



Q: What can we do to make sure we do not breach our capital requirement?

Firms should work to minimise the risk of breaching their capital (or “Own Funds”) requirement; processes that are operated to minimise other risks faced by the business would serve to reduce the risk of a breach in the Own Funds requirement, including:

- Policies and procedures that address regulatory requirements should be clearly documented in the firm’s compliance framework, specifically the Compliance Manual. See **Compliance Arrangements Guide 2: Developing a Compliance Manual**
- Maintaining a strategic plan and associated financial forecast. Maintaining a three-year financial forecast on an ongoing basis, including stress-testing activities, will help the forecasting of the Own Funds requirement and Own Funds held. See **Applications for Authorisation Guide 8: Financial forecast**
- Carry out capital adequacy assessments on at least an annual basis and more frequently in the event of a substantial change in business model or circumstances
- Reporting management information to the Board that enables their oversight of the business, including Own Funds held and required (and forecast). See **Governance Arrangements Guide 4: Management information reporting**
- Managing the risk of capital shortfalls or breaches through the operation of the risk management framework, specifically through the inclusion of relevant risks in the Risk Register. See **Risk Management Arrangements Guide 2: Risk management framework**
- Clear allocation of responsibilities for the above areas. Responsibilities to be described in role-specific job descriptions; and
- Maintaining a capital ‘buffer’ might also be a sensible risk mitigation, especially considering the possibility of the FCA increasing the Own Funds requirement for a firm by 20% (however uncommon this has been to date).