Chapter 3

The concept and process of wind-down planning

3

3.1 What is wind-down planning?

3.1.1 G 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 G 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 G 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 G 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 G 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.

3.1.6 G We know that some *firms* may have carried out similar planning exercises under different but related regulatory processes (e.g. *ICAAP*, the *ICARA process*). 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:** the *ICARA process* is the process that *MIFIDPRU investment firms* are required to comply with under MIFIDPRU 7.]

Some commonly asked questions about wind-down planning

3.1.7 G **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.