

# Bank of England

## PRA Rulebook

### Prudential Regulation Authority Rulebook

#### Part

#### Own Funds

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## 1 Application and Definitions

1.1 Unless otherwise stated, this Part applies to:

- (1) a UK Solvency II firm; and
- (2) in accordance with Insurance General Application 3, the Society.

01/01/2016

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.

### 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.

### legacy paid-in preference shares

means paid-in preference shares that meet the following conditions:

- (1) the instruments were issued prior to 18 January 2015;
- (2) on 31 December 2015, the instruments could be used as:

- (a) core tier one capital in accordance with stage A (Core tier one capital) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
  - (b) perpetual non-cumulative preference shares in accordance with stage B (Perpetual non-cumulative preference shares) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
  - (c) innovative tier one capital in accordance with GENPRU 2.2 of the PRA Handbook as at 31 December 2015; or
  - (d) upper tier two capital in accordance with stage G (Upper tier two capital) of the capital resources table at GENPRU 2 Annex 1 of the PRA Handbook as at 31 December 2015;
- (3) the instruments are not otherwise included as Tier 1 own funds, Tier 2 own funds, or Tier 3 own funds in accordance with Own Funds 3.1 to 3.4.

**restricted Tier 1 own funds**

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

**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.

02/01/2026

## 2 Determination of Own Funds

2.1 A firm's own funds comprise the sum of its basic own funds and subject to 2.5, ancillary own funds.

**[Note: Art. 87 of the Solvency II Directive]**

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2.2 The firm's basic own funds consist of the following items:

- (1) the excess of assets over liabilities, less the amount of own shares held by the firm; and
- (2) subordinated liabilities.

**[Note: Art. 88 of the Solvency II Directive]**

01/01/2016

2.3 Subject to 2.5, the firm's ancillary own funds consist of items (other than items of basic own funds) which can be called up to absorb losses, including the following (to the extent that they are not items of basic own funds):

- (1) unpaid share capital or initial fund that has not been called up;
- (2) letters of credit and guarantees;
- (3) any other legally binding commitments received by the firm; and
- (4) for a mutual, any future claims which it may have against its members by way of a call for supplementary contribution within the next 12 months.

**[Note: Art. 89(1) of the Solvency II Directive]**

01/01/2016

2.4 Where an item of ancillary own funds becomes paid in or called up, the proceeds paid in or the amount due in respect of the call must be treated as an asset and the item must cease to be treated as an item of ancillary own funds.

**[Note: Art. 89(2) of the Solvency II Directive]**

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2.5 When determining its own funds, a firm must not take into account any item of ancillary own funds unless, subject to 2.6, it has received an ancillary own funds permission in respect of that item specifying either:

- (1) a monetary amount for the relevant item of ancillary own funds; or
- (2) the method by which to determine the amount of the relevant item of ancillary own funds, together with the amount determined in accordance with that method for a specified time period.

**[Note: Art. 90(1) and (3) of the Solvency II Directive]**

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2.6 Where, in respect of an ancillary own funds item, a firm has received an ancillary own funds permission:

- (1) that specifies a monetary amount, in accordance with 2.5(1), the firm may only include that item in its own funds up to the monetary amount set out in the ancillary own funds permission; or
- (2) that specifies a method by which to determine a monetary amount in accordance with 2.5(2), the firm may only include that item in its own funds up to the monetary amount that has been determined by the method set out in, and only for the time period specified by, the ancillary own funds permission.

**[Note: Art. 90(3) of the Solvency II Directive]**

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2.7 A firm may only attribute an amount to an item of ancillary own funds to the extent that it:

- (1) reflects the loss-absorbency of the item; and
- (2) is based upon prudent and realistic assumptions.

**[Note: Art. 90(2) of the Solvency II Directive]**

01/01/2016

### 3 Classification of Own Funds Into Tiers

3.1 A firm may only include an own funds item in its Tier 1 own funds if:

- (1) it is an item of basic own funds; and
- (2) it substantially possesses the characteristics set out in 3.5(1) and 3.5(2), taking into consideration the features set out in 3.6.

**[Note: Art. 94(1) of the Solvency II Directive]**

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3.2 A firm may only include an own funds item in its Tier 2 own funds if:

- (1) where it is an item of basic own funds, it substantially possesses the

characteristics set out in 3.5(2), taking into consideration the features set out in 3.6; or

- (2) where it is an item of ancillary own funds, it substantially possesses the characteristics set out in 3.5(1) and 3.5(2), taking into consideration the features set out in 3.6.

**[Note: Art. 94(2) of the Solvency II Directive]**

01/01/2016

3.3 A firm may only include in its Tier 3 own funds an item of:

- (1) basic own funds that does not fall within 3.1 or 3.2(1); and  
(2) ancillary own funds that does not fall within 3.2(2).

**[Note: Art. 94(3) of the Solvency II Directive]**

01/01/2016

- 3.4 (1) In classifying its own funds items, a firm must refer to the own funds lists.  
(2) A firm must not include an own funds item in its Tier 1 own funds, Tier 2 own funds or Tier 3 own funds if that own funds item is not covered by the own funds lists, unless it has received a classification of own funds permission in respect of that item.  
(3) [Deleted]

**[Note: Art. 95 of the Solvency II Directive]**

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3.4A Notwithstanding that a firm has received a classification of own funds permission, basic own funds items not included in the own funds lists may only be classified as Tier 1 own funds where they are fully paid in.

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3.5 The characteristics referred to in 3.1(2) and 3.2 are:

- (1) the item is available, or can be called up on demand, to fully absorb losses on a going-concern basis as well as in the case of winding up (permanent availability); and
- (2) in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and reinsurance obligations to policyholders, have been met (subordination).

**[Note: Art. 93(1) of the Solvency II Directive]**

01/01/2016

3.6 When assessing the extent to which own funds items possess the characteristics set out in 3.5, currently and in the future, a firm must consider:

- (1) the duration of the item, in particular whether the item is dated or not and, where an own funds item is dated, the relative duration of the item as compared to the duration of the insurance and reinsurance obligations of the firm (sufficient duration);
- (2) whether the item is free from requirements or incentives to redeem the nominal sum (absence of incentives to redeem);
- (3) whether the item is free from mandatory fixed charges (absence of mandatory servicing costs); and
- (4) whether the item is clear of encumbrances (absence of encumbrances).

**[Note: Art. 93(2) of the Solvency II Directive]**

01/01/2016

3.7 (1) A firm must not classify as Tier 1 own funds:

- (a) paid-in ordinary share capital and related share premium account; or
- (b) paid-in initial fund, member's contribution or the equivalent basic own funds for a mutual

unless the firm has the right to cancel and withhold dividends or other distributions in respect of those items at any time prior to payment, (and exercises that right) in the circumstances specified in 3B.1(12).

(2) A firm must not classify as Tier 2 basic own funds:

- (a) ordinary share capital and related share premium account; or



(b) initial fund, member's contribution or the equivalent basic own funds for a mutual

unless the firm has the right to defer dividends or other distributions in respect of those items at any time prior to payment, (and exercises that right) in the circumstances specified in 3E.1(8).

**[Note: Art. 93 and Art. 94 of the Solvency II Directive]**

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### 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:
  - (a) paid-in ordinary share capital and the related share premium account;
  - (b) paid-in initial funds, members' contributions or the equivalent basic own funds item for mutual and mutual-type undertakings;
  - (c) paid-in subordinated mutual member accounts;
  - (d) surplus funds that are not considered as insurance and reinsurance obligations in accordance with 2.1 of the Surplus Funds Part;
  - (e) paid-in preference shares and the related share premium account; and
  - (f) a reconciliation reserve calculated in accordance with 3C;
- (2) paid-in subordinated liabilities valued in accordance with 2 of the Valuation Part.

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### 3B Tier 1 – Features Determining Classification

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

- (1) the basic own funds item:
  - (a) in the case of items referred to in 3A.1(1)(a) and 3A.1(1)(b), ranks after all other claims in the event of winding-up proceedings regarding the firm; and

- (b) in the case of **restricted Tier 1 own funds**, ranks to the same degree as, or ahead of, the items referred to in **3A.1(1)(a)** and **3A.1(1)(b)**, but after items listed in **3D** and **3F** that display the features set out in **3E** and **3G** respectively and after the claims of all **policyholders** and non-subordinated creditors;
- (2) the **basic own funds** item does not include features which may cause the insolvency of the **firm** or may accelerate the process of the **firm** becoming insolvent;
- (3) the **basic own funds** item is immediately available to absorb losses;
- (4) the **basic own funds** item absorbs losses at least once there is non-compliance with the **SCR** and does not hinder the recapitalisation of the **firm**;
- (5) the **basic own funds** item, in the case of **restricted Tier 1 own funds**, possesses one of the following principal loss absorbency mechanisms to be triggered at the trigger event specified in **3B.10** and complies with the conditions set out in **3B.9**:
- (a) the nominal or principal amount of the **basic own funds** item is written down as set out in **3B.5** and **3B.6**;
- (b) the **basic own funds** item automatically converts into a **basic own funds** item listed in **3A.1(1)(a)** or **3A.1(1)(b)** as set out in **3B.7** and **3B.8**; or
- (c) a principal loss absorbency mechanism that achieves an equivalent outcome to the principal loss absorbency mechanisms set out in **3B.1(5)(a)** or **3B.1(5)(b)**;
- (6) the **basic own funds** item meets one of the following criteria:
- (a) in the case of items referred to in **3A.1(1)(a)** and **3A.1(1)(b)**, the item is undated or, where the **firm** has a fixed maturity, is of the same maturity as the **firm**; or
- (b) in the case of **restricted Tier 1 own funds** items, the item is undated or the first contractual opportunity to repay or redeem the **basic own funds** item does not occur before five years from the date of issuance;
- (7) a **restricted Tier 1 own funds** item may only allow for repayment or redemption of that item between 5 and 10 years after the date of issuance where the **firm's SCR** is exceeded by an appropriate margin taking into account the solvency position of the **firm** including the **firm's** medium-term capital management plan;
- (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)**, 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), 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), 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);
- (11) notwithstanding 3B.1(10), the basic own funds item may allow for repayment or redemption of that item where the firm does not comply with the SCR or repayment or redemption would lead to such non-compliance, only where all of the following conditions are met:
  - (a) the firm has received prior permission from the PRA to repay or redeem that item;
  - (b) the item is to be exchanged for or converted into another Tier 1 own funds item of at least the same quality; and
  - (c) the MCR will be complied with after the repayment or redemption;
- (12) the basic own funds item meets one of the following criteria:
  - (a) in the case of items referred to in 3A.1(1)(a) and 3A.1(1)(b), either the legal or contractual arrangements governing the basic own funds item or legislation applicable in the UK allow for the cancellation of distributions in relation to that item 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 3B.1(13);
  - (b) in the case of restricted Tier 1 own funds items, the terms of the contractual arrangement governing the basic own funds item provide for the cancellation of distributions in relation to that item 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 3B.1(13);
- (13) notwithstanding 3B.1(12), the basic own funds item may allow for a distribution to be made where the firm does not comply with the SCR or the distribution on a basic own funds item would lead to such non-compliance, only where this provision is subject to all of the following conditions:
- (a) the firm has received prior permission from the PRA that the distribution can be made;
  - (b) the distribution would not further weaken the solvency position of the firm; and
  - (c) the MCR will be complied with after the distribution is made;
- (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), 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
- (15) the basic own funds item is free from encumbrances and is not connected with any other transaction, which when considered with the basic own funds item, could result in that basic own funds item not complying with 3.1.

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3B.2 For the purposes of 3B, the exchange or conversion of a 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 receiving prior permission from the PRA.

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3B.3 For the purposes of 3B.1(14), in the case of basic own funds items referred to in 3A.1(1)(a) and 3A.1(1)(b), the item provides full flexibility over distributions only where all of the following conditions are met:

- (1) there is no preferential distribution treatment regarding the order of distribution payments and the terms of the contractual arrangement governing the own funds item do not provide preferential rights to the payment of distributions;

- (2) distributions are paid out of distributable items;
- (3) the level of distributions is not determined on the basis of the amount for which the own funds item was purchased at issuance and there is no cap or other restriction on the maximum level of distribution;
- (4) notwithstanding 3B.3(3), in the case of instruments issued by mutual and mutual-type undertakings, a cap or other restriction on the maximum level of distribution may be set, provided that cap or other restriction is not an event linked to distributions being made, or not made, on other own funds items;
- (5) there is no obligation for a firm to make distributions;
- (6) non-payment of distributions does not constitute an event of default by the firm; and
- (7) the cancellation of distributions imposes no restrictions on the firm.

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3B.4 For the purposes of 3B.1(14), in the case of restricted Tier 1 own funds items, the item provides full flexibility over distributions only where all of the following conditions are met:

- (1) distributions are paid out of distributable items;
- (2) the firm has full discretion at all times to cancel distributions in relation to the own funds item for an unlimited period and on a non-cumulative basis and the firm may use the cancelled payments without restriction to meet its obligations as they fall due;
- (3) there is no obligation to substitute the distribution by a payment in any other form;
- (4) there is no obligation to make distributions in the event of a distribution being made on another own funds item;
- (5) non-payment of distributions does not constitute an event of default by the firm; and
- (6) the cancellation of distributions imposes no restrictions on the firm.

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3B.5 For the purposes of 3B.1(5)(a), the nominal or principal amount of the basic own funds item must be written down in such a way that all of the following are reduced:

- (1) the claim of the holder of that item in the event of winding-up proceedings;
- (2) the amount required to be paid on repayment or redemption of that item; and
- (3) the distributions paid on that item.

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3B.6 For the purposes of 3B.1(5)(a), the provisions governing the write-down of the nominal or principal amount of the basic own funds item must provide for all of the following:

- (1) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial write-down would be sufficient to re-establish compliance with the SCR, there is a partial write-down of the nominal or principal amount for an amount that is at least sufficient to re-establish compliance with the SCR;
- (2) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial write-down would not be sufficient to re-establish compliance with the SCR, the nominal or principal amount as determined at the time of original issuance of the basic own funds item is written down at least on a linear basis in a manner which ensures that full write-down will occur when 75% coverage of the SCR is reached, or prior to that event;
- (3) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(1) or 3B.10(2), the nominal or principal amount is written down in full; and
- (4) following a write-down in accordance with 3B.6(2) ('the initial write-down'):
  - (a) if the trigger event specified in 3B.10 subsequently occurs in the circumstances described in 3B.10(1) or 3B.10(2), the nominal or principal amount is written down in full;
  - (b) if, by the end of the period of three months from the date of the trigger event that resulted in the initial write-down, no trigger event has occurred in the circumstances described in 3B.10(1) or 3B.10(2) but the solvency ratio has deteriorated further, the nominal or principal amount as determined at the time of original issuance of the basic own funds item is written down further in accordance with 3B.6(2) to reflect that further deterioration in the solvency ratio; and
  - (c) a further write-down is made in accordance with 3B.6(4)(b) for each subsequent deterioration in the solvency ratio at the end of each subsequent

period of three months until the firm has re-established compliance with the SCR.

For the purposes of 3B.6(4), the 'solvency ratio' means the ratio of eligible own funds (to cover a firm's SCR) and the firm's SCR using the latest available values.

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3B.7 For the purposes of 3B.1(5)(b), the provisions governing the conversion into basic own funds items listed in 3A.1(1)(a) or 3A.1(1)(b) must specify either of the following:

- (1) the rate of conversion and a limit on the permitted amount of conversion; or
- (2) a range within which the instruments will convert into the basic own funds item listed in 3A.1(1)(a) or 3A.1(1)(b).

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3B.8 For the purposes of 3B.1(5)(b), the provisions governing the conversion into basic own funds items listed in 3A.1(1)(a) or 3A.1(1)(b) must provide for all of the following:

- (1) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial conversion would be sufficient to re-establish compliance with the SCR, there is a partial conversion of the item for an amount that is at least sufficient to re-establish compliance with the SCR;
- (2) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(3) and a partial conversion would not be sufficient to re-establish compliance with the SCR, the item is converted in such a way that the remaining nominal or principal amount of the item decreases at least on a linear basis ensuring that full conversion will occur when 75% coverage of the SCR is reached, or prior to that event;
- (3) if the trigger event specified in 3B.10 has occurred in the circumstances described in 3B.10(1) or 3B.10(2), the item is converted in full; and
- (4) following a conversion in accordance with 3B.8(2) ('the initial conversion'):
  - (a) if the trigger event specified in 3B.10 subsequently occurs in the

circumstances described in [3B.10\(1\)](#) or [3B.10\(2\)](#), the item is converted in full;

- (b) if, by the end of the period of three [months](#) from the date of the trigger event that resulted in the initial conversion, no trigger event has occurred in the circumstances described in [3B.10\(1\)](#) or [3B.10\(2\)](#) but the solvency ratio has deteriorated further, the item is converted further in accordance with [3B.8\(2\)](#) to reflect that further deterioration in the solvency ratio; and
- (c) a further conversion is made in accordance with [3B.8\(4\)\(b\)](#) for each subsequent deterioration in the solvency ratio at the end of each subsequent period of three [months](#) until the [firm](#) has re-established compliance with the [SCR](#).

For the purposes of [3B.8\(4\)](#), the 'solvency ratio' has the same meaning as it has for the purposes of [3B.6](#).

31/12/2024

3B.9 The nominal or principal amount of the [basic own funds](#) item must absorb losses at the trigger event. Loss absorbency resulting from the cancellation of, or a reduction in, distributions does not constitute a principal loss absorbency mechanism in accordance with [3B.1\(5\)](#).

31/12/2024

3B.10 The trigger event referred to in [3B.1\(5\)](#) is significant non-compliance with the [SCR](#). Non-compliance with the [SCR](#) is considered significant for these purposes where any of the following conditions is met:

- (1) the amount of [own funds](#) items eligible to cover the [SCR](#) is equal to or less than 75% of the [SCR](#);
- (2) the amount of [own funds](#) items eligible to cover the [MCR](#) is equal to or less than [MCR](#); or
- (3) compliance with the [SCR](#) is not re-established within a period of three [months](#) from the date when non-compliance with the [SCR](#) was first observed.

A [firm](#) may specify, in the provisions governing the instrument, one or more trigger events in addition to the events referred to in [3B.10\(1\)](#) to [3B.10\(3\)](#).

31/12/2024



3B.11 For the purposes of 3B.1(4), 3B.1(10) and 3B.1(12), references to the SCR must be read as references to the MCR where non-compliance with the MCR occurs before non-compliance with the SCR.

31/12/2024

3B.12 Notwithstanding the requirement in 3B.1(5) for the principal loss absorbency mechanism to be triggered at the trigger event specified in 3B.10, the basic own funds item may provide for the principal loss absorbency mechanism not to be triggered at that event only where this provision is subject to all of the following conditions:

- (1) the trigger event occurs in the circumstances described in 3B.10(3);
- (2) there have been no previous trigger events in the circumstances described 3B.10(1) or 3B.10(2); and
- (3) the firm has received prior permission from the PRA to waive the triggering of the principal loss absorbency mechanism on the basis of the following information:
  - (a) projections provided to the PRA by the firm when that firm submits the recovery plan required by 4.4(2) of the Group Supervision Part and 3.1(2) of the Undertakings in Difficulty Part, demonstrate that triggering the principal loss absorbency mechanism in that case would be very likely to give rise to a tax liability that would have a significant adverse effect on the firm's solvency position; and
  - (b) a certificate issued by the firm's statutory auditors certifying that all of the assumptions used in the projections are realistic.

31/12/2024

3B.13 Notwithstanding the requirement in 3B.1(6)(b), the basic own funds item may allow for repayment or redemption earlier than that period where the following conditions are met:

- (1) the firm's SCR, after the repayment or redemption, will be exceeded by an appropriate margin taking into account the solvency position of the firm, including the firm's medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either:
  - (a) there is a change in the regulatory classification of the basic own

**funds** item which would be likely to result in its exclusion from the **own funds** or reclassification as a lower tier of **own funds** and both of the following conditions are met;

- (i) the **PRA** considers such a change to be sufficiently certain; and
  - (ii) the **firm** demonstrates to the satisfaction of the **PRA** that the regulatory reclassification of the **basic own funds** item was not reasonably foreseeable at the time of its issuance; or
- (b) there is a change in the applicable tax treatment of the **basic own funds** item which the **firm** demonstrates to the satisfaction of the **PRA**:
- (i) is material; and
  - (ii) was not reasonably foreseeable at the time of its issuance.

31/12/2024

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)**, 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)**, 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 **basic own funds** item in the circumstances referred to in **3B.1(12)**; or
- (4) redeem or repay a **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**.

31/12/2024

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

- (1) exchange or convert a **Tier 1 own funds** item into another **Tier 1 own funds** item; or
- (2) repay or redeem a **Tier 1 own fund** 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).

31/12/2024

3B.16 A firm must treat significant non-compliance with the SCR (as defined in 3B.10) as a trigger event for the principal loss absorbency mechanism referred to in 3B.1(5) unless it has received prior permission from the PRA pursuant to section 138BA of FSMA not to treat that non-compliance as a trigger event.

31/12/2024

3B.17

- (1) Paragraph (2) applies where a firm has legacy paid-in preference shares in issue.
- (2) For a period of up to 25 years from 2 January 2026, for the purposes of 3B.1(4) and (14) and 3B.3(3), in the case of basic own funds items referred to in 3A.1(1)(a), a firm should disregard:
  - (a) the terms of those legacy paid-in preference shares; and
  - (b) for basic own funds items referred to in 3A.1(1)(a), any terms governing the basic own funds items which prevent or cancel the declaration or payment of distributions where distributions on legacy paid-in preference shares are in arrears.

02/01/2026

## 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:

- (1) the amount of own shares held by the firm;
- (2) foreseeable dividends, distributions and charges;
- (3) the basic own funds items included in 3A.1(1)(a) to (e), 3D.1(1) and 3F.1(1);
- (4) any basic own funds item not included in 3A.1(1)(a) to (e), 3D.1(1) 3F.1(1), in respect of which a firm has a classification of own funds permission;

- (5) the restricted own funds items that meet one of the following requirements:
- (a) 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
- (6) the amount of participations held in financial and credit institutions as referred to in 3K.6 deducted in accordance with 3K, to the extent that this is not already included in 3C.1(1) to (5).

31/12/2024

3C.2 The reconciliation reserve may be positive or negative.

31/12/2024

3C.3 A firm is not required to determine whether, and to what extent, the reconciliation reserve displays the features set out in 3B by assessing features of the assets and liabilities that are included in computing the excess of assets over liabilities or the underlying items in the firm's financial statements.

31/12/2024

### 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:
  - (a) ordinary share capital and the related share premium account;
  - (b) initial funds, members' contributions or the equivalent basic own funds item for mutual and mutual-type undertakings;
  - (c) subordinated mutual member accounts;
  - (d) preference shares and the related share premium account; and
- (2) subordinated liabilities valued in accordance with 2 of the Valuation Part.

31/12/2024

## 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):

- (1) the basic own funds item ranks after the claims of all policyholders and non-subordinated creditors;
- (2) the basic own funds item does not include features which may cause the insolvency of the firm or may accelerate the process of the firm becoming insolvent;
- (3) the basic own funds item is undated or has an original maturity of at least 10 years or the first contractual opportunity to repay or redeem the basic own funds item does not occur before 5 years from the date of issuance;
- (4) the basic own funds item is only repayable or redeemable at the option of the firm and provides that 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 may include limited incentives to repay or redeem that basic own funds item, provided that these do not occur before 10 years from the date of issuance;
- (6) the basic own funds item 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 3E.1(7);
- (7) notwithstanding 3E.1(6), the basic own funds item may allow for the repayment or redemption of that item where there is non-compliance with the SCR or repayment or redemption would lead to such non-compliance, where all of the following conditions are met:
  - (a) the firm has received prior permission from the PRA to repay or redeem that item;
  - (b) the item is to be exchanged for or converted into another Tier 1 own funds or Tier 2 basic own funds item of at least the same quality; and
  - (c) the MCR will be complied with after the repayment or redemption;
- (8) the basic own funds item meets one of the following criteria:
  - (a) in the case of items referred to in 3D.1(1)(a) and (b), either the legal or

- contractual arrangements governing the **basic own funds** item or legislation applicable in the **UK** allow 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)**; or
- (b) in the case of items referred to in **3D.1(1)(c)**, **3D.1(1)(d)** 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)**;
- (9) notwithstanding **3E.1(8)**, the **basic own funds** item may allow for a distribution to be made where there is non-compliance with the **SCR** or the distribution on a **basic own funds** item would lead to such non-compliance, only where this provision is subject to all of the following conditions:
- (a) the **firm** has received prior permission from the **PRA**;
  - (b) the distribution would not further weaken the solvency position of the **firm**; and
  - (c) the **MCR** will be complied with after the distribution is made;
- (10) the **basic own funds** item is free from encumbrances and is not connected with any other transaction, which when considered with the **basic own funds** item, could result in that **basic own funds** item not complying with **3.2(1)**.
- (11) the **basic own funds** item is a **Tier 1 own funds** item that displays the features set out in **3B** that are relevant for a **restricted Tier 1 own funds** item, but exceeds the limit set out in **4A.3**.

31/12/2024

3E.2 For the purposes of **3E**, the exchange or conversion of a **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 receiving prior permission from the PRA.

31/12/2024

3E.3 For the purposes of 3E.1(6) and 3E.1(8), references to the SCR must be read as references to the MCR where non-compliance with the MCR occurs before non-compliance with the SCR.

31/12/2024

3E.4 For the purposes of 3E.1(5), a firm may only treat incentives to redeem in the form of an interest rate step-up associated with a call option as limited where the step-up takes the form of a single increase in the coupon rate and results in an increase in the initial rate that is no greater than the higher of the following amounts:

- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; and
- (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.

31/12/2024

3E.5 Notwithstanding the requirement in 3E.1(3), the basic own funds item may allow for repayment or redemption before five years where the following conditions are met:

- (1) the firm's SCR, after the repayment or redemption, will be exceeded by an appropriate margin, taking into account the solvency position of the firm, including the firm's medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either;
  - (a) there is a change in the regulatory classification of the basic own funds item which would be likely to result in its exclusion from the own funds or reclassification as a lower tier of own funds; and
    - (i) the PRA considers such a change to be sufficiently certain; and
    - (ii) the firm demonstrates to the satisfaction of the PRA that the regulatory

reclassification of the **basic own funds** item was not reasonably foreseeable at the time of its issuance; or

- (b) there is a change in the applicable tax treatment of the **basic own funds** item which the **firm** demonstrates to the satisfaction of the **PRA**:
- (i) is material; and
  - (ii) was not reasonably foreseeable at the time of its issuance.

31/12/2024

3E.6 A **firm** must not:

- (1) redeem or repay a **Tier 2 basic own funds** item;
- (2) redeem or repay a **Tier 2 basic own funds** item when redemption or repayment has been suspended in the circumstances referred to in **3E.1(6)**;
- (3) make a distribution under a **Tier 2 basic own funds** item in the circumstances referred to in **3E.1(8)**; or
- (4) redeem or repay a **basic own funds** item in the circumstances set out in **3E.5**,

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

31/12/2024

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

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

31/12/2024

## 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;
- (2) subordinated liabilities valued in accordance with **2** of the **Valuation Part**.

31/12/2024

### **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)** and **3F.1(2)**, ranks after the claims of all **policyholders** and non-subordinated creditors;
- (2) the **basic own funds** item does not include features which may cause the insolvency of the **firm** or may accelerate the process of the **firm** becoming insolvent;
- (3) the **basic own funds** item, in the case of items referred to in **3F.1(1)(a)**, **3F.1(1)(b)** 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)** 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)** 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)** 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);
- (7) notwithstanding 3G.1(6), the basic own funds item may allow for the repayment or redemption of that item where there is non-compliance with the SCR or repayment or redemption would lead to such non-compliance, only where all the following conditions are met:
- (a) the firm has received prior permission from the PRA that it can repay or redeem that item;
  - (b) the item is to be exchanged for or converted into another Tier 1 own funds item, Tier 2 basic own funds item or Tier 3 basic own funds item of at least the same quality; and
  - (c) the MCR will be complied with after the repayment or redemption;
- (8) the basic own funds item, in the case of items referred to in 3F.1(1)(a), 3F.1(1)(b) 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
- (9) the basic own funds item is free from encumbrances and is not connected with any other transaction, which could undermine the features that the item is required to possess in accordance with 3G.

31/12/2024

3G.2 For the purposes of 3G, the exchange or conversion of a 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 receiving prior permission from the PRA.

31/12/2024

3G.3 For the purposes of 3G.1(6), references to the SCR must be read as references to the MCR where non-compliance with the MCR occurs before non-compliance with the SCR.

31/12/2024

3G.4 For the purposes of 3G.1(5), a firm may only treat incentives to redeem in the form of an interest rate step-up associated with a call option as limited where the step-up takes the form of a single increase in the coupon rate and results in an increase in the initial rate that is no greater than the higher of the following amounts:

- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; and
- (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.

31/12/2024

3G.5 Notwithstanding the requirement in 3G.1(3), the basic own funds item may allow for repayment or redemption before five years after the date of issuance where the following conditions are met:

- (1) the firm's SCR, after the repayment or redemption, will be exceeded by an appropriate margin, taking into account the solvency position of the firm, including the firm's medium-term capital management plan; and
- (2) the circumstances are as described in (a) or (b), either:
  - (a) there is a change in the regulatory classification of the basic own funds item which would be likely to result in its exclusion from the own funds or reclassification as a lower tier of own funds; and
    - (i) the PRA considers such a change to be sufficiently certain; and
    - (ii) the firm demonstrates to the satisfaction of the PRA that the regulatory reclassification of the basic own funds item was not reasonably foreseeable at the time of its issuance; or
  - (b) there is a change in the applicable tax treatment of the basic own funds item which the firm demonstrates to the satisfaction of the PRA:
    - (i) is material; and
    - (ii) was not reasonably foreseeable at the time of its issuance.

31/12/2024

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

31/12/2024

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

- (1) exchange or convert a **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
- (2) repay or redeem a Tier 3 **basic 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).

31/12/2024

## 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**, where they display all of the features set out in **3I**:

- (1) unpaid and uncalled ordinary share capital callable on demand;
- (2) unpaid and uncalled initial funds, members' contributions or the equivalent **basic own funds** item for **mutual** and **mutual-type undertakings**, callable on demand;

- (3) unpaid and uncalled preference shares callable on demand;
- (4) a legally binding commitment to subscribe and pay for subordinated liabilities on demand;
- (5) letters of credit and guarantees which are held in trust for the benefit of insurance creditors by an independent trustee and provided by credit institutions;
- (6) letters of credit and guarantees provided that the items can be called up on demand and are clear of encumbrances;
- (7) any future claims which mutual or mutual-type associations of shipowners with variable contributions solely insuring risks listed in paragraphs 6, 12 and 17 of Schedule 1 to the Regulated Activities Order may have against their members by way of a call for supplementary contributions, within the following 12 months;
- (8) any future claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions, within the following 12 months, provided that a call can be made on demand and is clear of encumbrances; and
- (9) other legally binding commitments received by the firm, provided that the item can be called up on demand and is clear of encumbrances.

31/12/2024

### **3I Tier 2 Ancillary Own Funds – Features Determining Classification**

3I.1 A firm must not classify as Tier 2 own funds, any ancillary own funds items listed in 3H that do not display the features of a basic own funds item classified as Tier 1 own funds items in accordance with 3A and 3B once that ancillary own funds item has been called up and paid in.

31/12/2024

### **3J Tier 3 Ancillary Own Funds - List of Own Funds Items**

3J.1 If:

- (1) a firm has received an ancillary own funds permission in respect of an ancillary own funds item; and
- (2) that item does not display all of the features set out in 3I,

31/12/2024 then the firm must classify that item as Tier 3 ancillary own funds.

### 3K Treatment of Participations in the Determination of Basic Own Funds

3K.1 A firm must, for the purpose of determining its basic own funds, reduce its basic own funds by the full value of participations, as referred to in 3K.6, in a financial and credit institution that exceeds 10% of items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f).

31/12/2024

3K.2 For the purpose of determining its basic own funds, a firm must reduce its basic own funds by the part of the value of all participations, as referred to in 3K.6, in financial and credit institutions, other than participations referred to in 3K.1, to the extent the aggregate value exceeds 10% of items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f).

31/12/2024

3K.3 Notwithstanding 3K.1 and 3K.2, a firm must not deduct strategic participations as referred to in Solvency Capital Requirement – Standard Formula 3D10 which are included in the calculation of the group solvency on the basis of method 1 as set out in the Financial Conglomerates Part or on the basis of method 1 as set out in 11 of the Group Supervision Part.

31/12/2024

3K.4 A firm must apply the deductions set out in 3K.2 on a pro-rata basis to all participations to which 3K.2 refers.

31/12/2024

3K.5 A firm must make the deductions set out in 3K.1 and 3K.2 from the corresponding tier in which the participation has increased the own funds of the related undertaking as follows:

(1) holdings of Common Equity Tier 1 items of financial and credit institutions must

be deducted from the items included in 3A.1(1)(a), 3A.1(1)(b), 3A.1(1)(d) and 3A.1(1)(f);

- (2) holdings of Additional Tier 1 instruments of financial and credit institutions must be deducted from the Tier 1 own funds items that display the features set out in 3B that are relevant for restricted Tier 1 own funds items; and
- (3) holdings of Tier 2 instruments of financial and credit institutions must be deducted from the basic own funds items included in 3D.

31/12/2024

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

- (1) participations which the firm holds in:
  - (a) credit institutions and financial institutions;
  - (b) investment firms; and
- (2) subordinated claims and instruments referred to in Articles 61 to 63 of CRR which a firm holds in respect of the entities defined in 3K.6(1) in which it holds a participation.

31/12/2024

## **3L Adjustment for Ring-Fenced Funds and Matching Adjustment Portfolios**

3L.1 Subject to 3L.2, for the purposes of 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.

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.

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.

31/12/2024

3L.2 Where the assets, the liabilities and the risk within a ring-fenced fund are not material, a firm may reduce the reconciliation reserve by the total amount of restricted own funds items.

31/12/2024

## 4 Eligibility and Limits Applicable to Tiers

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.

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

01/01/2016

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.

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

01/01/2016

## 4A Eligibility and Limits Applicable to Tiers 1, 2 and 3

4A.1 As far as compliance with the SCR is concerned, a firm must ensure that:

- (1) Tier 1 own funds items account for at least 50% of the SCR;
- (2) Tier 3 own funds items account for less than 15% of the SCR; and
- (3) the sum of the amounts of Tier 2 own funds items and Tier 3 own funds items do not account for more than 50% of the SCR.

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

- (1) Tier 1 own funds items account for at least 80% of the MCR; and
- (2) Tier 2 own funds items do not account for more than 20% of the MCR.

31/12/2024

4A.3 For the purposes of 4A.1(1) and 4A.2(1), the sum of the following basic own funds items must make up less than 20% of the total amount of Tier 1 own funds items:

- (1) Tier 1 own funds items that display the features set out in 3B that are relevant for restricted Tier 1 own funds items; and
- (2) items that are included in Tier 1 own funds under the transitional arrangement set out in Transitional Measures 4.1.

31/12/2024

4A.4 A firm must apply the quantitative limits set out in 4A to own funds items in respect of which it has received a classification of own funds permission.

31/12/2024

## 5 Notification of Issuance of Own Funds Items

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

- (1) any item which a firm intends to include within its basic own funds that is not included in the own funds lists, but in respect of which the firm would need to receive a classification of own funds permission; and
- (2) any item which a firm in respect of which a firm would need to receive an ancillary own funds permission.

31/12/2024

5.2 (1) Subject to 5.5, a firm must notify the PRA in writing of its intention to issue an item which it intends to include within its basic own funds at least one month before the intended date of issue, unless there are exceptional circumstances which

make it impracticable to give such a period of notice. In such circumstances, the **firm** must give the **PRA** as much notice as is practicable in those circumstances and explain to the **PRA** why the circumstances are considered exceptional.

(2) When giving notice, a **firm** must:

- (a) provide details of the amount of **basic own funds** the **firm** is seeking to raise through the intended issue and whether the item is intended to be issued to external investors or within its **group**;
- (b) identify the classification of **basic own funds** the item is intended to fall within;
- (c) provide a copy of the draft terms and conditions;
- (d) provide a draft of a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the item complies with the rules applicable to items of **basic own funds** included in the classification of the item identified in (b);
- (e) for any item referred to in **4A.3**, provide a draft of a properly reasoned independent accounting opinion from an appropriately qualified individual as to the item's treatment in the **firm's** financial statements;
- (f) include confirmation from the **governing body** of the **firm** that the item complies with the rules applicable to items of **basic own funds** included in the classification of the item identified in (b); and
- (g) state whether the item is encumbered or whether there are any connected transactions in respect of the item and, if so, provide details.

31/12/2024

5.3 If after an initial notification under **5.2**, but prior to an item's issuance, a **firm** proposes to change the information previously submitted, it must provide a further written notification of that change without delay.

01/03/2016

5.4 If a **firm** proposes to establish or amend a debt securities programme for the issue of an item for inclusion within its **basic own funds**, it must:

- (1) notify the **PRA** of the establishment of the programme or of the proposed amendment to the programme; and
- (2) provide the information required by **5.2**(2)

at least one month before any proposed drawdown. The PRA must be notified of any changes in accordance with 5.3.

01/03/2017

5.5 5.2 does not apply to:

- (1) ordinary shares which:
  - (a) meet the classification criteria for ordinary share capital in Tier 1 own funds; and
  - (b) are the same as ordinary shares previously issued by the firm;
- (2) debt instruments issued from a debt securities programme, provided that:
  - (a) the establishment of (and any subsequent amendment to) the programme was notified to the PRA in accordance with 5.4 and the last such notification was given to the PRA no more than twelve months prior to the date of the proposed drawdown;
  - (b) the programme complies with, and the information previously notified to the PRA in accordance with 5.4 in relation to the programme is unaffected by, any changes in law or regulation, or the interpretation or application of either, coming into effect since the last notification in accordance with 5.4; and
  - (c) any instrument issued pursuant to the programme must, under the terms of the programme, constitute basic own funds; and
- (3) any item which is to be issued on identical terms to one or more items included in basic own funds issued by the firm within the previous twelve months and notified to the PRA in accordance with 5.2, excluding (1) the issue date, (2) the maturity date, (3) the amount of the issuance, (4) the currency of the issuance, and (5) the rate of interest payable by the issuer.

01/03/2017

5.6 A firm must notify the PRA in writing, no later than the date of issue, of its intention to issue an item listed in 5.5 which it intends to include within its basic own funds.

When giving notice, a firm must:

- (1) provide the information set out in 5.2 other than 5.2(2)(c) (draft terms and conditions), 5.2(2)(d) (draft legal opinion) and 5.2(2)(e) (draft accounting opinion); and

(2) for issuance of an item pursuant to 5.5(1) or 5.5(3), confirm that the terms of the item have not changed since the previous issue by the firm of that type of item of basic own funds.

01/03/2017

5.7 A firm must notify the PRA in writing of its intention to amend or otherwise vary the terms of any item included within its basic own funds at least one month before the intended date of such amendment or other variation.

01/03/2016

5.8 A firm must provide to the PRA as soon as practicable after the issuance of an item of basic own funds to which 5.2, 5.4, 5.5(2) or 5.5(3) applies:

- (1) a finalised copy of the draft legal opinion referred to in 5.2(2)(d);
- (2) a finalised copy of the draft accounting opinion referred to in 5.2(2)(e) if applicable;
- (3) a copy of the instrument's final terms and conditions; and
- (4) a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem.

02/05/2017

## 6 Lloyd's

6.1 This Chapter applies to the Society.

01/01/2016

6.2 For the purposes of complying with the SCR Rules, the Society must categorise own funds at Lloyd's as between:

- (1) own funds attributable to the Society; and
- (2) own funds attributable to members which are available to support members' insurance business at Lloyd's, including funds at Lloyd's.

01/01/2016

6.3 The **Society** must notify the **PRA** in writing, within 14 days, in the event the **Council** makes a determination pursuant to paragraph 8(1A) or varies a determination pursuant to paragraph 8(1B)(a) of the New Central Fund Byelaw (No 23 of 1996) as amended, that the **Central Fund** or a part of the **Central Fund** is to constitute **own funds** attributable to the **Society** for the purposes of covering the **SCR** for Lloyd's.

01/01/2016

6.4 In determining **own funds** at Lloyd's in accordance with **2**, the **Society** shall have regard to:

- (1) the **Society's central assets** and **central liabilities**; and
- (2) the assets and liabilities of **members**, including assets which are available to support **members' insurance business** at Lloyd's, such assets including a **members' funds at Lloyd's**.

01/01/2016