

Chapter 2

The threshold conditions

2.7 Business model

Paragraph 2F to Schedule 6 of the Act

- 2.7.1** **UK**
- (1) A's business model (that is, A's strategy for doing business) must be suitable for a person carrying on the regulated activities that A carries on or seeks to carry on.
 - (2) The matters which are relevant in determining whether A satisfies the condition in sub-paragraph (1) include-
 - (a) whether the business model is compatible with A's affairs being conducted, and continuing to be conducted, in a sound and prudent manner;
 - (b) the interests of consumers;
 - (c) the integrity of the UK financial system.
 - (3) This paragraph does not apply where the only regulated activities that the person concerned carries on, or seeks to carry on, are-
 - (a) relevant credit activities, and
 - (b) if any, activities to which, by virtue of section 39(1D), sections 20(1) and (1A) and 23(1A) do not apply when carried on by the person.

2.7.2 **G** Paragraph 2F of Schedule 6 to the Act sets out the business model *threshold condition* for *firms* carrying on, or seeking to carry on, *regulated activities* which do not include a *PRA-regulated activity*.

2.7.2A **G** For the purposes of paragraph 2F(3) of Schedule 6 to the Act, relevant credit activity is defined in paragraph 2G of Schedule 6 to the Act. Guidance on the meaning of relevant credit activity is given in ■ **COND 1.1A.5A G**.

Paragraph 3E to Schedule 6 of the Act

2.7.3 **UK** B's business model (that is, B's strategy for doing business) must be suitable for a person carrying on the regulated activities that B carries on or seeks to carry on, having regard to the FCA's operational objectives.

2.7.4 **G** Paragraph 3E of Schedule 6 to the Act sets out the business model *threshold condition* which is relevant to the discharge by the FCA of its functions under the Act in relation to *firms* carrying on, or seeking to carry on, *regulated activities* which include a *PRA-regulated activity*.

- 2.7.5** **G** The *guidance* in ■ COND 2.7 should be read as applying to both paragraph 2F of Schedule 6 to the *Act* and, as far as relevant to the discharge by the *FCA* of its functions under the *Act* in respect of *firms* carrying on, or seeking to carry on, a *PRA-regulated activity*, paragraph 3E of Schedule 6 of the *Act*.
- 2.7.6** **G** *Firms* carrying on, or seeking to carry on, a *PRA-regulated activity*, should note that the *PRA* states in its Approach Documents that analysis of such *firms'* business models will form an important part of the *PRA's* supervisory approach. For the avoidance of doubt, this guidance does not apply to the *PRA's* own assessment of the *firms'* business models.
- 2.7.7** **G** In assessing whether the *threshold conditions* set out in paragraphs 2F and 3E of Schedule 6 to the *Act* are satisfied, the *FCA* may consider all matters that might affect the design and execution of a *firm's* business model, taking into account the nature, scale and complexity of a *firm's* business.
- 2.7.8** **G** In deciding how they will satisfy and continue to satisfy the *threshold conditions* set out in paragraphs 2F and 3E of Schedule 6 to the *Act*, *firms* should consider matters including (but not limited to) the following:
- (1) the assumptions underlying the *firm's* business model and justification for it;
 - (2) the rationale for the business the *firm* proposes to do or continues to do, its competitive advantage, viability and the longer-term profitability of the business;
 - (3) the needs of and risks to *consumers*;
 - (4) the expectations of stakeholders, for example, shareholders and regulators;
 - (5) the products and services being offered and product strategy;
 - (6) the governance and controls of the *firm* and of any member of its *group* (if appropriate);
 - (7) the growth strategy and any risks arising from it;
 - (8) any diversification strategies; and
 - (9) the impact of the external macroeconomic and business environment.
- 2.7.9** **G** *Firms* should consider the manner in which they intend to bring their business model into operation. This plan could, for example, include matters such as procurement, outsourcing, and recruitment.
- 2.7.10** **G** *Firms* should consider scenarios which may negatively impact on the *firm's* business model with a view to ensuring the sustainability of the *firm* and, further, to consider the vulnerability of the business model to specific events and the risks and consequences that might arise. Where appropriate, this might include reverse stress-testing. A *firm* should put in place a credible

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plan to minimise the risks that it identifies from, or in relation to, its business model and a contingency plan for dealing with risks that have crystallised.

Firms should ensure that any adjustments to its business model:

- (1) are approved at an appropriate level in the business;
- (2) are considered in the light of any potential risks, impacts and consequences of the proposed changes; and
- (3) appropriately take into account the needs of and risks to *clients* and relevant *consumers*.

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The *FCA's* assessment of a *firm's* satisfaction of the *threshold conditions* set out in paragraphs 2F and 3E of Schedule 6 to the *Act* will not necessarily be limited to a *firm's regulated activities* if the *FCA* believes the *firm's* other business activities, if any, may impact on a *firm's regulated activities*.