Appendix A
Key practical questions for private fund managers in assessing the adequacy of financial resources

Topic	Questions for firms
Financial resources	— Does the firm have an amount of capital which, at all times, is equal to or higher than its assessment of what is necessary? — Has the firm considered the type and quality of capital and its ability to be used in a going concern or wind-down situation? — In determining the quality of liquid resources, has the firm considered the ability to monetise liquid assets, the diversification of liquid resources, currency convertibility and the transferability of funds?
Systems and controls, governance and culture	— Does the management body bear responsibility for the firm and set its strategy and is it actively involved and engaged in the risk assessment process? — Does the firm have a risk culture that encourages effective challenge by promoting a range of views in the decision-making process? Is there a clear communication of strategies and policies to all relevant staff? — Is risk considered in the day-to-day activities, including the development of new products and services, taking on new customers, and changes in the firm's business model? — Is the risk function adequately resourced and sufficiently independent to perform its duties? — Has the impact of outsourcing on the firm's business been considered and has reasonable care been taken to supervise the discharge of outsourced functions?
Identify and assess the impact of harm	— Has the firm undertaken an exercise to identify the potential harm, to consumers and markets, in order to help it understand what can go wrong, so that it can implement controls to minimise the risk of this happening? — Has the firm considered "what if" scenarios and estimated the potential impact to determine the amount and type of financial resources needed to put things right if they go wrong?
Risks that can lead to harm or impair the ability to compensate for harm done	— Has the firm undertaken an exercise to identify, understand, and assess all the material risks which can affect the level of financial resources it has available? In particular, has the firm considered: – losses related to changes in book value of assets, losses arising from failure of clients or of counterparties to transactions in financial instruments; – change in value of positions in financial instruments, foreign currencies and commodities; – obligations to defined benefit pension schemes; and – being unable to convert different types of resources into available "cash" to pay for obligations as they fall due?

Viability and sustainability of the business model and strategy	— Does the firm understand how vulnerabilities can affect the firm's ability to generate acceptable returns? Has the firm developed a clear risk appetite stating which stress scenarios a firm chooses to survive? — Has the firm developed a reverse stress test that tests the point of non-viability of a firm's business model? — Does the firm's risk assessment cover, for example, details of business lines and activities including an analysis of how important each business line is in generating profits and cash flow, how this has evolved in recent years, and of its forecasts and concentrations in revenue streams? — Does the firm consider forward-looking financial projections and strategic plans, under both business-as-usual and adverse circumstances that are outside its normal and direct control?
Wind-down planning	— Does the firm's wind-down planning consider: – operational tasks required and time necessary to execute each task, including identifying key staff and systems, dependencies from group or other third parties, and client communications; – risks to the continuity of the services provided and its impact on consumers and financial markets, by identifying firms by which services could be provided or to whom clients' assets transferred, and the timescales needed to do so; – the provisions in the client assets resolution pack to help speed up the return of client money and assets; and – the level of both capital and liquid resources available and required in circumstances in which a stress situation has depleted resources prior to a decision to wind down being made? — Does the firm's planning cover a wind-down period driven by a firm's activities, including size and substitutability? — Has the firm produced an accurate estimate of the winding-down costs and additional losses including, for example, extra closure costs, potential redress and litigation costs, residual revenue and the realisable value of assets? — Has the firm considered the nature, amount and timing of necessary outflows and the quality and availability of liquid resources?

Macfarlanes LLP
20 Cursitor Street London EC4A 1LT
T +44 (0)20 7831 9222 | F +44 (0)20 7831 9607 | DX 138 Chancery Lane | macfarlanes.com