

## **Response to PRA's CP2/26 and FCA's CP26/6 Reforms to securitisation**

### **About the Building Societies Association**

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 7 of the largest credit unions. Building societies and mutual-owned banks have total assets of almost £650 billion. They hold residential mortgages of over £485 billion, 29% of the total outstanding in the UK. They are also helping 23 million people build their financial resilience, holding over £485 billion of retail deposits, accounting for 23% of all such deposits in the UK. Building societies and mutual-owned banks account for 47% of all cash ISA balances. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 30% share of branches across the UK.

### **Executive summary**

The BSA is supportive of the regulators' work to evolve securitisation requirements to a more principles-based and proportionate approach. Building societies are both manufacturers and investors in securitisation programmes. We are responding to the consultation for those aspects that impact our members.

We are submitting the same response to the PRA's CP2/26 and the FCA's CP26/6 as we are assuming that the proposals are broadly aligned. If this is not the case then we request that the regulators set out more clearly the areas that differ and the reasons why, for the areas that impact our membership.

We support the overall approach to making due diligence requirements less prescriptive and more risk-based for investors in securitisation. Likewise, we support the streamlining and simplification of disclosure and reporting requirements. We have published our response to DP1/26 on future banking data and would encourage the sandbox on granular loan level mortgage reporting to consider whether mortgage loans that are securitised can be marked as such as part of a broader report 'once and well' approach, thereby removing the need for other securitisation templates.

The BSA has challenged the PRA in the past on the treatment of mortgage guarantee schemes and similar private schemes. We continue to disagree that these should be captured at all in the securitisation framework given that the risks are very different and there are no external investors (for whom the transparency requirements would be relevant). As such we remain perplexed at the significant efforts to create a new approach within the securitisation framework that is complex to implement and therefore over-engineered relative to the risks involved to firms or the PRA's and FCA's statutory objectives. We would also note the timing has now meant that certain private mortgage guarantee schemes have not been able to gain sufficient momentum due to the regulatory uncertainty.

## Detailed response

### Chapter 1 - Proposal 1 – Due diligence

We support the proposals to make due diligence requirements less prescriptive and more proportionate to the risks posed. While it remains important for investors to analyse and understand the risks associated with investments in securitisation, it is proportionate for this to be a principle-based risk assessment not a detailed prescribed validation of whether the issuer complies with regulatory requirements, such as compliance with STS status and risk retention.

Building societies are active in both manufacturing and investing in securitisations as part of a balanced approach to risk management. The current requirements are particularly burdensome for smaller societies that may choose to add a degree of diversity to their liquidity holdings.

We support the PRA including examples, but caution against the examples being treated as requirements by firms and advisors even though they are labelled as examples. As such, the PRA should explicitly state in the rules that they are examples only.

### Proposal 2 – ‘L-shaped’ risk retention modality

We support the proposals to introduce an ‘L-shaped’ risk retention modality as one of the range of options that manufacturing firms can choose to adopt.

### Proposal 3 – transparency and reporting requirements

We welcome the overall approach of reducing disclosure and reporting requirements to reduce the burden, including deletion of full templates. We also support the stated intention to align any granular loan-level reporting to the Bank of England. This direction of travel aligns to the BSA's response to DP1/26 Future banking data<sup>1</sup> where we are calling for both regulators to be bold and ambitious and move towards granular data reporting starting with UK mortgages. Such an approach would mean the removal of all existing mortgage template-style regulatory returns.

We strongly support the removal of COREP C14.00, C14.01, SC14.00 and SC14.01 for single-loan exposures, but request that regulators go further and delete these cumbersome templates entirely. These templates often have to be completed manually from issuers' published information, which the PRA already has access to. We also support the approach proposed by the FCA to move to a more principles-based approach to disclosure.

### Proposal 4 – Amendments to restrictions on resecuritisation

We strongly support the proposals to allow that residential mortgages under MGS do not have to be excluded from securitisation under the resecuritisation rules.

### Proposal 5 – Clarification to the credit granting criteria

We support the proposals to amend the wording to make clearer that securitised assets should be subject to robust underwriting standards.

---

<sup>1</sup> See [BSA response to DP1/26 future banking data](#)

## **Proposal 6 – Improving readability of securitisation rules**

We support the proposals to bring the securitisation rules together within the PRA Rulebook under one chapter.

### **Chapter 2 - Proposal 1 – Risk-sensitive IRB approach to single loan mortgage securitisations**

As mentioned above, the BSA continues to disagree with the treatment of mortgage guarantee schemes and similar private schemes. These are not securitisations and it is neither appropriate nor proportionate to treat them as such. The risks are very different as there are no external investors, for whom the transparency requirements would be relevant. As such, a cleaner solution would be to exempt such schemes from the securitisation rules altogether.

In terms of the specific proposals, notwithstanding the above, the adjustment to LGP appears reasonable.