Chapter 3

The concept and process of wind-down planning

3.4 Effective risk management

3.4.1 G 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 G 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 G 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 G 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 G 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 G *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. Even if a *firm* has taken these or similar steps aiming for recovery, wind-down planning can still be relevant as there is no guarantee that recovery options would save the *firm's* business.