

## Chapter 3

The concept and process of  
wind-down planning

### 3.3 Wind-down scenarios: what would make a firm no longer viable?

- 3.3.1 **G** 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 **G** 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 **G** 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 **G** 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 **G** 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.