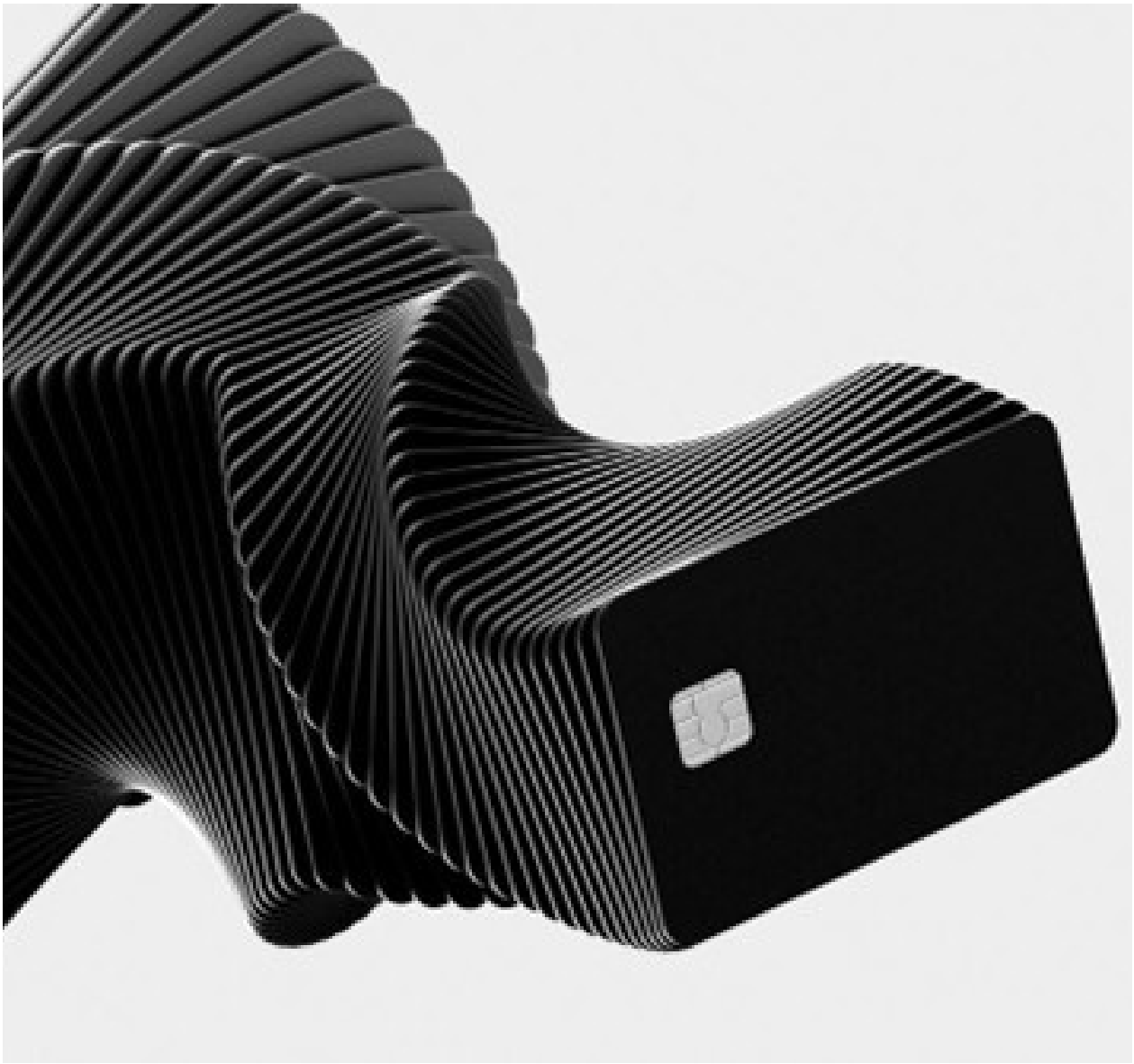
UK PRA PS 19/25—Securitisation Prudential Reforms

7 NOVEMBER 2025



A&O SHEARMAN

Contents

1. Background and Next Steps/Implementation Timing

This briefing, which is relevant to the prudential treatment of securitisations in general (traditional and synthetic) by UK PRA regulated banks, covers the securitisation-related content of PRA Policy Statement 19/25 (PS 19/25, published 28 October 25). PRA 19/25 sets out the PRA's approach in relation to the securitisation prudential reforms envisaged in its October 2024 Consultation Paper 13/24 (CP13/24) that the PRA regards as conceptually linked to the UK's Basel 3.1 implementation. It includes (among other developments – see below) reforms relating to SEC-SA p factor (a major development), the prudential treatment of HMT MGS, the asset risk weight limits for prudential STS eligibility, & refinements to the credit risk mitigation approach hierarchy for securitisations. In line with the UK's delayed Basel 3.1 implementation, these reforms will take effect on 1 January 2027.

By way of recap, this briefing also covers the securitisation-related content of PRA Policy Statement 12/25 (PS 12/25, published July 25). PS 12/25 set out the PRA's approach in relation to the securitisation prudential reforms envisaged in CP 13/24 that the PRA regards as not being conceptually linked to the UK's Basel 3.1 implementation. PS 12/25 included reforms relating to the use of unfunded credit protection in synthetic SRT transactions (a major development), and supervisory expectations regarding senior management's role in overseeing SRT transactions. These reforms will take effect on 1 January 2026.

While the reforms in PS 19/25 and PS 12/25 are articulated as being "near-final", rather than "final", this is to facilitate publication, in Q1 2026, of a PS covering the entire UK Basel 3.1 implementation, and changes of substance are not expected.

Please note that this briefing does not cover the rules applicable to small domestic deposit takers (SDDTs) under the separate regime that applies to them.

Please do not hesitate to get in touch with Jo Goulbourne Ranero, or your usual A&O Shearman contact(s), to discuss further if helpful.

2. Summary

RECAP ON JULY 25 PS 12/25

- Confirmed that **unfunded credit protection** will be newly **eligible in UK synthetic securitisations** from 1 January 2026 – this was a major positive development
- Introduced certain **technical reforms relating to senior management** involvement in **SRT sign-off** from 1 January 2026

PRA PS 19/25 REFORMS

- As envisaged by CP 13/24, PS19/25 **amends** the **SEC-SA p-factor** (which is also relevant to IRB banks under the IRB output floor) from 1 January 2027. The reforms reduce the quantum of the SEC-SA p-factor and make it newly risk sensitive/formulaic in a manner similar to the current SEC-IRB p-factor. This is a welcome reform to the UK securitisation risk weighting framework, with positive implications for issuance by SA banks, though somewhat less beneficial for certain non-granular pools and residential mortgages.
- In line with CP 13/24, PS 19/25 introduces **no further 'big-ticket' reforms to** the **UK securitisation risk weighting framework**. In contrast, in the EU, the Commission's legislative package envisages significant reforms, under all risk weighting approaches, to the p factors, risk weight floors, and HQLA treatment of securitisation positions, and to the notification process, quantitative tests, and permitted structural features, associated with SRT. The PRA is sympathetic to the view that certain further aspects of securitisation risk weighting framework are risk-insensitive, but is looking to Basel for reform in this respect.
- As proposed in CP 13/24, the PRA implements **new prudential approaches to reflect** the benefit of the guarantee in **HMT's MGS, and similar private schemes**. The proposed approach under the IRB is acknowledged to be conservative. Further refinements to allow an LTV approach to be considered in LGD modelling, contemplated in CP 13/24 and requested by industry participants, are not introduced in PS 19/25, however, the PRA proposes to consult on these in due course.
- The **PRA re-iterates** its **view that HMT's MGS, and similar private schemes** are **likely to be securitisations**, declining to endorse the view that "single mortgages with tranched protection" are excluded from the definition of securitisation, or that the application of the securitisation definition "is dependent on the prudential treatment of the transaction". The **PRA, however**, indicates that it **will give further consideration to** whether **industry concerns** about these schemes can be addressed in a manner that is consistent with the PRA's objectives, **including considering** the **use of** the **PRA's powers** under Article 8 of the securitisation part of the PRA Rulebook **in relation to** the **re-securitisation prohibition** – this was not envisaged in CP 13/24 and is a significant point.
- In line with CP 13/24 and industry expectations, the **PRA continues to oppose STS for synthetic securitisations**.
- In line with CP 13/24, the **PRA maintains** its **existing, non-Basel-aligned, credit rating requirements for insurers to write unfunded credit protection** on securitisation positions (these have fallen away in the EU for Solvency II insurers), **and limits** (much **more tightly than** does the **EU**) the specified **categories of public body** that are **not obliged to comply with the credit rating requirements** to write unfunded credit protection on securitisation positions (though the latter requirements are relaxed somewhat relative to the CP 13/24 proposals).
- The PRA makes certain **amends to** the **asset risk weight limits for STS prudential eligibility** relative to the current limits and to the CP 13/24 proposals. The revised limits, however, effectively continue to exclude

pre-operational project finance – a significant point – and remain highly restrictive in relation to CRE and ADC exposures.

- The **PRA** does not provide for, but **moots** the **possibility of**, a **future UK fast track notification** process for SRT – this was not envisaged in CP 13/24 and is a significant point.
- In line with CP 13/24, the point in time specified for **SRT quantitative risk transfer testing remains** unchanged (i.e. it is **ongoing**), **however**, the **PRA** newly indicates that it **may consider reform** in this respect in a future consultation – this was not envisaged in CP 13/24 and is a significant point.
- The PRA provides **new fall-back risk weights for the calculation of K_{SA} by non-originator investors** in third party securitisations (i.e. where there is limited data access) – this was not envisaged in CP 13/24 and is a significant point. The fall-back risk weights are cross-referenced in the asset risk weight limits for STS prudential eligibility, however, given that those limits are tested by reference to the "best knowledge of the originator or original lender" the application of the fall-back risk weights in that context is somewhat unclear. This interaction (and provision for the availability of the fall-back risk weights to originators, for example in relation to the treatment of unrated corporates) would appear to warrant further consideration by the PRA.
- As proposed in CP13/24, the PRA adopts **securitisation-specific decision trees/flow charts for credit risk mitigation**.
- As proposed in CP 13/24, the PRA increases the **preferential CCF for cash advance facilities** in the securitisation exposure value calculation from 0% to 10% in line with revised general CCF for UCCS under the UK's Basel 3.1 implementation.
- As proposed in CP 13/24, the PRA helpfully **modifies** the **K_{SA}. calculation to avoid double counting of exposures in default**, however, the modification is now made optional to avoid operational burden (this was not envisaged in CP 13/24).
- As proposed in CP 13/24, the PRA imposes an **obligation** on firms **to notify PRA of** breaches of securitisation requirements, but this is now made **subject to** an effective **materiality qualifier** (this was not envisaged in CP 13/24).
- The **PRA** helpfully **confirms** that the **nomination of ECAIs for securitisation** risk weighting purposes **only remains permitted** – this was not envisaged in CP 13/24.
- As proposed in CP 13/24, **detailed mechanics** are adopted **for** a firm intending to exercise the **option to apply** the **SEC-ERBA instead of** the **SEC-SA** (where the SEC-SA is otherwise available).
- The **PRA appears to agree** (as requested by industry participants) **with** the **distinction drawn by the EBA**, in Q&A, **between retention via securitisation positions and retention via entitlement to cash-flows** – this was not envisaged in CP 13/24.
- As indicated in CP 13/24, the PRA now proposes to provide "feedback" rather than a notice of "non-objection" in relation to SRT assessments.
- Article 47a is now aligned with the EU CRR to avoid divergence in terms of NPE classification (this was not envisaged in CP 13/24).

3. Recap on July 25 PS 12/25 Reforms

PS 12/25 Confirmed That Unfunded Credit Protection Will Be Newly Eligible In UK Synthetic Securitisations From 1 January 2026 – This Was A Major Positive Development

In PS 12/25, the PRA confirmed its decision to permit the use of unfunded credit protection (**UFCP**) in synthetic SRT transactions. This was a highly significant development, likely to improve UK competitiveness, potentially unlock additional deal-flow, and improve investor diversification.

As anticipated in CP 13/24, the PRA indicated that it still regards UFCP as a "complex feature" to be discussed by a firm with its supervisor at an early stage, and expects originators, as part of the monitoring and stress-testing of SRT transactions, to assess the risk of a downgrade of the protection provider and the implications for the effectiveness/eligibility of the unfunded credit protection and to reflect this in their capital planning.

The existing CRR requirements in relation to the use of UFCP in synthetic securitisations also continue to apply: these include mechanics to account for the residual credit risk on the UFCP provider, and credit rating requirements to write unfunded credit protection on securitisation positions[1]. As discussed further below, the PRA has not responded to industry requests to remove specific CQS credit rating requirements for insurers in line with Basel (as was done in the EU for Solvency II insurers as part of the EU Basel 3.1 implementation in January 2025).

Beyond these provisions, however, the PRA, happily, does not propose any Basel super-equivalent restrictions.

PS 12/25 Introduced Certain Technical Reforms Relating To Senior Management Involvement In SRT Sign Off From 1 January 2026

The second reform in PS 12/25 related to the senior managers who can sign off on SRT trades. This reform (in line with expectations following CP 13/24) included a requirement for oversight and approval by the chief finance function (SMF 2) and any senior manager holding Prescribed Responsibility (PR) O[2], or AA[3] and CC[4], if a different person. In light of industry concerns about the bottlenecks this could create in large institutions, however, the PRA, helpfully, amended the draft expectations to clarify that a Senior Manager, while retaining accountability for the oversight and approval of these transactions, may rely on expert input and/or delegate the act of signing and submitting notifications, where this is consistent with the PRA's expectations on reasonable steps and delegation.

1 A- or better at inception, BBB- or better thereafter) to write UFCP on securitisation positions
2 On 'managing the allocation and maintenance of the firm's capital, funding and liquidity'.
3 On 'implementing and managing the firm's risk management policies and procedures'.
4 On 'managing the firm's financial resources'.

4. New October 25 PRA PS 19/25 Reforms

As Envisaged By CP 13/24, PS 19/25 Amends The P-Factor Applicable Under The SEC-SA (Which Is Also Relevant To IRB Banks Under The IRB Output Floor) From 1 January 2027. The Reforms Reduce The Quantum Of The SEC-SA P-Factor And Make It Newly Risk Sensitive/Formulaic In A Manner Similar To The Current SEC-IRBA P-Factor. This Is A Welcome Reform To The UK Securitisation Risk Weighting Framework, With Positive Implications For Issuance By SA Banks, Though Somewhat Less Beneficial For Certain Non-Granular Pools And Residential Mortgages

The p factors embedded in the securitisation risk weighting hierarchy govern the non-neutrality/conservatism of securitisation capital requirements relative to the capital requirements for the underlying assets. In CP 13/24, the PRA proposed an alternative approach (the **Risk Sensitive SEC-SA P-Factor**) to the p-factor calculation under the securitisation standardised approach (**SEC-SA**)

The PRA is implementing the Risk Sensitive SEC-SA P-Factor in line with the CP 13/24 proposals.

Under the Risk Sensitive SEC-SA P-Factor – which is closely based on the existing securitisation internal ratings based approach (**SEC-IRBA**) p-factor – p can be reduced to 0.5 for transactions that do not qualify as simple, transparent and standardised (**STS**) securitisations, and to 0.3 for STS transactions, and caps out at the p-factor otherwise applicable under the SEC-IRBA. The actual reduction, however, is based on a formula which depends on multiple transaction features including portfolio granularity and loss given default (**LGD**), tranche maturity and seniority, and whether or not the deal is retail, meaning that the theoretical lowest p-factor value may not be achieved in practice for a tranche.

The absolute reductions in p that can be achieved under the Risk Sensitive SEC-SA P-Factor are similar to those applied, in the EU, on a long transitional basis, in the context of the IRB output floor calculation (a transitional which is relevant only to IRB banks, whereas the Risk Sensitive SEC-SA P-Factor benefits SA banks too)[5]. The reductions are also in line with data provided by industry participants in response to a prior PRA discussion paper (DP 3/23) on the reductions needed to avoid disproportionate impacts for securitisation from UK implementation of the IRB output floor.

The PRA believes that the Risk Sensitive SEC-SA P-Factor broadly neutralises the impact of the IRB output floor for IRB banks and portfolios and represents a significant additional incentive to engage in SRT for banks and portfolios applying the standardised approach to credit risk. The risk sensitivity of the Risk Sensitive SEC-SA P-Factor. however, means that, per data analysis by industry participants, it is not as favourable, in practice, for certain non-granular pools and for residential mortgages (where the absolute reductions available may not be achieved).

Calls, from certain industry participants, for lower p values were rejected on grounds of excessive Basel deviation and the need for the SEC–SA to generate more conservative outcomes than the SEC–IRBA. The PRA also expressed concern that further reductions could change the incentives for synthetic SRT securitisations with impacts for “safety and soundness” that are “difficult to predict”.

---

5 Through to end 2032, the EU output floor halves the p factors that govern non-neutrality in the SEC-SA where it is used for purposes of the output floor – down from 1 to 0.5 for non-STS and from 0.5 to 0.25 for STS

In Line With CP 13/24, PS 19/25 Does Not Introduce Any Further 'Big-Ticket' Reforms To The UK Securitisation Risk Weighting Framework. In Contrast, In The EU, The Commission's Legislative Package Envisages Significant Reforms, Under All Risk Weighting Approaches, To The P Factors, Risk Weight Floors, And HQLA Treatment Of Securitisation Positions, And To The Notification Process, Quantitative Tests, And Permitted Structural Features, Associated With SRT. The PRA Is Sympathetic To The View That Certain Further Aspects Of Securitisation Risk Weighting Framework Are Risk-Insensitive, But Is Looking To Basel For Reform In This Respect

The PRA does not provide for further big-ticket reforms to the securitisation risk weighting framework, notwithstanding the major package of reforms currently under discussion in the EU (in relation to the CRR, the **EC EU CRR Proposals**).

The EC EU CRR Proposals include reforms, *under all approaches*, to the risk weight floors embedded in the securitisation risk weighting hierarchy (which limit the risk weight reductions that can be achieved for senior securitisation positions). The EU risk weight floor reforms involve a new risk sensitivity to the floors, as well as reductions in the absolute floors achievable, and are intended to improve risk sensitivity and the economic feasibility of SRT securitising low risk weight asset classes such as mortgages. The EC EU CRR Proposals also include reforms, *under all approaches*, to the p factors embedded in the securitisation risk weighting hierarchy/equivalent adjustments to the SEC-ERBA (where there are no p factors), improvements in the treatment of securitisation positions as high quality liquid assets (HQLA) eligible for inclusion in credit institutions' liquidity buffers for purposes of the liquidity coverage ratio (LCR), and certain reforms relating to the SRT framework. A new EU-specific label of "resilience" is developed to justify these improvements in securitisation prudential treatment relative to the Basel framework.

The PRA does express sympathy with the lack of sensitivity in certain other aspects of securitisation risk weighting framework, specifically: the current fixed risk weight floor, the 1,250% risk weighting of securitisation positions detaching up to KA/KIRB, and the "E" coefficient determining the effect of maturity in the p factor formula (particularly in relation to retail securitisations). However, the PRA believes that these issues would be better addressed at international level, i.e. looking to reform at Basel level. Industry responses had advised against relying on Basel level reform at in light of the uncertainty and long timescales involved, however, the PRA considers that "diverging policy developments" in different jurisdictions provide a strong case that the rules should be discussed at international level.

In Line With CP 13/24 And Industry Expectations, The PRA Continues To Oppose STS For Synthetic Securitisations

In line with CP13/24 and industry expectations, the PRA indicates that it remains opposed to extending the preferential capital treatment for STS securitisations to synthetic securitisations. The PRA articulates such a reform as potentially having a "negative effect on safety and soundness" by "increasing capital reductions without reasonable justification".

As Proposed In CP13/24, The PRA Implements New Prudential Approaches To Reflect The Benefit Of The Guarantee In HMT's MGS And Similar Private Schemes. The Approach Under The IRB Is Acknowledged To Be Conservative. Further Refinements To Allow An LTV Approach To Be Considered In LGD Modelling, Contemplated In CP 13/24 And Requested By Industry Participants, Are Not Introduced In PS 19/25, However, The PRA Proposes To Consult On These In Due Course

The PRA (which is bearish and inclined to gold plate, in general, in relation to the risk weighting of UK real estate exposures) is concerned about the large reduction in risk weights generated by securitisation treatment of retail residential mortgage loans guaranteed under HMT's mortgage guarantee scheme (**MGS**) – £8.2 billion in issuance of which took place between launch of the current scheme in April 2021 and end December 2023 – and private mortgage insurance schemes with similar contractual features, relative to the risk weighting of mortgages with loan for value (LTV) ratios similar to the effective post-guarantee LTV.

In CP13/24, the PRA indicated that – at present – prudential recognition of SRT is typically not permitted for these deals, on the basis that the capital relief that recognition would generate would be disproportionate to i.e. not

"commensurate" with the risk transferred. The PRA proposed new prudential approaches, to reflect the benefit of the guarantee in these structures, that were less beneficial than securitisation risk weighting because they effectively ignore the first loss basis of the guarantee protection, but preferable to the, current, total absence of protection recognition. There is no requirement for SRT notification or compliance with the SRT tests in order to apply these treatments.

Specifically, the PRA proposed to require banks applying the standardised approach to credit risk to apply the loan splitting approach (under the general standardised approach to credit risk) to the guaranteed loan, reflecting the guaranteed portion of the loan (which is zero risk weighted where provided by HMT) as effectively the *top slice* of LTV. This results in much higher risk weights (e.g. a 37% risk weight, if the guarantee is by HMT and results in a post guarantee exposure equal to 80% of the LTV, as opposed to the 15% risk weight applicable to the retained senior tranche in a deal structured to meet the non-STS risk weight floor using securitisation risk weighting)[6].

For banks applying the internal ratings-based approach to credit risk (which does not include the loan splitting approach to residential mortgages), the PRA proposed that banks should treat the guarantee as a pro rata, rather than tranched first loss, credit protection. Recognition would be conditional on certain parameters relating to the tranche[7].

Industry participants' responses noted the conservative nature of the treatment under the internal ratings based approach to credit risk and recommended developing the approach (as contemplated by the PRA in CP13/24) to allow an LTV approach to LGD modelling under the IRB (stating that firms may include 'qualifying securitisation protection' within an IRB model to allow for an altered LTV where the protection is a government guarantee). The pro rata treatment in CP13/24 would be retained as a backstop.

The PRA indicates that is agrees that "in economic terms, the existence of subordinated credit protection is likely to lower realised losses in the event of possession", but considers that the mechanics of adjustment to IRB models to reflect this would require further consideration. It therefore implements the pro rata treatment in CP13/24, but proposes "in due course" to consult on introducing an alternative approach enabling firms to adjust their IRB models.

The PRA Re-Iterates Its View That HMT's MGS And Similar Private Schemes Are Likely To Be Securitisations, Declining To Endorse The View That "Single Mortgages With Tranched Protection" Are Excluded From The Definition Of Securitisation, Or That The Application Of The Securitisation Definition "Is Dependent On The Prudential Treatment Of The Transaction". The PRA, However, Indicates That It Will Give Further Consideration To Whether Industry Concerns About These Schemes Can Be Addressed In A Manner That Is Consistent With The PRA's Objectives, Including Considering The Use Of The PRA's Powers Under Article 8 Of The Securitisation Part Of The PRA Rulebook In Relation To The Re-Securitisation Prohibition – This Was Not Envisaged In CP 13/24 And Is A Significant Point

In its discussion of the HMT's MGS and similar private schemes, the PRA re-iterates its view that these schemes "are likely to be securitisations". The PRA declined to endorse the view that "single mortgages with tranched protection" are excluded from the definition of securitisation, or that the application of the securitisation definition "is dependent on the prudential treatment of the transaction". However, the PRA "notes the concerns raised by the respondents and will give further consideration whether they can be addressed in a manner that is consistent with the PRA's objectives". This could include further consideration to use of the PRA's powers under Article 8 of the Securitisation Part of the PRA Rulebook to allow the underlying exposures of a securitisation to include securitisation exposures.

---

6 This change was justified on the basis that the Basel calibration assumes a large and diverse pool of assets (which rationale is doubtful given it is explicit at Basel level that a single loan can be securitised and never the less be eligible for the risk weight floors that apply to more granular pools) and that the structure is economically akin to HMT holding a second lien loan in respect of the guaranteed portion of the LTV.

7 "[...] if there are more than two tranches in the Loan and the originator institution holds the entirety of all tranches in the Loan for which 5 * A + D, where A is the attachment point and D the detachment point of the tranche"

In Line With CP 13/24, The PRA Maintains Its Existing, Non-Basel-Aligned, Credit Rating Requirements For Insurers To Write Unfunded Credit Protection On Securitisation Positions (These Have Fallen Away In The EU For Solvency II Insurers), And Limits (Much More Tightly Than Does The EU) The Specified Categories Of Public Body That Are Not Obliged To Comply With The Credit Rating Requirements To Write Unfunded Credit Protection On Securitisation Positions (Though The Latter Requirements Are Relaxed Somewhat Relative To The CP 13/24 Proposals)

In relation to the credit rating requirements to write unfunded credit protection on securitisation positions, the PRA has declined industry requests to remove specific CQS credit rating requirements for insurers in line with Basel (as effected for Solvency II and equivalent insurers, in the EU, from January 2025).

The PRA is concerned that recognition, within the securitisation framework, of unfunded credit protection provided by "unrated or poorly rated counterparties" could result in "undercapitalisation of such exposures relative to the risk level" and be inconsistent with "safety and soundness".

The PRA has refined the list of entities in respect of which rating requirements do not have to be fulfilled. The list is tightly circumscribed and much tighter than the EU equivalent, though includes some relaxations relative to the CP13/24 proposals[8]. ECAI credit ratings (or credit ratings based on internal PD assessment where the parameter substitution method is used) are not required for: QCCPs, the UK government, the Bank of England, the Scottish and Welsh Governments, the Northern Ireland Executive, specified international MDBs, the EU, IMF, BIS, EFSF and ESM. In relation to other central governments and central banks, regional governments, local authorities and public sector entities (which would not be subject to ratings requirements at all under the EU CRR): where there is no eligible rating for the relevant entity, but an eligible ECAI rating exists for the central government in its jurisdiction, the PRA indicates that the central government rating may be used.

The PRA also clarifies that, where applicable, the credit rating requirement extends to counter-guarantees.

The PRA Makes Certain Amends To The Asset Risk Weight Limits For STS Prudential Eligibility Relative To The Current Limits And To The CP 13/24 Proposals. The Revised Limits, However, Effectively Continue To Exclude Pre-Operational Project Finance And Remain Highly Restrictive In Relation To CRE And ADC Exposures

As industry participants indicated to the PRA, amends to the standardised approach to credit risk under the UK's Basel 3.1 implementation mean that certain of the risk weight limits required to achieve STS prudential benefits were no longer achievable, at all, in certain cases and, more broadly, appeared to require updating.

Recognising this, the PRA has amended the STS risk weight limits, but only so far as strictly required to stop the specified limits from being *impossible* to meet. Specifically, the PRA has amended the STS risk weight limits to permit CRE exposures and ADC exposures with risk weights of 100% and 60% respectively, on an individual exposure basis, in line with the minimum possible risk weights for such exposures under the UK Basel 3,1 implementation. The circumstances in which these risk weights are available are, however, very restrictive: CRE can only achieve a 60% risk weight where it is: regulatory CRE, not materially dependent on cash flows from the property, and where the counterparty risk weight also does not exceed 60%. ADC can only achieve a 100% risk weight where it takes the form of a loan granted for the purpose of developing *residential real estate* satisfying specified conditions.

---

8 In the EU the following entities do not require credit ratings: (a) central governments and central banks; (b) regional governments or local authorities; (c) multilateral development banks; (d) international organisations exposures to which a 0 % risk weight is assigned under Article 117 EU CRR; (e) public sector entities, claims on which are treated in accordance with Article 116 EU CRR; (f) institutions, and financial institutions for which exposures to the financial institution are treated as exposures to institutions in accordance with Article 119(5) EU CRR;

Pre-operational project finance (a form of corporate exposure) remains incompatible with the specified risk weight limits. The applicable risk weight limit applies on an individual exposure basis meaning that a single pre-operational exposure in a pool would result in non-compliance with the STS risk weight limits. This is a significant point.

As indicated below, the PRA will permit *non-originator* investors to apply fall-back risk weights in calculating K_{SA} that (amongst other things) facilitate application of a 100% risk weight to unrated corporates in a securitisation portfolio (presumably, though this is not explicit, irrespective of the investor's overall election under the PRA's new risk sensitive treatment for unrated corporate exposures, which distinguishes between investment grade and non-investment grade exposures). This ability, however, does *not* apply to originators, meaning that, where an originator elects to apply the new risk sensitive treatment for unrated corporate exposures under the UK Basel 3.1 implementation, its *non-investment grade* unrated corporate exposures will not, from its perspective, comply with the applicable 100% STS asset risk weight limit. The STS asset risk weight limits are, in any case, articulated as being assessed relative to "the best knowledge of the originator or original lender", making the cross-reference, in the STS asset risk weight limits, to the fall-back risk weights "where relevant and applicable" somewhat confusing. This interaction (and provision for the availability of the fall-back risk weights to originators, for example in relation to the treatment of unrated corporates) would appear to warrant further consideration by the PRA.

The PRA Does Not Provide For, But Moots The Possibility Of, A Future UK Fast Track Notification Process For SRT – This Was Not Envisaged In CP 13/24 And Is A Significant Point

In response to industry requests, the PRA indicates that, while the PS reforms do not provide a fast-track process for SRT notification, this *may* be a "part of future policy development".

In Line With CP 13/24, The Point In Time Specified For SRT Quantitative Risk Transfer Testing Remains Unchanged (i.e., It Is Ongoing), However, The PRA Newly Indicates That It May Consider Reform In This Respect In A Future Consultation – This Was Not Envisaged In CP 13/24 And Is A Significant Point

As industry participants indicated to the PRA, it appears purposively desirable for the assessment of quantitative risk transfer and commensurateness to be assessed upfront based on lifetime cashflow expectations and (generally) not brought down, in order to avoid instability and cliff effects in capital requirements as a transaction performs in the ordinary course. Ongoing testing could also detrimentally affect systemic stability by creating pro-cyclicality. Upfront testing, only, is the proposed position in the EU, under the EBA SRT report, absent transaction restructuring/implicit support.

The PRA has not made any change to the specified time for SRT quantitative risk transfer and commensurateness testing, for the time being, which therefore remains ongoing. The PRA does, however, note the concerns expressed, and indicates that it may consider the matter in a future consultation.

The PRA Provides New Fall-Back Risk Weights For The Calculation Of K_{SA} By *Non-Originator* Investors In Third Party Securitisations (i.e., Where There Is Limited Data Access) – This Was Not Envisaged In CP 13/24 And Is A Significant Point (see Article 255(10)). The Fall-Back Risk Weights Are Cross-Referenced In The Asset Risk Weight Limits For STS Prudential Eligibility, However, Given That Those Limits Are Tested By Reference To The "Best Knowledge Of The Originator Or Original Lender" The Application of the Fall-Back Risk Weights In That Context Is Somewhat Unclear

As industry participants indicated to the PRA, the increase in risk sensitivity, in certain respects, of the standardised approach to credit risk under the UK's Basel 3.1 implementation will require investors in third party (i.e. not own originated) securitisations to have access to data that is not currently available to them, or that it is not practical to analyse in pools potentially containing tens of thousands of exposures. For example, the PRA's new risk sensitive treatment for unrated corporate exposures requires assessment as to whether an exposure is investment grade before it can be risk weighted under the standardised approach to credit risk.

The PRA is therefore introducing a set of specified (conservative) fall-back risk weights that can be applied by a non-originator investor in order to calculate K_{SA}.

As indicated above, the fall-back risk weights are cross-referenced in the STS asset risk weight limits "where relevant and applicable" (indeed the PS in some places refers to the new risk weights as being new "STS" risk weights, though Article 255(10) does not limit them in this way, making them available for the calculation of K_{SA} in general). The STS asset risk weight limits, however, are articulated as being assessed relative to "the best knowledge of the *originator* or original lender", making the cross-reference somewhat confusing, given that the new risk weights are only available to *non-originator* investors. This interaction (and provision for the availability of the fall-back risk weights to originators, for example in relation to the treatment of unrated corporates) would appear to warrant further consideration by the PRA.

The alternative risk weights are: (a) 100% for underlying exposures that are not defaulted exposures or real estate exposures and are either unrated corporate exposures (that are not project finance or SME exposures), unrated SMEs (that are not project finance exposures), retail exposures or residential real estate exposures that are not materially dependent on cashflows generated by the property, (b) 150% for other underlying exposures that are not securitisation positions, subordinated debt instruments, own funds instruments, equity instruments, and are not in the form of units of shares in a CIU, and otherwise (c) 1250%.

The fall-back risk weights can be used on a per exposure basis, but if the 100% fall-back for unrated corporate exposures is used, then all such exposures have to be treated in this way (presumably only in the same deal, though this is not explicit).

As Proposed In CP13/24, The PRA Adopts Securitisation-Specific Decision Trees/Flow Charts For Credit Risk Mitigation

As proposed in CP13/24, securitisation-specific decision trees/flow charts are adopted to show which methods for the recognition of credit protection can be used in which circumstances. These decision trees embed the general implementation principle in the UK's Basel 3.1 implementation for unfunded protection, of using the lowest common denominator approach applicable to the credit protection provider and the protected exposure.

As Proposed In CP13/24, The PRA Increases The Preferential CCF For Cash Advance Facilities In The Securitisation Exposure Value Calculation From 0% To 10% In Line With Revised General CCF For UCCs Under The UK's Basel 3.1 Implementation

As proposed in CP13/24, and notwithstanding comments from industry participants regarding the low probability of such facilities bearing losses, the PRA is implementing a revision to the preferential treatment for cash advance facilities in the securitisation exposure value calculation. The general 100% credit conversion factor for off-balance sheet securitisation positions has, historically, been reduced to 0% for eligible cash advance facilities, but as indicated in CP 13/24 the PRA is now aligning the CCF with the revised credit conversion factor for unconditionally cancel commitments, under the UK's Basel 3.1 implementation, being 10%.

As Proposed In CP13/24, The PRA Helpfully Modifies The K_{sa} Calculation To Avoid Double Counting Of Exposures In Default, However, The Modification Is Now Made Optional To Avoid Operational Burden (This Was Not Envisaged In CP 13/24)

The K_{SA} calculation is helpfully modified, as proposed in CP13/24, to exclude defaults captured by the W parameter and thus to avoid double counting. In response to industry requests, the PRA has, however, made the modification optional, at transaction level, in order to avoid operational burden.

As Proposed In CP13/24, The PRA Imposes An Obligation On Firms To Notify It Of Breaches Of Securitisation Requirements, But This Is Now Made Subject To An Effective Materiality Qualifier (This Was Not Envisaged In CP 13/24)

An obligation for firms to notify the PRA of breaches of securitisation requirements specified in Articles 270a and Article 14 CRR is introduced as envisaged in CP 13/24, but clarifying that the obligation applies where "the PRA would reasonably expect to be notified".

The UK onshoring does not replicate Article 14(2) EU CRR Article 270a EU CRR in providing that immaterial breaches of due diligence requirements by entities included in an institution's prudential consolidation, but established in third countries, are not anticipated to attract regulatory action/censure unless the breach is material in relation to the overall risk profile of the group. The PRA merely indicates, in response to industry participants' request to re-introduce this materiality provision that it will "consider the circumstances and decide whether it would be appropriate to exercise its powers, taking relevant circumstances into account".

The PRA Helpfully Confirms That The Nomination Of ECAIs For Securitisation Risk Weighting Purposes, Only, Remains Permitted – This Was Not Envisaged In CP 13/24

Amendments to Article 138(a) CRR (which addresses ratings requirements in relation to risk weighting for non-securitisation positions) in its UK onshoring, removes the flexibility to use ratings produced by an ECAI for a "*certain class of items*" and requires ratings produced by a nominated ECAI to be used "*for risk-weighting all types of exposures for which the nominated ECAI (or ECAIs) produce credit assessments*"[9]. The use of ECAIs to rate *securitisation positions*, however, is separately addressed at Article 270d within the Securitisation Part of the PRA Rulebook: CRR Firms.

The PRA has helpfully confirmed that nominations of ECAIs for securitisations are separate from nominations of ECAIs for the purposes of the standardised approach to credit risk.

As Proposed In CP13/24, Detailed Mechanics Are Adopted For A Firm Intending To Exercise The Option To Apply The SEC-ERBA Instead Of The SEC-SA (Where the SEC-SA Is Otherwise Available)

As envisaged in CP 13/24, there is technical clarification of the circumstances in which a firm can opt to apply the SEC-ERBA instead of the SEC-SA (where the SEC-SA is otherwise available). The option exercisable on an annual basis, providing least one month's notice to the PRA if the choice of option is to change, and the chosen option must be complied with until varied.

As Proposed In CP13/24, The PRA Implements A Helpful Amendment To The Maximum Capital Requirements Cap (Article 268) In The Securitisation Risk Weighting Framework, But Now Adds Additional Refinements Requested By Industry Participants (Which Were Not Envisaged In CP 13/24)

CP13/24 proposed an optional modification to the calculation of the Article 268 CRR capital requirements cap potentially beneficial to firms retaining substantial portions of junior tranches. Industry participants pointed out that this reform would typically not benefit originators in UK securitisations, as they are (typically) required to sell the first loss tranche in order to achieve SRT, and proposed an amendment so that the marginal effect on total RWAs would always equal the risk weight of the securitisation position, providing a more consistent capital outcome for different risk retention approaches. The PRA has adopted the proposal including this modification.

The PRA Appears To Agree (As Requested By Industry Participants) With The Distinction Drawn, By The EBA In Q&A, Between Retention Via Securitisation Positions And Retention Via Entitlement To Cash-Flows – This Was Not Envisaged In CP 13/24 And Is A Significant Point

Industry participants requested confirmation from the PRA that it agrees with EBA Q&A 2015_2472 and Q&A 2019-4987 in distinguishing the following scenarios:

---

[9] See page 67 of the draft PRA RULEBOOK: CRR FIRMS: (CRR) INSTRUMENT [2024] accompanying accompany PS9/24: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2024/september/ps924app2.pdf

- a scenario in which 100% of the cash-flows on the exposures held by the SSPE are securitised, and retention takes the form of a 5% holding of each issued tranche of notes in the securitisation (or an instrument that is economically equivalent) (referred to as **Retention Via Securitisation Positions**) – in this case, the retention is characterised as a securitisation position; and
- a scenario in which only 95% of the cash-flows on the exposures held by the SSPE are securitised, and retention takes the form of an instrument (which may be a note) issued by the SSPE entitling the retainer to 5% of the cash-flows on the exposures held by the SSPE (referred to as **Retention Via Entitlement to Cash-flows**) – in this case, the retention is *not* characterised as a securitisation position.

In response, the PRA appears to endorse, or at least not dismiss, this distinction[10].

As Indicated In CP13/24, The PRA Now Proposes To Provide "Feedback" Rather Than A Notice Of "Non-Objection" In Relation To SRT Assessments

In line with CP 13/24, references to the PRA providing a notice of "non-objection" or a "view" in relation to SRT have been replaced with references to the PRA providing "feedback". Industry participants queried whether this was a sufficiently certain basis for a binary transaction execution decision, but the PRA believes that it is.

Article 47a Is Aligned With The EU CRR To Avoid Divergence In Terms Of NPE Classification (This Was Not Envisaged In CP 13/24)

In response to industry requests, the PRA has re-incorporated equivalents to Article 47a(4) of the EU CRR (relating to circumstances in which exposures not subject to forbearance measure cease to be classified as non-performing) and Article 47a(5) of the EU CRR (indicating that classification of a non-performing exposure as non-current asset held for sale in accordance with the applicable accounting framework does not discontinue its classification as non-performing exposure) in the Non-Performing Exposure Securitisation (CRR) Part to avoid unnecessary divergence with the EU classification mechanics.

[10] The PRA indicates that "there may be instances where a vertical note is unlikely to be a securitisation position (for example, because it references underlying exposures that are excluded from the securitisation pool of exposures) and may be risk-weighted as a proportionate look through to the underlying exposures" but that [t]his does not apply in a situation where the firm instead achieves a vertical exposure by holding a percentage of each tranche, which should be treated as a collection of securitisation positions". The PRA considers that the refinements to the maximum capital requirements cap (Article 268) may "alleviate the differences in capital outcomes for these scenarios".

Contacts

Global Financial Markets

Jo Goulbourne Ranero
Consultant

Tel +44 20 3088 6857
jo.goulbourneranero@allenovery.com

Maria Green
Knowledge Counsel

Tel +44 20 3088 2697
maria.green@allenovery.com

Parya Badie
Partner

Tel +44 20 3088 2844
parya.badie@allenovery.com

Guy Antrobus
Partner

Tel +44 20 3088 2674
guy.antrobus@allenovery.com

Sally Onions
Partner

Tel +44 20 3088 3584
sally.onions@allenovery.com

Salim Nathoo
Partner

Tel +44 20 3088 2838
salim.nathoo@allenovery.com

Lucy Oddy
Partner

Tel +44 20 3088 4454
lucy.oddy@allenovery.com

Iona Misheva
Partner

Tel +44 20 3088 3749
iona.misheva@allenovery.com

Daniel Hill
Partner

Tel +44 20 3088 3969
daniel.hill@allenovery.com

Tom Constance
Partner

Tel +44 20 3088 2930
tom.constance@allenovery.com

Robert Simmons
Senior Associate

Tel +44 20 3088 4382
robert.simmons@allenovery.com

Global presence

A&O Shearman is an international legal practice with nearly 4,000 lawyers, including some 800 partners, working in 28 countries worldwide. A current list of A&O Shearman offices is available at aoshearman.com/en/global-coverage.

A&O Shearman means Allen Overy Shearman Sterling LLP and/or its affiliated undertakings. Allen Overy Shearman Sterling LLP is a limited liability partnership registered in England and Wales with registered number OC306763. Allen Overy Shearman Sterling (Holdings) Limited is a limited company registered in England and Wales with registered number 07462870. Allen Overy Shearman Sterling LLP (SRA number 401323) and Allen Overy Shearman Sterling (Holdings) Limited (SRA number 557139) are authorised and regulated by the Solicitors Regulation Authority of England and Wales.

The term partner is used to refer to a member of Allen Overy Shearman Sterling LLP or a director of Allen Overy Shearman Sterling (Holdings) Limited or, in either case, an employee or consultant with equivalent standing and qualifications or an individual with equivalent status in one of Allen Overy Shearman Sterling LLP's affiliated undertakings. A list of the members of Allen Overy Shearman Sterling LLP and of the non-members who are designated as partners, and a list of the directors of Allen Overy Shearman Sterling (Holdings) Limited, is open to inspection at our registered office at One Bishops Square, London E1 6AD.

A&O Shearman was formed on 1 May, 2024 by the combination of Shearman & Sterling LLP and Allen & Overy LLP and their respective affiliates (the legacy firms). This content may include or reflect material generated and matters undertaken by one or more of the legacy firms rather than A&O Shearman.