

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**.

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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**.

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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*]

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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*]

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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*]

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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]

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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]

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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*]

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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*]

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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**.

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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)**.

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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)**.

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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**.

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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.

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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.

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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**.

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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).

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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.

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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)**.

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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.

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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**.

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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**.

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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.

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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 is 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**.

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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.

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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 is 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)**.

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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**.

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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**.

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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**.

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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.

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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**.

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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**.

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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**.

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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**.

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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.

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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.

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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