

Bank of England

Prudential Regulation Authority

Supplementary information for applications to use ancillary own fund items

Firm name

Firm reference number

Date of application

Address

The information below should be submitted by firms to allow the PRA to consider an application for Ancillary Own Funds (AOF). Firms should submit this information with the Solvency II approval application form to S2submissions@bankofengland.co.uk.

A. General requirements

| 1. | The application is in writing in one of the official languages of the European Union. | Y/N |
|----|---|-----|
| 2. | The application consists of a covering letter and all supporting evidence, including documents and other evidence which may already be held by the PRA. | Y/N |
| 3. | The application has been approved by the Board. | Y/N |

B. Cover letter

| Does the cover letter confirm that: | | |
|-------------------------------------|--|-----|
| 4. | Any legal or contractual terms governing the AOF or any connected arrangement are unambiguous and clearly defined. | Y/N |
| 5. | The amount ascribed to the AOF in the application complies with the | Y/N |

| | | |
|----|---|-----|
| | Solvency II Directive Article 90(2). | |
| 6. | The economic substance of the AOF, including how the item provides basic own funds once called up, has been fully reflected in the application. | Y/N |
| 7. | Taking into account likely future developments, as well as the circumstances at the date of the application, the firm considers that the AOF complies with the criteria for the classification of own funds. | Y/N |
| 8. | No facts have been omitted which if known by the PRA could influence its decision regarding whether to approve the AOF, the amount for which approval of the AOF would be granted, or the time period for which approval of a calculation method would apply. | Y/N |

C. Application detail

| Method or amount | | |
|------------------|---|---|
| 9. | Is the application for approval of a specific monetary amount or a method to determine the amount of an AOF? | Amount (provide information 10a) Method (provide information 10b to f) |
| | | Cross reference to document(s) |
| 10a. | State the amount being applied for, and explain why that particular amount has been selected. | |
| 10b. | Explain the method and how it reflects the loss-absorbency of the AOF. | |
| 10c. | Describe the assumptions upon which the method relies and how these assumptions are prudent and realistic. | |
| 10d. | Provide a calculation of the initial amount that has been calculated in accordance with the method. | |
| 10e. | Provide a justification of why that initial amount is prudent and realistic. | |
| 10f. | Explain how the firm intends to ensure that the method calculation continues to reflect the loss absorbing capacity of the AOF going forward. | |

| The AOF contract and its place in the capital structure of the applicant | | Cross reference to document(s) |
|---|---|---------------------------------------|
| The firm should provide: | | |
| 11. | A description of the nature of the AOF item, including the intended tier. | |
| 12. | A description of the basic own fund item (BOF) into which it AOF converts on call, including the intended tier. | |
| 13. | Confirmation that the BOF item has all the required features of its intended tier. | |
| 14. | A copy of the contract. | |
| 15. | Evidence that the contract has been entered into or, if it will only be signed upon receipt of AOF approval, the date by which the firm will sign the contract. | |
| 16. | A legal opinion (by a suitable qualified person) that the contract and any connected arrangements are legally binding and enforceable in all relevant jurisdictions of the parties to the contract. | |
| 17. | Details of the period during which the AOF contract is in effect and, if different, the period during which the firm can call the item. | |
| 18. | Confirmation that the contract terms do not contain any provision which might create a disincentive to call the item, or place any constraint on its ability to call the AOF on demand. | |
| 19. | Confirmation that the AOF, or its benefits, would only be available to the firm and are not transferrable or assignable to any other party, or able to be encumbered in any other way. | |
| 20. | Details of any factors which might restrict the conditions under which the firm might seek to call the AOF, including but not limited to conditions of stress specific to the firm or wider market stress. | |
| 21. | Except to the extent that the AOF upon call become a capital instrument with a maturity date, explain whether the firm has (or in the future may have) any obligation to (or any expectation or understanding that it will pay funds or provide any other benefit to) the counterparty or to a third party, in connection with the AOF. | |
| 22. | A description of the range of circumstances in when the firm might seek to call the AOF, including current expectations as to when the item might be called prior to or at the point of non-compliance with the solvency capital requirement or minimum capital requirement. | |
| 23. | A copy of the medium term capital management plan showing how | |

| | | |
|--|---|--|
| | the item will contribute to the firm's capital structure. | |
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| The status of counterparties | | Cross reference to document(s) |
|--|---|---------------------------------------|
| For each individual counterparty (except where Article 63(1) of the Delegated Act allows that the status of a group of counterparties may be assessed as though it were a single counterparty) ¹ the firm should provide: | | |
| 24. | The name and description of each counterparty including the nature of any relationship between the firm and counterparty. | |
| 25. | An assessment of the risk of default of the counterparty. | |
| 26. | An assessment of the liquidity position of the counterparty. | |
| 27. | An assessment of the counterparty's willingness to pay the AOF if called. | |
| 28. | Any other information the firm considers relevant to the PRA's assessment of the status of the counterparty. | |

| For counterparties treated as a single group under Article 63(1) of the Delegated Act, the firm should provide: | | Cross reference to document(s) |
|---|--|---------------------------------------|
| 29. | An assessment of the risk of default of the group of counterparties. | |
| 30. | An assessment of the liquidity position of the group of counterparties. | |
| 31. | An assessment of the counterparties' willingness to pay the AOF if called. | |
| 32. | Any other information the firm considers relevant to the PRA's assessment of the status of the counterparties. | |

| Recoverability of funds | | Cross reference to document(s) |
|---|--|---------------------------------------|
| The firm should provide information on: | | |
| 34. | Arrangements (such as collateral) which might enhance the recoverability of the AOF on call. | |
| 35. | Any national law, in relevant jurisdictions of the counterparties, which may prevent a call being made or satisfied, including in the event of resolution, administration or insolvency proceedings of the AOF applicant firm. | |
| 36. | Any other arrangement or circumstances the firm is aware of which might prevent a call being made or satisfied in deteriorating financial conditions. | |

¹ If firms wish the status of a group of counterparties to be assessed as though it were a single counterparty they should discuss this with their supervisor and obtain agreement prior to submitting their AOF approval application.

| Information on past calls | | Cross reference to document(s) |
|----------------------------------|--|---------------------------------------|
| The firm should provide: | | |
| 37. | Information on its experience of past calls or the collection of other funds due from the same or similar counterparties. | |
| 38. | Any other available market data relating to past calls or the collection of other funds due from the same or similar counterparties. | |
| 39. | Its assessment of how relevant and reliable these two sources are as an indication of likely outcome of future calls. | |

| Process to identify future changes to loss-absorbency of AOF | | Cross reference to document(s) |
|--|--|---------------------------------------|
| The firm should provide a description of its processes to identify any future changes which may reduce the loss-absorbency of the AOF, including but not limited to: | | |
| 40. | Changes to the structure or contractual terms of the AOF, including: <ul style="list-style-type: none"> ○ the cancellation or expiry of the AOF contract ○ the use or call (partly or wholly) of the AOF | |
| 41. | Changes to the status of counterparties, including the default of a counterparty. | |
| 42. | Changes in the recoverability of the AOF, including as a result of calls on other AOF provided by the same counterparties. | |
| 43. | How it will identify which changes should be reported to the Board and the PRA immediately. | |