.

(4) Processes for proactively identifying and mitigating any material risks or obstacles to winding down in an orderly manner, (e.g. issues that could lead to significant consumer detriment, or create a significant adverse impact to the financial market(s) or other third parties).

3.1.4 The end product of this process is a documented wind-down plan that is approved by the firm’s governing body, with a nominated person ensuring it is periodically reviewed as to its adequacy and remains current and relevant to the firm’s operations.

3.1.5 A wind-down plan is meant to be a living document, refreshed periodically and after any material change in business/operating model (e.g. addition of new major business line). It is good practice for the governing body to approve every material revision.
We know that some firms may have carried out similar planning exercises under different but related regulatory processes (e.g. ICAAP, RRD). This guide does not replace or re-interpret those processes. However, firms may want to take this guide into account to further strengthen their wind-down planning as well as to consider how consistent these processes are with one another.

[Note: Internal Capital Adequacy Assessment Process (ICAAP) is for firms which are subject to CRD IV / BIPRU. Some of these firms are also subject to the Recovery and Resolution Directive (RRD).]

Some commonly asked questions about wind-down planning

Q1: If a firm is running normally and is generating revenue/profits, would wind-down planning be of any relevance?

Yes. There is no guarantee that a normally functioning firm will not fail in the future. Failure of a firm could occur suddenly. Without proper advance planning, a firm running into difficulties has an increased likelihood of a disorderly wind-down, potentially leading to consumer detriment and/or adverse effects in the market.

Q2: What is the difference between business continuity planning (BCP) and wind-down planning?

Most firms would have been asked to submit a description of business continuity plans as part of the authorisation process. BCP focuses on the firm’s ability to continue to function or recover despite unforeseen physical and/or technical interruptions to its business. The firm’s underpinning assumption is that it will continue to carry on its activities and so BCP focuses on resilience.

On the other hand, wind-down planning deals with situations in which the firm’s regulated business is no longer viable or the firm makes a strategic/business choice to exit their regulated business(es). The firm’s assumption is that, for example, it will not be able to continue to carry on its activities or deliver the desired return on capital and so the focus is on how it can wind down its activities and relinquish its regulatory permission(s) in an orderly manner.

Q3: Which scenario is the most appropriate for the purpose of wind-down planning?

There are various scenarios which may lead to the wind-down of a firm (i.e. wind-down scenarios), such as loss of key client(s) or a severe economic downturn.

There is no single wind-down scenario that applies to all firms. The most useful scenarios to support forward planning are those that are severe, relevant to the firm and that may result in the regulated business not being viable.

Wind-down planning allows firms to plan ahead so that they have adequate financial and non-financial resources to:

(1) formulate judgement if they have become unviable;

(2) explore recovery options and/or mitigating actions (e.g. potential capital injections); and

(3) wind down the business in an orderly manner if no other option is available.
3.2 Time horizon and the people involved in the planning process

3.2.1 This section explains the time horizon (including the likely starting point and end point of the wind-down period), and some of the associated activities and costs firms may want to take into account during the wind-down planning process.

3.2.2 The starting point of the wind-down period is when the firm’s governing body (e.g. the Board of Directors of a company) makes the formal decision to wind down its regulated business.

3.2.3 The end point of the wind-down period is when the FCA cancels the firm’s Part 4A permission.

3.2.4 However, wind-down planning is not just about the events during the wind-down period (i.e. between the start point and end point as described above). It also includes what precedes the actual wind-down process. In particular, as wind-down can be triggered by a range of scenarios, firms that proactively identify and monitor key management information, relevant metrics and early warning indicators are likely to be better prepared. It can also support more effective decision making and, where appropriate, timely initiation of the wind-down plan if needed.

Illustration of the time horizon

<table>
<thead>
<tr>
<th>Considerations during Business as Usual</th>
<th>Start point</th>
<th>Wind-down period During wind-down period</th>
<th>End point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider a range of wind-down scenarios and possible mitigants</td>
<td>A firm’s governing body makes a decision to wind down</td>
<td>A firm wants to close down its regulated business in an orderly fashion and needs sufficient financial and non-financial resources to do so. In parallel a firm may try to recover and/or pursue other mitigating ac-</td>
<td>Cancellation of permission</td>
</tr>
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<td>Identify relevant management information to be monitored</td>
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Given the significance of wind-down planning, the governing body of a firm is most likely to be accountable for it, with appropriate engagement of relevant experts across the firm and, if required, externally. Senior individuals typically manage the wind-down process, ideally under the leadership of a designated representative, and are accountable to the governing body. The following table illustrates how different individuals or business areas could be involved in wind-down planning.

Illustration of who could be involved in wind-down planning

<table>
<thead>
<tr>
<th>Governing body (e.g. Board of Directors)</th>
<th>Senior management</th>
<th>Front line business and support areas</th>
<th>Relevant external experts / third parties</th>
</tr>
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<tr>
<td>The firm’s governing body considers and approves the wind-down plan. This may include challenge from non-executive directors if relevant.</td>
<td>The planning process is likely to be most effective if it is led by an appropriate accountable person(s) reporting to the governing body. For a very large firm or group of firms, a further working group may be created to help coordinate and deliver the process. Senior management, e.g. the CEO, CFO, CRO, COO, provide valuable input to the review, validation and challenge, before the plan is presented to the governing body for deliberation.</td>
<td>Front line business and support areas are engaged to understand and mitigate potential operational issues and challenges from the wind-down process, e.g. redundancies, IT systems, access to third-party services, etc.</td>
<td>Firms may find it useful to consult external experts (e.g. an insolvency practitioner) and other relevant third parties to improve their understanding and management of key wind-down issues/scenarios.</td>
</tr>
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</table>

[Note: The above table is an illustration, rather than a definitive list. Firms may need to analyse their organisational structure, business model and operating model to decide on the appropriate participants, bearing in mind that if a wind-down is actually triggered some of the original participants may no longer be present.]
3.3 Wind-down scenarios: what would make a firm no longer viable?

3.3.1 There are many reasons why a firm may wind down, including a strategic exit where the firm makes a business decision to exit one or more markets and the decision is not due to it being unviable.

3.3.2 However, our approach document focuses on dealing with scenarios in which a firm is no longer viable and is compelled to wind down its business. We refer to these as wind-down scenarios and these are typically used to inform a firm’s wind-down plan. A firm will probably identify more than one wind-down scenario.

3.3.3 To do this, firms may want to consider what events would be likely to make it no longer viable, which is often referred to as reverse stress-testing. A firm is not viable if it no longer has adequate financial or non-financial resources to carry on its regulated activities. This could happen for a variety of reasons, including:

1. significant financial losses with no signs of timely recovery;
2. loss of key clients without realistic prospect of their replacement in good time; or
3. loss of critical infrastructure (e.g. essential IT systems) with no signs of timely recovery.

3.3.4 A firm may consider the following factors when formulating its wind-down scenarios:

1. business and operating models (business models show how a firm makes money, obtains funding and maintains healthy cash-flow while operating models look at the day-to-day operations of the business);
2. key revenue drivers, clients and functions in its operating model; and
3. vulnerable areas in its business and operating models.

3.3.5 Ideally, firms would consider various scenarios which may lead to winding down (including stressed scenarios) and associated potential recovery
options. When a *firm* envisages that its regulated business is no longer viable (e.g. no recovery options remain available), it would start a wind-down process and our guide encourages *firms* to act swiftly and not wait until breaching *threshold conditions* to initiate a wind-down procedure.
3.4 Effective risk management

3.4.1 A good wind-down plan is most likely to be supported by an effective risk management framework. This may include:

(1) a clear risk appetite that has been approved and validated by the governing body;

(2) analysis of wind-down scenarios;

(3) appropriate reporting and monitoring of management information, risk metrics and early warning indicators; and

(4) any potential recovery options.

3.4.2 A clear risk appetite, as well as an effective risk identification and assessment approach, are important parts of wind-down planning. They can help to identify the risk metrics that need to be monitored and to set the appropriate thresholds.

3.4.3 Well-structured management information can help to identify emerging risks that could lead to a wind-down scenario. For instance:

(1) funding institutions are reconsidering terms/conditions of credit facilities provided to the firm;

(2) approaching the date of contract renewal with a key client; and

(3) profit and loss account pressure due to poor market conditions.

3.4.4 Good reporting processes can help ensure that the firm can assess emerging situations as soon as possible and intervene appropriately (i.e. in an attempt to recover).

3.4.5 A firm may consider setting thresholds for relevant management information (e.g. profitability, capital adequacy, liquidity), so that if the data shows breaches of those threshold values it can trigger a report to senior management and prompt thinking on the next steps.

3.4.6 Firms may consider potential options for recovery in the face of adverse business conditions, such as selling part of the business or seeking a capital injection. This is known as recovery planning. Even if a firm has carried out
recovery planning, wind-down planning can still be relevant as there is no guarantee that recovery options would save the firm’s business.

[Note: Some firms are required to prepare recovery plans, i.e. those subject to the Recovery and Resolution Directive (RRD).]
3.5 Making a decision to wind-down

3.5.1 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 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 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 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 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 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 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 **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 2.11R).]**
3.6 Impact assessment: who will be affected by a wind-down?

3.6.1 It is important, given the FCA’s consumer protection and market integrity objectives, that firms seek to identify and mitigate any adverse impacts on consumers, counterparties and the wider markets that might arise as a result of a wind-down decision. A thorough analysis of all stakeholders will largely help a firm identify who might be affected if it winds down. It also helps a firm to understand how difficult it will be to wind down, for example, if it has many non-cancellable contracts in place which will inevitably increase the costs of winding down and prolong the length of the wind-down period.

3.6.2 The obligation on firms to treat customers fairly continues to apply during the wind-down period. This includes, where relevant, considerations relating to client monies and custody assets (see WDPG 4.3 (Client monies and custody assets)) or the needs of potentially vulnerable customers.

3.6.3 Firms are required to keep up-to-date records. These will prove invaluable in assessing the number and types of consumers and counterparties that may be affected by the wind-down.

3.6.4 Firms can support their impact assessment of winding down by a risk assessment of each stakeholder group along with the mitigating actions the firm would consider appropriate. Some factors that a firm may consider include:

1. How quickly can a firm conclude any outstanding transactions? Will there be any tax or other implications for customers?

2. Can the firm help transfer its customers to another financial institution or, where relevant, firm with a permission to carry on regulated claims management activities? If the firm has many customers to be transferred out, do other firms in the same sector have the capacity to take them on?

3. How quickly can client monies and custody assets be returned?

Market participants

3.6.5 An orderly wind-down minimises the impact on the wider market. Some participants in the market may be more affected than others, for example if the firm is a major provider of products for a particular sector, in which case its winding down may cause a greater impact than would otherwise be the case.
A firm may need to consider relevant employment legislation, especially if it has businesses that involve overseas jurisdictions. It may also choose to identify which employees need to be retained during the wind-down period to help with the wind-down operation, for example, compliance and contact centre employees.

Although it may seem less critical to include consideration of other third parties such as landlords, creditors or trade payables, firms will need a prudent approach to wind-down planning that factors in the effect of winding down on third parties that have contractual relationships with the firm, such as the landlord of the firm’s office. This ensures that essential needs, such as the need for premises, are still provided for during the wind-down period. It may also avoid a creditor, potentially facing the default of the firm on its obligations, triggering insolvency proceedings against the firm in anticipation of its exit.
3.7 Operational analysis: what happens during the wind-down period?

3.7.1 The wind-down period can be considered as a timeline along which steps are taken, from making the wind-down decision, all the way to the FCA cancelling the firm's permission. A wind-down plan may be subject to last-minute changes arising from unforeseen external or internal circumstances.

3.7.2 These steps are effectively a function of, and in turn affect, a firm's entire business. A firm may find it useful to assess the following non-exhaustive list.

1. The industry and the sector it operates in and the impact it may cause to the markets when it winds down.
2. Who its clients are and what processes are in place to maintain client records.
3. Dealing with client complaints and making adequate provisions for them, particularly post winding down.
4. Legal and regulatory status (including FCA permission).
5. Applicable legal, regulatory and insolvency requirements. These will include, among others, directors’ duties under company law, data protection requirements, employment law and FCA filing requirements.
6. Organisational structure and operating model.
7. Internal processes, systems and human resources.
8. Processes or systems that are interconnected and/or outsourced.
9. Existing contractual commitments, such as with employees or third parties. In particular, there may be restrictions or penalty clauses for breaking contractual relationships.
10. Possible sale of all or part of the business and any applicable regulatory processes that may impact the timeline, such as a change in control application. It should also consider whether any arrangements need to be made for the migration of clients and how this will be communicated to these clients.
11. Orderly vacation of premises and disposal of fixed assets.
3.7.3 After conducting its assessment a firm can work out an outline of sequenced actions in a wind-down scenario and how long each action will take. The specifics will vary from firm to firm but some possible considerations include the following.

(1) How would the firm announce the wind-down decision and manage communication with stakeholders?

(2) How will the firm reconcile clients’ business records and ensure their interests are not affected? For instance, a firm will have to return client monies and client assets during wind-down.

(3) How would the firm deal with employee redundancies?

(4) Who needs to be available to assist the winding down?

(5) What systems (e.g. IT systems) need to be available for the wind-down?

(6) When might the firm need to engage professional advisors, such as an insolvency practitioner, to support the wind-down process?

3.7.4 The firm’s governing body will need to take ultimate ownership of, and accountability for, the timely implementation of the wind-down plan. However, for each step or activity this analysis identifies, it may be helpful to indicate who will be responsible for that particular task.

3.7.5 At the end of such an analysis, the firm will be better able to estimate the length of the wind-down period.
To achieve the objective of winding-down in an orderly manner, a firm needs to have adequate financial and non-financial resources to do this and may ask itself a range of questions.

### Non-financial

What non-financial resources, such as premises, IT, key employees, external advisors etc., does it need to carry out the steps identified in the operational analysis and for how long might it need them? (See WDPG 3.7 (Operational analysis: what happens during the wind-down process?)) Firms that are part of a larger group may need to consider issues of inter-connectedness, and in particular between regulated and unregulated parts of the group.

If a firm relies on outsourced services, will these services still be available during the wind-down period, or are contingency measures in place? When negotiating outsourcing agreements, firms may wish to consider the possible invocation of their wind-down plan and the impact this would have on the contractual relationship.

If a firm is part of a larger group, and is depending on group resources, would it still have adequate resources to wind down in an orderly manner if the group failed?

### Financial

This guide does not provide any rule or interpretation in relation to the financial resources requirements applicable to a firm. Rather, it highlights some of the factors which a firm may want to consider in its wind-down planning.

It is important that firms monitor their solvency on a regular basis to ensure they continue to be able to meet their obligations as they fall due. If a firm becomes uncertain of its ability to do so, it may seek professional advice, such as from an auditor or insolvency practitioner to assist.

A firm in wind-down will likely have non-routine cash inflows and outflows, which are best monitored on a daily basis. These will include:
(1) inflows, i.e. predicted revenue and other inflows that are likely to be limited after the triggering event and/or if a wind-down decision is made;

(2) ordinary outflows, i.e. the cost of maintaining operational premises and systems; and

(3) extraordinary outflows associated with winding down, such as extra closure costs, legal fees, professional services and insolvency practitioner fees, redundancy payments, retention payments, pension fund deficits, lease and other termination penalties and the costs of breaking contracts.

3.8.8 A firm might then consider if it would have enough cash or cash-equivalent investments to meet operating expenses and any other obligations during the wind-down period.
3.9 Cancellation of permission

A firm needs to have its Part 4A permission cancelled to complete the wind-down process. Before the FCA can grant a cancellation, we will review, among other things:

1. generally, whether it would be detrimental to customers or would cause market disruptions to cancel the permission;
2. whether there remain any long-term “tail” commitments for which arrangements acceptable to the FCA have not yet been made;
3. whether there are any existing unresolved customer complaints or any that might reasonably be expected in the future;
4. whether all client monies and client assets (if any) have been returned in accordance with CASS rules; and
5. whether there are any outstanding fees owed to the FCA.

[Note: Although we aim to complete a cancellation transaction as quickly as possible, we will need sufficient time to consider whether a firm meets the regulatory requirements or prerequisites for cancellation of permission.]
Chapter 4

Further topics
4.1 Anticipating reactions

4.1.1 In WDPG 3.6 (Impact assessment: who will be affected by the wind-down?) we explain how important it is for firms to assess the impact of a wind-down on customers, markets and other parties. In this section, we highlight the importance of anticipating the reactions of those parties.

Employees

4.1.2 Employees may want to leave as soon as possible to secure new roles. Firms may therefore need to consider how to ensure they can retain the key employees needed to carry out a wind-down.

Clients or counterparties

4.1.3 If a firm is winding-down, especially under challenging market conditions, there is a risk that counterparties or other clients may simply default. This may have consequences on anticipated revenues and costs, and the duration and/or impact of the wind-down.

Creditors, landlords and other suppliers

4.1.4 When a firm announces its wind-down decision, this may affect its reputation and/or credit rating. Changes in these factors may cause concerns for creditors, landlords and other suppliers about the firm’s ability to meet any outstanding liabilities and may trigger reactions such as margin calls or demands for full and final payment. It is therefore crucial that the firm communicates with these parties, and ensures there is sufficient liquidity to meet any liabilities when they fall due. This is a prime example of the importance of making a timely decision to wind down.
4.2 Communications plan

4.2.1 An effective wind-down plan would include a predetermined communications plan that considers the contents and timing of communications, including website updates (and possibly a hotline), to a wide range of stakeholders, such as relevant regulators (e.g. the listing authority, stock exchange, FCA, overseas regulators etc.), employees, customers, service providers, shareholders, bondholders, relevant industry associations and trade bodies and the media. Some suggested elements the firm may want to consider for the communications plan include:

1. identifying the stakeholders to be engaged;
2. determining who should engage those stakeholders;
3. agreeing the internal process for drafting and approving any communication to the stakeholders;
4. establishing guidance and procedures for a proactive vs a reactive communication strategy (or combination);
5. preparing scripts in advance if appropriate, e.g. holding statements, acknowledging that detailed messaging may only be possible reactively; and
6. recognising the potential need for the governing body to engage with legal advisors and communication experts (e.g. through media training).

4.2.2 Good stakeholder contact during the wind-down period will support the FCA’s consumer protection and market integrity statutory objectives. Communications should be carefully handled to avoid a lack of reliable information or leaks which could create concerns among consumers and, in more severe cases, an increased risk of detriment and disruption to the wider market.

4.2.3 In line with Principle 11 (PRIN 2.1.1R), firms need to be mindful of their obligation to keep the FCA informed of material developments. This includes issues that might threaten the ongoing viability of the firm and any decision(s) to cease operations. Thereafter, a regular dialogue between the firm and the regulator needs to be maintained.

4.2.4 It is important for the firm to identify one or more individuals who will be responsible for coordinating effective and timely communications during the
wind-down period. These individuals are likely to include senior decision-makers as well as those with specialist communications/technology skills, for example those with knowledge of financial disclosure requirements, web publishers etc. This is particularly relevant for a group of companies, or where listed entities are involved. In order for these individuals to effectively deliver communications in a wind-down they will need the appropriate training, tools, systems and resources.
4.3 Client monies and custody assets

4.3.1 Any firm holding client monies or custody assets must ensure that it complies with all applicable CASS rules.

4.3.2 In particular, all firms that fall under the requirements of CASS 10.1.1R must maintain a CASS resolution pack.

4.3.3 The purpose of the CASS resolution pack is to ensure that a firm maintains and is able to retrieve information that would, in the event of its insolvency, help an insolvency practitioner achieve a timely return of client money and safe custody assets held by the firm to its clients.
4.4 Groups of firms and overseas businesses

4.4.1 If the firm is part of a larger group and it decides to have its own individual wind-down plan the plan will almost inevitably be impacted by group activities. In particular, some or all elements of its governance, financing and operations may be dependent on the group. These dependencies have implications on the wind-down plan’s cost, duration and simplicity.

4.4.2 A firm preparing a wind-down plan at group level might be facing two possible wind-down scenario options:

1. the firm winds down its regulated business on its own in an event independent of its group; or
2. the firm winds down its regulated business as part of a larger group failure/wind-down event.

4.4.3 The following are some common questions which a firm could consider in a group scenario.

1. Does the group/parent need to be consulted before making the wind-down decision?
2. If the group has entities that are listed, are there any actions to be taken in line with applicable disclosure regimes and listing rules?
3. If there are intra-group transactions, how are they unwound and how do they affect wind-down costs?
4. What support will the firm receive from the group during its wind-down?

4.4.4 A group failure event is particularly serious, as it could mean the relevant firm no longer has access to group resources such as a central treasury function, financial resources, IT and administrative functions for its own wind-down operation. It would then need to consider alternative resources in its wind-down planning.

4.4.5 Wind-down will trigger the closure of all regulated business undertaken by the firm, including overseas activities. Closure of overseas branches or subsidiaries could be complicated due to jurisdictional differences (e.g.
regulatory requirements, laws relating to employment and liquidation, etc.) and time differences (e.g. in relation to announcement of wind-down, closing out transactions etc.), which can add to the cost and duration of winding down.
4.5 Continuing regulatory requirements during wind-down

4.5.1 Continuing requirements during wind-down: The wind-down plan does not create an exception for complying with threshold conditions or our rules during the wind-down period.

4.5.2 During wind-down firms will need to continue to comply with the Principles, reporting requirements, financial resource requirements and any other relevant requirements.
1.1 Overview

App1.1.1 This Quick Reference Guide (QRG) (WDPG Apps 1 to 12) may help solo-regulated firms to put the theory of wind-down planning into practice.

App1.1.2 This QRG is not a definitive checklist for wind-down planning as no two firms are identical and the actual wind-down planning process will depend on a firm’s specific business and operating model. This QRG highlights the various components a firm can include when building its wind-down plan.

App1.1.3 This QRG is written for all solo-regulated firms, but it may be particularly helpful to those carrying out wind-down planning for the first time.

1.2 Main concepts

App1.2.1 A firm will have to wind down if continuing its business is no longer viable. A business is no longer viable if the firm does not have adequate resources to meet its regulatory requirements (e.g. the threshold conditions) and contractual obligations.

App1.2.2 Well-structured management information allows a firm to identify if there are any emerging risks that may make the firm unviable. This may allow a firm some time to try to recover. If the recovery options fail, then it is almost certain that it is no longer viable.
App 1.2.3  A firm needs to be careful not to leave the decision to wind down so late that it no longer has adequate resources or liquidity to allow it to wind down in an orderly manner.

App 1.2.4  The obligation on firms to treat customers fairly continues to apply during the wind-down period. This includes, where relevant, considerations relating to client monies and custody assets or the needs of potentially vulnerable customers.

App 1.2.5  Early engagement with the FCA will help the firm to deal with relevant regulatory issues.
2.1 Leadership and responsibilities

App2.1.1 For successful wind-down planning, it is important that a firm’s governing body (e.g. the Board of Directors of a company or partners of a partnership) fully understand the purpose and process of wind-down planning.

App2.1.2 The firm’s governing body is ultimately responsible for the effectiveness of wind-down planning, and so it needs to demonstrate leadership and set the strategy for the process.

App2.1.3 Effective wind-down planning is more likely if it is prepared by a working group leading the process and reporting to the governing body via a designated representative.

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<tr>
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<tbody>
<tr>
<td>Senior management leads a wind-down planning project and secures the governing body’s agreement to the principles of wind-down planning.</td>
<td>Finance Department works out the estimated costs of winding down the business (i.e. without considering the associated governance and operational planning elements).</td>
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3.1 Engaging all business areas and setting up workshops

App3.1.1 G All the firm’s business areas, including the front line, are affected by winding down and will bring their unique perspectives to crafting a strategy and a documented plan.

App3.1.2 G A sensible approach might be to set up workshops with representatives from various business areas. Each workshop will explain the principles of wind-down planning to these representatives and work with them to analyse the processes and resources of each business area.

App3.1.3 G These workshops will provide the knowledge, expertise, insights and data to be used in the wind-down planning exercise.

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<tr>
<td>Each business area’s needs and requirements are factored into the process to generate a wind-down plan.</td>
<td>Wind-down plan remains at a high level treating business processes in a one-size-fits-all approach.</td>
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4.1 Analysing the business and operating models

App4.1.1 To analyse the business and operating models effectively, a firm should:

1. place emphasis on understanding how its balance sheet generates profit and loss and the details of operations;

2. carry out a review of the sources and uses of both its capital and liquidity by reviewing, among other items, revenue drivers, cost drivers and sources of cash inflows and outflows;

3. consider which areas may be difficult to wind down, e.g. due to longer notice periods of some employees, certain transactions or contracts with third parties that are subject to a longer cancellation period; and

4. consider internal and external connectedness, i.e. the dependencies the firm has on other parties or group members and the dependencies others have on the firm.

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<tr>
<td>The working group carefully studies the data gathered from the workshops, and assesses which areas may be difficult to wind down.</td>
<td>The working group does not draw out vulnerabilities and pinch points from the workshops.</td>
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5.1 Generating wind-down scenarios and identifying relevant management information to monitor

App5.1.1 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 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 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 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
Sample wind-down scenarios (covering those that are fast and slow-moving, firm specific and macro-economic) might include:

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<td></td>
<td>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</td>
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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.
• 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.]

[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.]

to another firm in short order or obtain generous cash infusions from a parent.
Appendix 6

QRG: the governance process for winding down

6.1 Formulating a governance process for winding down

App6.1.1 The governing body ultimately owns any documented governance process for winding down. It may stipulate a mechanism to determine when to invoke wind-down, typically via monitoring key management information to detect the early warning signs of a potential wind-down situation. The governing body may also specify a reporting line to ensure that senior management and the governing body are given this information without delay, as well as all further information and data once the wind-down is triggered.

App6.1.2 In a time of financial stress, clear-headed and prompt decision-making is essential. It is up to the governing body of a firm to make such a decision, but it may have to consult its parent if it is part of a larger group.
QRG: the governance process for winding down
7.1 Carrying out an impact assessment: who will be affected?

App7.1.1 In an impact assessment, a firm may ask the following questions to identify the stakeholders who may be affected by the winding down.

(1) How might customers be affected by the wind-down? For instance, how many existing customers will the firm have to deal with if it is winding down now? How will the firm close transactions with these remaining customers and will customers be diligent in responding to the firm’s notices and ending their business relationship?

(2) Does the firm have an effective system to maintain client and transactions records?

(3) Does the firm need to execute risk-reducing trades and, if so, will it continue to have access to the right market counterparties to do so?

(4) How will employees, trade suppliers, counterparties or other third parties be affected?

(5) What are the potential tax implications of winding down?

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<td>Take into account the possibility of customers disputing transactions when closing out.</td>
<td>Take the view that if a firm is insolvent the administrator will ultimately allocate the assets according to priority.</td>
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</table>
8.1  Operational analysis

App8.1.1  In an operational analysis, a firm may adopt the following structure to work out what steps may need to be taken in its winding down:

1. The starting point of the wind-down timeline is when the wind-down decision is made. The end point is when the regulatory permission is successfully cancelled.

2. Numerous actions need to occur after the wind-down decision is made and these populate the timeline sequentially.

3. The estimated length of the wind-down period can then be calculated from the sequence of the individual actions’ durations.

4. This in turn allows an assessment of what resources (both financial and non-financial) would be needed to implement it.

App8.1.2  Factors which a firm may consider:

1. How might the firm announce the wind-down decision and manage its communications policy? Will this be sufficient to deal with a “run” on the firm?

2. How will the firm reconcile clients’ business records and ensure their interests are not affected? For instance, if a firm has to return client monies and assets when winding down, how would it do this?

3. Who needs to be available to assist the firm in winding down?

4. How would the firm deal with redundancies and, conversely, which employees need to be retained with special financial arrangements?

5. What systems (e.g. IT systems) need to be available to the firm during the winding down?

6. Will the firm need to engage professional advisors to wind down?
(7) Has the firm considered the implications for any overseas offices and branches?
9.1 Estimating the time necessary and costs for wind-down

Firms may take into account the following to estimate the time and costs needed for wind-down.

(1) Firms should not take on new clients after a decision to wind down the firm’s regulated business is made, but there may be a continuing income stream from contracts with existing clients before the cancellation period is over. Firms may however want to consider how certain these remaining income streams will be in the context of winding down.

(2) Firms then need to estimate the costs of winding down. These costs include redundancy payments, retainer premiums for essential employees, legal and other professional fees, or cancellation penalties with third party providers.

(3) Firms may draw out these estimated revenue and costs on a month-by-month schedule covering the entire wind-down period.

(4) The estimated wind-down costs may also take into account the possible need for an administrator and all other wind-down conditional costs such as tax, legal, specialist consultancy and audit.

(5) Firms need to estimate, conservatively, the time necessary to wind down to the point that the FCA would cancel the firm’s Part 4A permission.

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<tr>
<td>The firm sets out a month-by-month schedule of revenue and costs in the wind-down period. Costs are itemised and conservatively estimated.</td>
<td>The firm estimates costs on a quarterly basis.</td>
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[Note: Though this is not necessarily wrong, this would make it difficult to assess if the firm would have enough cash or liquid assets to meet its expenses on a monthly basis.]
Assessing the adequacy of resources

A firm may take into account the following to assess if it would have adequate resources to carry out an orderly wind-down:

1. A firm needs to have adequate financial and non-financial resources. A firm that leaves making the decision to wind down until it is too late risks breaching regulatory requirements, engaging in a disorderly wind-down, or even operating illegally while insolvent.

2. Whether the firm has sufficient cash to meet monthly expenses during the wind-down period.

3. The level of non-financial resources that are needed for wind-down and whether they are in place.

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<tr>
<td>Consider which key employees will be needed for an orderly wind-down but may want to leave the firm after the wind-down decision is made. An additional allowance to retain these employees during the wind-down period may be needed.</td>
<td>The firm only assesses its capital adequacy, and fails to assess its ability to meet monthly expenses during the wind-down period.</td>
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11.1 Special considerations

App11.1 G Please refer to ■ WDPG 4 to identify which factors might apply and consider incorporating them into the wind-down planning.

App11.2 G In particular, if a firm has any dealing with client monies and assets, it needs to ensure it complies with the relevant rules in CASS.

App11.3 G Firms should also consider having a communications plan in place.
12.1 Documentation, approval and maintenance

**App 12.1.1** Firms should keep a written record of discussion of the wind-down planning exercise, and most importantly, the wind-down plan as the final output from that process.

**App 12.1.2** The final output – the wind-down plan – will be easier for its future users to implement if it is simply structured for ease of reference with sections such as:

1. governance process for wind-down scenario (WDPG App 6);
2. operational analysis for winding down (WDPG App 8);
3. estimated revenue/costs schedule of wind-down (WDPG App 9); and

**App 12.1.3** The governing body of a firm should review and approve a wind-down plan and then maintain it by designating an accountable individual to own the document. This maintenance will ensure its reliability as an effective resource for the firm.

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<tr>
<td>Wind-down plan is kept as a live document and is reviewed at least once a year.</td>
<td>Wind-down plan is left unrevised for years.</td>
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