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FCA Multi-Firm Review

Of particular interest to: All FCA regulated firms

In brief

The FCA has published its findings following a review of firms where it looked at the firms' financial and non-financial resources. Although this review was directed at 'fast-growing firms', the FCA's observations will be relevant to most firms. The review ends with criticism over the quality of regulatory data submissions.

Summary

The FCA selected 25 firms (which included wealth managers) that had experienced 'fast growth' over a 3-year period to assess the impact that growth had on their financial and non-financial resources. A variety of metrics were used to identify these firms although the threshold between 'growth' and 'fast growth' isn't clarified. However the findings should prove useful to most firms regardless of their growth rate and indeed the review concludes the FCA's general expectations of firms.

Findings include:

- **Wind-down plans:** Most firms had significant deficiencies in wind-down plans e.g. a lack of clear wind-down triggers and optimistic assessments of the time required to complete the wind-down
- **Prudential:** Most firms did not perform adequate stress testing or scenario analysis and did not understand their liquidity risks adequately. Other comments include some firms calculating their regulatory resources incorrectly and an over reliance on prescribed regulatory thresholds. Interestingly the review tells us "For some firms, where these issues were identified, our intervention resulted in an increase in the level of capital/liquid assets held"
- **Governance, risk management and non-financial resources:** Internal documents including capital & liquidity assessments and wind-down plans were not reviewed regularly which the FCA states is "symptomatic of inadequate governance/non-financial resources". There was also evidence that many firms had not considered upcoming regulatory changes in their forward planning

The published review concludes with "we expect our regulated firms to":

- Have robust plans in place to understand their likely future growth, and to maintain sufficient resources to manage growth or unexpected stress. While firms may have adequate risk

management practices at the stage of authorisation, we expect the risk management practices to evolve in line with growth in business

- Update their risk management framework (including risk appetite and limit framework) and governance arrangements to ensure that they remain proportionate and fit for purpose. This should include consideration of the resourcing needs of risk, compliance and audit functions. For further information related to governance, please refer to our work on the importance of culture and governance
- Ensure that the assessment of adequacy of financial resources continues to be commensurate with the size, complexity and forecast growth of the business. This includes regular stress testing and scenario analysis, that is proportionate in nature. The purpose of adequate financial resources and our expectation of all firms are set out in more detail in FG20/1
- Embed a liquidity risk management framework including liquidity risk policies, controls, contingency funding plans and stress testing
- Ensure that their wind-down plan is robust, and they have considered the wind down planning guide. This includes liquidity management for wind down as outlined in TR22/1

The FCA also makes a comment on how it might view the submission of inaccurate data:

“Finally, we expect all firms to provide accurate and complete data in their regulatory submissions. We consider the poor quality of regulatory data submissions to be an indicator of weaknesses in firms’ systems and controls. **For some firms, this could indicate a breach of senior manager responsibilities under the Senior Managers and Certification Regime.** Our expectations related to data accuracy have been outlined in previous ‘Dear CEO’ letters on Transforming data collection (February 2021) and Quality of Prudential Regulatory Returns (February 2018)”.

Useful Links

[FCA Review Findings](#)

[FCA: Culture and Governance](#)

[FG20 - Assessing adequate financial resources](#)

[WDPG - The Wind-down Planning Guide](#)

[TR22/1 Observations on Wind-down Planning](#)

[Transforming Data Collection](#)

[Quality of Prudential Returns](#)

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