

# What is the capacity for loss figure? How can these be determined?

Last Modified on 16/06/2017 12:23 pm BST

The 10k Illustration Screen includes boxes to enter the clients Capacity and Tolerance for loss in order to comply with the FCA ruling that an adviser should establish what a client is “willing and able to lose”.

A client’s **tolerance for loss** is what they feel they can lose without causing them undue stress, therefore is not related to their overall situation and should be dictated by the client.

A client’s **capacity for loss** is more of a joint decision and should be based on how much the client is investing compared to their overall wealth. For example if a client had cash and investments (excluding residential property) of £1,000,000 and was investing £10,000 in an ISA it could be argued that they could “afford” to lose all of it and as such their capacity for loss would be 100%, they on the other hand might not want to lose more than £500 and so their tolerance for loss would be 5%.

Once you enter figures into these fields a validation will occur with the minimum gain figure that has been calculated either by selection of the ATR level (asset allocation journey) or the fund/portfolio selected (fund based journey) to show whether the selected strategy is within both the client’s capacity and tolerance for loss or not.

It is possible to enter these figures as both a percentage value or as a monetary value. If you enter as a monetary value then it should be a value based on if you were investing £10,000 and not what is actually being invested. This is so that it is consistent with the rest of the monetary values on the 10k screen which assume an investment of £10,000.

These figures will follow through to the report.

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