

Appendix 5

QRG: wind-down scenarios and relevant management information

5.1 Generating wind-down scenarios and identifying relevant management information to monitor

App5.1.1 **G** 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 **G** 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 **G** 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 **G** 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:

Less effective

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.]

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

[**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.]

