



FCA Emerging Risks Questions August 2020

The Rapid Response Unit in the Payments Department at the FCA are approaching members for a large amount of information so they can identify emerging risks and identify firms where harm may already be occurring.

They are asking firms to provide responses to a wide variety of questions within a very short deadline, and firms are advised to be prepared to provide this to the FCA.

Section 1 Financial Information:

1. What is your net profit/loss for the last 12 months?
2. Do you have a positive cashflow in the current financial year? Please provide supporting documents.
3. Please provide an up-to-date 12 month projected balance sheet forecast, profit and loss forecast and cashflow forecast. Please include any possible impacts on your liquidity position and specify your expected cashflow for the next 12 months – cash needs vs cash inflow.
4. Where your firm pre-funds transactions, what was the peak amount prefunded in the last 12 months?
5. What is the total amount of liquidity resources that you control or have unrestricted access to as at Friday 31st July 2020. Please note that recent guidance reminds you that you should exclude uncommitted intra-group liquidity facilities.
6. Do you have access to additional cash/liquidity? If so, what is the nature of this cash/liquidity – e.g. an agreed and undrawn loan, or overdraft facilities, group guarantee, collateral from programme managers etc?
7. Please provide your firm's current business plan. This should include the overall strategy, and capital plan including future lines of credit or capital. It should also include an explanation of any known or anticipated impacts on your firm's cashflow, liquidity, capital or general viability arising from the current economic climate and its impact on your firm's business model.
8. Have you arranged any credit facilities, and drawn down on those facilities within the past 12 months? If so, what is the total percentage of facilities drawn down as at Friday 31st July 2020?
9. Are you subject to any covenants? Have these been breached? Will they be breached in the foreseeable future?
10. Do you expect to need to refinance any debt within the next six months? How much do you expect to refinance and how much of this will be external to the group?

11. If your business is exposed to exchange rate fluctuations please provide an explanation of how your firm manages the liquidity risk created by this exposure.

12. Have you met your regulatory capital requirements at all times throughout the last 12 months, or since authorisation (whichever is most recent)? Please indicate whether you are reliant on parental guarantees to meet your capital requirements.

13. What is your current surplus or deficit of eligible capital resources over regulatory capital requirements? Please provide an up-to-date calculation of requirements, noting the method(s) used, and any relevant scaling factors applied. Please present this in a regulatory submission format, and ensure it reconciles with balance sheets etc that you are submitting as part of this response.

Please also provide an up-to-date calculation of your eligible resources, detailing the components of total capital resources (e.g. whether preference shares are included), and any deductions made (such as for intra-group receivables, intangible assets, goodwill, deferred tax assets and investments in subsidiaries).

14. Do you plan to obtain additional share capital within the next 12 months? If so, how much and when?

15. Please provide copies of the most recent stress testing you have undertaken against your business plan, or covering relevant scenarios, for:

- a. capital planning purposes?
- b. liquidity planning purposes?

Please outline any actions your firm has taken in response to the testing.

16. Do you hold capital in order to pay redress i.e. FOS fees and awards?

17. Please summarise your procedures to identify, manage and monitor risks, in accordance with your conditions of authorisation or registration. Please also outline the step your firm's senior management takes to regularly review its systems and controls, including its governance arrangements.

18. On 9th July 2020, the FCA published emergency guidance which clarified that firms are required to have wind down plans in place to manage liquidity, operational and resolution risks. If you have a wind down plan in place now please can you provide it. If not, please can you provide a timescale for the implementation of this requirement and share the plan when it is available.

We would expect the following supporting information to be provided as a minimum, but please provide any additional information if required to supplement your responses:

1. An up-to-date balance sheet statement, profit and loss statement and cashflow statement.
2. The most recent accounts and/or management accounts.
3. The output of any stress testing (capital and/or liquidity) you have undertaken.

4. An up-to-date 12 month projected balance sheet forecast, profit and loss forecast and cashflow forecast (please include any possible impacts on your liquidity position).
5. Evidence showing the funds currently held to meet capital requirements.
6. Your firm's current business plan. This should include the overall strategy, and capital plan including future lines of credit or capital. It should also include an explanation of any known or anticipated impacts on your firm's cashflow, liquidity, capital or general viability arising from the current economic climate and its impact on your firm's business model.
7. Wind Down plan

NB We would expect the financial statements and management accounts to reconcile with the regulatory reporting. If these statements do not reconcile with the answers above, please provide appropriate additional internal management information to support your answers.

Section 2 - Safeguarding information

1. Please provide a complete matrix of all safeguarding and segregated accounts including provider, account name/details, currency, jurisdiction.

Please also provide electronic evidence of the balance on each account (in the form of a bank statement or screenshot with clear account identification) as at close of business of the day on which the reconciliation occurred and the statement from the following morning to evidence appropriate adjustments were made on Friday 31st July 2020.

2. Please provide a copy of your current safeguarding policy and procedures, including your reconciliation process and description/diagrams showing flow of funds.

3. What checks and controls are in place to ensure that all relevant funds for safeguarding purposes are identified?

4. Please provide a copy of your safeguarding reconciliation for the close of business on Friday 31st July 2020. This should include:

1. All safeguarding account balances (local currency and GBP equivalent)
2. The total of e-money holders'/payment service users' transaction accounts (including source of data)
3. Full details/evidence of any items making up the difference between the two and adjustments made (i.e. to pay in shortfall or withdraw excess).

Please also provide the front sheet of the reconciliation for the following dates: Monday 4th May, 1st June and 6th July 2020 including the bank statements for the next day to prove the top up or withdrawal has occurred.

NB Please ensure you include the FX rates applied.



The copy of the external bank reconciliation should clearly identify all reconciling items between the bank statements for safeguarding accounts and the firm's record of the balances on these accounts.

5. If applicable, where agents and distributors are used, how you ensure you have access to relevant customer records, contact details and amounts held in respect of each individual customer (so that reconciliation and or return of funds can be carried out)?
6. For all safeguarding accounts listed in response to Q1, a copy of all letters of acknowledgement (or other evidence) that the safeguarding credit institution or custodian has no interest in, recourse against or right over the relevant funds or assets in the safeguarding account (as set out in Our Approach document (September 2017), para 10.40 and our Finalised Guidance (July 2020), paras 1.9-1.11.
7. Please provide diagrams demonstrating flow of funds and timings:
 1. specifying the account or accounts in which funds are held at each stage in the flow,
 2. identifying which funds are relevant funds (and, if relevant, when they cease to be relevant funds),
 3. setting out the use of any third parties (including agents and distributors) in the provision of payment services, clearly showing whether client funds are held by these third parties.
8. Please provide details of any instances of non-compliance with the safeguarding requirements as outlined in para 10.65 of the Approach document in the last 12 months? If so, please explain and indicated whether these were reported to FCA.
9. On 9th July 2020, the FCA published emergency guidance which clarified that firms that are required to undertake statutory audits should also conduct an annual, independent review of their safeguarding arrangements.

Please confirm:

If your firm is required to undertake a statutory audit, and if you have had an independent review completed of your firms safeguarding arrangements by an auditor or other independent reviewer in the last 12 months. If your firm has, please provide a copy of the report. If not, please can you provide a timescale for when you will have your independent audit and share the plan when it is available.

Please highlight whether the views in the report indicate significant weaknesses in safeguarding arrangements.

Please outline actions your firm has taken to respond to the review findings.

10. Please provide details of any other internal or external reviews undertaken on your safeguarding process in the last year including reviews conducted on any third parties (including agents and distributors) in the provision of payment services, their findings and any actions taken as a result.



11. If the firm was involved in our safeguarding attestation exercise in 2019, please confirm that you are still satisfied that your firm meets the safeguarding requirements. As part of this response, please tell us whether or not the position regarding your safeguarding policies, practices and controls has materially changed in the subsequent period.

Section 3 - Vulnerable customers

1. What steps has your firm taken to identify any specific cohorts of vulnerable customer groups? If any such groups exist, what are the criteria for defining them, what measures have been taken to safeguard them and what numbers of such customers have been identified?