

Bank of England PRA

The PRA's approach to the exercise of powers referred to in Articles 244(3)(b), 245(3)(b), 254(4) and 258(2) of the Securitisation (CRR) Part of the PRA Rulebook

Statement of policy 8/25

October 2025



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1: Introduction

1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA) approach to imposing requirements on firms under s55M of the Financial Services and Markets Act 2000 (FSMA) or giving a direction to a qualifying parent undertaking under s192C of FSMA as referred to in Article 244(3)(b), Article 245(3)(b), Article 254(4) and Article 258(2) of the Securitisation (CRR) Part of the PRA Rulebook.

1.2 This SoP applies to all firms to which the Securitisation (CRR) Part of the PRA Rulebook applies.

2: General matters

2.1 Under s55M of FSMA, the PRA may impose a requirement on a PRA-authorised firm with a Part 4A permission where one or more conditions are met, including if it appears to the PRA that it is desirable to exercise the power in order to advance any of the PRA's objectives. Please refer to FSMA for further details on the PRA's powers under s55M, including the procedural requirements that apply.

2.2 Under s192C of FSMA, the PRA may give a direction to a qualifying parent undertaking where one or more conditions are met, including if the PRA considers that it is desirable to give the direction in order to advance any of the PRA's objectives. Please refer to the PRA's statement of policy (SoP) – [The power of direction over qualifying parent undertakings](#) for further details on the PRA's power under s192C of FSMA, including procedural requirements that apply.

2.3 Articles 244(3)(b), 245(3)(b), 254(4) and 258(2) of the Securitisation (CRR) Part of the PRA Rulebook expressly refer to and thereby remind firms of the possibility of the PRA's exercise of its powers under s55M or s192C of FSMA in the context of those rules.

2.4 The appendices to this SoP provide further details on how the PRA expects to exercise its powers under s55M or s192C of FSMA in the context of Articles 244(3)(b), 245(3)(b), 254(4) and 258(2) of the Securitisation (CRR) Part of the PRA Rulebook. As explained above, the PRA's powers in s55M and s192C of FSMA are statutory powers to be exercised in line with the requirements in FSMA, and this SoP is not intended to limit the PRA's exercise of these powers for these (or any other) purposes.

Appendices

1 ARTICLE 244 (TRADITIONAL SECURITISATION) AND ARTICLE 245 (SYNTHETIC SECURITISATION) OF THE SECURITISATION (CRR) PART

2 ARTICLE 254 (HIERARCHY OF METHODS) AND ARTICLE 258 (CONDITONS FOR THE USE OF THE INTERNAL RATINGS BASED APPROACH (SEC-IRBA)) OF THE SECURITISATION (CRR) PART

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Appendix 1

Article 244 (Traditional Securitisation) and Article 245 (Synthetic Securitisation) of the Securitisation (CRR) Part

1. Articles 244 and 245 of the Securitisation (CRR) Part set out requirements that need to be met by an originator institution to recognise significant credit risk transfer (SRT) to third parties in relation to a securitisation. The PRA's supervisory statement (SS) 9/13 – [Securitisation: Significant Risk Transfer](#) sets out PRA supervisory expectations in this regard.
2. Articles 244(3)(b) and 245(3)(b) of the Securitisation (CRR) Part state that an originator institution must not recognise significant credit risk transfer where the PRA has imposed a requirement on the originator institution under s55M of FSMA or given a direction under s192C of FSMA to preclude this.
3. The PRA expects to use its powers under s55M and s192C of FSMA in the context of Articles 244(3)(b) or 245(3)(b) in order to support its primary objective of maintaining the safety and soundness of firms. When determining whether to exercise these powers in this context, the PRA will consider whether the requirements in the Securitisation (CRR) Part of the PRA Rulebook for, and supervisory expectations in SS9/13 relating to, SRT are met, including in particular whether the reduction in risk weighted assets (RWA) taken by the originator institution is justified by a commensurate transfer of credit risk to third parties throughout the life of the transaction. Consistent with its supervisory expectations in SS9/13, the PRA will consider the proportion of credit risk transferred — including any transaction features which undermine effective risk transfer — compared to the proportion by which RWA are reduced as a result of the transaction. The PRA will take a substance over form approach to assessing SRT.

Appendix 2

Article 254 (Hierarchy of Methods) and Article 258 (Conditions for the Use of the Internal Ratings Based Approach (SEC-IRBA)) of the Securitisation (CRR) Part

1. Article 254 of the Securitisation (CRR) Part sets out the hierarchy of methods for calculating securitisation RWA, summarised below:

- (i) where the conditions set out in Article 258 of the Securitisation (CRR) Part are met, the Securitisation Internal Ratings Based Approach (SEC-IRBA) must be used in accordance with Articles 259-260 of the Securitisation (CRR) Part;
- (ii) where the SEC-IRBA may not be used, the Securitisation Standardised Approach (SEC-SA) must be used in accordance with Article 261-262 of the Securitisation (CRR) Part; and
- (iii) where the SEC-SA may not be used, the Securitisation External Ratings Based Approach (SEC-ERBA) must be used in accordance with Articles 263-264 of the Securitisation (CRR) Part for rated positions or positions in respect of which an inferred rating may be used.

2. Articles 254(4) and 258(2) of the Securitisation (CRR) Part refer to the PRA's powers to impose a requirement under s55M of FSMA or give a direction under s192C of FSMA which may be used to:

- (i) prohibit firms from applying the SEC-SA; or
- (ii) preclude the use of the SEC-IRBA.

3. The PRA expects to use its powers under s55M and s192C of FSMA in the context of Articles 254(4) or 258(2) in order to support its primary objective of maintaining the safety and soundness of firms. Although the PRA does not favour any single method, in some cases Pillar 1 capital requirements arrived at under the SEC-ERBA may be a more appropriate reflection of risk to the firm than those arrived at under the SEC-SA or SEC-IRBA. When considering an exercise of these powers for these purposes, the PRA will take into account, among other things, the aggregate impact on a firm's overall capital requirements.

4. When determining whether to exercise its powers in the context of Articles 254(4) or 258(2), the PRA will consider whether securitisations a firm is exposed to exhibit features which are not explicitly captured in the SEC-SA or SEC-IRBA methods. The PRA may also

consider the appropriateness of underlying credit risk weights for the portfolio as reflected in the K_{SA} or K_{IRB} determined under Article 255 of the Securitisation (CRR) Part.

5. The SEC-IRBA is sensitive to a wider range of inputs than the SEC-SA. Therefore where the PRA exercises its powers under s55M of FSMA or s192C of FSMA in order to preclude the use of the SEC-IRBA, the PRA may consider prohibiting also the use of SEC-SA on the basis that the risk weights under both the SEC-IRBA and the SEC-SA are not commensurate with the risks posed to the institution.

6. The SEC-SA and SEC-IRBA methods can only recognise a defined number of items in their calculation of capital requirements, primarily focused on credit risk. These methods may fail to recognise the presence of non-credit risks. To an extent some additional non-credit risks which can arise from securitisation are reflected in the 'non-neutrality' of the securitisation capital framework.¹ However the level of non-neutrality is driven by pre-defined inputs (eg simple, transparent and standardised (STS) status).

7. When the SEC-SA or SEC-IRBA method is applied to a securitisation position, there is also a risk that the K_{SA} or K_{IRB} derived using the credit risk capital framework is inappropriate. This may be because the underlying exposures are affected by risk drivers which are not adequately captured by the credit risk framework.

8. In the presence of risk characteristics and structural features which are not explicitly captured in the formulas of the SEC-SA or SEC-IRBA, including features not adequately captured in the underlying credit risk framework, it is possible that an appropriate assessment by an ECAI takes into account those features. In such cases the SEC-ERBA may more appropriately reflect the risk posed to the institution.

9. Examples of features or characteristics which expose firms to risks not captured in the SEC-SA or SEC-IRBA include, but are not limited to, the following:

- (a) credit enhancement that can be eroded for reasons other than portfolio losses;
- (b) pools of underlying exposures with a high degree of internal correlation as a result of concentrated exposures to single sectors or geographical areas;
- (c) transactions where the repayment of the securitisation positions is highly dependent on risk drivers not reflected in K_{IRB} ;

¹ 'Non-neutrality' of the framework here means that typically the total RWAs calculated for the tranches of a securitisation will be higher than the RWAs calculated for the underlying portfolio had it not been securitised. In the SEC-SA and SEC-IRBA, this non-neutrality is introduced primarily through the application of a risk weight floor (10% for STS positions and 15% for non-STS positions) and the 'p' factor.

- (d) highly complex loss allocations between tranches;
- (e) interest rate risks or foreign exchange risks which arise due to mismatches between the underlying pool and the issued notes, and which are not adequately hedged;
- (f) features or characteristics which expose holders of securitisation notes to the risk that market conditions at the date of the sale or refinance of underlying exposures result in losses, such as exposure to residual value risk;
- (g) portfolios which exhibit a high degree of single name, sectoral or geographical credit concentration risk;
- (h) portfolios where the underlying exposures may be highly correlated in the event of a stress;
- (i) complex mechanisms which impact the priority of payments, for example the existence of turbo features; and
- (j) for transactions to which the SEC-SA applies, where the characteristics of the underlying portfolio exhibit material dilution risk.

10. The PRA, in conjunction with the Financial Policy Committee (FPC) or on its own initiative, may identify financial stability risks arising from firms' securitisation activity. Where the RWA calculated under the SEC-SA method is not commensurate with the risk posed to financial stability, the PRA may mitigate the risk by imposing a requirement under s55M of the FSMA or giving a direction under s192C of FSMA as referred to in Articles 254(4) or 258(2) of the Securitisation (CRR) Part.

11. When considering whether to exercise these powers for these purposes, the PRA may draw on the information set out in paragraphs 4.12 to 4.14 of SS10/18 – [Securitisation: General requirements and capital framework](#).

12. The PRA may choose to impose a requirement under s55M of FSMA or give a direction under s192C of FSMA in the context of Articles 254(4) or 258(2) of the Securitisation (CRR) Part in respect of a securitisation position or a defined group of securitisation positions.

13. The PRA may choose to impose a requirement under s55M of FSMA or give a direction under s192C of FSMA in the context of Article 254(4) in relation to an unrated securitisation position for which a rating may not be inferred, in which case the firm may have to apply a 1,250% risk weight to the securitisation position.