IACPM

IACPM Response to PRA Consultation Paper 2/26 and FCA Consultation Paper 26/6

Introduction

The International Association of Credit Portfolio Managers ("**IACPM**") is pleased to respond to the PRA's Consultation Paper 2/26 and the FCA's Consultation Paper 26/6 in respect of proposed rules for reforming the UK Securitisation Framework.

Overall, the proposals have been positively received by IACPM members, and we particularly welcome the PRA's and FCA's efforts to address longstanding industry feedback and to reduce unnecessary complexity. While we consider the revised framework to represent a meaningful improvement in several respects, we set out certain targeted observations and recommendations with a view to further enhancing its effectiveness in this context.

Our response focusses on the application of the new UK Securitisation Rules to synthetic securitisations executed by banks for the purposes of achieving significant risk transfer and capital release. We have not sought to comment on the impact of the rules on other types of securitisations.

We would welcome the opportunity to discuss our response with the PRA and/or FCA and to continue engaging constructively as the reforms are finalised.

Transparency Requirements

(Questions 8-32 of the FCA Consultation and Proposal 3 of the PRA Consultation)

IACPM members are supportive of the FCA/PRA proposed transparency reforms and view the package as a meaningful improvement to the UK framework, subject to a small number of suggested refinements specific to private SRT synthetic securitisation transactions.

In particular, the IACPM welcomes the proposed move towards a more proportionate, use-focused transparency regime and agrees with the proposal to adopt a principles-based approach in place of prescriptive underlying-exposure templates for commercial real estate, corporate, credit cards and esoteric exposures (**Q8**), along with the revision of SECN 11.3 to describe the types of information that should be disclosed rather than prescribing uniform fields (**Q9**). The IACPM is also supportive of removing the investor-report and significant-event templates and replacing them with principles-based expectations; in private markets, and particularly in SRT transactions, although detailed investor reporting is always a feature of the transaction, the content of the investor reports is always negotiated bilaterally and significant events are inherently structure-specific, so the template reports have not proven to be useful for either originators or investors (**Q11**). Finally, the IACPM also welcomes the decision to discontinue the XML mandate and allow any reasonable machine-readable format, which removes a conversion exercise that has not enhanced investor understanding (**Q12**).

Regarding the retained templates (residential real estate, auto, consumer, leasing and NPEs), IACPM members encourage the PRA and the FCA not to apply such templates to private synthetic securitisations (**Q15-17**). As highlighted in our responses to the PRA's CP15/23 and the FCA's CP23/17, the key factor making templated disclosure less suitable in this context is not the asset class but the nature of the transaction: in private securitisations, the originator and investors will have negotiated the form of reporting required, consistent with any confidentiality or other restrictions applicable to information about the securitised exposures. Whether the underlying exposures are mortgages, auto loans, consumer receivables, leases or otherwise does not alter this core dynamic. Further, because synthetic securitisations do not result in securitisation positions which can be used as collateral for funding transactions (e.g., repos or central bank liquidity schemes), the reporting is not being relied on by other market participants in the way it often is for traditional securitisations. In practice, mandatory templates have not added value in private synthetic deals: our members are not aware of any instance where investors have requested or relied on prescribed template reports, whereas originators have been required to invest significantly in infrastructure to generate reports that investors do not use.

The IACPM also supports simplifying the "no-data" framework to a single ND indicator; splitting ND across multiple sub-codes has required resource without improving the signal for users, though it would be helpful if the FCA could also acknowledge explicitly that ND may legitimately arise from contractual confidentiality in borrower documentation, not just data-system limitations (**Q21**).

The IACPM further welcomes the proposal to remove the obligation to report to securitisation repositories, which have added cost, duplication and confidentiality risk without a corresponding improvement in investor decision-usefulness (**Q23**), and supports replacing the prescriptive list of "must-supply" documents with a principles-based requirement to provide all relevant transaction documents, which more accurately reflects how private transactions are structured and negotiated (**Q24, Q25**). In addition, the IACPM supports the proposal for the deadline for providing final documents to move to thirty days after closing or the first interest payment date, whichever is sooner (**Q26**), and for eliminating the transaction-summary requirement (in line with our response to the PRA's CP15/23 and the FCA's CP23/17) (**Q27, Q28**). The IACPM is also supportive of the FCA's pragmatic refinements to the private-notification regime (e.g., streamlined content, clearer timing, email submission), which preserve supervisory visibility while reducing administrative friction (**Q29**), and welcomes the clarification that where the first interest period is long, the first reporting should follow the first payment date (in alignment with our response to the PRA's CP15/23 and the FCA's CP23/17) (**Q30**).

Finally, IACPM members welcome the FCA's indication that it may recognise relevant non-UK laws for the purposes of SECN 6.2.5R, so that cross-border securitisations are not placed in legal conflict. We would therefore like to take this opportunity to reiterate our recommendation from our response to the PRA's CP15/23 and the FCA's CP23/17 that the confidentiality reference in SECN 6.2.5R should

extend beyond UK law to any laws applicable to the reporting entity in respect of the securitised exposures.

Turning to areas where IACPM members consider that certain refinements would further improve the framework, in addition to the points set out above regarding the exclusion of private SRT synthetic securitisations from templated-disclosure requirements, the IACPM also notes that contractual confidentiality remains unrecognised as a legitimate basis to limit disclosure. In many private transactions, borrower confidentiality provisions prohibit disclosure of obligor-level and covenant-sensitive data even in anonymised form. Without explicit recognition of contractual confidentiality in SECN 6.2.5R and, as relevant, in the ND framework, originators may face a direct conflict between their regulatory and contractual duties. The IACPM therefore reiterates its recommendation to recognise contractual confidentiality on an equal footing with statutory confidentiality and to make clear that manufacturers are not expected to breach borrower agreements to satisfy transparency expectations. In particular, to avoid placing firms in conflict with borrower agreements that give effect to applicable law, we would support (i) express recognition of non-UK legal confidentiality regimes within SECN 6.2.5R, and (ii) guidance confirming that manufacturers are not expected to breach contractual undertakings where doing so would conflict with applicable law, with the option to provide information in anonymised or aggregated form where necessary to comply. For the avoidance of doubt, any such clarification or guidance should draw a clear distinction between (a) contractual confidentiality restrictions that apply **prior to the securitisation** and reflect applicable legal obligations governing the underlying exposures, and (b) contractual restrictions that are introduced or enhanced **after the securitisation**, which should not be relied upon to limit or avoid disclosure obligations under the securitisation framework.

Resecuritisation

(Question 35 of the FCA Consultation and Proposal 4 of the PRA Consultation)

The IACPM welcomes the PRA's proposals in CP2/26 to refine the resecuritisation framework, including the introduction of targeted exemptions and the proposed amendment to the definition of resecuritisation to exclude contiguous retranching. IACPM members further note the PRA's proposed capital treatment for the exempted resecuritisations, which is conservative but preferable to prohibition or penalty risk weighting under the current regime. We understand the rationale for this approach, given the modelling complexity and cliff effects associated with tranching of tranched exposures.

However, we believe the drafting in CP2/26, which ties the contiguous retranching exemption to actions taken by the originator or manufacturer, together with the reference in the proposed SECN 7.2.3R to retranching being undertaken *"by the securitisation's originator"*, is both superfluous and potentially restrictive. As drafted, this language could give rise to uncertainty as to whether holders of securitisation positions other than the originator may undertake contiguous retranching,

notwithstanding that such activity would otherwise be permitted under international standards as well as EBA Q&A and the securitisation CRM mechanics.

This uncertainty is relevant in light of widely used investor-driven practices. Sub-tranching of an existing securitisation position is frequently undertaken not only by originators but also by secondary investors (e.g., a credit fund holding a 0–10% tranche issues pass-through notes referencing the 6–10% slice to an SPV, while retaining the 0–6% risk and transferring the mezzanine portion to insurers). These practices involve no new underlying assets, no pooling of multiple securitisation exposures and no additional layers of securitisation, and therefore should not be treated as resecuritisations.

In our previous response to the PRA's CP15/23 and the FCA's CP23/17, the IACPM emphasised that such sub-tranching should simply be viewed as creating additional tranches of the original securitisation, consistent with Basel CRE40.5 and Article 249(7) CRR.

The PRA acknowledged this feedback in PS7/24 as a point that may inform future policy development. Given that the regulators are now explicitly amending the definition of resecuritisation, we believe this is the appropriate moment to complete that clarification and, because many of these practices are carried out by FCA-regulated investors, we also think this point should be addressed consistently across both the PRA and FCA rulebooks to avoid divergent interpretations.

Risk-sensitive IRB approach to single loan mortgage securitisations

(PRA Consultation (CP2/26)

The IACPM welcomes the PRA's proposal to enhance the prudential framework for recognising guarantees provided under HM Treasury's Mortgage Guarantee Scheme (MGS) for firms using the IRB approach to credit risk. In particular, IACPM members support the PRA's assessment that the effects of the MGS guarantee should be reflected through LGD rather than PD, and agree with the decision to limit the adjustment to the loss given possession (LGP) component.

That said, IACPM members would value additional clarity on practical implementation considerations, and would welcome engagement with the PRA to support consistent and efficient adoption across firms. Areas where further guidance would be helpful include:

- **Operational implementation**: clarification on how the PRA expects firms to implement the LGP adjustment in practice, including whether changes should be embedded within the core rating system or implemented as an external adjustment to LGD outputs.
- **Supervisory classification and governance**: clarification on whether the adjustment would be regarded as a material model or rating system change requiring prior supervisory approval, or whether implementation via a pre-notification process would be sufficient.

- **Implementation timeline**: while members note the indicative go-live date of Q2 2027 referenced in the consultation, members would welcome clarity on whether earlier implementation could be contemplated. A lengthy lead-in period may otherwise delay firms' ability to adjust their risk appetite and participation in MGS lending.

In addition, IACPM members note that the proposed LGP-based adjustment would result in broadly equivalent treatment of **(a)** MGS loans and **(b)** certain private mortgage insurance schemes with similar contractual features. Members therefore consider that such approach may insufficiently reflect the government-guaranteed nature of the MGS, and that a more nuanced treatment may be warranted. In particular, for a qualifying government guarantee with a 0% risk weight that is explicitly designed to behave economically like a deposit, members would support a more structural IRB solution that allows recognition through an effective LTV adjustment within LGD modelling. This would more fully capture the economic substance of the protection, would not affect borrower creditworthiness or PD estimation, and could be tightly scoped to qualifying government guarantees, with existing CRM requirements continuing to govern legal enforceability and certainty. Members therefore encourage the PRA to consider whether IRB frameworks could accommodate such a differentiated treatment for MGS loans, while retaining the proposed LGP-based adjustment as an appropriate back-stop option (e.g., where (i) LGD modelling changes are operationally constrained or pending approval or (ii) the guarantor is a non-government entity with a non-zero risk weight).

More generally, while the PRA's proposals in CP2/26 are necessarily mortgage-specific, IACPM members believe that this consultation presents a timely opportunity to consider the treatment of tranched credit protection on a single, non-securitised exposure across all asset classes and as a broader, structural issue within the IRB framework.

In particular, as currently framed (noting also that this remains unchanged in PS1/26), Article 234 CRR points towards application of the securitisation framework (SEC-SA or SEC-IRBA), but these formulae are not designed for single exposures and can produce outcomes that are not economically meaningful. This approach may also imply the need for an SRT assessment (absent full deduction), which is conceptually inappropriate for a single loan.

While Article 183 CRR can offer a solution for AIRB firms, there is no equivalent clarity for FIRB banks. This is particularly relevant following Basel 3.1 and PS1/26, as all large corporate exposures will fall within FIRB and are also the exposures most likely to use tranched protection in this simplified form. Members therefore see a risk that firms may be required to apply securitisation-style treatments to transactions that are not securitisations in substance and do not give rise to the same modelling or non-neutrality concerns.

To address this, IACPM members encourage the PRA to clarify a simple, proportionate and risk-sensitive approach for single-exposure tranched protection. In particular:

(i) where second-loss protection is provided, the retained first-loss tranche should be risk-weighted at 1250% or deducted from capital (net of amounts already deducted), with the protected portion risk-weighted based on the protection provider; and

(ii) where first-loss or mezzanine protection is provided, the risk weight of the retained senior exposure could be calculated as the underlying exposure risk weight minus 12.5 times the thickness of the subordinated tranches (subject to an appropriate floor, e.g. 10%).

Given that this type of tranched protection on a single exposure is materially simpler than an SRT transaction, and does not raise the same non-neutrality concerns as securitisations, there is no need to apply a non-neutrality add-on analogous to the p-factor within the securitisation framework.

Members would welcome continued dialogue with the PRA on these points, including bilateral discussions with firms where appropriate, to support timely and consistent implementation of the proposed approach.

Due Diligence

(Questions 1-7 of the FCA Consultation and Proposal 1 of the PRA Consultation)

IACPM members welcome the proposed move to a simpler, principles-based due-diligence framework that preserves safeguards while reducing unnecessary cost and friction (**Q1**). We agree with the removal of prescriptive tables and the relocation of additional detail into guidance so that investors can calibrate diligence to risk while manufacturers ensure that "sufficient information" is made available for an independent assessment (**Q1, Q2**). We also endorse requiring investors to form their own view on underwriting robustness without prescribing the method, allowing proportionality by asset type, jurisdiction and structure (**Q3**). On risk retention, we support replacing formal verification of a 5% interest with an obligation to satisfy oneself that a mechanism exists that appropriately aligns commercial interests accompanied by non-exhaustive, illustrative guidance and ongoing supervisory transparency (**Q4, Q5**). We also agree with removing prescriptive feature lists for pre-investment reviews and simplifying ongoing monitoring so procedures remain proportionate to the risk profile rather than turning mechanically on STS status (**Q6, Q7**).

IACPM members further wish to reiterate a point raised in our prior feedback on the PRA's CP15/23 and the FCA's CP23/17, namely that ambiguity persists around the trigger for applying the investor due-diligence rules. Although the broader simplification of the PRA/FCA framework is welcome, the trigger continues to be framed as "holding a securitisation position", leaving open the question of whether this encompasses any exposure to a securitisation or only exposures that genuinely assume credit risk. This matters in practice for transaction parties such as interest-rate and currency swap providers who transact with an SSPE but are not intended to be loss-bearing. We therefore encourage the PRA and FCA to provide clarity either by amending the trigger so that it expressly refers to assuming an "intention to take exposure to credit risk of the securitised exposures", or by issuing

corresponding guidance confirming that "securitisation position" for due-diligence purposes is limited to exposures where credit risk is in fact transferred. Such clarification would operate without prejudice to the prudential classification of these exposures, would help ensure that non-loss-bearing hedges are not inadvertently brought into scope, and would further the policy objective of simplifying the regime without lowering standards.

L-Shaped Risk Retention

(Question 37 of the FCA Consultation and Proposal 2 of the PRA Consultation)

Regarding the PRA's proposal to introduce an L-shaped option as an additional eligible form of risk retention, we note that such development is viewed positively by originator institutions as a constructive evolution of the UK framework, including in supporting additional flexibility in the structuring of risk retention.

It is worth noting that most UK SRT synthetic securitisations are structured as first loss transactions, applying vertical risk retention in respect of each securitised exposure, and would therefore not benefit from this exemption. However, this exemption could be useful if synthetic excess spread could be treated as a retained first loss position for the purposes of SRT securitisation, which would be consistent with the requirement in PRA Supervisory Statement 9/13 for SES to be treated for capital purposes in the same way as a first loss tranche.

We therefore consider that it would be helpful to clarify that SES may also be recognised for the purpose of satisfying the first loss component of an L-shaped retention and, more generally, counted towards first loss retention. This is because the rules could be read as preventing SES from being used in this manner (notwithstanding the provisions permitting off-balance sheet and contingent forms of first loss risk) due to the prohibition on taking "excess spread" into account when measuring retention. A reasonable interpretation is that SES falls outside that prohibition, as it does not represent "finance charge collections and other fee income in respect of the securitised exposures net of costs," but instead operates as a contractual threshold on credit protection payments that is conceptually linked to anticipated revenue flows rather than realised collections.

Absent such clarification, the availability of an L-shaped option would have limited relevance for synthetic SRT transactions, as the first loss element of the construct would not, in practice, be retained by the originator.

In that regard, we further note that the EU regime, whilst not permitting L-shaped retention, it nevertheless explicitly allows SES to count toward a retained first-loss tranche (Article 10(1)(d) of Commission Delegated Regulation (EU) 2023/2175). A similar confirmation in the UK framework would therefore provide clarity, support consistent supervisory expectations, and avoid an unintended constraint on the use of the proposed L-shaped option in synthetic transactions.

We note, for completeness, that perspectives across IACPM members are not entirely uniform in relation to both the introduction of an L-shaped retention construct and the question of whether SES should contribute towards first loss retention, reflecting differing views on the appropriate calibration of risk retention and the role of such mechanisms in ensuring risk alignment.

Credit Granting

(Question 36 of the FCA Consultation and Proposal 5 of the PRA Consultation)

IACPM members welcome the FCA's proposal to clarify the rules on credit granting in SECN 8.2. Members agree that the credit granting requirements play an important role in mitigating moral hazard and supporting high underwriting standards, and consider that the proposed clarifications will improve legal certainty and consistency of interpretation across the market. In particular, members support the clarification that underwriting standards for securitised exposures should be no less stringent than those applied to comparable assets remaining on the balance sheet, and the proposed refinements to the drafting are expected to facilitate a more harmonised implementation of the framework. Overall, members view these amendments as a measured and helpful clarification of the existing policy intent.

Implementation

(Questions 38-40 of the FCA Consultation)

IACPM members consider the proposed six-month period between publication of the final SECN instrument and entry into force of the new requirements broadly reasonable and should be workable in the context of synthetic securitisations. That said, members recognise that other segments of the market (most notably CLO market participants) may face more material operational challenges, depending on the final scope and mandatory nature of new UK-specific reporting templates.

While IACPM itself does not have specific concerns regarding the proposed implementation timeline, some limited clarification on transitional expectations, particularly to support proportionality across different market segments and legacy transactions, may nonetheless facilitate smoother implementation for the wider market.

Discussion Chapter: Scope of Securitisation Rules

We welcome the FCA's invitation in Question 46 to identify additional securitisation types where proportionate adjustments to conduct requirements could improve clarity, coherence, and regulatory outcomes.

We particularly welcome the FCA's explicit consideration of correlation trading portfolios and tranched-index positions and we agree that, while these may technically involve credit-linked structures, they do not present the conduct risks the securitisation regime was designed to address.

These products are trading and risk-management instruments referencing broad credit indices or synthetic baskets; they do not securitise an originator's own assets, they are not part of an originate-to-distribute chain, they do not involve investors relying on originator-supplied asset-level information, and they do not raise alignment-of-interest concerns. Hence, and in line with our previous submission on this topic, we agree with the FCA's observation that such transactions are structurally and purposefully distinct from securitisations.

A related but distinct consideration arises in the context of **tranched or capped portfolio guarantees not executed for significant risk transfer (SRT) purposes**. These transactions, which include a significant set of bilateral credit-risk mitigation arrangements (e.g., credit insurance), may also exhibit features resembling tranching. However, they do not involve investor distribution, they are not marketed on pool-level analytics, and they do not seek prudentially recognised risk transfer. As such, IACPM members consider that they too fall outside the intended scope of the securitisation conduct regime.

Therefore, a more coherent approach which we would encourage the FCA to consider would be to align conduct classification with the presence or absence of prudentially recognised risk transfer. Where a capped or floored portfolio guarantee does not result in securitisation capital treatment, it should not be classified as a synthetic securitisation for conduct purposes. Similarly, where the protection buyer deducts or 1250%-risk-weights any retained junior exposure and treats the protected portion pro-rata under the general CRM regime, economic tranching alone should not trigger securitisation conduct rules. In both cases, these are bilateral CRM trades without investor distribution; imposing investor-facing requirements such as risk retention, reporting, or due diligence would not enhance market integrity and may impede access to valuable risk-mitigation tools.

We also encourage the FCA to consider **purchased-receivables transactions**, many of which involve first-loss seller protection but no ongoing loss-sharing across exposures. Where protection is written on a per-asset basis, without cross-collateralisation or the life-of-transaction loss-allocation pattern of securitisations, it would be appropriate for the FCA to confirm these fall outside the securitisation perimeter. Conversely, where purchased-receivables structures genuinely meet the definition of a securitisation because protection is extended on a portfolio basis, there is a strong case for proportionate treatment reflecting their simplicity and the absence of public distribution. This could include recognising seller first-loss protection as satisfying risk retention, and applying proportionate transparency and due-diligence expectations.

Taken together, these refinements would ensure that the securitisation conduct framework remains targeted, proportionate, and coherent. IACPM would welcome the opportunity to work with the FCA on drafting to implement these clarifications in SECN.

Conclusion

The IACPM and its members are available to further discuss the above proposals with regulators, as well as the results of its private surveys on synthetic on balance sheet securitisations executed by banks. We appreciate the opportunity to share our comments on the proposed rules.

Finally, IACPM members would welcome continued and constructive engagement with the PRA on a number of aspects of the current UK CRR securitisation framework which create uncertainty in its application to synthetic SRT transactions. In particular, members note that the treatment of maturity mismatches under Article 252, especially when combined with the UK approach to time calls, can produce capital outcomes that are materially disproportionate to the underlying economic risk, notably in the context of refinancings and restructurings over the life of a transaction. These points are predominantly technical in nature and relate to the mechanics of risk measurement, capital calibration and supervisory interpretation, although in some cases they may give rise to broader policy considerations. IACPM members are of the view that clarity on these and related technical issues would support more consistent application of the framework, reduce unintended constraints on economically sound SRT transactions, and enhance the effectiveness and competitiveness of the UK synthetic securitisation market.

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