

Finalised Guidance

Non-Handbook guidance on COREPRU 7: Overall risk assessment

FG 26/9

September 2026

1 Introduction

- 1.1 As part of our strategy to become a smarter regulator and make the FCA prudential framework more accessible and consistent for solo regulated FCA firms, we introduced an integrated sourcebook, COREPRU. COREPRU brings together core prudential requirements common across the different types of firms we prudentially regulate. Among those prudential requirements is an obligation to perform an overall risk assessment.
- 1.2 We developed this general guidance (Guidance) to help firms carry out their overall risk assessment. It illustrates the comprehensive, integrated practice that takes a firm from understanding its business model, to articulating its risk appetite, setting its financial resource thresholds and implementing a robust framework for managing financial resources to minimise risks that may cause material harm. It also covers planning for winding down operations, where necessary, without causing material harm to customers and the UK market.
- 1.3 Relevant handbook rules in COREPRU have been situated within that illustrated practice to emphasise that these rules should not be applied in isolation, but rather as part of a cohesive approach where each element reinforces and supports the others. Firms should adhere to the rules themselves and to their underlying role within that process, ensuring that each rule is applied thoughtfully as part of the firm's overall risk assessment process.

- 1.4 We are giving this guidance under section 139A of the Financial Services and Markets Act 2000 (FSMA). It guides firms on how they should comply with their obligations under COREPRU 7 (Overall risk assessment).
- 1.5 It does not replace or substitute other applicable rules, guidance or law and does not require firms to act in a way that is incompatible with any legal or regulatory requirements. The guidance is illustrative and non-exhaustive and does not prescribe a single methodology.
- 1.6 This Guidance builds on the Finalised Guidance, [FG20/1 \(Our framework: assessing adequate financial resources\)](#).
- 1.7 This Guidance comes into force on 25 October 2027.

2 Completing the overall risk assessment

- 2.1 The overall risk assessment is a comprehensive process by which a firm scrutinises its strategy, business activities, the attendant risks and the resources it needs. It is integral to the sound management and effective operation of any business. Firms are required to carry out an overall risk assessment (COREPRU 7.2.1R).
- 2.2 The firm's overall risk assessment is the principal mechanism by which the firm sets the appropriate level of own funds and liquid asset resources required to comply with the overall financial adequacy rule. Through this process, the firm assesses the own funds threshold requirement (OFTR) and the liquid asset threshold requirement (LATR), which ensure that financial resilience aligns with its risk appetite.
- 2.3 The assessment should consider financial resources to support both ongoing operations and the winding-down of the firm's business without causing material harm. OFTR is set as the higher of the firm's own assessment or the baseline regulatory minimum set out within COREPRU and the sectoral prudential sourcebooks. LATR cannot be lower than the sum of the firm's regulatory minimum requirement, that is, the basic liquid assets requirement (BLAR) and any sectoral liquidity requirement, as set out in COREPRU and the sectoral prudential sourcebooks (COREPRU 7.2.5R).
- 2.4 COREPRU contains cross-cutting requirements that are intended to apply across multiple sectors, supplemented, where relevant, by sector-specific requirements in the sectoral prudential sourcebooks. The own funds requirement (OFR) and BLAR are the baseline financial resource requirements for firms. Sector-specific requirements may impose additional generalised, often formula-based, minimums. The overall risk assessment helps firms set the adequate level of financial resources appropriate for its business model, ensuring more tailored thresholds beyond minimum requirements.
- 2.5 The regulatory minimums are set to accommodate a broad spectrum of firms including those with less complex risks and operations. If the firm's own assessments are lower than the regulatory minimums, it should evidence particularly robust challenge, but the firm must still hold the applicable regulatory minimum.

Proportionality, usability and embeddedness

- 2.6 Firms' overall risk assessments must be proportionate to the nature, scale and complexity of their businesses (COREPRU 7.2.2R). Firms can achieve this by:
- Focusing the assessment on the risks that would cause material harm to clients and or markets.
 - Tailoring their governance, oversight and operational practices according to the requirements of their material risks.
 - Adjusting the depth, documentation and sophistication of their assessments in the overall risk assessment to suit their risk profile.
- 2.7 The firm should treat its overall risk assessment as a dynamic framework that adapts to changes in its business model, risk profile, or operating environment. The firm must identify and assess risks on an ongoing basis (COREPRU 7.2.8R(1)). These assessments should guide strategic decisions, ensuring these are properly evaluated and aligned with the firm's risk appetite.
- 2.8 The firm must embed the overall risk assessment within its business model and strategic decision-making (COREPRU 7.2.10R). Where risk assessments are not meaningfully embedded, the firm may lack the necessary insight into emerging issues and be less prepared to anticipate or mitigate potential risks that may cause material harm.

Business model and risk assessment

- 2.9 The overall risk assessment begins with a detailed review of the firm's business model, its strategic direction and potential risks. The process should focus on material risks, that is, risks which may cause material harm to its customers or the broader market. It should be a holistic assessment. The assessment must include all firm activities whether regulated or unregulated (COREPRU 7.2.1R(3)). The firm should also consider circumstances such as its position in a larger group and any outsourced operations.

Risk appetite and assessment of adequate financial resources

- 2.10 Based on the firm's understanding of its risks that may cause material harm, it should articulate a clear risk appetite. Risk appetite is essentially, the level of risk it is prepared to accept in pursuit of its strategic objectives, whilst safeguarding the interests of its clients and the wider UK market. The risk appetite should be consistent with the level of stress the firm expects to withstand while continuing to operate. In deciding its risk appetite, the firm should also consider other requirements in our Handbook and any relevant legislation.
- 2.11 The best practice approach to setting the risk appetite is to situate this within a wider risk appetite framework, which outlines the preferred operating range and enforces this with early warning indicators (EWI) and trigger points for

management action. Such actions may include interventions, for example, to prepare for a stress (contingency plan), to restore risk levels to within the operating range (recovery plan) or, if necessary, wind down the business line or the entire firm (wind-down plan).

- 2.12 After identifying risks and risk appetite, the firm must evaluate its systems and controls to see if they effectively mitigate risks so that they are within its risk appetite (COREPRU 7.2.1R). This includes procedures for identifying, controlling, and monitoring risks, as well as governance arrangements for oversight and regular updates. These elements form part of a robust risk management framework.
- 2.13 If risks remain outside the firm’s risk appetite despite existing controls, the firm must assess whether additional financial resources— either own funds or liquid assets or both—are needed to bring those risks within its risk appetite (COREPRU 7.2.1R(2)). If after mitigation, the residual risks persist outside the firm’s risk appetite, the firm should consider discontinuing the business activity responsible for those risks.

Adequate resources to support ongoing operations

- 2.14 When assessing adequate financial resources for ongoing operations, the firm should take a forward-looking approach. This includes evaluating current risks and anticipating how resource needs may change with strategic goals and evolving business conditions, especially under stress.

Own funds

- 2.15 The firm should assess the amount of own funds required to keep the firm viable to the extent at least consistent with its risk appetite. The assessment starts with an independent evaluation of each material risk which leads to losses or capital impairment.
- 2.16 This involves identifying potential stresses (risk events) that could result in losses, estimating the magnitude of those losses, and assessing the likelihood of their occurrence. For example, if a client owes the firm money, a client default constitutes a risk event that results in a loss equal to the amount owed, with the probability of default often informed by the client’s credit rating.
- 2.17 By understanding the expected frequency and impact of all its material risks, the firm can estimate the level of own funds necessary to remain resilient should losses materialise. The aggregate own funds required across all material risks provides a basic estimate of the own funds resources necessary to support ongoing operations.
- 2.18 Among the risks to be considered include counterparties failing to pay what is owed, movements in the value of assets, or losses arising from failures in the firm’s business processes. Some risks may change frequently depending, for instance, on business volume or client behaviour and may require dynamic approaches to adequate own funds assessments.
- 2.19 Operational risk assessments should consider the effectiveness of the control environment and, where relevant, should consider the impact of control failure.

- 2.20 Firms may use statistical models to support their assessments, but there is no obligation to do so. The firm should nonetheless understand the merits and shortcomings of its chosen approach. If firms use modelled approaches, they should consider whether they have enough data, and whether the available data is directly relevant to their own activities rather than the wider group's.

Liquid assets

- 2.21 As with own funds, the firm should assess the amount of liquid assets required to keep the firm viable to the extent consistent with its risk appetite. In assessing adequate liquid assets to support ongoing operations, the firm should consider risks giving rise to cash outflows or affecting cash inflows, and particularly, the timing of cashflows.
- 2.22 The firm should understand its cash demands with time granularity appropriate to its business. If cash obligations arise intraday, it is best practice to estimate daily stressed cash requirements over, at least, the next 2 weeks, weekly for the remainder of the month, and monthly for the subsequent periods.
- 2.23 The firm should analyse peak and cumulative cash needs, considering its historical stressed levels and new stresses it can reasonably expect in the coming year. The peak cumulative stressed cash demand should be considered as the level of adequate liquid assets needed to mitigate risks from ongoing operations.
- 2.24 Liquidity needs can change much faster than capital requirements and hence, should be assessed more frequently. Depending on the business model and variability of cashflows this could mean a dynamic approach that is updated daily.
- 2.25 As well as identifying and holding liquid assets, the firm should consider how it funds its assets and cashflows and stress the availability of funding sources. This should help it address the potential loss of funding sources, which could lead to sudden liquidity needs or the need to sell assets under adverse conditions.

Business plans and stress testing

- 2.26 The firm should anticipate future requirements when it assesses its financial resources. To successfully execute its strategy, the firm should develop a comprehensive business plan covering a reasonable period of time. This is typically 3 years, but a different period may be appropriate where justified by changes anticipated in the business model and business environment. The plan should incorporate expected changes in risks due to growth, client shifts, or environmental changes, to keep resource planning aligned with strategy.
- 2.27 The business plan should be stress tested to evaluate how adverse conditions affect risks, controls, and financial resources. This includes reviewing stakeholder reactions to confirm the firm's resilience. Stakeholders include clients, funding sources, competitors, third-party providers, banking partners, shareholders, and regulators.
- 2.28 Firms use stress testing in various ways to support different components of the overall risk assessment.
- Firms may stress risk events or use severe scenarios that affect the core business activities to identify financial resources that enable it to recover

- and stay within their risk appetite. This supports the identifying of OFTR and LATR.
- Applying a stress to the firm’s economic environment helps assess whether the surplus resources held above the threshold requirements is enough to cope with relevant downturns through the economic cycle without causing the firm to breach a threshold requirement.
 - Reverse stress testing tests the business to the point of failure. It helps firms to understand their recovery actions and the limitations of those actions. It forms a useful backdrop to assessing whether the firm’s wind-down plan is workable. It also helps the firm see if it needs new controls and monitoring to minimise the risk of failure.
- 2.29 For stress testing to be useful, it should be forward looking, based on the forecasts and projections used in the business. The firm should consider stress scenarios severe enough to challenge its resilience, whilst remaining plausible and realistic in the context of historical experience and reasonable expectations for future business developments. The firm should consider firm-specific and market-wide stresses, occurring separately and concurrently.
- 2.30 The resulting tests help the firm determine its financial resource needs and set early warning indicators and triggers for action. Management actions in stress may include not executing business plans as currently forecast.

Adequate resources to support the winding-down process

- 2.31 When a firm experiences stresses which are more severe than it can survive, or makes a strategic decision to wind down, it needs to consider how it winds down causing the least harm to its clients and market.
- 2.32 A wind-down plan should consider all the things that need to happen between the decision to wind down being taken and the end of the process, and calculate the time required and the costs involved. It should also pay attention to the order in which cashflows occur.
- 2.33 In order for the wind-down plan to be executable, the trigger for wind-down needs to occur while sufficient capital and liquid resources remain.
- 2.34 When formulating such a plan, firms should assume that the wind-down will take place under stressed conditions, and anticipate changes in the behaviour of clients, counterparties, and third-party providers. It is also likely that its financial resources will have been depleted following a period of stress. The outcomes of the firm’s reverse stress testing should guide the selection of stress scenarios for assessing the wind-down plan’s effectiveness.
- 2.35 The level of detail within the plan should match the risks and complexity of the firm’s operations, including any group-wide effects. If there are significant interdependencies, a group wind-down plan may be needed. The plan must be specific enough to guide orderly execution under stress, reducing the risk of poor oversight and supporting effective execution.
- 2.36 The right level of detail will help the firm assess the own funds and liquid assets it needs to mitigate risks that may cause material harm. Similar to the assessment of

financial resources to support ongoing operations, the assessment of adequate own funds is separate from the assessment of adequate liquid assets.

- 2.37 The assessment of required own funds covers expected costs and revenues, including potential losses from risks which may persist during wind-down. The assessment of required liquid assets focuses on cash needs. Some costs occur early, while cash from, for example, asset sales may be received later. In some cases, the peak liquid asset requirement can be higher than the overall net cost, making the liquid assets requirement greater than the own funds required for winding-down the firm's business without causing material harm.

Threshold requirements and resources held

- 2.38 The firm should assess and calculate its OFTR and LATR to comply with the overall financial adequacy rule (COREPRU 7.2.1R and COREPRU 7.2.5R). The OFTR is informed by the own funds the firm needs for ongoing operations and the amount to enable a wind-down without causing material harm. Similarly, the LATR is informed by the liquid assets needed for ongoing operations and the amount needed when the firm commences the wind-down process. In both cases, assessments are considered against baseline requirements.
- 2.39 If the wind-down resource needs exceed those required to support ongoing operations, the firm should consider that its threshold requirement is sufficient to meet the higher amount. It should also introduce enhanced early warning indicators or triggers for action. This is because breaching a threshold driven by wind-down resource requirements heightens the risk that insufficient resources harm customers and the UK market.
- 2.40 Prudent firms often hold more financial resources than their threshold requirements, using early warning indicators and triggers to stay resilient during unexpected losses or liquidity strain. The additional amount depends on the firm's risk appetite, stress test results, and how quickly it can take recovery actions.

3 Documentation

- 3.1 The firm must review and document its overall risk assessment (COREPRU 7.2.8R and 7.2.9R). The document should briefly summarise key analysis, judgments, conclusions, and any updates, showing how the business model and risks have been evaluated, along with the adequacy of systems and resources. This ensures timely, informed action during stress or changes in business and risk profile. It also helps the firm build on and improve its existing approach.
- 3.2 Key details the firms should record include:
- an overview of risks that may cause material harm identified, the systems and controls and the resources it has to mitigate them

- information on its governance arrangements and oversight of the assessment
 - summaries of scenarios and assumptions, and stress testing it has carried out
- 3.3 The firm should ensure clarity and consistency between the overall risk assessment document and other reporting to make the assessments reliable and provide practical value.
- 3.4 The firm must review the overall risk assessment document at least once every 12 months and following any material change in the firm's business model or operating model (COREPRU 7.2.8R(2)). The overall risk assessment document must be kept on record for at least 3 years from the date on which it was approved (COREPRU 7.2.9R).

4 FCA Supervisory review and evaluation process (SREP)

- 4.1 While the firm determines its own threshold requirements as part of its overall risk assessment, this is subject to review by the FCA.
- 4.2 The Supervisory Review and Evaluation Process (SREP) is an assessment carried out by the FCA to evaluate the firm's business model, risks, governance, financial resilience, and underlying frameworks, all of which are elements of the firm's overall risk assessment.
- 4.3 We may carry out SREPs as part of our supervisory function under FSMA, but there is no set frequency for them. We prioritise them according to factors such as the firm's business, risks and market concerns, and their scope can vary. We may also review groups of firms with common characteristics, issuing sectoral guidance or imposing requirements as needed.
- 4.4 We consider a range of information, such as:
- firms' overall risk assessment documents
 - interviews with members of the governing body, employees, advisers, service providers and auditors
 - relevant external data

In certain cases, we may choose to limit the scope of our evaluation. We evaluate factors including:

- risk identification
- systems and controls
- risk appetite, governance
- integration of risk assessment in decision-making
- financial adequacy
- planning analyses

- wind-down plans

Following a SREP, we may consider whether we need to take any corrective action. We may require the firm to:

- hold additional own funds or liquid assets
- change its governance arrangements
- produce improvement plans to ensure it complies with the Handbook or other legislation
- restrict its activities
- reduce its risks
- limit remuneration
- send us additional reporting or make additional disclosures
- make structural modifications

We may also withdraw the firm's permissions or give individual guidance to the firm on any of these matters or anything else we think is relevant.

- 4.5 We will base any action on the risks or deficiencies we have identified. It will be proportionate to the firm's circumstances.
- 4.6 We would normally expect to take these actions described through the following non-exhaustive measures:
- exercising the powers under section 55J of FSMA permitting the FCA to vary or cancel a firm's permission on the FCA's own initiative
 - inviting a firm to make a voluntary application for the imposition of a requirement under section 55L(5) of FSMA
 - imposing a requirement on a firm on the FCA's own initiative under section 55L(3) of FSMA
 - requiring a report by a skilled person in accordance with section 166 of FSMA
 - requiring a firm or parent undertaking to provide additional information to the FCA under section 165 of FSMA
 - withdrawing a permission in accordance with the rules in the applicable prudential requirements
 - giving individual guidance to a firm under section 139A of FSMA, as further described in SUP 9.3
- 4.7 Following a SREP, we may conclude that a firm should hold additional own funds or liquid assets to comply with the overall financial adequacy rule. In this case, we will normally specify an amount by:
1. issuing individual guidance, or
 2. imposing a requirement on the firm

The amount normally represents our assessment of the threshold requirement. However, in some cases, we may specify it on a different basis (such as by

reference to a specific component of the threshold requirement, or to a particular risk that may cause material harm).

- 4.8 When we do a sectoral review, we may issue guidance or impose a requirement on some or all firms that are active in that sector, without an individual SREP for each firm.
- 4.9 We will determine whether a requirement or guidance is more appropriate. Where we issue guidance, we would normally expect the firm to confirm to us that it will treat the amounts specified in that guidance as its threshold requirements going forward (and will therefore hold the relevant own funds and liquid assets to comply with the overall financial adequacy rule), unless the firm subsequently determines under its overall risk assessment that higher amounts are required.
- 4.10 Where we apply a requirement in connection with the overall financial adequacy rule, we may invite a firm to make a voluntary application under section 55L(5) of FSMA. If the firm declines, we may use our powers under section 55L(3) of FSMA to impose the requirement on the firm.
- 4.11 Individual guidance on threshold requirements (or a requirement to hold minimum levels of own funds or liquid assets that we have imposed) will remain in place until we update or remove it. If, after completing its own overall risk assessment, a firm concludes it needs to hold more own funds or liquid assets to meet the overall financial adequacy rule, it must hold that higher level. This is because our assessment only reflects that point in time and firms have an obligation to comply with the overall financial adequacy rule at all times.
- 4.12 We may provide guidance on a firm's own funds threshold requirement (or where applicable, impose a requirement) which may refer to: (1) a percentage of the own funds requirement; (2) a fixed amount; or (3) a suitable metric. Similarly, we may provide guidance on a firm's liquid asset threshold requirement (or, where applicable, impose a requirement) which may refer to: (1) a percentage of the firm's basic liquid asset requirement, (2) a fixed amount or (3) a suitable metric.
- 4.13 Firms must meet any own funds threshold requirement with own funds that satisfy the conditions in COREPRU and the relevant sectoral prudential sourcebooks, unless we apply an alternative requirement to it.
- 4.14 A firm can normally meet its liquid assets threshold requirement with any type of liquid assets defined in our Handbook. This is subject to the overriding requirement in COREPRU 6 that in all cases, a firm must meet its basic liquid assets requirement with core liquid assets. In appropriate cases, we may require use of a narrower subset of liquid assets. For instance, we may require a firm to hold core liquid assets to cover particular risks or may disallow the use of certain non-core liquid assets.
- 4.15 We may also:
 - 1. require the firm to apply modified haircuts to non-core liquid assets, or
 - 2. impose certain requirements relating to a firm's funding profile and the matching of expected liquidity outflows and inflows

Annex 1 : Feedback statement

GC 26/4: Non-Handbook Guidance on COREPRU 7: Overall risk assessment

Date of consultation: 30 June 2026

Summary

1. This Non-Handbook Guidance (NHG) is not exhaustive and does not contain a complete description of the steps firms should take when completing their overall risk assessment. It supports the prudential rules published in [PS26/12: A Prudential Regime for Cryptoasset Firms](#) and in the FCA Handbook.
2. In June 2026, we consulted on the proposed Non-Handbook Guidance on COREPRU 7: Overall risk assessment which sets out how firms may complete the overall risk assessment required under COREPRU 7.
3. We received 8 responses from a range of stakeholders, including trade bodies, cryptoasset firms, consultancies and private individuals.
4. We have made a small number of substantive changes to the NHG to reflect the feedback, and a number of changes to improve clarity and readability. We have summarised the substantive amendments at the end of this feedback statement. We present the feedback to the consultation and our response under each of the questions we posed. Where we received similar comments, we have grouped the feedback and our response together.
5. Respondents mostly agreed with our proposed NHG. They noted that it materially clarifies the purpose of the overall risk assessment, and the relationship between business model, material risk assessment, threshold resource requirements and the SREP.
6. Several respondents asked us to clarify the application of proportionality and provide more worked examples on how the processes can be practically applied. Some said we should expand the NHG to discuss in greater detail the distinctions between the process, judgement, evidence and documentation.
7. Two respondents included in a single document their feedback on this consultation and on our concurrent consultation, GC26/5: Non-Handbook Guidance on CRYPTOPRU 7: Overall risk assessment for CRYPTOPRU firms. Feedback specific to this consultation and on broader prudential rules are addressed here. Feedback specific to GC26/5 is addressed in [FG26/10: Non-Handbook guidance on CRYPTOPRU 7: Overall risk assessment for CRYPTOPRU firms](#). Respondents should refer to the relevant publication for our views on these matters.

Q1: Does the proposed guidance clarify the prudential rules in COREPRU 7? If not, what more could we do to provide clarity?

- 8.** Most respondents confirmed that the proposed NHG clarified the prudential rules in COREPRU 7, and that it is a helpful and timely aid to understanding them. They said it gives firms clearer insight into how the assessment of business models, material risks and threshold resource requirements, stress testing, wind-down planning, documentation, and supervisory review are linked in practice, while also usefully distinguishing regulatory minimums from firm-specific threshold requirements.
- 9.** Several respondents asked for more guidance on proportionality, particularly how expectations scale for firms with simpler operating models, narrower permissions, lower risk profiles or lower complexity. Some said we should confirm that proportionality affects the depth and sophistication of analysis, and that simplified assessments are acceptable for lower-risk and PMR-bound firms. There were requests to clarify expectations for first-time applicants at authorisation, including which elements can mature after approval.
- 10.** There were several requests for practical examples of acceptable COREPRU 7 evidence and documentation. This would cover examples of how firms can evidence their own judgement without reproducing large-firm prudential processes, for instance, an illustrative hierarchy of evidence, covering firm-specific data, comparable group or external data, projections, scenario analysis and documented expert judgement, with explanations of relevance, limitations and assumptions. One respondent requested a practical example of how to calibrate the wind-down trigger levels in relation to the regulatory minimums. Another requested clarity on how to treat overlapping risks in case multiple prudential frameworks apply.
- 11.** Some respondents proposed that the NHG could emphasise the decision architecture and threshold traceability. In particular, firms should be required to show a clear line from activity to material harm, controls, financial resource conclusions, OFTR and LATR, and that firms must preserve the rationale and lineage for each threshold so recalculations can be justified. The NHG should also help firms recognise the need for continuous compliance and avoid reliance on an assessment that has become stale.
- 12.** Respondents acknowledged that we should retain supervisory judgement, but ask for clearer signposting on:

 - how we will treat well-evidenced departures from examples
 - how sectoral guidance will interact with firm-specific assessments
 - how firms should document conclusions that differ from indicative supervisory expectations
- 13.** A few respondents cited potential ambiguity in the language used around regulatory minimums, baseline requirements, cumulative cashflows, guidance, requirements and observations. One respondent requested confirmation that the threshold requirements are not made public.

Response

In our consultation, we aimed to clarify the practical implementation of the overall risk assessment. We wanted to emphasise its role in supporting the sound conduct of business and illustrate the links between the different rules in COREPRU 7, in a way that is accessible to firms across the range of complexity and maturity. Our objective is to enable firms to complete their overall risk assessment in a meaningful, proportionate way that will be useful in identifying, managing and mitigating potential risks and harms arising from their business.

Given our intention for COREPRU to apply to a broad range of firms within our perimeter, we deliberately framed our examples as general examples rather than specific to any particular sector or to firms new to regulation. We expect our sector-specific NHG to contain more targeted examples that reflect risks and business models relevant to those firms.

We appreciate the request for greater clarity on proportionality, as well as the suggestions for additional language we could include. However, our view is that proportionality, and how it is reflected in a firm's assessment, is ultimately a matter for firms to determine using their own judgement. Firms should apply and develop the principles underpinning the overall risk assessment in a way that is aligned with their assessment of risks and the way they manage their business.

Firms should prepare documentation so that it is meaningfully used in practice, rather than treated as a purely procedural requirement. Over time, practical use of the assessment and documentation should help firms recognise the importance of maintaining traceability in their analysis, preserving the rationale for successive judgements, demonstrating how conclusions have been reached, and the need to keep assessments relevant.

Proportionality does include, but is not limited to, identifying where only doing limited analysis is appropriate to the risk. It should also inform the firm's judgement about where it needs to do more detailed assessment. Proportionality affects documentation and sophistication but does not dilute the obligation to identify all material risks, reach supported conclusions on adequate resources, or maintain effective governance and challenge.

Holistic assessment is also paramount, whether specific or multiple prudential rules apply to the firm's activities. Rather than provide examples covering every possible circumstance, we encourage firms to exercise judgement in determining the appropriate assessment of their risks and resources.

The examples presented in the NHG serve as guides, supporting firms in making well-reasoned assessments. Any individual or sectoral guidance arising from a supervisory review is designed to address specific deficiencies. Where we issue individual guidance, we would normally expect the firm confirm to the FCA that the firm will treat the amounts we specified in that guidance as its threshold requirements going forward

unless the firm later determines under its overall risk assessment that higher amounts are required.

We have adjusted the language of the NHG to remove any potential ambiguity around baseline requirements, regulatory minimums and cumulative cashflows. (Please see the Summary of Key Changes to the NHG text at the end of this Annex 1).

The publication of threshold requirements is covered within the prudential rules and is not in scope of this NHG.

Q2: Do you have any comments on the proposed guidance including the examples given?

- 14.** Respondents broadly supported the proposed NHG but ask for confirmation that the examples are illustrative rather than prescriptive. Firms should be able to depart from the examples where they can justify their approach by reference to their business model, risk profile, scale and complexity. Some respondents asked us to confirm that we expect this to be an iterative process, particularly as some firms will be new to it.
- 15.** A recurring theme is a desire for clearer guidance on what proportionality looks like, particularly for smaller or less complex firms. Respondents said the current examples may imply a level of modelling, governance and documentation that is more appropriate for larger firms. They asked for an end-to-end worked example showing what a proportionate overall risk assessment looks like for a small, non-complex firm. Some said that the examples could illustrate feedback loops that occur within the assessments, such as risk appetite informing stress testing, which in turn informs risk appetite. Some respondents asked us for more guidance in the absence of historical data.
- 16.** A few respondents asked us to clarify how the different elements of the regime, including the overall risk assessment, fit together across COREPRU, CRYPTOPRU, GC26/4, GC26/5 and existing guidance such as FG20/1, and how our requirements interact with the Bank of England’s regime for stablecoin issuers. They said that a consolidated overview, cross-referenced index or worked example would help newly regulated firms understand the UK’s prudential regime.
- 17.** Several respondents challenged areas where the draft NHG may be too prescriptive, especially around liquidity monitoring, cash-flow granularity and the expectation that business plans typically cover three years. One argued for a more principles-based approach, noting that later year forecasts are inherently less reliable and that firms should be able to tailor analysis to the risks that are genuinely material.

- 18.** Some respondents said we should put more emphasis on robust governance, evidence and challenge. They said we should set clearer expectations around, for instance, model limitations, assumptions, version control, operational usability of liquid assets, combined stress scenarios, credible recovery actions, recalibration after incidents, and concise governing-body decision records that keep unresolved weaknesses visible until properly addressed. One respondent requested a worked example for a new or materially changing business model, how evidence is selected and challenged. Another suggested examples that follow a single material risk through the entire assessment and the integration of SREP, and an emphasis that group or external support may not be automatically available. One respondent suggested risks and scenarios specific to CRYPTOPRU firms.

Response

The NHG is intended to support firms in completing the overall risk assessment required under COREPRU 7. As with FG20/1, it is designed to clarify the context and expectations of the relevant rules in COREPRU 7 and the FCA Handbook, rather than to replace or supersede them. We have added some text to make this clear.

The overall risk assessment is, by its nature, an iterative process. As firms develop a deeper understanding of their risks, they should continue to refine the tools, processes and controls they use to identify, assess, anticipate and mitigate those risks. Firms should remain mindful not only of proportionality, but also of the relevance and appropriateness of their approach to their specific business model, risk profile and circumstances.

We have kept the examples in the NHG at a general level to reflect the breadth of firms and business models within the intended scope of COREPRU. They are illustrative and are meant to provide a starting point for firms when developing their overall risk assessment, rather than a comprehensive description of all the possible relevant activities, insights, judgements or tools that may be available to complete the assessment. Our view is that proportionality is ultimately a matter for firms to determine using their own judgement, that is, they should undertake an assessment that is in proportion to the nature, scale and complexity of their business.

We do not consider it appropriate to provide an exhaustive list of activities and tools, given the wide range of business models, activities and circumstances to which the requirements may apply. Nor do we consider it desirable to provide an indicative list that could inadvertently narrow firms’ thinking or encourage a mechanistic approach. Firms should instead exercise appropriate judgement in determining what is relevant to their own assessment.

FG20/1 clarifies our expectations around Threshold Conditions and applies to all FCA solo-regulated firms. COREPRU, in its current application, and CRYPTOPRU are applicable to firms engaged in cryptoasset services setting out minimum capital and liquidity requirements for this sector,

and the requirement to complete an overall risk assessment. GC26/4 and GC26/5 and the corresponding finalised guidance in FG26/9 and FG26/10 accompany Chapter 7: Overall risk assessment in the new prudential sourcebooks, COREPRU and CRYPTOPRU. They form part of our wider strategy to enhance the accessibility of our rules by distinguishing supporting material from core Handbook content.

We develop our prudential policy in close coordination with the Bank of England. It is not within the scope of this NHG to comment on future policy development. However, notwithstanding any future developments in the UK prudential landscape, or any prudential requirements that may apply to a firm, the underlying principle of a thorough, holistic and proportionate risk assessment will remain central.

The current draft of the NHG includes insights on observed industry practices to help firms develop their own approach. These are not prescriptive but are meant to communicate observed good practices. The design of each firm’s processes, documentation, operational controls, assumptions and supporting artefacts is best developed by the firm itself, in a way that reflects how it manages its business and mitigates its risks in practice.

We also do not deem a worked example for a single risk necessary, as this might be treated as a template and discourage firms from considering how the same risk may arise and be mitigated differently in practice according to circumstances specific to the firm. In view of the intended scope of COREPRU, we are unable to add examples which are specific to CRYPTOPRU firms.

Summary of key changes to GC26/4 Non-Handbook Guidance

Topic	Change
Purpose of Guidance	Paragraph 1.5 clarifies that the contents of the NHG are illustrative and non-exhaustive.
Baseline requirements	Paragraphs 2.3 and 2.5 have been adjusted to clarify the application of the baseline requirements and regulatory minimums
Cumulative Cashflow	Paragraph 2.23 has been adjusted to add a consideration of peak cumulative cash flow.

Annex 2 : List of non-confidential respondents

This annex lists the respondents to our consultation who consented to the publication of their names.

- Circle Internet Financial
- European Ethereum Institute
- Mansi Birla
- Volodymyr Holovachov