Grant Thornton

Wind-down planning services

All FCA solo-regulated firms are required to hold a wind-down plan (WDP). This is to enable a firm to cease its regulated activities with minimal adverse impact on its clients, counterparties or the wider markets. Any WDP is expected to cover scenarios where a firm undertakes a solvent exit as well as winding down due to an unexpected crisis or insolvency.

Our team has developed an innovative and market leading methodology for reviewing, producing and assisting in the preparation of wind-down plans. Through our client engagements and thought leadership we have had direct engagement with the FCA, and understand what the key issues of wind-down planning are to the regulator. Our experienced team brings deep sector insight for financial services firms.

We offer a wide range of solutions for firms, helping them navigate the requirement to have a credible and robust wind-down plan.

A WDP has two key components. The operational process of how a firm will wind-down and the financial resources which are required to do so solvently and efficiently.

Operational process

- The WDP documents the process and assumptions made in order for the firm to perform an orderly solvent or insolvent wind-down
- The key objectives set out by the FCA are that a firm can perform an orderly wind-down ensuring minimal customer detriment and disruption to the market
- The firm needs to ensure they have adequate non-financial resources in place to achieve this

Financial resources

- The non-financial resources and assumptions are quantified into a cashflow model
- The period of the cashflow model reflects the firm's bespoke wind-down period and process
- The cashflow model should identify the peak liquidity requirement
- This is critical to evidence appropriate risk-free funding

Background

Since the introduction in 2013 of Threshold Condition 2.4 in the FCA Handbook (TC2.4), the requirements for a wind-down plan (WDP) have significantly evolved. TC2.4 requires all FCA solo-regulated entities to hold a certain amount of cash in a ring-fenced account for firms to perform an orderly wind-down.

In 2016, the FCA introduced the Wind-down Planning Guide (WDPG). This emphasised the requirement for firms to consider how they would wind-down their business minimising any detriment to customers and disruption to the market.

Then in April 2022, the Thematic Review (TR22/1) conducted by the FCA re-emphasised the need for firms to formulate a plan, which was credible and operable.

How to produce a wind-down plan

A WDP should facilitate the orderly winding-down of the firm's business under different circumstances, including both solvent and insolvent scenarios. In particular, the WDP should include realistic triggers and resource requirements for each of these scenarios.

The Board must take ownership of and accountability for the wind-down plan.

Key inputs to the WDP

- Scenario mapping
- Triggers
- Asset sales
- Cashflow and liquidity model
- Key business activities and assumptions
- Stakeholder assessment
- Governance process

The inputs to a WDP set the foundations and the rationale to assessing the resources required to be able to perform an orderly wind-down.

Identify resources required

- People
- Systems
- Data
- Facilities
- Vendors
- Communications
- Intra-group dependencies

Each firm will have a unique set of resources they require to wind-down their bespoke business and resolve obstacles to an orderly wind-down.

Key outputs

- Financial resources: quantify assumptions, together with the resources required, into a cashflow model
- A final WDP, including operational plans to wind-down each function, resource plan, communications plan and insolvency costs.
- Risks and mitigation of the WDP

The key output is the WDP itself, which the FCA has the right to request at any point and review its contents.

Key workstreams to consider when creating a wind-down plan

- Governance and leadership
- Financial
- Operations and estate
- Regulatory
- Employees and resourcing
- Information systems and data
- People engagement
- Communications
- Group structure
- Realistic triggers
- Scenario testing

FCA observations on wind-down planning: good practices and areas for improvement

Wind-down planning continues to be the subject of considerable regulatory focus. The Thematic Review conducted by the FCA in April 2022 identified that many WDPs were still at an early stage of maturity and had substantial gaps. Then in September 2022, the regulator published 'Assessing liquidity for orderly wind-down: good and poor practices from general insurance brokers'. Although this was a multi-firm review of general insurance brokers, the FCA explicitly highlighted that the findings were relevant for all regulated firms and has expanded its focus to other financial services sub-sectors including e-money and asset management firms.

Good practices

Clear identification of risks relevant to the firm's business model and activities, with regular reviews of these risks.

Strong consideration of the harms which could flow from those risks, together with the steps needed to mitigate them.

Detailed and well thought-out cashflow projections and assumptions for wind-down, which help with operable and credible planning.

Stress testing and reverse stress testing, embedded in the risk management framework. This improves modelling and wind-down planning by providing a broader view of the likelihood of risks crystallising; rather than relying on previously observed impacts.

Strong risk management frameworks which included risk metrics and forward-looking management information. This empowers firms to be able to adequately identify and manage the risks they are exposed to.

Regular reviews of wind-down plans and the modelling of the minimum liquidity required to ensure orderly wind-down.

Areas for improvement

Liquidity and cash flow modelling: issues can arise by firms not fully taking into account cashflow timing mismatches, the net cash impact of wind-down, or failing to appreciate a firm may start winding down from an already stressed cash position.

Cash flow modelling is often not as granular as the FCA expects, which creates the risk that a firm may have a bigger wind-down liquidity need than suggested by high-level analysis.

Intragroup dependencies: inadequate consideration is often given to the impact of group membership on a firm's wind-down. For example, in the case of stress caused by parental failure, or for firms with overseas groups, a UK board may have little to no ability to impact the decision-making processes of other group entities or its parent.

Firms need to give greater consideration to financial inter-connectedness (ie intra-group funding), operational inter-connectedness (ie reliance on group IT or HR functions) and contingent financial support (ie parental guarantees, or access to group financing facilities).

Wind-down triggers: firms can fail to consider an appropriate range of wind-down trigger metrics (eg capital resources) and the calibration of any wind-down triggers is often not justified. This can lead to wind-down decisions being made too late.

Grant Thornton Services

We have significant experience in helping financial services firms with their wind-down planning, from insurance brokers and consumer credit to payments and e-money platforms.

Review and provide recommendations to existing wind-down plans:

Our services can be tailored to look at the entirety of a WDP or carving out certain elements as required. Our scope of work allows for the flexibility to provide recommendations on how the firm can improve their WDP which is documented in our Grant Thornton branded report and delivered to management.

We have expertise in reviewing firms' scenario assumptions, triggers, stakeholder assessment, assumptions in the liquidity model, asset sales, intra-group dependencies communication plans and practicalities of both a solvent and insolvent wind-down.

We are experienced in providing insolvency analysis including the pSAR where relevant.

Assist and support management in producing a WDP from scratch:

We offer a bespoke scope of work to fit in with the firm's needs.

The initial diagnostic phase of our work identifies a bespoke road map in order for the firm to complete the wind-down plan.

We identify key functions which require critical work and attention (such as people, finance, communications etc), incorporate the business's unique structure and help circumnavigate any unique issues that arise.

We continue supporting and assisting management in producing a complete WDP.

Risk management framework (RMF) assessment:

Risk management frameworks are integral to wind-down planning.

We have a range of services on offer including reviewing and providing recommendations on:

- risk characteristics and analysis
- risk appetite methodology
- resilience mindset
- risk events
- wind-down triggers
- ARC framework

Stress testing (ST) and reverse stress testing (RST) review:

Stress testing and reverse stress testing are important parts of wind-down planning. Our team has expertise in reviewing and making recommendations on existing ST and RST, including a desktop review of the documentation, models and results.

We are also able to create and develop a company's ST and RST models.

Model validation:

Our financial modelling team has vast experience in reviewing and producing financial models within the financial services industry.

Our team commonly provides two different scopes of work in relation to WDP modelling; a limited scope review and a full scope review.

A limited scope review provides services to test key areas and risks in the model. This provides a level of assurance that the model is fit for purpose and commensurate to the level of testing completed. A full scope review results in Grant Thornton providing an opinion on the integrity of the model.

Client Assets (CASS):

A firm's WDP should underline the importance of the CASS basics – accurate books and records, robust systems with good controls and timely reconciliations.

Our financial services team is experienced in both CASS advisory work as well as internal audit services. We are also experienced advising on safeguarding work with payment service providers, a subsector that was the subject of a specific FCA review of wind-down plans in 2021 and whose WDPs were found to be falling short.

Recent wind-down plan credentials

On this page we detail some case studies showing how we work with our major clients.

Project Pistachio

Wind-down planning review and support

Overview

We were engaged by a large global bank and payment platform to review its current WDP and respond to specific regulator feedback on a previous iteration.

Our work

Reporting to the head of recovery and resolution, we provided a limited assessment review of the WDP with a specific focus on the implications of the pSAR insolvency regulations to the WDP. We provided technical and practical input into the process of a solvent and insolvent wind-down, and support in respect of specific regulator queries on the role of an insolvency practitioner (IP) and any support the firm can give to the IP.

The outcome

In addition to a written report with our commentary and areas of recommended improvement or development to the wind-down plan, we also gave a formal presentation to the Board to deliver our findings.

Project Orchid

Wind-down planning support and input

Overview

We were engaged by a consumer credit lending platform operating in a number of jurisdictions to undertake a review of its existing WDP in advance of its presentation to the FCA, and to give feedback as to whether the plan was in line with FCA requirements.

Our work

Reporting to the CFO, our role was to undertake a full diagnostic gap analysis to FCA guidance.

It was clear from an early stage that the draft WDP was lacking in detail and had areas that needed significant development or had been omitted, particularly in relation to financial analysis, cashflow forecasting and governance.

Our work therefore evolved into direct input into the structure, contents and supporting appendices of the WDP, providing the client with a detailed breakdown of the expectations of each section, key areas of FCA focus and bespoke improvements or amendments.

The outcome

With the benefit of our comments, the company re-wrote and expanded its wind-down plan, prepared a fully costed financial wind-down model and successfully presented this to the FCA.

Project Fyne

Wind-down planning

Overview

Grant Thornton was retained by one of the three largest global insurance brokers to independently assess their WDP and liquidity model.

Our work

Reporting to the CRO and CFO, we assessed their methodology for preparing the WDP and liquidity model as well as the contents and output of both.

During our work it was necessary to interview senior executives to challenge key assumptions particularly around asset sales, intra-group dependencies and the need for specificity in implementation assumptions.

The outcome

The output of our work was a report for their Board. This set out areas of strength, gaps to address and identified assumptions that may be susceptible to FCA challenge.

To that end the client was satisfied with our report and were particularly pleased that we had set out practical remediation steps to strengthen their WDP.

Project Nell

Wind-down planning support

Overview

Our experienced professionals worked in-house at one of the largest global brokers, leading their Threshold Condition 2.4 project and in particular preparing their wind-down plans.

Our work

Reporting to the CFO, CRO and SteerCo, our colleagues established the Program Management Office and completed a Diagnostic and GAP analysis upon which the project plan was built. We oversaw the implementation of the project plan including data gathering and rationalisation.

We provided insight and challenge to the team responsible for creating the liquidity model to determine the appropriate TC2.4 cash reserves.

The process involved working collaboratively with business unit leaders to develop a bottom-up wind-down plan that met the FCA guidelines. All key decisions, processes and methodologies, along with proposed enhancements, were documented for future reference and iterations.

Ongoing and regular engagement and reporting was undertaken throughout the process with key internal stakeholders to ensure the wind-down plan's ultimate approval at Board level.

The outcome

A detailed wind-down plan with documented methodologies for submission to the FCA along with a robust liquidity model confirming the TC2.4 cash reserves required.

Greensill Capital

Contingency planning, administration and wind-down of business

Overview

Greensill Capital is a financial services company based in the UK which focused on the provision of supply chain financing, accounts receivable financing and other working capital financial services.

The business was highly automated and involved facilitating up to US$200 million of transactions daily.

Our work

A number of factors, including the inability to source alternative funding to reduce exposure and most notably the non-renewal of insurance coverage, resulted in the company ceasing origination of new business.

We were initially engaged to undertake contingency planning for the Group and a Better Outcome Review. Subsequently, Chris Laverty and others were appointed administrators over the main operating companies in the Group.

Following the appointment, a wind-down of operations was commenced, including the recovery of cUS$18 billion of receivables. As part of this, over 100 employees across the UK and its main international operations were retained.

The outcome

To date, we have recovered more than US$9.2 billion for creditors and investors through our trading strategy and working with key customers, investors and other stakeholders.

Greensill had an extremely complex IT architecture with over 100 applications. We work collaboratively with the retained IT team and third parties to produce practical and logistical solutions.

Further wind-down planning credentials

Confidential

Private bank

Bank

£undisclosed

Grant Thornton assisted in the preparation of recovery and wind-down plans

Confidential

Global investment bank

Bank

£undisclosed

Grant Thornton advised on the solvent wind-down plan

Confidential

Global Insurance broker

Insurance

£undisclosed

Grant Thornton worked alongside the broker in producing their wind-down plan

Confidential

Global broker

Insurance

£1.7 million clients

Grant Thornton provided assistance and support in producing the roadmap for the Group to produce their wind-down plans

Confidential

Global broker

Professional services to the wealth management industry

£1.2 billion revenue

Grant Thornton reviewed and advised on the solvent wind-down plan

Confidential

UK Clearing bank

Big four UK bank

Grant Thornton lead the work to support he bank in completing the work to ringfencing its retail bank

Regular sector insights

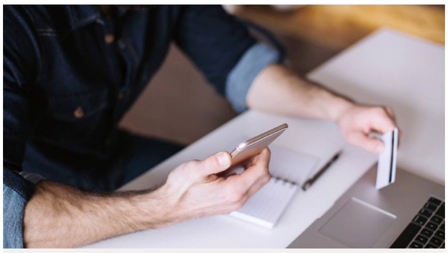
We produce regular sector insights and publications for our readership. These can be accessed at www.grantthornton.co.uk/services/restructuring/financial-services-restructuring-and-insolvency where you can subscribe to any future content.

ARTICLE

Wind-down planning a priority for payments and e-money firms

ARTICLE

Insurance intermediaries: still work to do on wind-down plans

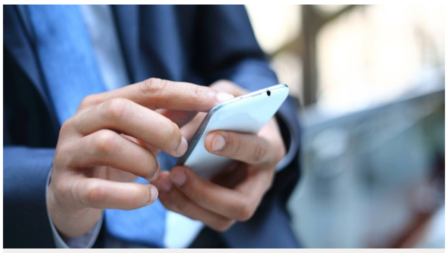


ARTICLE

E-money regulation: wind-down plans are falling short

ARTICLE

LLMI wind-down planning: will you be ready if the FCA calls?



ARTICLE

How PSPs can meet FCA requirements for a wind-down plan

ARTICLE

P2P – implementing an effective wind-down plan

About Grant Thornton financial services

A top adviser in the market

We advise 85% of the top 20 global banks and work with six of the ten largest global insurance firms.

9 out of 10

We are one of the largest providers of skilled person reviews to the FCA, sitting on nine of the ten FCA Skilled Person Panels.

Over 500 experts

Grant Thornton UK's financial services group consists of over 20 partners and 500 employees.

$570 million

Globally, our financial services offering is a practice of more than $570 million USD.

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