

BSA Response to CP15/23: Securitisation General requirements

October 2023

Introduction

The Building Societies Association (BSA) represents all 42 building societies, as well as 7 larger credit unions. Building societies serve almost 26 million consumers across the UK and have total assets of over £500 billion. Together with their subsidiaries, they have helped over 3.6 million families and individuals to buy a home with mortgages totalling over £370 billion, representing 23% of total mortgage balances outstanding in the UK.

A number of larger UK building societies are involved in securitisation, both as issuers and investors. In the majority of instances, they issue securitisations rated AAA solely for funding purposes (rather than for risk-transfer), and they invest in similarly highly rated transactions. As such, most building society members and credit unions are not materially impacted by the proposals, so our comments are in relation to those impacted members only. That said, there is one issue that could have a broader impact on the sector, including smaller societies that are not involved in securitisation, relating to the potential for interpreting mortgage guarantee schemes as a securitisation and the disproportionate approach in those circumstances as discussed in more detail below.

Overall, the BSA supports the proposals in CP15/23. In particular, we support the removal of the requirements from primary legislation and the transfer to the PRA Rulebook, which is a more appropriate place for these technical requirements where they can be managed more actively without the need for future changes to primary legislation. We note the interlinkage with the passing of the Securitisation Statutory Instrument, which forms part of the Edinburgh Reforms and we hope these changes progress without delay. We agree with the PRA's stance that the changes are not material and we do not have major concerns with the proposals, but we set out some points of detail below. We are also strongly supportive of the PRA taking the opportunity to clarify areas of ambiguity and introduce more proportionality as it transposes onshored EU regulations into the PRA Rulebook and we hope this approach will be replicated across other policy areas in future.

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Treatment of mortgage guarantee schemes

The PRA published a statement on 26th October 2022 on the regulatory treatment of retail residential mortgages provided under private mortgage insurance schemes with similar contractual features to MGS.¹ The issue is that there is ambiguity around whether or not such schemes need to be treated as a securitisation under the existing definitions. The BSA believes that the resulting need for meeting disclosure and regulatory reporting requirements is disproportionate to the risks for such schemes, and this aligns to the availability of a waiver from such reporting as set out in the PRA statement. The BSA has spent time working on this issue with societies that are affected to aid compliance with the current rules. We believe that

¹ See [PRA statement of 26th October 2023](#)

a more elegant solution would be to remove the ambiguity directly in the PRA Rulebook by way of a clarification that such schemes are not within the scope of securitisation requirements. This would align with the PRA's Strong and Simple agenda and would save the PRA itself time particularly around processing waivers as well as supervisory time. It would also be a 'Brexit benefit' whereby there is no longer a need to align with EU regulations. It makes sense to make this minor clarification in transposing the onshored securitisation regulation into the PRA Rulebook in a more tailored and proportionate way.

Scope of application

We support clarification of the scope of application to ensure that all PRA-authorized manufacturers in securitisations who are established in the UK are subject to the relevant requirements. We agree that this should apply to one-off transactions and this is important for adherence to the PRA's secondary competition objective.

Investor due diligence

The current requirements for investors to verify that information has been made available in a way that is in line with the requirements is both prescriptive and a 'compliance-based' approach. We support the change which is more proportionate and 'risk-based' rather than 'compliance-based' with the emphasis on confirming whether the information is sufficient to assess the risks rather than compliant with the regulations. This helps smaller participants including some building societies to access investors in securitisations at smaller transaction/ticket sizes as they can tailor the approach to the size of the risk. This can only help the smooth functioning of the securitisation market while still allowing investors to access adequate information to assess the risks. It does not remove the requirement for issuers themselves to ensure that they are compliant with the requirements but removes the requirement for the investor to duplicate the work that underpins the issuer's compliance with the requirements. The BSA is always in favour of measures of proportionality where they do not undermine risk management and this is a good example of the PRA taking a proportionate approach. This also aligns to the PRA's broader 'Strong and Simple' strategy with the emphasis on strong as well as simple.

The BSA also supports the clarification of provisions on delegation of due diligence to a managing agent. We support all PRA efforts to remove ambiguity from onshored EU text, and encourage the PRA to take this opportunity wherever it arises.

Risk retention

We support the proposed changes to risk retention requirements to reflect the net value for securitisations of non-performing exposures (NPEs). While societies do not currently securitise NPEs, the contingency of being able to reduce risk on their balance sheet could be beneficial in a hypothetical future recovery scenario.

Timing of information

The current requirement to make information available to investors under Article 7 'before pricing' is problematic. The information to be shared includes information on pricing itself and hence this is circular and impossible to implement. We therefore welcome and support the technical clarifications that the information can be made available in draft format before pricing and in final format within 15 days after the closing of the transaction. We welcome this common-sense clarification to allow firms to fully comply with both the letter and the spirit of the rules.

Disclosure

We note that the PRA is not consulting at this stage on the Article 7 disclosure templates and that these will be subject to a future review and consultation. This will be an important piece of work, which we welcome. We look forward to seeing future proposals that streamline the disclosures while not reducing firm's ability to conduct sound risk management, in line with our comments above on investor due diligence requirements.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £481 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.