

22<sup>nd</sup> June 2020

## FG20/1 Assessing adequate financial resources: **important update for all firms**

The Financial Conduct Authority (FCA) has published guidance on a framework for all regulated firms to demonstrate that they have adequate financial resources in place so to meet debts and liabilities as they fall due. The FCA's focus is on ensuring firms remain financially resilient to the risks they face, minimise harm to consumers and the integrity of the UK financial system. The FCA has concluded that inability of a firm to compensate consumers, and the transfer of these costs to other market participants via the Financial Service Compensation Scheme levy, is unfair and places an unnecessary burden on other firms.

Going forward, all regulated firms are expected to undertake a risk-based assessment of the adequacy of financial resources they hold to meet liabilities due, under severe but plausible stresses. In addition, firms are required to have credible wind-down plans in place. The FCA accepts that firms can fail but a dim view is taken on disorderly failure.

**The FCA may, going forward, request a firm to submit its own assessment of adequate financial resources for review. The FCA can set and enforce a minimum level of capital and/or liquid resources that a firm is required to hold.**

### How Newgate can help:

The concept of firms being required to hold adequate financial resources in terms of quantity, quality and availability is not new for our clients. Our clients will already have to meet minimum prudential requirements set by the FCA Handbook, and many will already be required to conduct an Internal Capital Adequacy Assessment Process ("ICAAP") document as part of this. The requirement to document a formal capital adequacy assessment that is approved by the Senior Managers of the firm will be new to firms such as **Corporate Finance Advisors, Exempt CAD advisers and arrangers, Alternative Investment Fund/UCITS Managers** who do not provide any ancillary MiFID services. Newgate can therefore help ensure all firms comply with the new guidance by assisting in:

- Documenting the assessment of the key risks to the business, governance, and controls to manage the risk, or otherwise guidance on financial resources required to cover the risk.
- Producing financial projections to cover a forward-looking three-year period and the plausible but severe stress tests of those figures.
- Assessment of costs to support an orderly wind down of the business.
- Documenting the governance, risk, and compliance framework over the adequacy of financial resources and a summary of the capital a firm has assessed as adequate against the risks ran; and





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COMPLIANCE

## NEWGATE NEWS

Newgate Compliance Limited  
7 Princes Street  
London. EC2R 8AQ  
Phone: +44 (0)20 3696 8750  
Email: [info@newgatecompliance.com](mailto:info@newgatecompliance.com)  
[www.newgatecompliance.com](http://www.newgatecompliance.com)  
[www.gatewaynci.com](http://www.gatewaynci.com)

- Reviewing and updating existing ICAAPs to ensure they cover the FCA's latest guidance.

We can also provide you with an updated compliance policy to ensure that your manual reflects current FCA guidance along with an updated compliance monitoring schedule on the GATEway system to ensure adequacy of financial resources is periodically reviewed.

Please contact your Newgate consultant for further information and assistance.

<https://www.fca.org.uk/publication/finalised-guidance/fg20-1.pdf>