# Threshold Condition 4 Assessment

# Adequate Resources

A firm must have adequate resources in relation to the regulated activities it carries out or plans to carry out.

The FCA assesses the quality and quantity of a firm’s resources with regard to:

* Financial;
* Business assets – premises, technology and fixtures and fittings;
* The knowledge and competency of staff;
* Management
* Systems and controls and
* The level and type of your insurance cover.

Firms should undertake a Threshold Condition 4 Assessment regularly, or as required by its individual circumstances, or the prevailing and potential market and economic conditions.

There is no formal review process – it should be proportionate to the needs and circumstances of each firm and its clients.

Every firm must decide what level of Capital and Professional Indemnity Insurance it needs to meet both ongoing needs and unexpected eventualities. The FCA only stipulates minimum levels which may not be adequate. The Assessment must take a realistic approach to what could go wrong within the firm, and should dovetail with the firm’s business plan and business continuity plan.

Cobra Compliance has drawn up a risk assessment model that will help firms take a realistic approach to assessing the risks faced. This can be found on the Cobra Network website under the Compliance Centre section.

Stress Testing

**Scenario stress testing**

These are the ‘what if’ scenarios: What if we lose our niche facility? What if we lose our largest client? What if our top sales person leaves? …

Look at the effect of multiple events.

**Reverse stress testing**

You can start an exercise by accepting that there has been a big loss. This can avoid arguments over the likelihood of a particular scenario causing the result under appraisal. For example, *‘our net assets have fallen below the minimum required by the FCA – what can we do?’*

**Group Companies**

Where a broker is part of a group (even where this is simply as the subsidiary of a holding company), stress testing should take into consideration any effects on the brokerage of the liabilities or commitments of all the group companies.

Examples of threats that should be considered

**Finance**

o Cash-flow:

* examine the firm’s cash generation capabilities and retention needs;
* analyse the changes to the firm’s funding requirements that may be needed in order to manage liquidity; banking covenants; and liabilities to third parties;
* relying on an overdraft or loan facility to meet ongoing commitments is rarely sustainable;
* robustness of forecasts.
* Balance sheet: consider the quality, quantity, and availability of assets; and working capital requirements.

o Short-term funding.

o Recovery of inter-group balances.

o Guarantees.

o Fixed and floating charges over the assets of the firm.

**Management**

o Implications of the firm’s business model and operational structure.

o Competition.

o Reputation.

**Staff**

* Loss of valuable individual / team.

**Systems and Controls**

o Client money (consider risk transfer arrangements and TOBAs).

o Fraud.

o Regulation.

o Errors and omissions: consider the quality and adequacy of the firm’s professional indemnity insurance; and systems for reporting potential claims.