

Bank of England PRA

Appendices to CP4/26 – UK Solvency II Own Funds: Updates and fixes to rules and expectations

Consultation paper | CP4/26

February 2026

Draft for consultation



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1: PRA Rulebook: Solvency II Firms: Own Funds Draft Rule Instrument

PRA RULEBOOK: SOLVENCY II FIRMS: OWN FUNDS INSTRUMENT [2026]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: Solvency II Firms: Own Funds Instrument [2026]

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Own Funds	A
Reporting	B
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Glossary	D
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Templates, Annexes and instruction documents

- D. The rules in this Instrument include any template, Annex or instruction document referred to in the rules. Where indicated by “here”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- E. The rules in Annexes A, B and C come into force on [dd/mm/yy].
- F. The rules in Annexes D, E, F, G and H come into force on [dd/mm/yy].

Citation

G. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Own Funds Instrument [2026].

By order of the Prudential Regulation Committee

[DATE]

Draft for consultation

Annex A

Amendments to the Own Funds Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

restricted Tier 1 own funds

means the items referred to in 3A.1.1(c), 3A.1.1(e), 3A.1.1(ea) and 3A.1(2).

...

...

3A TIER 1 – LIST OF OWN FUNDS ITEMS

3A.1 The following *basic own funds* items shall be deemed to substantially possess the characteristics set out in 3.5, taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 1 own funds*, where the following items display all of the features set out in 3B:

(1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:

...

(e) paid-in *preference shares* and the related share premium account; ~~and~~

(ea) paid-in subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities; and

...

...

3B TIER 1 – FEATURES DETERMINING CLASSIFICATION

3B.1 The features referred to in 3A are the following:

...

(8) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), is only repayable or redeemable at the option of the *firm* and provides that the repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;

(9) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), does not include any incentives to repay or redeem that item that increase the likelihood that a *firm* will repay or redeem that *basic own funds* item where it has the option to do so;

(10) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2), provides for the suspension of repayment or redemption of that

item where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:

- (a) the *firm* complies with the *SCR*; and
- (b) the repayment or redemption would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3B.1(11);

...

- (14) the *basic own funds* item, in the case of items referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), ~~3A.1(1)(ea)~~, and 3A.1(2), provides the *firm* with full flexibility over the distributions on the *basic own funds* item in accordance with the conditions set out in 3B.3 or 3B.4; and

...

...

3B.14 A *firm* must not:

- (1) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), ~~3A.1(1)(ea)~~, and 3A.1(2).
- (2) redeem or repay a *basic own funds* item referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), ~~3A.1(1)(ea)~~, and 3A.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3B.1(10);

...

unless, in each case, it has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

...

3C RECONCILIATION RESERVE

3C.1 The reconciliation reserve referred to in 3A.1(1)(f) equals the total excess of assets over liabilities reduced by all of the following:

...

- (3) the *basic own funds* items included in 3A.1(1)(a) to ~~(e)(ea)~~, 3D1(1) and 3F1(1);
- (4) any *basic own funds* item not included in 3A.1(1)(a) to ~~(e)(ea)~~, 3D.1(1) 3F.1(1), in respect of which a *firm* has a *classification of own funds permission*;

...

...

3D TIER 2 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS

3D.1 The following *basic own funds* items shall be deemed to substantially possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 2 own funds* where the following items display all of the features set out in 3E:

- (1) the part of excess of assets over liabilities, valued in accordance with 2 of the Valuation Part and Technical Provisions Part, comprising the following items:

...

- (e) subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities;

...

3E TIER 2 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

3E.1 The features referred to in 3D must be either those set out in 3E.1(1) to (10) or those set out in 3E.1(11):

...

(8) the *basic own funds* item meets one of the following criteria:

...

(b) in the case of items referred to in 3D.1(1)(c), 3D.1(1)(d), 3D.1(1)(e), and 3D.1(2), the terms of the contractual arrangement governing the *basic own funds* item provide for the distributions in relation to that item to be deferred where there is non-compliance with the *SCR* or the distribution would lead to such non-compliance until:

(i) the *firm* complies with the *SCR*; and

(ii) the distribution would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3E.1(9);

...

...

3F TIER 3 BASIC OWN FUNDS – LIST OF OWN FUNDS ITEMS

3F.1 The following *basic own funds* items shall be deemed to possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must classify them as *Tier 3 own funds* where the following items display all of the features set out in 3G:

(1) the part of excess of assets over liabilities, valued in accordance with the Valuation Part, comprising the following items:

(a) subordinated *mutual* member accounts;

(b) *preference shares* and the related share premium account; ~~and~~

(c) an amount equal to the value of net deferred tax assets; and

(d) subordinated liabilities, other than those recognised as liabilities in determining the excess of assets over liabilities.

...

3G TIER 3 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

3G.1 The features referred to in 3F are the following:

(1) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), ranks after the claims of all *policyholders* and non-subordinated creditors;

...

(3) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), is undated or has an original maturity of at least five years, where the maturity date is the first contractual opportunity to repay or redeem the *basic own funds* item;

(4) the *basic own funds* item, in the case of items referred to in points 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), is only repayable or redeemable at the option of the *firm* and provides that the repayment or redemption of the *basic own funds* item is subject to the *firm* receiving prior permission from the *PRA*;

(5) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), may include limited incentives to repay or redeem that *basic own funds* item;

(6) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), provides for the suspension of repayment or redemption where there is non-compliance with the *SCR* or repayment or redemption would lead to such non-compliance until:

(a) the *firm* complies with the *SCR*; and

(b) the repayment or redemption would not lead to non-compliance with the *SCR*, other than in the circumstances set out in 3G.1(7);

...

(8) the *basic own funds* item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2), provides for the deferral of distributions in relation to that item where there is non-compliance with the *MCR* or the distribution would lead to such non-compliance until:

(a) the *firm* complies with the *MCR*; and

(b) the distribution would not lead to non-compliance with the *MCR*; and

...

...

3G.6 A *firm* must not:

(1) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2);

(2) redeem or repay any *basic own funds* items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3G.1(6); or

...

unless, in each case, it has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

...

Annex B

Amendments to the Reporting Part

In this Annex new text is underlined and deleted text is struck through.

...

9 REPORTING AND DISCLOSURE TEMPLATES

...

9.5 The following IR.02.01 templates can be found ~~here~~here:

...

...

10 REPORTING AND DISCLOSURE TEMPLATES DATA ITEM INSTRUCTIONS

...

10.5 Section IR.02.01 instructions can be found ~~here~~here.

...

10.48 Section IR.23.01 instructions can be found ~~here~~here.

10.49 Section IR.23.02 instructions can be found ~~here~~here.

10.50 Section IR.23.03 instructions can be found ~~here~~here.

10.51 Section IR.23.04 instructions can be found ~~here~~here.

...

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Annex C

Amendments to the Group Supervision Part

In this Annex new text is underlined and deleted text is struck through.

...

10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

...

10.3

...

- (3) In cases where an *intermediate holding company* holds subordinated ~~debt liabilities~~ or other *eligible own funds* subject to limitation in accordance with Own Funds 4 and 4A, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in Own Funds 4 and 4A to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.

...

14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

...

- 14.2 For the purposes of applying the provisions set out in 14.1, where the parent *insurance holding company* or *mixed financial holding company* has issued subordinated ~~debt liabilities~~ or has other *eligible own funds* subject to the limits set out in Own Funds 4 and 4A, Group Supervision 10.3 shall apply.

...

Annex D

Amendments to the Glossary

In this Annex new text is underlined and deleted text is struck through.

...

ancillary own funds

(1) (in relation to a *UK Solvency II firm* and Lloyd's) has the meaning given in Own Funds 2.3 and are determined in accordance with Own Funds 2.3 to 2.7; or

(2) (in relation to an *insurance holding company*) means an *own funds* item referred to in Own Funds 2.3 ~~and 2.4~~, determined in accordance with ~~(1)~~ Own Funds 2.3 to 2.7 as if ~~the~~ the *insurance holding company* were a *UK Solvency II firm*.

...

...

basic own funds

(in the Solvency II Firms Sector of the *PRA Rulebook*):

(1) (in relation to a *UK Solvency II firm* and Lloyd's), has the meaning given in Own Funds 2.2; or

(2) (in relation to an *insurance holding company*) means an *own funds* item referred to in Own Funds 2.2, determined ~~in accordance with (1)~~ as if ~~the~~ the *insurance holding company* were a *UK Solvency II firm*.

...

...

eligible own funds

means:

...

(3) as to compliance by a *composite firm* with the *notional life MCR*, the aggregate of the *firm's*:

(a) *Tier 1 own funds*; and

(b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4.2, ~~4A.2~~ and 4A.3, as if references to the *MCR* in those provisions were references to the *notional life MCR*; and

(4) as to compliance by a *composite firm* with the *notional non-life MCR*, the aggregate of the *firm's*:

(a) *Tier 1 own funds*; and

(b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4.2, ~~4A.2~~ and 4A.3, as if references to the *MCR* in those provisions were references to the *notional non-life MCR*.

...

eligible Tier 2 own funds

means;

(1) as to compliance with a *UK Solvency II firm's SCR*, the *UK Solvency II firm's Tier 2 own funds* that satisfy the limits set out in Own Funds 4.1(1), ~~4A.1(1)~~, 4A.1(3) and 4A.3; and

(2) as to compliance with a *UK Solvency II firm's MCR*, the *firm's Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2, 4A.2 and 4A.3.

eligible Tier 3 own funds

means, as to compliance with a *UK Solvency II firm's SCR*, the *firm's Tier 3 own funds* that satisfy the limits set out in Own Funds 4.4(2) and 4A.1(2).

...

own funds

(in the Solvency II Firms Sector of the *PRA Rulebook*) means:

(1) (in relation to a *UK Solvency II firm* and Lloyd's) the *firm's aggregate basic own funds* and *ancillary own funds* as determined in accordance with the Own Funds Part of the *PRA Rulebook*; or

(2) (in relation to an *insurance holding company*) ~~own funds~~ the insurance holding company's aggregate basic own funds and ancillary own funds determined in accordance with ~~(1) the Own Funds Part~~ as if ~~the insurance holding company~~ were a *UK Solvency II firm*.

...

...

restricted own funds

means ~~own funds items~~ that have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of transferability within the *firm* for any of the following reasons:

(1) ~~the items they~~ can only be used to cover losses on a defined portion of the *firm's contracts of insurance*;

(2) ~~the items they~~ can only be used to cover losses in respect of certain *policyholders*; or

(3) ~~the items they~~ can only be used to cover losses arising from particular risks or liabilities;

but does not include the value of future transfers attributable to shareholders.

...

Tier 1 own funds

means an item of *basic own funds* that:

(1) satisfies the conditions in Own Funds 3.1, 3A and 3B.1 to 3B.13; or

(2) satisfies the conditions in Own funds 3.1 and in respect of which the *firm* has a *classification of own funds permission*.

...

Tier 2 own funds

means an item of *own funds* that ~~satisfies the conditions in:~~

(1) satisfies the conditions in:

(a) Own Funds 3.2(1), Own Funds 3D and 3E.1 to 3E.5; or

~~(2) (b) Own Funds 3.2(2), Own Funds 3H and 3I; or~~

(2) satisfies the conditions in Own funds 3.2(1) and in respect of which the *firm* has a *classification of own funds permission*.

Tier 3 own funds

means an item of *own funds* referred to in Own Funds 3.3 that ~~satisfies the conditions in either:~~

(1) satisfies the conditions in:

(a) Own Funds 3F and 3G.1 to 3G.5; or

~~(2)~~ (b) Own Funds 3J; or

(2) in respect of which the *firm* has a *classification of own funds permission*.

...

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Annex E

Amendments to the Own Funds Part

The baseline for the draft rules in this Annex assumes the rules proposed in Annex A will have been made.

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

Additional Tier 1 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in ~~Chapter 3 and Chapter 6 of Part Two of CRR~~ Chapter 3 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

Common Equity Tier 1 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in ~~Chapter 2 and Chapter 6 of Part Two of CRR~~ Chapter 2 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

...

Tier 2 instrument

means capital instruments which meet all of the applicable conditions and requirements set out in ~~Chapter 4 and Chapter 6 of Part Two of CRR~~ Chapter 4 and Chapter 6 of Title 1 of Chapter 3 (Own Funds (Part Two CRR)) of the Own Funds (CRR) Part.

...

3B TIER 1 – FEATURES DETERMINING CLASSIFICATION

3B.1 The features referred to in 3A are the following:

...

(6) the *basic own funds* item meets one of the following criteria:

...

(b) in the case of *restricted Tier 1 own funds* items, the item is undated ~~or~~ and the first contractual opportunity to repay or redeem the *basic own funds* item does not occur before five years from the date of issuance;

...

3B.2 For the purposes of 3B, the exchange or conversion of a *Tier 1 own funds* ~~*basic own funds*~~ item into another *Tier 1 own funds* item or the repayment or redemption of a *Tier 1 own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to the firm receiving prior permission from the PRA.

...

3B.14 A *firm* must not:

- (1) redeem or repay a ~~Tier 1 own funds~~basic own funds item ~~other than those referred to in 3A.1(1)(d) and 3A.1(1)(f)~~3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2);
- (2) redeem or repay a ~~Tier 1 own funds~~basic own funds item ~~referred to in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(c), 3A.1(1)(e), 3A.1(1)(ea), and 3A.1(2)~~ when redemption or repayment has been suspended in the circumstances referred to in 3B.1(10);
- (3) make a distribution under a ~~Tier 1 own funds~~basic own funds item in the circumstances referred to in 3B.1(12); or
- (4) redeem or repay a ~~Tier 1 own funds~~basic own funds item in the circumstances set out in 3B.13, unless, in each case, it has received prior permission from the PRA pursuant to section 138BA of FSMA.

3B.15 For the purposes of 3B, a *firm* may only:

...

- (2) repay or redeem a Tier 1 own funds item out of the proceeds of a new *basic own funds* item of at least the same quality,

without it being deemed as a repayment or redemption, if the *firm* has received prior permission from the PRA pursuant to section 138BA of FSMA for the exchange, conversion, repayment or redemption (as applicable).

...

3C RECONCILIATION RESERVE

3C.1 The reconciliation reserve referred to in 3A.1(1)(f) equals the total excess of assets over liabilities reduced by all of the following:

...

- (4) any *basic own funds* item ~~not included in 3A.1(1)(a) to (ea), 3D.1(1) 3F.1(1),~~ in respect of which a *firm* has a classification of own funds permission, other than those recognised as liabilities in determining the excess of assets over liabilities;
- (5) ~~the restricted own funds items that meet one of the following requirements:~~
 - (a) to the extent that they exceed the notional SCR in the case of matching adjustment portfolios and ring-fenced funds determined in accordance with 3L.1; or
 - (b) that are excluded in accordance with 3L.2; and

...

...

3E TIER 2 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

3E.1 The features referred to in 3D must be either those set out in 3E.1(1) to (10) or those set out in 3E.1(11):

...

- (3) the *basic own funds* item is undated or has an original maturity of at least 10 years, ~~or~~ and the first contractual opportunity to repay or redeem the *basic own funds* item does not occur before five years from the date of issuance;

...

3E.2 For the purposes of 3E, the exchange or conversion of a ~~Tier 2 basic own funds~~basic own funds item into another *Tier 1 own funds* item or *Tier 2 basic own funds* item or the repayment or redemption of a *Tier 2 basic own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will

not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to the firm receiving prior permission from the *PRA*.

...

3E.7 For the purposes of 3E, a *firm* may only:

- (1) exchange or convert a Tier 2 basic own funds~~basic own funds~~ item into another *Tier 1 own funds* item or *Tier 2 basic own funds* item; or

...

without it being deemed as a repayment or redemption, if the *firm* has received prior permission from the *PRA* pursuant to section 138BA of *FSMA* for the exchange, conversion, repayment or redemption (as applicable).

...

3G TIER 3 BASIC OWN FUNDS – FEATURES DETERMINING CLASSIFICATION

...

3G.2 For the purposes of 3G, the exchange or conversion of a Tier 3 basic own funds item into another *Tier 1 own funds* item, *Tier 2 basic own funds* item or *Tier 3 basic own funds* item or the repayment or redemption of a *Tier 3 basic own funds* item out of the proceeds of a new *basic own funds* item of at least the same quality will not be deemed to be a repayment or redemption, provided that the exchange, conversion, repayment or redemption is subject to the firm receiving prior permission from the *PRA*.

...

3G.6 A *firm* must not:

- (1) redeem or repay any Tier 3 basic own funds items other than those referred to in 3F.1(1)(c), 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2);
- (2) redeem or repay any Tier 3 basic own funds items referred to in 3F.1(1)(a), 3F.1(1)(b), 3F.1(1)(d), and 3F.1(2) when redemption or repayment has been suspended in the circumstances referred to in 3G.1(6); or
- (3) redeem or repay a Tier 3 basic own funds item in the circumstances set out in 3G.5, unless, in each case, it has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

3G.7 For the purposes of 3G, a *firm* may only:

- (1) exchange or convert a Tier 3 basic own funds item into another *Tier 1 own funds* item, *Tier 2 basic own funds* item or *Tier 3 basic own funds* item; or

...

without it being deemed as a repayment or redemption, if the *firm* has received prior permission from the *PRA* pursuant to section 138BA of *FSMA* for the exchange, conversion, repayment or redemption (as applicable).

...

3H TIER 2 ANCILLARY OWN FUNDS – LIST OF OWN FUNDS ITEMS

3H.1 The following *ancillary own funds* items shall be deemed to substantially possess the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6, and a *firm* must, provided it has received an *ancillary own funds permission* in respect of any of the following items of *ancillary own funds* items, classify them as ~~Tier 2 own funds~~ Tier 2 ancillary own funds, where they display all of the features set out in 3I:

...

...

3K TREATMENT OF PARTICIPATIONS IN THE DETERMINATION OF BASIC OWN FUNDS

...

3K.6 *Participations* in financial and credit institutions ~~must~~ comprise the following:

...

- (2) subordinated claims and instruments referred to in Articles 61 to 63 of ~~CRR~~ the Own Funds (CRR) Part which a *firm* holds in respect of the entities defined in 3K.6(1) in which it holds a *participation*.

3L ADJUSTMENT FOR RING-FENCED FUNDS AND MATCHING ADJUSTMENT PORTFOLIOS

3L.1 ~~Subject to 3L.2, f~~For the purposes of 3C.1(5)(a): ~~calculating the reconciliation reserve, a firm must reduce the excess of assets over liabilities referred to in 3C by the amount of restricted own funds items within a ring-fenced fund or matching adjustment portfolio in excess of the notional SCR of the ring-fenced fund or matching adjustment portfolio.~~

(a) Where the firm calculates the SCR using the standard formula, it must calculate the notional SCR of a ring-fenced fund or matching adjustment portfolio in accordance with Solvency Capital Requirement – Standard Formula 9.1.

(b) Where the firm calculates the SCR using an internal model, it must calculate the notional SCR of a ring-fenced fund or matching adjustment portfolio using that internal model, as if the firm pursued only the business included in the ring-fenced fund or matching adjustment portfolio.

3L.2 ~~For the purposes of 3C.1(5)(b), w~~Where the assets, ~~the~~ liabilities and ~~the~~ risk within a *ring-fenced fund* are not material, a *firm* may exclude the total amount of restricted own funds from the excess of assets over liabilities in the calculation of ~~reduce the reconciliation reserve by the total amount of restricted own funds items.~~

4 ELIGIBILITY AND LIMITS APPLICABLE TO TIERS [DELETED]

4.1 ~~As far as compliance with its SCR is concerned at least the following conditions must be met:~~

(1) ~~more than one third of the total amount of the firm's eligible own funds is accounted for by Tier 1 own funds; and~~

(2) ~~less than one third of the firm's eligible own funds is accounted for by Tier 3 own funds.~~ [Deleted]

~~[Note: Art. 98(1) of the Solvency II Directive]~~

4.2 ~~As far as compliance with its MCR is concerned, as a minimum more than 50% of the firm's eligible own funds must be accounted for by Tier 1 own funds.~~ [Deleted]

~~[Note: Art. 98(2) of the Solvency II Directive]~~

4A ELIGIBILITY AND LIMITS APPLICABLE TO TIERS 1, 2 AND 3

...

4A.2 As far as compliance with the *MCR* is concerned, a *firm* must ensure that:

...

- (2) ~~Tier 2 own funds~~ Tier 2 basic own funds items do not account for more than 20% of the *MCR*.

...

5 NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS

5.1 This Chapter does not apply in respect of the following:

...

- (2) any item ~~which a *firm*~~ in respect of which a *firm* would need to receive an *ancillary own funds permission*.

...

Draft for consultation

Annex F

Amendments to the Reporting Part

In this Annex new text is underlined and deleted text is struck through.

...

3 PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT

...

3.5A

For the purposes of 3.3(5)(a), the *SFCR* must include the following information regarding the *own funds* of the *firm*:

...

(9) information regarding deferred taxes that shall contain as a minimum all of the following:

...

(c) with regard to net deferred taxes assets calculated as the difference between the amount of deferred tax assets which has been recognised and the amount of deferred tax liabilities, all of the following information:

...

(ii) a description of the amount of those net deferred tax assets that are recognised as *eligible own funds*, applying the eligibility limits set out in Own Funds 4 ~~and~~ 4A; and

...

...

Draft for consultation

Annex G

Amendments to the Group Supervision Part

The baseline for the draft rules in this Annex assumes the rules proposed in Annex C will have been made.

In this Annex new text is underlined and deleted text is struck through.

...

10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

...

10.3

...

- (3) In cases where an *intermediate holding company* holds subordinated liabilities or other *eligible own funds* subject to limitation in accordance with Own Funds 4 and 4A, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in Own Funds 4 and 4A to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.

...

14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

...

- 14.2 For the purposes of applying the provisions set out in 14.1, where the parent *insurance holding company* or *mixed financial holding company* has issued subordinated liabilities or has other *eligible own funds* subject to the limits set out in Own Funds 4 and 4A, Group Supervision 10.3 shall apply.

...

Annex H

Amendments to the Solvency Capital Requirement: Standard Formula

In this Annex new text is underlined and deleted text is struck through.

...

2 STRUCTURE OF THE SCR STANDARD FORMULA

...

- 2.2 Notwithstanding 2.1, a *firm* with a *ring-fenced fund* (other than a *ring-fenced fund* in respect of which the ~~reconciliation reserve has been reduced by the total amount of restricted own funds~~ has been excluded from the excess of assets over liabilities in the calculation of the reconciliation reserve items in accordance with Own Funds 3L.2) or *matching adjustment portfolio* must make an adjustment to the calculation of its *SCR* following the method set out in 9.

...

Draft for consultation

2: Draft amendments to SS2/15 – Solvency II: own funds

1. Introduction

...

1.3 Firms should read this statement alongside the Own Funds Part of the PRA Rulebook and related policy materials. In particular, among other relevant provisions:

(a) Chapter 3 of the PRA’s statement of policy ‘Solvency II: The PRA’s approach to insurance own funds permissions’^{A.1} (Own Funds SoP) sets out the PRA’s approach to applications for Ancillary Own Funds permissions;

(b) Own Funds 3C and 3L set out the adjustments that must be made to own funds to reflect the lack of transferability of ring-fenced funds that can only be used to cover losses arising from a particular segment of liabilities or from particular risks;

(c) Own Funds 3A-3J set out a list of own funds items and the criteria for classifying them as Tier 1 own funds, Tier 2 own funds or Tier 3 own funds.

(d) ~~For the purposes of Own Funds 4,~~ Own Funds 4A sets out the applicable limits regarding the proportion of Tier 1 own funds, Tier 2 own funds and Tier 3 own funds which can be included in a firm’s eligible own funds to cover the firm’s solvency capital requirement (SCR) and minimum capital requirement (MCR).

(e) For the purposes of Own Funds 3.1, in connection with the classification of an item as ordinary share capital in Tier 1 own funds, a firm must assess whether that item of basic own funds satisfies the conditions in 3A and 3B.1–3B.13. For example, a firm must assess whether the item ranks after all other claims including other classes of share capital in the event the firm is wound up.

A.1 <https://www.bankofengland.co.uk/prudential-regulation/publication/2024/november/solvency-ii-approach-to-insurance-own-funds-permission-sop>

(f) Own Funds 2 provides the requirements for determination of own funds, including the determination of items for which firms may be able to request an ancillary own funds permission.

...

2. Ancillary own funds

2.A1 Firms should refer to the supplementary information form for AOF permissions^{A.2} and consider its relationship with these expectations when preparing their applications.

...

2.4 Group Supervision 10.3 permits a group to apply for an ancillary own funds permission in respect of an intermediate insurance holding company or an intermediate mixed financial holding company. In such cases, the expectations in this chapter apply as though the intermediate insurance holding company or the intermediate mixed financial holding company were an insurance or reinsurance undertaking. This also applies where a group is headed by an insurance holding company or a mixed financial holding company in accordance with Group Supervision 14.1.

Ancillary own funds items which, once called, would require a classification of own funds permission

2.5 If an ancillary own funds item once called up would take the form of a basic own funds item not on the lists set out in Own Funds 3A, 3D, or 3F, firms should seek a classification of own funds permission for that item, as provided for in Own Funds 3.4(2), prior to submitting an application for an ancillary own funds permission.

2.6 While this classification of own funds permission is a pre-requisite for the ancillary own funds permission, the PRA may choose for efficiency reasons to assess the two applications concurrently and grant both permissions at the same time, depending on the nature and the structure of the item.

Entering into the contract for an ancillary own funds item

2.7 Where permission has been granted on the condition that the contract is entered into, in accordance with paragraph 3.47 of SoP10/24 – 'Solvency II: The PRA's approach to insurance own funds permissions', firms should formally conclude the contract no later than

A.2 Insurance rule permissions and notifications.

15 working days after the approval has been granted, unless the firm has agreed a longer time period in advance in writing with the PRA.

Callable on demand

2.8 For the items described in points (1), (2), (3), (4), (6) and (9) of Own Funds 3H.1 to be callable on demand, firms should ensure that the call is not:

(a) contingent on the occurrence of an event or criteria being met;

(b) subject to the agreement of the counterparty or any third party;

(c) subject to any agreement, arrangement or incentive that means that the firm is not permitted or is not likely to call up the item; or

(d) subject to any other arrangement or combination of arrangements which has the same effect as points (a) to (c).

2.9 With regard to the assessment of applications for ancillary own funds permissions reflecting future claims by a mutual or mutual-type association with variable contributions, the PRA expects there should be no impediments to the claims being used to cover losses when they arise, and to the amounts being recovered in a timely manner.

Classification of ancillary own funds items

2.10 Firms should ensure that where an ancillary own funds item, when called up, results in the receipt of cash or other assets, that basic own funds item is only treated as a contribution where it does not give rise to a corresponding capital instrument or liability, whether contingent or not, of the firm.

2.11 Firms should treat items as contributions:

(a) when they are in the form of an unconditional gift, or donation of own funds;

(b) whether they are from a parent undertaking, or any other party, or in the form of supplementary contributions from members of mutual or mutual-type firms;

(c) regardless of the treatment of the item for accounting purposes, as contributing to profit or loss or contributing directly to reserves.

2.12 Since the balance sheet treatment of contributions which satisfy the necessary features and characteristics used to classify own funds into tiers is an increase in the firm's assets with a corresponding increase in the reconciliation reserve, and since the contribution does

not give rise to any capital instrument or liability or any other basic own funds item, firms should classify the item as Tier 2 ancillary own funds.

2.13 Firms should classify contractual arrangements which, when called up meet the firm's liabilities by indemnifying third-parties, in the same manner as contributions if they:

(a) generate an asset for a third-party creditor of the firm; and

(b) do not create corresponding liabilities for the firm.

2.14 Firms should treat contracts of indemnity, which oblige a third-party indemnifier to pay sums to the firm's creditor without obliging the firm to repay such sums to the indemnifier, as ancillary own funds items, subject to receiving an ancillary own funds permission.

2.15 Where ancillary own funds items, when called up, do not become capital instruments, contributions or arrangements, but which meet a firm's liabilities, these will be classified based on the features of whatever the ancillary own funds item delivers when called up.

Draft for consultation

3: Draft amendments to SS3/15 – Solvency II: the quality of capital instruments

1. Introduction

...

1.2 This supervisory statement covers the following topics:

- liability management and capital reduction;
- principal loss-absorbency mechanism for Tier 1 instruments subject to limitation ('restricted Tier 1');
- external rT1 instruments which write down on trigger; and
- additional considerations for instruments intended to contribute to group own funds; and
- classification of own funds.

1.2A Firms should consider these expectations when designing and classifying their capital instruments and the PRA expects this to be reflected in firms' submissions of pre-issuance notifications as set out in the Own Funds Part of the PRA Rulebook.

...

3. Liability management and capital reduction

...

Refinancing through concurrent tender offer and new issuance transactions

3.3 The PRA has observed that some firms are refinancing their own funds through tender offers run concurrently with new issuances. PRA rules require firms to seek prior permission from the PRA where undertaking such transactions.^{1a} Such permissions are granted under

^{1a} Own Funds 3B.15(2), 3E.7(2) or 3G.7(2) where repaying or redeeming Tier 1, Tier 2, or Tier 3 own funds

section 138BA of the Financial Services and Markets Act 2000 (FSMA). In addition, firms must satisfy Pre-Issuance Notification requirements for the new issuance.^{1b}

3.4 The PRA has set out its approach to assessing applications for prior permission to repay or redeem an own funds item out of the proceeds of a new basic own funds item of at least the same quality in Chapter 2 of statement of policy (SoP) 10/24 – **Solvency II: The PRA's approach to insurance own funds permissions**.^{1c} When assessing applications for these concurrent transactions in accordance with Chapter 2 of SoP10/24, the PRA does not expect to provide permission for the redemption until the proceeds of the new issuance have been received. In cases where redemption or repayment must be made out of those proceeds in order to comply with regulatory requirements, the PRA would not provide permission until the proceeds of the new issuance are received. In communicating such transactions to investors, firms are expected to make clear that any settlement of the tender offer will be capped at the value of the proceeds of the new issuance.

3.5 The PRA recognises that firms undertaking such transactions value an indication regarding the likely outcome of its decision to permit redemption ahead of announcing capped tender offers. Therefore, provided the tender offer is capped at the amount of the new issuance and settlement is made solely from the proceeds of the new issuance, and subject to consideration of the criteria in Chapter 2 of SoP10/24, the PRA expects to be able to notify firms that it is “minded to permit” the redemption prior to commencement of the transaction. The PRA does not expect to make the final permission decision until it has received confirmation that the receipts of the new issuance have been received.

3.6 The PRA acknowledges that there may therefore be a brief period between the receipt of the proceeds from the new issuance and the announcement of the tender results during which it will be necessary for the PRA to grant the final redemption permission. The PRA expects firms to provide their supervisor with a comprehensive timeline, giving reasonable notice to support effective planning for the finalisation of the permission. This timeline should detail all stages of the refinancing transaction and consider potential adverse scenarios that may influence the success or failure of both the issuance and tender.

3.7 With regard to paragraphs 7.20–7.22, 8.7–8.9 and 9.5–9.7 of this supervisory statement, where a firm is carrying out a tender exercise capped at the amount of the proceeds from a new issuance, and where the tender offer will be settled out of the proceeds of a new issuance of at least the same capital quality, the PRA does not expect derecognition of the own funds item offered for tender prior to settlement of the tender offers.

...

^{1b} Own Funds 5.2, Group Supervision 6.2

^{1c} SoP10/24 – Solvency II: The PRA's approach to insurance own funds permissions

7. Classification of Tier 1 Own Funds

Tier 1 paid-in ordinary share capital and preference shares

7.1 For the purposes of Own Funds 3A.1(1)(a), firms should identify paid-in ordinary share capital by the following properties:

(a) the shares are issued directly by the firm; and

(b) the shares entitle the owner to a claim on the residual assets of the firm in the event of winding-up proceedings, which is proportionate to the amount of the items issued, and is neither fixed nor subject to a cap.

7.2 Where a firm has more than one class of shares it should:

(a) in accordance with Own Funds 3B.1(1)(a) and 3B.3(1), identify the differences between classes which provide for one class to rank ahead of another or which create any preference as to distributions, and only consider as possible Tier 1 ordinary share capital the class which ranks after all other claims and has no preferential rights; and

(b) consider any share classes ranking ahead of the most subordinated class or which have other preferential features which prevent them from being classified as Tier 1 ordinary share capital in accordance with point (a) as potentially qualifying as preference shares and classify such items in the relevant tier according to their features.

Reconciliation Reserve

7.3 For the purposes of Own Funds 3C.1(1), firms should include own shares held both directly and indirectly.

7.4 For the purposes of Own Funds 3C.1(2):

(a) firms should consider a dividend or distribution to be foreseeable at the latest when it is declared or approved by the governing body, regardless of any requirement for approval at the annual general meeting;

(b) where a participating firm holds a participation in another firm, which has a foreseeable dividend, the participating firm should make no reduction to its reconciliation reserve for that foreseeable dividend;

(c) firms should consider the amount of foreseeable charges to be taken into account as:

- (i) the amount of taxes which are foreseeable and are not already recognised as a liability on the Solvency II balance sheet; and
- (ii) the amount of any obligations or circumstances arising during the related reporting period which are likely to reduce the profits of the firm and have not been appropriately captured by the valuation of assets and liabilities in accordance with the PRA Rulebook.

Features which may cause or accelerate insolvency

7.5 In the case of an item referred to in Own Funds 3A.1(1)(a), (b) and (d), for the purposes of displaying the features in Own Funds 3B.1(2), firms should consider the features which may cause the insolvency or accelerate the process of the firm becoming insolvent as including:

(a) the holder of the own funds item is in a position to petition for the winding-up of the issuer in the event of distributions not being made;

(b) the item is treated as a liability, where a determination that the liabilities of a firm exceed its assets, constitutes a test of insolvency;

(c) the holder of the own funds item may, as a result of a distribution being cancelled or not being made, be granted the ability to cause full or partial payment of the amount invested, or to demand penalties or any other compensation that could result in a decrease of own funds.

Full flexibility over distributions

7.6 In the case of an item referred to in Own Funds 3A.1(1)(a) and (b), for the purposes of displaying the features in Own Funds 3B.3, full flexibility, firms should:

(a) consider distributable items as comprising retained earnings, including profit for the year ended prior to the year of distribution, and distributable reserves reduced by the deduction of any interim net loss for the current financial year from retained earnings;

(b) determine the amount of distributable items on the basis of the individual accounts of the firm and not on the basis of consolidated accounts;

(c) reflect in the determination of distributable items any restrictions imposed by national law with regard to consolidated accounts;

(d) ensure that the terms of the contractual arrangements governing the own funds item or any other own funds item do not cap or restrict the level or amount of distribution to be made on the item referred to in Own Funds 3A.1(1)(a), including capping or restricting the distribution to zero; and

(e) ensure that the terms of the contractual arrangement governing the own funds item do not require a distribution to be made in the event of a distribution being made on any other own funds item issued by the firm.

7.7 The firm should identify the legal basis for the cancellation of distributions in accordance with Own Funds 3B.1(12)(a) prior to classifying an item as Tier 1.

Features determining classification of restricted Tier 1 own funds

7.8 In the case of restricted Tier 1 own funds, for the purposes of displaying the features in Own Funds 3B.1(2), firms should consider features which may cause insolvency or accelerate the process of the firm becoming insolvent as including when:

(a) the holder of the own funds item is in a position to petition for the winding-up of the issuer in the event of distributions not being made;

(b) the item is treated as a liability, where a determination that the liabilities of a firm exceed its assets, constitutes a test of insolvency;

(c) the terms of the contractual arrangement governing the own funds item specify circumstances or conditions which, if met, would require the initiation of insolvency or any other procedure which would prejudice the continuance of the firm or its business as a going concern;

(d) the holder of the security relating to an own funds item may, as a result of a distribution being cancelled, be granted the ability to cause full or partial payment of the amount invested, or to demand penalties or any other compensation that could result in a decrease of own funds.

7.9 For the purposes of displaying the features in Own Funds 3B.1(4), absorbing losses once there is non-compliance with capital requirements and not hindering recapitalisation, firms should ensure that the terms of the contractual arrangement governing the own funds item or the terms of any connected arrangement:

(a) do not prevent a new or increased own funds item issued by the firm from ranking ahead of, or to the same degree of subordination as, that item;

(b) do not require that any new own funds items raised by the firm are more deeply subordinated to that item in conditions of stress or other circumstances where additional own funds may be needed;

(c) do not include terms that prevent distributions on other own funds items; and

(d) do not require that the item is automatically converted into an item that ranks more highly in terms of subordination, in conditions of stress or other circumstances where own funds may be needed, or as a result of structural changes including a merger or acquisition.

7.10 For the purposes of displaying the features in Own Funds 3B.1(6)(b), repayment or redemption before 5 years, firms should ensure that the item does not include a contractual term providing for a call option prior to 5 years from the date of issuance, including call options predicated on unforeseen changes that are outside the control of the firm, other than early calls due to unforeseen changes in regulatory classification or tax treatment in accordance with the specific conditions set out in Own Funds 3B.13.

7.11 Subject to the satisfaction of all relevant features for determining classification, own funds items may include arrangements predicated on unforeseen changes, which are outside the control of the firm and that would give rise to transactions or arrangements which are not deemed to be repayment or redemption, as provided for in Own Funds 3B.2. Own Funds 3B.2 requires that such arrangements remain subject to permission from the PRA.

7.12 For the purposes of displaying the features in Own Funds 3B.1(13), waiver of cancellation of distributions, firms should ensure that:

(a) any alternative coupon satisfaction mechanism is only included in the terms of the contractual arrangement governing the own funds item where the mechanism substitutes any payment of the distribution in cash by providing for distributions to be settled through the issue of ordinary share capital;

(b) any alternative coupon satisfaction mechanism achieves the same degree of loss absorbency as the cancellation of the distribution, and there is no decrease in own funds;

(c) any distributions under an alternative coupon satisfaction mechanism occur as soon as the PRA has granted permission to waive the cancellation of distributions using unissued ordinary share capital which has already been authorised;

(d) any alternative coupon satisfaction mechanism does not allow the firm to use own shares held as a result of repurchase; and

(e) the terms of the contractual arrangement governing the own funds item:

(i) provide for the operation of any alternative coupon satisfaction mechanism to be subject to permission from the PRA under Own Funds 3B.1(13) on each occasion that the cancellation of the distribution is required; and

(ii) do not oblige the firm to operate any alternative coupon satisfaction mechanism.

7.13 For the purposes of displaying the features in Own Funds 3B.4, full flexibility over distributions, firms should ensure that the terms of the contractual arrangement governing the own funds item do not:

(a) require distributions to be made on the item in the event of a distribution being made on any other own funds item issued by the firm;

(b) require the payment of distributions to be cancelled or prevented on any other own funds item of the firm in the event that no distribution is made in respect of that item;

(c) link the payment of distributions to any other event or transaction which has the same economic effect as points (a) or (b).

7.14 For the purposes of displaying the features in Own Funds 3B.4, full flexibility, firms should:

(a) consider distributable items as comprising retained earnings, including profit for the year ended prior to the year of distribution, and distributable reserves, reduced by the deduction of any interim net loss for the current financial year from retained earnings;

(b) determine the amount of distributable items on the basis of the individual accounts of the firm and not on the basis of consolidated accounts;

(c) reflect in the determination of distributable items any restrictions imposed by national law with regard to consolidated accounts;

(d) ensure that the terms of the contractual arrangements governing the own funds item or any other own funds item do not cap or restrict the level or amount of distribution to be made on the item referred to in Own Funds 3A.1(1)(a) including capping or restricting the distribution to zero; and

(e) ensure that the terms of the contractual arrangement governing the own funds item do not require a distribution to be made in the event of a distribution being made on any other own funds item issued by the firm.

7.15 For the purposes of displaying the features in Own Funds 3B.1(5), 3B.5, 6, 7, 8, 9 and 10, principal loss absorbency mechanisms, firms should ensure that:

(a) the loss absorbency mechanism, including the trigger point, is clearly defined in the terms of the contractual arrangement governing the own funds item and legally certain;

(b) the loss absorbency mechanism can be effective at the point of the trigger, without delay and regardless of any requirement to notify holders of the item;

(c) any write-down mechanism that does not allow for future write-up should provide that the amounts written down in accordance with Own Funds 3B.5(1) cannot be restored;

(d) any write-down mechanism that allows for a future write-up of the nominal or principal amount provides that:

(i) write-up is permitted only after the firm has achieved compliance with the SCR;

(ii) write-up is not activated by reference to own funds items issued or increased in order to restore compliance with the SCR; and

(iii) write-up only occurs on the basis of profits which contribute to distributable items made subsequent to the restoration of compliance with the SCR in a manner that does not undermine the loss absorbency intended by Own Funds 3B.5;

(e) any conversion mechanism provides that:

(i) the basis on which the security relating to an own funds item converts into ordinary share capital on significant non-compliance with the SCR is specified clearly in the terms of the contractual arrangement governing the security;

(ii) the conversion terms do not fully compensate the nominal amount of a holding by allowing an uncapped conversion rate in the event of falls in the share price;

(iii) in specifying a range within which the instruments will convert, the maximum number of shares the holder of the security may receive is certain at the time of issuance of the security, subject only to adjustments to reflect any share splits which occur subsequent to the issuance of those instruments; and

(iv) the conversion will result in a situation where losses are absorbed on a going-concern basis and the basic own funds items that arise as a result of the conversion do not hinder recapitalisation;

7.16 Where firms have own funds items with conversion mechanisms, they should ensure that sufficient shares have already been authorised, so that shares are available for issuance when needed.

7.17 Where a firm issues own funds indirectly via a finance entity that has been set up solely for the purpose of raising capital, and where this firm guarantees the payments of the finance entity, paragraph 7.8 applies to the firm, not to the finance entity.

Immediate availability to absorb losses

7.18 In the case of an item referred to in Own Funds 3A.1(1)(a), (b), (c), (e), (ea) and Own Funds 3A.1(2), firms should only consider an item as immediately available to absorb losses, if the item is paid in and there are no conditions or contingences in respect of its ability to absorb losses.

Repayment or redemption at the option of the firm

7.19 In the case of an item referred to in Own Funds 3A.1(1)(a), (b), (c), (e), (ea) and Own Funds 3A.1(2), for the purposes of displaying the features in Own Funds 3B.1(8) and 3B.1(9), firms should:

(a) ensure that the terms of the legal or contractual arrangement governing the item, or any connected arrangement, do not provide for any incentive to redeem as set out in paragraphs 10.11, 10.12, and 10.13 of this supervisory statement, and

(b) not create any expectation at issuance that the item will be redeemed or cancelled, nor should the legal or contractual terms governing the own funds item contain any term which might give rise to such an expectation.

7.20 Firms should treat the item as repaid or redeemed from the date at which a clear expectation has been set that it will be repaid or redeemed. Firms should exclude the item from own funds from that date.

7.21 Where firms are carrying out a repayment or redemption at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the date of notice to holders of the item or, if no notice is required, the date on which prior permission is granted.

7.22 Where firms are carrying out a repayment or redemption other than at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the latest by the date the firm publicly indicates its intention to carry out such transaction.

7.23 If following derecognition, the firm does not redeem or repay the own funds item in full, the PRA expects firms to be able to recognise the remaining own funds items subject to the firm having no short-term plans to repay or redeem the remaining capital, and the remaining capital being included within the firm's medium term capital management plan.

7.24 In the case of restricted Tier 1 items, for the purposes of displaying the features in Own Funds 3B.1(10), suspension of repayment or redemption, firms should ensure that the terms of the contractual arrangement governing the own funds item include provisions for the suspension of the repayment or redemption of the item at any point. This includes when notice of repayment or redemption has been given, other than following receipt of a permission to waive suspension of repayment or redemption as described in paragraph 7.4 of the **SoP10/24 – Solvency II: The PRA's approach to insurance own funds permissions**.

7.25 For firms that have suspended repayment or redemption in accordance with Own Funds 3B.1(10), the firms' subsequent actions should form part of the recovery plan referred to in Undertakings in Difficulties 3.1(2).

8. Classification of Tier 2 Own Funds

Called up but not paid in items

8.1 In the case of items referred to in Own Funds 3D.1(1)(a), (b), and (d), firms should ensure that:

(a) the time period between calling on shareholders or members to pay and the item becoming paid in, is not longer than three months. During this time, firms should consider the own funds to be called up but not paid in and should classify them as Tier 2 basic own funds provided that all other relevant criteria are met; and

(b) for items which are called up but not paid in, the shareholder or member that owns the item is still obliged to pay the outstanding amount in the event of the firm becoming insolvent or entering into winding-up procedures, and that the amount is available to absorb losses.

Tier 2 features for determining classification

8.2 In the case of items referred to in Own Funds 3D.1(1)(a) and (b), for the purposes of displaying the features in Own Funds 3E.1(2), paragraph 7.5 of this supervisory statement applies adjusted accordingly.

8.3 In the case of items referred to in Own Funds 3D.1(c), (d), (e), and Own Funds 3D.2, for the purposes of displaying the features in Own Funds 3E.1(2), paragraph 7.6 of this supervisory statement applies adjusted accordingly.

8.4 For the purposes of displaying the features in Own Funds 3E.1(3), repayment or redemption before five years, firms should ensure that the contractual arrangement governing the own funds item does not include a contractual term providing for a call option prior to five years from the date of issuance, including call options predicated on unforeseen changes that are outside the control of the firm, other than early calls due to unforeseen changes in regulatory classification or tax treatment in accordance with the specific conditions set out in Own Funds Own Funds 3E.5.

8.5 Subject to the satisfaction of all relevant features for determining classification, own funds items may include arrangements predicated on unforeseen changes which are outside the control of the firm and that would give rise to transactions or arrangements which are not deemed to be repayment or redemption, as provided for in Own Funds 3E.2. Own Funds 3E.2 requires that such arrangements remain subject to permission from the PRA.

8.6 For the purposes of displaying the features in 3E.1(5), limited incentives to redeem, firms should only include in the contractual terms of the arrangement governing the own funds item

or any connected arrangement, limited incentives to redeem as set out in paragraphs 10.11, 10.12, and 10.13 of this supervisory statement.

8.7 Firms should treat Tier 2 basic own funds items as repaid or redeemed from the date at which a clear expectation has been set that it will be repaid or redeemed. Firms should exclude the item from own funds from that date.

8.8 Where firms are carrying out a repayment or redemption at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the date of notice to holders of the item or, if no notice is required, the date on which prior permission is granted.

8.9 Where firms are carrying out a repayment or redemption other than at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the latest by the date the firm publicly indicates its intention to carry out such transaction.

8.10 If following derecognition, the firm does not redeem or repay the own funds item in full, the PRA expects firms to be able to recognise the remaining own funds items subject to the firm having no short-term plans to repay or redeem the remaining capital, and the remaining capital being included within the firm's medium term capital management plan.

8.11 Firms should ensure that the terms of the contractual arrangement governing the own funds item:

(a) for the purposes of displaying the features in Own Funds 3E.1(6), suspension of repayment or redemption, include provisions for the suspension of the repayment or redemption of the item at any point, including when notice of repayment or redemption has been given or at the final maturity date of the instrument other than following receipt of a permission to waive suspension of repayment or redemption as described in paragraph 7.4 of SoP10/24, in the event of non-compliance with the SCR or if the repayment or redemption would result in such non-compliance; and

(b) for the purposes of displaying the features in Own Funds 3E.1(8), deferral of distributions, include provisions for the deferral of distributions at any point in the event of non-compliance with the SCR or if the distribution would result in such non-compliance.

8.12 For firms that have suspended repayment or redemption in accordance with Own Funds 3E.1(6), the firms' subsequent actions should form part of the recovery plan referred to in Undertakings in Difficulty 3.1(2).

9. Classification of Tier 3 own funds

Tier 3 features for determining classification

9.1 For the purposes of displaying the features in Own Funds 3G.1(2), paragraph 7.5 of this supervisory statement applies adjusted accordingly to Tier 3 basic own funds items.

9.2 For the purposes of displaying the features in Own Funds 3G.1(3), repayment or redemption before five years, firms should ensure that the contractual arrangement governing the item does not include a term providing for a call option prior to the intended maturity date, including call options predicated on unforeseen changes that are outside the control of the firm, other than early calls due to unforeseen changes in regulatory classification or tax treatment in accordance with the specific conditions set out in Own Funds 3G.5.

9.3 Subject to the satisfaction of all relevant features for determining classification, own fund items may include arrangements predicated on unforeseen changes which are outside the control of the firm and that would give rise to transactions or arrangements which are not deemed to be repayment or redemption as provided for in Own Funds 3G.2. Own Funds 3G.2 requires that such arrangements remain subject to permission from the PRA.

9.4 For the purposes of displaying the features in Own Funds 3G.1(5), limited incentives to redeem, firms should only include in the contractual terms of the arrangement governing the own funds item or any connected arrangement limited incentives to redeem as set out in paragraphs 10.11, 10.12, and 10.13 of this supervisory statement.

9.5 Firms should treat Tier 3 basic own funds items as repaid or redeemed from the date at which a clear expectation has been set that it will be repaid or redeemed. Firms should exclude the item from own funds from that date.

9.6 Where firms are carrying out a repayment or redemption at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the date of notice to holders of the item or, if no notice is required, the date on which prior permission is granted.

9.7 Where firms are carrying out a repayment or redemption other than at maturity or a contractual call option, the PRA expects the derecognition of the item to take place at the latest by the date the firm publicly indicates its intention to carry out such transaction.

9.8 If following derecognition, the firm does not redeem or repay the own funds item in full, the PRA expects firms to be able to recognise the remaining own funds items subject to the firm having no short-term plans to repay or redeem the remaining capital, and the remaining capital being included within the firm's medium term capital management plan.

9.9 In the case of an item referred to in Own Funds 3F.1(1)(a), (b), (d) and 3F.1(2), firms should ensure that the terms of the contractual arrangement governing the own funds item:

(a) for the purposes of displaying the features in Own Funds 3G.1(6), include provisions for the suspension of the repayment or redemption of the item at any point, including when notice of repayment or redemption has been given or at the final maturity date of the instrument other than following receipt of a permission to waive suspension of repayment or redemption as described in paragraph 7.4 of SoP10/24, in the event of non-compliance with the SCR or if the repayment or redemption would result in such non-compliance; and

(b) for the purposes of displaying the features in Own Funds 3G.1(8), include provisions for the deferral of distributions at any point in the event of non-compliance with the SCR or if the distribution would result in such non-compliance.

9.10 For firms that have suspended repayment or redemption in accordance with Own Funds 3G.1(6), the firms' subsequent actions should form part of the recovery plan referred to in Undertakings in Difficulty 3.1(2).

10. Classification of all basic own funds items

10.1 The terms of the contractual arrangement governing the own funds item should comply with the substance not just the form specified in Solvency II and be clear and unambiguous.

Repayment or redemption

10.2 For the purposes of displaying the features in Own Funds 3B, 3E and 3G, firms should consider repayment or redemption to include the repayment, redemption, repurchase or buyback of any own funds item or any other arrangement that has the same economic effect. This includes share buybacks, tender operations, repurchase plans and repayment of the principal at maturity for dated items as well as repayment or redemption following the exercise of an issuer call option. This is without prejudice to the treatment of transactions that are not deemed to be repayment or redemption as described in Own Funds 3B.2, 3E.2 and 3G.2.

10.3 While the repurchase or buyback of any own funds item is permitted at the option of the firm on or after the first possible call date, the firm should not create any expectation at issuance that the item will be bought back, redeemed or cancelled before the contractual maturity of the item.

Encumbrances

10.4 This section sets out the considerations relevant to encumbrance. Firms should identify the substance and not simply the form of arrangements and connected transactions when

considering the potential impact on the quality of capital. Firms should consider SS8/14^{12a} on subordinated guarantees in the light of this expectation.

10.5 For the purposes of displaying the features in Own Funds 3B.1(15), 3E.1(10), and 3G.1(9), firms should:

(a) assess whether an own funds item is encumbered on the basis of the economic effect of the encumbrance and the nature of the item, applying the principle of substance over form;

(b) consider encumbrances as including, but not limited to:

(i) rights of set off;

(ii) restrictions;

(iii) charges or guarantees;

(iv) holding of own funds items of the firm;

(v) the effect of a transaction or a group of connected transactions which have the same effect as any of points (i) to (iv);

(vi) the effect of a transaction or a group of connected transactions which otherwise undermine an item's ability to meet the features determining classification as an own funds item; and

(c) consider an encumbrance arising from a transaction or group of transactions which is equivalent to the holding of own shares as including the case where the firm holds its own Tier 1, Tier 2 or Tier 3 own funds items.

10.6 Where the encumbrance is equivalent to the holding of own shares, firms should reduce the reconciliation reserve by the amount of the encumbered item.

10.7 When determining the treatment of an own funds item which is encumbered according to Own Funds 3B.1(15), 3E.1(10), and 3G.1(9), but the item together with the encumbrance displays the features required for a lower tier, firms should:

(a) identify whether the encumbered item is included in the lists of own funds items for the lower tier in Own Funds 3D and 3F;

(b) classify an item included in the lists according to the appropriate features for determining classification in Own Funds 3E and 3G; and

(c) seek a classification of own funds permission from the PRA to classify any items not included in the lists in accordance with SoP10/24.

^{12a} [SS8/14 - Subordinated guarantees and the quality of capital for insurers | Bank of England](#)

10.8 If an item is encumbered to the extent that it no longer displays the features determining classification, firms should not classify the item into a tier of own funds.

Call options predicted on unforeseen changes

10.9 Firms should consider unforeseen changes that are outside their control, referred to in paragraphs 7.10, 7.11, 8.4, 8.5, 9.2 and 9.3 of this supervisory statement, as including:

(a) a change in law or regulation relevant to the firm's own funds item in any jurisdiction or the interpretation of such law or regulation by any court or authority entitled to do so;

(b) a change in the applicable tax treatment, regulatory classification or treatment by rating agencies of the own funds item concerned.

Principle loss absorbency: conversion

10.10 In the application of a principal loss absorbency mechanism in the form of a conversion feature according to Own Funds 3B.1(5)(b), the governing body of the firm should be aware of the impact that a potential conversion of an instrument could have on the capital structure and ownership of the firm and should monitor this impact as part of the firm's system of governance.

Incentives to redeem

10.11 For the purposes of displaying the features in Own Funds 3B.1(9), 3E.1(5), and 3G.1(5), firms should consider incentives to redeem that are not limited as not permitted in any tier.

10.12 Firms should consider incentives to redeem that are not limited as including:

(a) principal stock settlement combined with a call option, where principal stock settlement is a term in the contractual arrangements governing an own funds item that requires the holder of the own funds item to receive ordinary shares in the event that a call is not exercised;

(b) mandatory conversion combined with a call option;

(c) an increase in the principal amount which is applicable subsequent to the call date, combined with a call option; and

(d) any other provision or arrangement which might reasonably be regarded as providing an economic basis for the likely redemption of the item.

10.13 In considering whether an instrument includes an incentive to redeem, firms should provide a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem. Firms should include this information as part of their pre-issuance notification.

Draft for consultation

4: Draft amendments to SS22/15 – Solvency II: applying EOPA's set 1 Guidelines to PRA regulated firms

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2. Compliance with Guidelines

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2.2 Those Guidelines on which further commentary is provided are:

- ~~ancillary own funds;~~
- ~~classification of own funds;~~
- ring-fenced funds;
- treatment of related undertakings, including participations;
- loss-absorbing capacity of technical provisions and deferred taxes; and
- group solvency calculation.

3. Ancillary own funds (Guidelines 1–6)

[Deleted]

[This chapter has been deleted in its entirety. Relevant material from this chapter, and the guidelines referred to, have been restated in SS2/15.]

~~3.1 These Guidelines complement the PRA's Solvency II framework. In particular, they complement the Own Funds Part of the PRA Rulebook and the statement of policy (SoP) on Solvency II: the PRA's approach to insurance own fund's permissions^{5b} in respect of the criteria for the approval of and the application procedures for ancillary own funds (AOF).~~

^{5b} SoP – Solvency II: the PRA's approach to insurance own fund's permissions.

~~Firms should refer to the supplementary information form for AOF permissions⁶ and consider its relationship with the AOF Guidelines when preparing their applications.~~

~~3.2 Guidelines 5 and 6 identify the need for firms and the PRA to monitor on an ongoing basis the ability of an AOF item to satisfy the criteria for approval. Firms should engage with their usual supervisory contact at an early stage where any changes might affect the status or loss-absorbing characteristics of an approved AOF Item.~~

4. Classification of own-funds (Guidelines 1–26) [Deleted]

[This chapter has been deleted in its entirety. Relevant material from this chapter, and the guidelines referred to, have been restated in SS3/15.]

~~4.1 These Guidelines are organised in several sections.~~

Guidelines relevant to specific tiers (Guidelines 1–11)

~~4.2 Sections 1 to 3 set out considerations relating to items and features determining classification for Tier 1, Tier 2 and Tier 3 respectively.~~

~~4.3 Firms should follow these Guidelines when designing and classifying their capital instruments and the PRA expects this to be reflected in firms' submissions of pre-issuance notifications as set out in the Own Funds Part of the PRA Rulebook.~~

~~4.4 In Section 2 of SS3/15⁷ the PRA sets out its expectations relating to terms permitting the call of an instrument earlier than five years from date of issue. These will be relevant in respect of Guideline 14 on call options predicated on unforeseen changes and the paragraphs referred to within that Guideline.~~

Guidelines relevant to all tiers (Guidelines 12–20)

~~4.5 Section 4 contains Guidelines relevant to all tiers. Firms should follow the approach set out in these Guidelines in order to ensure compliance with the PRA Rulebook. Guidelines 12,~~

⁶ PRA Solvency II approvals;

www.bankofengland.co.uk/pru/Pages/authorisations/siiapprovals/applying.aspx.

⁷ PRA Supervisory Statement SS3/15, 'Solvency II: the quality of capital instruments', November 2024;

www.bankofengland.co.uk/prudential-regulation/publication/2015/solvency2-the-quality-of-capital-instruments-ss.

~~18, 21–23 and 25–26 have all been restated in the SoP: The PRA’s approach to insurance own funds permissions.~~

~~4.6 In Section 3 of SS3/15 the PRA sets out its expectation regarding a broad scope for the term ‘redemption’ in line with paragraph 1.4 of the SoP on the PRA’s approach to insurance own fund permissions. (Previously Guideline 12.)~~

~~4.7 Guideline 13 sets out the considerations relevant to encumbrance. Firms should identify the substance and not simply the form of arrangements and connected transactions when considering the potential impact on the quality of capital. Firms should consider SS8/14⁸ on subordinated guarantees in the light of Guideline 13.~~

~~4.8 The PRA’s approach to its review of potential redemptions, including the information to be provided and when it should be submitted is set out in the SoP on the PRA’s approach to own fund permissions. (Previously Guideline 18.)~~

~~4.9 In considering whether an instrument includes an incentive to redeem as described in Guideline 19, firms should provide a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem. Firms should include this information as part of their pre-issuance notification.~~

~~Guidelines relating to items not on the lists of own fund items (Guidelines 21–26)~~

~~4.10 Section 5 covers the approach to the approval of items not on the lists of own funds in the PRA Rulebook. Guidelines 21–23, 25 and 26 have been restated in the SoP on the PRA’s approach to own fund permissions. Firms should engage with their usual supervisory contact at an early stage if they are considering development of an own fund item not on the lists.~~

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⁸ PRA Supervisory Statement SS8/14, ‘Subordinated guarantees and the quality of capital for insurers’, August 2014; www.bankofengland.co.uk/prudential-regulation/publication/2014/subordinated-guarantees-and-the-quality-of-capital-ss.

5: Table of amendments to reporting templates and instructions

A complete list of the templates and instructions included in this CP is set out in this Appendix. Amendments that are described in the CP are referenced below. The draft template and instructions reflecting the amendments can be found in this publication.

Template code	Template name	Amendments
IR.02.01	Balance sheet	Template and instructions
IR.23.01	Own funds	Instructions only
IR.23.02	Detailed information by tiers on own funds	Instructions only
IR.23.03	Annual movements on own funds	Instructions only
IR.23.04	List of items on own funds	Instructions only

6: Draft amendments to SoP1/19 – Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK’s withdrawal from the EU

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Appendix 1: Non-exhaustive list of EIOPA Guidelines that are complied with in the UK

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Solvency II:

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- Guidelines on ancillary own funds

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- Guidelines on classification of own funds

Draft for consultation

7: Mapping table for remaining classification of own funds and ancillary own funds guidelines

EIOPA Guidelines			
Guidelines	Guideline Number	Description	Mapping
			PRA Policy Publication Reference
Ancillary own funds	1	Approval of ancillary own-fund items which, once called, take the form of an Item not on the lists	SS2/15 – SS Solvency II: own funds
	2	Entering into the contract for an ancillary own-fund item	SS2/15 – SS Solvency II: own funds
	3	Callable on demand	SS2/15 – SS Solvency II: own funds
	4	Classification of ancillary own-fund items	SS2/15 – SS Solvency II: own funds
Classification of own funds	1	Tier 1 paid-in ordinary share capital and preference shares	SS3/15 - Solvency II: the quality of capital instruments
	2	Reconciliation Reserve	SS3/15 - Solvency II: the quality of capital instruments
	3	Tier 1 features determining classification of items referred to in Article 69(a)(i), (ii) and (iv) of Commission Delegated Regulation 2015/35	SS3/15 - Solvency II: the quality of capital instruments
	4	Tier 1 features determining classification of items referred to in Article 69(a)(i) and (ii) of Commission Delegated Regulation 2015/35	SS3/15 - Solvency II: the quality of capital instruments
	5	Tier 1 features determining classification of items referred to in Article 69(a)(iii), (v) and (b) of Commission Delegated Regulation 2015/3	SS3/15 - Solvency II: the quality of capital instruments
	6	Tier 1 features determining classification of items referred to in Article 69(a)(i), (ii), (iii), (v) and (b) of Commission Delegated Regulation 2015/35 – immediate availability to absorb losses	SS3/15 - Solvency II: the quality of capital instruments
	7	Tier 1 features determining classification of items referred to in Article 69(a)(i), (ii), (iii), (v) and (b) of Commission Delegated Regulation 2015/35 – repayment or redemption at the option of the undertaking	SS3/15 - Solvency II: the quality of capital instruments
	9	Tier 2 list of own-fund items	SS3/15 - Solvency II: the quality of capital instruments
	10	Tier 2 features for determining classification	SS3/15 - Solvency II: the quality of capital instruments
	11	Tier 3 features for determining classification	SS3/15 - Solvency II: the quality of capital instruments
	12	Repayment or redemption	SS3/15 - Solvency II: the quality of capital instruments*
	13	Encumbrances	SS3/15 - Solvency II: the quality of capital instruments
	14	Call options predicated on unforeseen changes	SS3/15 - Solvency II: the quality of capital instruments
	17	Principal loss absorbency: conversion	SS3/15 - Solvency II: the quality of capital instruments
	19	Incentives to redeem	SS3/15 - Solvency II: the quality of capital instruments
	20	Eligibility and limits applicable to Tiers 1, 2 and 3	Propose to disapply

*Guideline 12 was previously restated to 'SoP - Solvency II: The PRA's approach to insurance own funds permissions' following PS15/24.