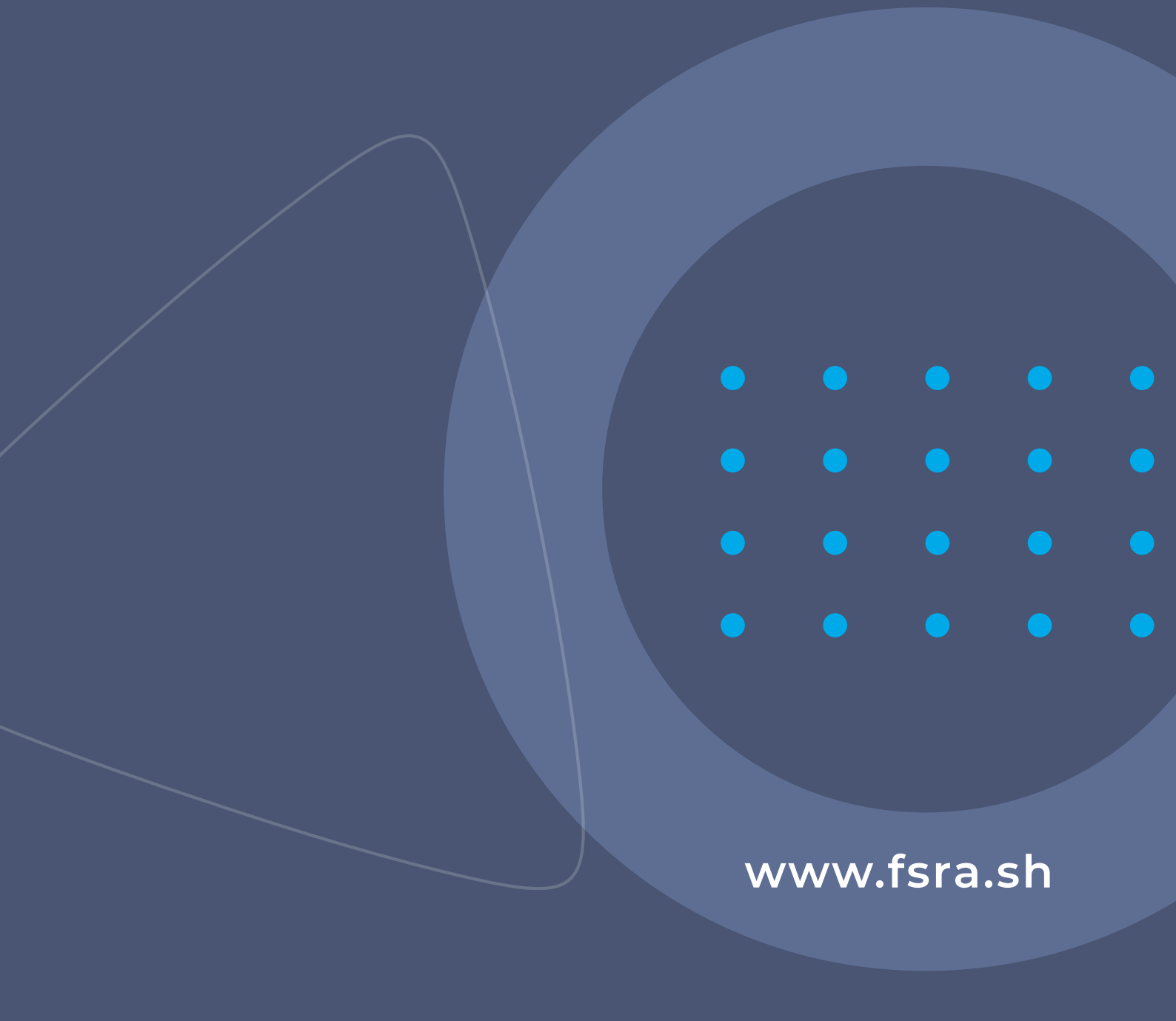
FSRA

ST HELENA, ASCENSION AND TRISTAN DA CUNHA

FSRA DIRECTIVES

Directive on Financial Resources Adequacy for Banks

17 JULY 2025



www.fsra.sh

Section 1 – APPLICATION

INTRODUCTION

1.1	This Directive is issued by the Financial Services Regulatory Authority (FSRA) under section 4 of the Financial Services Ordinance 2008 and its effective date is 17 July 2025.
1.2	Subject to 1.4, this Directive applies to any bank that is licensed by the FSRA. It applies to a bank that carries on the business of banking on any of St Helena, Ascension or Tristan da Cunha. Unless specified to the contrary, a reference in this Directive to "St Helena" is to be read as including all of St Helena, Ascension and Tristan da Cunha.
1.3	Terms used in this Directive should be interpreted by reference to the definitions set out in the Financial Services Ordinance 2008 and the Financial Services Regulations 2017, unless otherwise defined in this Directive.
1.4	In relation to a bank that is licensed by the FSRA and which is a branch of an overseas bank, the requirements of this Directive apply in relation to the branch, unless otherwise specified.
1.5	This Directive applies to a bank on a solo basis. Where a bank is not a subsidiary of a holding company licensed by the FSRA but has subsidiaries, this Directive also applies to the consolidation of the bank and all of its subsidiaries, unless determined otherwise by the FSRA.
1.6	Compliance with this Directive will be enforced through the Financial Services Ordinance 2008 or successor legislation. A bank which does not comply with this Directive may be subject to disciplinary or other actions under the Financial Services Ordinance 2008 or that successor legislation.
1.7	A bank should notify the FSRA without delay when it becomes aware that it has failed to comply with this Directive. There is no materiality threshold in this respect and a bank is therefore required to report every breach. The FSRA will treat a failure to report a breach by a bank as a disciplinary matter. Where the FSRA has evidence that an individual who has been approved as fit and proper by the FSRA deliberately withheld the fact of a breach or has communicated the circumstances of a breach with insufficient candour or in a way intended to mislead the FSRA, the FSRA will consider whether that behaviour constitutes grounds for revocation of that individual's approval.

Section 2 – OVERVIEW

2.1	Adequate financial resources and adequate systems and controls are necessary for the effective management of prudential risks. This Directive therefore has requirements relating to both of these topics.
2.2	Under section 9 of the Financial Services Ordinance 2008, it is a threshold condition for the grant and continuing possession of a licence to carry on the business of banking that a bank must have adequate resources in relation to the business that it seeks to, and does, carry on. The resources required under section 9 of the Financial Services Ordinance 2008 include financial resources.

2.3	This Directive amplifies section 9 of the Financial Services Ordinance 2008 in relation to the adequacy of the financial resources that a bank needs to hold in order to be able to meet its liabilities as they fall due. These resources include both capital resources and liquidity resources.
2.4	This Directive also contains rules requiring a bank to: (a) identify and assess risks to its being able to meet its liabilities as they fall due, how it intends to deal with those risks, and the amount and nature of financial resources that the bank considers necessary; and (b) carry out appropriate stress tests and scenario analyses for the risks it has previously identified and to establish the amount of financial resources needed in each of the circumstances and events considered in carrying out the stress tests and scenario analyses.
2.5	This Directive is to be read in conjunction with the FSRA's Directives dealing with the calculation of the amount of capital resources and liquidity resources that a bank must hold, and also with those Directives that deal with risk management matters for banks.

Section 3 – REQUIREMENT TO HAVE ADEQUATE FINANCIAL RESOURCES

3.1	A bank must at all times maintain overall financial resources, including capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.
3.2	3.1 is the Overall Financial Adequacy Rule. The Overall Financial Adequacy Rule is additional to the requirements in the FSRA's Directives dealing with the minimum amounts of capital resources and liquidity resources that a bank must hold. A bank is therefore required to comply with both the Overall Financial Adequacy Rule and with the FSRA's Directives dealing with the mandatory minimum levels of capital resources and liquidity resources.
3.3	The liabilities referred to in the Overall Financial Adequacy Rule include a bank's contingent and prospective liabilities. They exclude liabilities that might arise from transactions that a bank has not entered into and which it could avoid, for example, by ceasing to trade. They do include liabilities or costs that arise as a consequence of strategies other than continuing as a going concern.
3.4	A bank should therefore make its assessment of adequate financial resources on realistic valuation bases for assets and liabilities taking into account the actual amounts and timing of cash flows under realistic adverse projections.
3.5	Risks may be addressed through holding capital to absorb losses that unexpectedly materialise. However, the ability to pay liabilities as they fall due also requires liquidity. Therefore, in assessing the adequacy of a bank's financial resources, both capital and liquidity needs should be considered. A bank should also consider the quality of its financial resources such as the loss-absorbency of different types of capital and the time required to liquidate different types of assets.

3.6	When considering whether it has adequate financial resources to comply with the Overall Financial Adequacy Rule, a bank must take into account its potential liabilities and costs associated with winding-down its business. A bank must therefore ensure that it has adequate financial resources to enable it to carry out a solvent wind-down of its business. To assist a bank in determining whether it has adequate financial resources for that purpose, a bank must establish a solvent wind-down plan for its business and it must ensure that the assumptions made in the plan are reflected in the amount of financial resources that a bank holds for the purpose of meeting the Overall Financial Adequacy Rule.
3.7	A bank must ensure that its solvent wind-down plan is: (a) documented in writing; (b) based on appropriately prudent assumptions; (c) updated annually in light of that bank's current financial position, or more frequently if there are material changes to its business or operating environment; and (d) reviewed by the Board of directors, following the update in (c).

Section 4 – FINANCIAL RESOURCES ADEQUACY RISK ASSESSMENT

4.1	A bank must ensure that it has in place sound, effective and complete processes, strategies and systems: (a) to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources that it considers adequate to cover: (i) the nature and level of the risks to which it is or might be exposed; (ii) the risk in the Overall Financial Adequacy Rule; and (iii) the risk that the bank might not be able to meet its mandatory minimum capital resources and liquidity resources in the future; and (b) that enable it to identify and manage the major sources of risks referred to in (a).
4.2	For the purpose of 4.1, a bank must take into account the major sources of risk in each of the following categories where they are relevant to that bank's business: (a) credit risk; (b) market risk; (c) liquidity risk; (d) operational risk; (e) concentration risk; (f) residual risk; (g) business risk; and (h) interest rate risk.

4.3	Residual risk means the risk that credit risk mitigation techniques used by the bank prove to be less effective than expected. For example, where a bank's exposure to a counterparty is supported by a guarantee, the residual risk refers to the risk that the guarantor might default on the guarantee or that the bank might otherwise encounter difficulties in extracting payment from the guarantor in a timely manner.
4.4	Business risk means any risk to a bank arising from changes in its business, including the risk that the bank may not be able to carry out its business plan and its desired strategy. In a narrow sense, business risk is the risk to a bank that it suffers losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect a bank from its desired strategy and business plan.
4.5	A bank must ensure that the processes, strategies and systems required by 4.1 are proportionate to the nature, scale and complexity of the bank's activities.
4.6	A bank must ensure that the processes and systems that it applies under 4.1 include an assessment of how that bank intends to deal with each of the major sources of risk listed in 4.2 and considered by the bank as relevant to its business.
4.7	A bank must ensure that the assessment required by 4.1 is carried out at least annually and more frequently if there are material changes to the bank's business or operating environment.
4.8	A bank must ensure that it fully implements Section 4 of this Directive no later than 31 December 2025.

Section 5 – STRESS TESTS

5.1	In order to comply with 4.1, a bank must, for each of the major sources of risk identified as applicable in accordance with 4.2, carry out stress tests and scenario analyses that are appropriate to the nature of those major sources of risk, as part of which the bank must: (a) take reasonable steps to identify an appropriate range of realistic adverse circumstances and events in which the risk identified crystallises; and (b) estimate the financial resources the bank would need in each of the circumstances and events considered in order: (i) to be able to meet its liabilities as they fall due; (ii) to be able to meet its mandatory minimum capital resources and liquidity resources; and (iii) otherwise to meet, to the extent that it considers necessary, that major source of risk.
5.2	A bank must ensure that it carries out the stress tests in 5.1 at least annually and more frequently if there are material changes to the bank's business or operating environment. In relation to liquidity risk, a bank must carry out stress tests in accordance with the FSRA Directive on Liquidity Risk Management for Banks rather than this Directive.
5.3	Stress tests and scenario analyses can enable a bank to better understand the vulnerabilities that it faces under adverse conditions. Their primary purpose is as a means of quantifying how much capital might be absorbed or liquidity lost if an adverse event or events occurred. As such they represent a "what if" approach to estimating exposure to risks.

5.4	A bank need only carry out stress tests and scenario analyses in so far as the circumstances or events are reasonably foreseeable; that is to say, their occurrence is not too remote a possibility.
5.5	A bank should conduct stress tests and scenario analyses which project its financial position (both profitability and balance sheet position) so as to estimate the impact on its capital resources and liquidity resources.
5.6	Both stress testing and scenario analyses are forward-looking analysis techniques, which seek to anticipate possible losses that might occur if an identified risk crystallises. In applying them, a bank should decide how far forward to look.
5.7	While the senior management of a bank are ultimately responsible for choosing and designing stress tests and scenario analyses that are appropriate to that bank, every bank that is licensed by the FSRA must ensure that it models at least the situations identified in 5.8 to 5.10.
5.8	The first situation relates to business risk. A bank must assess the impact of the entry into its principal market of a direct competitor. For that purpose, a bank must: (a) assess the impact over a two-year period; (b) assume that it loses 10% of its retail deposits in the first year and a further 20% in the second year; (c) assume that 50% of its projected new loans over the two-year period are instead made by the competitor; and (d) assume that it cuts its transaction fees by 50% from their current level in an effort to compete.
5.9	The second situation relates to credit risk. A bank must assess the impact of a material deterioration in the performance of its loan portfolio. For that purpose, a bank must: (a) assess the impact over a two-year period; (b) assume that it ceases to receive capital and interest payments from 10% of its individual and commercial borrowers in the first year and a further 20% in the second year (in each case incremental to the existing level of defaulted loans); and (c) assume that it is unable, within that two-year period, to liquidate any of the real estate collateral that secures the defaulted commercial loans, and that it is able to liquidate 50% of the real estate collateral that secures the defaulted loans to individuals.
5.10	The third situation relates to interest rate risk. A bank must assess the impact on its business of a material reduction in global interest rates. For that purpose, a bank must: (a) assess the impact over a two-year period; and (b) assume that global interest rates fall by 25% in the first year and a further 25% in the second year.
5.11	Notwithstanding 5.7, the FSRA may from time to time direct any bank licensed by the FSRA to conduct additional stress tests or scenario analyses.
5.12	A bank must ensure that it fully implements Section 5 of this Directive no later than 31 December 2025.

Section 6 – DOCUMENTATION AND RECORD-KEEPING

6.1	A bank must make a written record of the assessments required under this Directive. In particular, it must make a written record of: (a) the major sources of risk identified in accordance with 4.2; (b) how it intends to deal with those risks; and (c) details of the stress tests and scenario analyses carried out and the resulting financial resources estimated to be required in accordance with 5.1.
6.2	A bank must retain the records of its assessments referred to in 6.1 for at least three years.