**Prudential Regulation Authority**

# Solvency II

# Supplementary information - ancillary own funds permissions

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|  Firm name Firm reference number Date of application Address  |  |
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The information below should be submitted by firms to allow the PRA to consider an application for permission to take into account an item of ancillary own funds (AOF) as part of its own funds in accordance with 2.1 and 2.5 - 2.7 of the Own Funds part of the PRA Rulebook. AOF permissions are granted pursuant to section 138BA of FSMA 2000

Firms should submit this information, together with the [**section 138BA permission application form**](https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/solvency-ii-approvals/s138ba-rule-permission-application-form.doc)and other documentary evidence to PRA-Waivers@bankofengland.co.ukand the firm’s usual supervisory contact.

Prior to application, firms should refer to chapter 1 and 3 of the Solvency II: PRA’s approach to insurance own funds permissions [[1]](#footnote-1) statement of policy (Own Funds SoP) for the PRA’s approach to granting regulatory permissions.

# A. General requirements

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| The AOF application. |  |
| 1.  | Does the application consist of a covering letter and all supporting evidence, including documents and other evidence which may already be held by the PRA? | Choose an item. |
| 2. | Does the cover letter contain a list of other applications submitted to the PRA for permission or currently foreseen within the next six months, together with corresponding application dates.  | Choose an item. |

# B. Cover letter

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| Does the cover letter confirm that: |  |
| 3.  | Any legal or contractual terms governing the AOF item or any connected arrangement are unambiguous and clearly defined.  | Choose an item. |
| 4.  | The amount ascribed to the AOF item in the application complies with the Own Funds 2.7. | Choose an item. |
| 5. | The economic substance of the AOF item, including how the item provides basic own funds once called up, has been fully reflected in the application.  | Choose an item. |
| 6. | The firm considers that the AOF item complies with the criteria for the classification of own funds, taking into account likely future developments, as well as the circumstances at the date of the application.  | Choose an item. |
| 7. | No facts have been omitted which if known by the PRA could influence. 1. its decision regarding whether to approve the AOF item;
2. the amount for which approval of the AOF item would be granted; or
3. the time period for which approval of a calculation method would apply.
 | Choose an item. |

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# C. Application detail

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| **Supporting evidence regarding the amount or method**  |  |
| 8.  | Is the application for approval of a specific monetary amount for an AOF item or a calculation method to determine the amount of an AOF item? For ‘monetary amount’ provide information 9a.For ‘calculation method’ provide information 9b to e. |  |
|  |  | **Cross reference to** **document(s)**  |
| 9a.  | State the monetary amount being applied for, including an explanation of the calculation of the amount, based on prudent and realistic assumptions in accordance with Own Funds 2.7.  |   |
| 9b.  | Explain the method and how it reflects the loss-absorbency of the AOF item.  |   |
| 9c.  | Describe the assumptions upon which the method relies and how these assumptions are prudent and realistic.  |   |
| 9d.  | Provide the item's expected initial amount that has been calculated in accordance with the method and a justification of that amount.  |   |
| 9e.  | Explain the validation processes the firm will implement to ensure that the results of the method continue to reflect the loss-absorbing capacity of the item on an ongoing basis.   |   |

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| **General information**The firm must provide at least: | **Cross reference to document(s)**  |
| 10.  | A description of the nature of the AOF item, including the intended tier and of the loss absorbing capacity of the basic own funds item into which the AOF item converts on being called up. |   |
| 11. | A copy of the item’s legal or contractual terms, together with the terms of any connected arrangement, and evidence that the counterparty has entered into, or will enter into, the contract and any connected arrangement.  |  |
| 12. | Evidence that the contract and any connected arrangement has been entered into or, if it will only be signed upon receipt of AOF approval, the date by which the firm will sign the contract.  |  |
| 13. | A legal opinion (by a suitable qualified person) that the contract and any connected arrangements are legally binding and enforceable in all relevant jurisdictions, based on legal opinions for each relevant jurisdiction. |  |
| 14. | Details of the period during which the contract is in effect and, if different, the period during which the firm can call the item. |  |
| 15.  | Confirmation that the AOF item, once that item has been called up and paid in, would display all of the features of a basic own funds item classified in Tier 1 in accordance with Own Funds 3B, or all of the features of a basic own funds item classified in Tier 2 in accordance with Own Funds 3E.  |   |
| 16.  | Confirmation that the items contractual terms do not contain any provision which might create a disincentive for the firm to call the item upon the item to absorb losses or place any constraint on its ability to be callable on demand.  |   |
| 17.  | Confirmation that the AOF item, or its benefits, would only be available to the firm and are not transferrable or assignable to any other party, or able to be encumbered in any other way.  |   |
| 18.  | Details of any factors which might restrict the conditions under which the firm might seek to call the AOF item, including but not limited to conditions of stress specific to the firm or wider market stress.  |   |
| 19.  | Whether the firm has, or in the future may have, any obligation to, or any expectation or understanding that it will pay funds or provide any other benefit to the counterparty or to a third party in connection with the item, other than in the event of repayment of a basic own funds item which would satisfy the features in the PRA Rulebook Own Funds 3B.1(8) and 3E.1(4). |   |
| 20.  | A copy of the medium-term capital management plan showing how the item will contribute to the firm’s capital structure and how the item might enable the firm to meet its existing or future capital requirements. |   |

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| **Information on counterparties** Except where paragraph 3.40 of the Own Funds SoP applies and the status of a group of counterparties may be assessed as though it were a single counterparty, the firm must provide information regarding the status of each counterparty including at least the following:  | **Cross reference to document(s)**  |
| Where the counterparties are treated as a group of counterparties in accordance with paragraph 3.40 of the Own Funds SoP the information in 21 – 26 must be provided in respect of the group of counterparties.Where the counterparty is a member of the same group or subgroup as the firm by virtue of the 2.1 and 2.4 of the Group Supervision Part of the PRA Rulebook and has commitments under AOF items to different entities within the group, the information in points 22 - 26 must include evidence of the ability of the counterparty to satisfy multiple calls on AOF items at the same time, having regard to the circumstances and the entities of the group. |
| 21.  | The name and description of each counterparty including the nature of any relationship between the firm and counterparty.  |   |
| 22.  | An assessment of the risk of default of the counterparties in order to support the assessment by the PRA specified in paragraph 3.36 of the Own Funds SoP. |   |
| 23.  | An assessment of the liquidity position of the counterparties in order to support the assessment by the PRA specified in paragraph 3.37 of the Own Funds SoP. |   |
| 24.  | An assessment of the counterparties’ willingness to pay in order to support the supervisory assessment specified in paragraph 3.38 of the Own Funds SoP.  |   |
| 25. | A description of the range of circumstances in which the firm might seek to call upon the item including current expectations as to when the item might be called prior to or at the point of non-compliance with the SCR or MCR. |  |
| 26. | Information on any other factors relevant to the status of the counterparties to support the assessment by the PRA specified in paragraph 3.38 of the Own Funds SoP. |   |

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| **Information on recoverability**The firm must provide information regarding the recoverability of the funds, including at least the following: | **Cross reference to document(s)**  |
| 27.  | Details of arrangements which might enhance the recoverability of the AOF item including the availability of collateral.  |   |
| 28.  | Details of whether national law, in any relevant jurisdictions, prevent a call being made or satisfied, including in the event of resolution, administration or insolvency proceedings being initiated in respect of thefirm.  |   |
| 29.  | Details of arrangement or circumstances that might prevent a call being made or satisfied in deteriorating financial conditions including non-compliance with the SCR or MCR.  |   |

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| **Information on past calls** The firm should provide information regarding past calls including at least the following: | **Cross reference to document(s)**  |
| 30.  | Information on its experience of past calls or the collection of other funds due from the same or similar counterparties in the same or similar circumstances.  |   |
| 31.  | All relevant available market data relating to past calls or the collection of other funds due from the same or similar counterparties in the same or similar circumstances.  |   |
| 32.  | An assessment as to the relevance and reliability of the information described in 30 and 31 above as regards the expected outcome of future calls by the firm.  |   |

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| **Information on processes to identify future changes**The firm should provide a description of its processes to identify any future changes, as specified in paragraph 3.31(d) of the Own Funds SoP, which may reduce the loss-absorbency of the AOF item, unless there are good reasons not to do so. This description should include but not be limited to: | **Cross reference to document(s)**  |
| 33a.  | How the firm intends to identify changes to the structure or contractual terms of the arrangement, including: * the cancellation or expiry of the AOF item, or
* the use or call (partly or wholly) of the AOF item.
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| 33b.  | How the firm intends to identify changes to the status of counterparties, including the default of a counterparty.  |   |
| 33c.  | How the firm intends to identify changes to the recoverability of the AOF item, including calls on other AOF items provided by the same counterparties.  |   |
| 34.  | How the firm intends to inform the PRA of changes identified, including what mechanisms it has put in place to identify when the change should be escalated to the administrative, management or supervisory body of the firm and to the PRA.  |   |

1. [Solvency II: The PRA’s approach to insurance own funds permissions | Bank of England](https://www.bankofengland.co.uk/prudential-regulation/publication/2024/november/solvency-ii-approach-to-insurance-own-funds-permission-sop) [↑](#footnote-ref-1)