Payments and Digital Assets Authorisations Video Transcript - Completing the overall risk assessment

Louis Myers

Hello, and welcome to this video on "Overall Risk Assessment." It's part of a series of videos for crypto asset firms designed to support you through the authorisation application process. Throughout this series, we'll be highlighting the key areas you should consider as you prepare for your application. Hi, I'm Louis, a Manager at the FCA. And today, in this video, we will focus on the overall risk assessment, or as we call it, the ORA, and what you need to know about this requirement. I'm joined again by my colleague, Joshua. Joshua, let's start with the basics. What's an ORA?

Joshua Olukoya

So the ORA is your own assessment of the risks in your operations, and it demonstrates you have an understanding of those risks. The ORA should take into account all of your activities, both regulated and unregulated, and should also take into account your relationships with counterparties, both within and outside of your group.

Louis Myers

Thank you, that's really helpful clarification. So we know what an ORA is now, but which firms have to conduct an ORA?

Joshua Olukoya

Yeah, good question. So all crypto asset firms will need to conduct an ORA. The only exception is where you are also a regulated investment firm subject to MIFIDPRU. In these cases, you'll need to conduct an internal capital adequacy and risk assessment instead.

Louis Myers

So taking that into account, why is the ORA such an important part of the Prudential framework?

Joshua Olukoya

So the ORA is important because it draws attentions to the risks not captured in your own funds requirements. So the risks specific to your group and the risks specific to the activities you're undertaking, again, both regulated and unregulated. The ORA is the centrepiece of your risk management framework, and it allows you to conduct a holistic assessment of your activities, your group structure, and how your risk profile fits into that. The ORA also feeds into your own funds threshold requirement and liquid asset threshold requirement. So it sets a requirement that is specific and tailored to your risk profile.

Louis Myers

So can we talk a little bit more about how that all works in practise? We've just spoken about the different threshold requirements. What are we doing here?

Joshua Olukoya

So the requirements that we mentioned previously are baseline for all firms, while the threshold requirements are specific to your firm. The ORA should take into account, again, all of your activities, unregulated and regulated. It should take into account your relationships with all counterparties within your group and third parties. It should also take into account the financial resources that you require to remain viable in the economic cycle. And finally, it should take into account the resources that you require to wind down in an orderly manner without causing material harm to your clients, counterparties, and to the wider markets.

Louis Myers

There's a lot to think about here, isn't there? So, are there any templates available to firms that they can rely on when completing one of these ORAs?

Joshua Olukoya

So we haven't provided a template for the ORA, and that was deliberate. The ORA should be a specifically tailored document to your risk profile and your firm, so there isn't a one size fits all approach to it. We also haven't prescribed any stress scenarios. The stress scenarios that you form should be plausible within the activities that you undertake and the

market that you're operating in, but should sufficiently demonstrate that your business is able to withstand market shocks. For further guidance on the ORA, you can refer to the general provisions in COREPRU or the sector specific requirements that sit within CRYPTOPRU.

Louis Myers

Now, aside from the possibility of having a template or one of the things that's often raised about the ORA is the wind-down plan itself. How did these things fit together?

Joshua Olukoya

So the wind-down plan fits within the ORA and it forms part of it. A good quality wind-down plan would demonstrate that your business, in the event of firm failure, is able to cancel its permissions, stop its regulated activities without causing harm to, again, your clients, your counterparties, and indeed, the wider market. It should also demonstrate that you hold sufficient financial resources to wind down in an orderly manner.

Louis Myers

And are there any resources available that people can refer to if they want to understand a little bit more about what this means in practise?

Joshua Olukoya

Yeah, absolutely. So there are two resources that I'll refer to here. You can refer to our preparing a wind-down plan page on the FCA website, and you can refer to our wind-down planning guidance that you can find in the FCA handbook. We also have examples of some good and poor practises in wind-down planning. Now, these examples aren't picked or sourced from the crypto asset sector, but it'll still be absolutely relevant to your crypto asset firm.

Louis Myers

And I suppose one final thing that might be really helpful for people to understand is, what does a good ORA actually look like?

Joshua Olukoya

Yeah, so a good ORA will have four particular characteristics. It will clearly and coherently identify the risks in your business model. It will be proportionate to those risks and to the size and scale of your business, the markets that you operate in. It will be forward-looking and not purely

descriptive, and it will be clearly linked to the financial resources that you require to operate, but also to wind down in an orderly manner.

Louis Myers

That's really, really helpful. Thank you very much, Joshua. And that now concludes our video on the ORA. I hope it's been helpful in explaining what it is and what's expected of it. As Joshua has pointed out, there are useful resources available on our website, so please feel free to refer to them when developing your ORA for your firm.