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
Group Supervision	B

Commencement

D. The rules in this instrument come into force on 31 December 2026.

Citation

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

By order of the Prudential Regulation Committee

2 July 2026

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~~.~~<u>(</u>1<u>)</u>(c), 3A.1~~.~~<u>(</u>1<u>)</u>(e)<u>, 3A.1(1)(ea),</u> 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~~

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

…

…

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),<u> 3A.1(1)(ea),</u> 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),<u> 3A.1(1)(ea),</u> 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), 3D.1(1) and 3F.1(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 is has received prior permission from the *PRA* pursuant to section 138BA of *FSMA*.

…

…

Annex B

Amendments to the Group Supervision Part

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

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10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

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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.

…