

February 23, 2026

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PRA and FCA Consult on Reforms to UK Securitisation Framework

Executive Summary

- **What's new:** The PRA and FCA have proposed several amendments to the UK's securitisation regime, set out in two separate consultation papers. The proposals respond directly to industry feedback and recognition by the PRA, the FCA and HM Treasury that the current regime has become overly burdensome.
- **Why it matters:** The proposed reforms are expected to have a significant impact on all UK securitisation market participants, including originators, sponsors and potential institutional investors.
- **What to do next:** Stakeholders should review the proposals in detail and consider submitting responses to the PRA and/or FCA by 18 May 2026. The final rules are expected to be published later in 2026, with implementation targeted for Q2 2027.

Introduction

On 17 February 2026, the Prudential Regulation Authority (PRA) published a [consultation paper \(CP2/26\)](#), "Reforms to Securitisation Requirements," within which various updates to the UK's securitisation framework have been proposed. The consultation is a direct response to industry feedback and the PRA's own supervisory experience, and it is consistent with the PRA's current international competitiveness and growth agenda.

The PRA has expressed that the current rules on securitisations, which (in part at least) were a response to the global financial crisis, have become excessively prescriptive and administratively burdensome. In particular, there has been limited UK-originated securitisation activity in recent years, while UK institutional investors — such as UK banks and UK insurers — are disproportionately disincentivised from incurring securitisation exposures when compared to their international peers. This is particularly relevant in respect of UK insurers when compared to their peers in the US and Bermuda.

The proposed changes seek to rebalance the regime to afford sell-side and buy-side firms greater flexibility and align requirements more closely with international standards, while maintaining appropriate safeguards.

The reforms are being developed in close coordination with the Financial Conduct Authority (FCA), which is consulting in parallel on related changes via [consultation paper CP26/6](#). Both consultations close on **18 May 2026** and it is anticipated that the changes resulting from the consultation will be implemented in Q2 2027, with final rules expected to be published later this year.

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We set out below a summary of key proposed reforms and our commentary.

Key Proposals and Reforms

The PRA's proposed reforms to the UK Securitisation Regime apply to a broad range of market participants where they are "established in the UK," including both sell-side entities (such as originators, sponsors and original lenders) and buy-side entities (primarily institutional investors, including UK banks and UK insurers).

A. Manufacturers' Obligations (Sell Side)

As summarised below, a number of proportionality-driven changes have been introduced to encourage manufacturers of securitisations — including originators, sponsors, original lenders and securitisation special purpose entities (SSPEs) — to establish UK-originated securitisations.

1. Risk Retention

A key tenet underpinning the UK Securitisation Regime is that manufacturers should have "skin in the game," *i.e.*, retain an amount of risk which, in turn, should facilitate an alignment of incentives between the originators and purchasers of securitised assets.

While this principle will remain, the PRA proposes to introduce a new "L-shaped" risk retention modality, supplementing the five existing modalities for risk retention. Specifically, when satisfying the risk retention requirements via this method, the "retainer" will be required to satisfy the following requirements:

- The combination of risk retention, in total, amounts to a minimum 5% of the nominal value of the securitised exposures.
- The first-loss tranche portion is calculated first, with the vertical retention portion calculated thereafter; and in cases of multiple retainers, each must retain the net interest in the securitisation on a pro rata basis and in the same proportion of the two limbs of the L-shape as the rest of the retainers.

The introduction of the L-shaped modality is intended to facilitate cross-border investment and enhance the competitiveness of UK-originated securitisations, particularly for structures targeting US and other international investors.

2. Resecuritisation and Credit-Granting Criteria

The current rules impose a blanket ban on resecuritisations, unless the PRA grants express permission. As part of the proposals, the PRA proposes to exempt two specific resecuritisation structures, thereby negating the need to obtain regulatory consent where new criteria are satisfied.

The two proposed permitted forms of resecuritisations are as follows:

- **Resecuritisations of positions created solely by tranching credit protection:** This exemption will be relevant for residential mortgage loans and certain private mortgage insurance schemes, created solely by tranching credit protection applied on an individual exposure basis (*e.g.*, mortgage guarantee scheme loans and similar private schemes). The exemption is subject to the following requirements: (i) the originator of the resecuritisation must be a PRA-authorized person and also the originator and risk retainer of the underlying securitisation; (ii) the resecuritisation must be limited to a single round and be homogeneous in terms of asset class; and (iii) all positions in the underlying securitisation must be included.
- **Resecuritisations of senior securitisation positions:** This exemption would permit resecuritisations of senior securitisation positions, which are generally of high credit quality and absorb losses only after all subordinate tranches have been exhausted. This exemption would also be subject to the safeguards set out in limbs (i)-(iii) above.

The PRA has also proposed that an alternative capital treatment is introduced under the UK Capital Requirements Regulations (CRR), applicable to UK banks, for each exempt resecuritisation:

- For resecuritisations of tranching credit protection, capital requirements are calculated disregarding the credit risk mitigation.
- For resecuritisations of senior positions, the underlying senior positions are treated as unsecuritised pro rata slices of the underlying exposures.

Lastly, to bring the UK regime more in line with international standards, the PRA also proposes to amend the definition of resecuritisation to exclude contiguous retrenching (the process of either merging two or more adjacent tranches of a securitisation into a single tranche, or dividing a single tranche into multiple adjacent tranches).

By proposing to allow these structures, subject to the above-mentioned safeguards, the PRA is directly responding to industry feedback that the previous blanket ban was unduly restrictive and cautious.

3. Credit-Granting Criteria

The PRA will clarify and simplify underwriting standards and credit-granting requirements, addressing concerns about inconsistent interpretation and the risk of lower-quality originations.

- **Clarification of requirements:** The revised rules will make clear that sound and well-defined criteria for credit-granting must apply to any exposure to be securitised, irrespective of whether comparable assets remain on the balance sheet.

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The term “non-securitised exposures” will be replaced with a reference to “comparable assets remaining on the [firm’s] balance sheet, if any.”

- **Prevention of lower-quality originations:** Firms will be prohibited from applying less stringent criteria to securitised exposures than to comparable assets which remain on balance sheet.
- **Policy intent:** The reforms are intended to prevent the origination of lower-quality assets for securitisation and to reinforce alignment of interests between originators and investors, supporting the safety and soundness of PRA-authorized firms.

Whilst these changes are primarily clarificatory, they may be viewed as more stringent in practice for some firms as they may need to review and, if necessary, enhance their underwriting processes for securitised assets. In this sense, the reforms represent a tightening of standards in this area, in contrast to the greater flexibility that many of the other proposed reforms would afford to firms.

4. Transparency and Reporting

The PRA and FCA are proposing to change the transparency and reporting requirements. In turn, it is anticipated that this should reduce compliance and operational costs for manufacturers and encourage greater participation and innovation in the UK securitisation market.

Key changes include:

- **New underlying documentation:** Instead of prescribing a non-exhaustive list of documents to be made available to investors, manufacturers will be required to produce a single comprehensive offering document, prospectus or term sheet together with all transaction documents (excluding legal opinion). It is proposed that the requirement for producing transaction summaries will also be repealed.
- **Removal of prescriptive templates:** The reforms propose to replace the current prescriptive templates (such as those for investor reports and insider information) from the Securitisation Part of the PRA Rulebook, with revised templates to be included in the FCA Handbook. The form of those is one aspect of the FCA’s separate but inter-linked consultation.
- **Tailored reporting:** While investor reports will still be required, the prescribed template is expected to be removed. Instead, only the type of information required will be specified, not the form in which it has to be reported.
- **Asset-class-specific proportionality:** For certain asset classes (credit cards; commercial real estate; corporate debt; esoteric insurance linked to specialty asset-backed securities covering niche, non-traditional or highly specific risks) for

which the market has indicated a preference for information to be aggregated, the PRA proposes a less prescriptive approach, requiring only the disclosure of key information relevant to the asset class rather than standardised templates.

B. Investors’ Obligations (Buy Side)

The PRA proposes a substantial simplification of the due diligence requirements for institutional investors in securitisations, moving from prescriptive requirements to more principle-based obligations. Investors would be required to undertake due diligence that is proportionate to the risks posed by the securitisation, focusing on developing a comprehensive and thorough understanding of the risk characteristics of the securitisation position and its underlying exposures.

Below are the key changes that the PRA proposes to introduce:

- **Verification requirements:** Investors will no longer be required to verify compliance by manufacturers with specific credit-granting criteria, risk-retention requirements or STS (simple, transparent and standardised) criteria. The obligation to confirm the availability of specific information prior to investment will also be removed.
- **Due diligence assessment prior to investment:** The current prescriptive list of considerations that must be assessed as part of an investor’s due diligence is to be eliminated. Instead, investors will be required to assess the risk characteristics of the securitisation position and underlying exposures, all structural features that could materially impact performance and, where relevant, the credit-granting standards and processes of the originator or original lender.
- **Ongoing monitoring:** The requirement for investors to establish written procedures for ongoing monitoring, including a detailed list of performance indicators, would be repealed. Investors will no longer be expressly required to conduct stress tests of cash flows and collateral values, ensure internal reporting to their management body, or demonstrate a comprehensive understanding of the securitisation position to the PRA upon request. Instead, a general requirement will be introduced for investors to monitor performance in a proportionate manner, with illustrative examples provided in supervisory guidance.
- **Flexibility for non-UK and ABCP transactions:** For non-UK originators, investors will be required to verify that the originator maintains sufficient and appropriate alignment of commercial interest in the performance of the securitisation, rather than strict adherence to the 5% risk retention standard. Similarly, for asset-backed commercial paper (ABCP) transactions, the specific requirement for sponsors to verify originator credit-granting standards will be replaced by a proportionate assessment of those standards and processes.

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Practical Implications for Market Participants

The proposed reforms are likely to have significant practical implications for all market participants, with a particular focus on buy-side entities.

- **For manufacturers:** The reforms will offer greater structuring flexibility, reduced operational complexity, and lower compliance costs. The introduction of the L-shaped risk retention modality and targeted exemptions from the ban on securitisation create opportunities for new transaction structures and enhanced access to funding and liquidity, including central bank facilities.
- **For institutional investors:** The simplification of due diligence requirements reduces the administrative burden and compliance costs but also requires a shift towards greater reliance on internal risk assessment and judgment. UK institutional investors will nevertheless be required to ensure they have robust processes in place to assess and monitor risks, and would be required to review compliance frameworks and reporting processes in light of the new requirements.
- **Opportunities under the UK bank prudential framework:** The reforms are expected to facilitate increased market participation by UK banks in particular, given the proposed changes to the UK CRR. For example, the new risk-sensitive, internal-ratings-based approach for single-loan mortgage securitisations would allow firms to adjust loss given default models to better reflect the economic substance of these exposures, potentially freeing up capital for additional lending. At present, the proposed reforms do not address the treatment of securitisation positions under the UK Solvency Regime.

However, while we would expect market participants generally to welcome the proposed reforms, there are likely to be at least some dissenting voices. In particular, the rationale for imposing standalone obligations on UK institutional investors under the UK Securitisation Regime is not necessarily clear, especially given the proposed move to more principles-based requirements. For example, UK banks and UK insurers already are subject to broad, overarching rules that in essence require any investment activity to be carried out prudently and within a proportionate risk and compliance framework, and indeed their respective capital requirements are calibrated based on the risks they are exposed to in this regard. As such, in our view, it would be reasonable to argue that the PRA and FCA could have considered — and perhaps should consider — repealing the requirements imposed on UK institutional investors under the regime altogether.

It is also notable that the package of reforms does not address the treatment of securitisation positions under Solvency UK requirements, but rather only under the UK CRR. This diverges from recent developments in the EU, where on 18 February 2026 a [Commission Delegated Regulation \(\(EU\) 2026/269\)](#) was published in the *Official Journal of the European Union* amending the EU Solvency II Delegated Regulation ((EU) 2015/35). Among other things, the effect of these reforms is that EU insurers in the future will: (i) only need to obtain one eligible credit rating in relation to securitisations meeting the criteria of simplicity, transparency and standardisation (STS), compared to two as is currently required under both the EU and UK Solvency regimes; and (ii) be permitted to apply risk factors for senior tranches of STS securitisations that are more closely aligned to corporate or covered bonds and, ultimately, lower than is presently the case. These reforms will enter into force on 30 January 2027.

The reforms to the EU Solvency II Delegated Regulation form part of the EU's "Savings and Investments Union" initiative and are intended to help EU insurers to enhance the competitiveness of the EU economy, via mobilising additional capital for investment in key priority sectors. It may be wise for the UK regulators to make similar reforms to the Solvency UK regime, whether as part of this package of reforms or subsequently, to increase investments in securitisations by not only UK banks but also UK insurers.

Conclusion

The PRA and FCA have set out a detailed package of reforms to the UK Securitisation Regime, with a strong emphasis on proportionality, flexibility and risk sensitivity. The proposals cover all key aspects of the securitisation lifecycle and will have implications for both manufacturers and investors, with targeted changes designed to reduce operational and compliance burdens, support innovation and maintain robust prudential safeguards. That said, it remains to be seen whether the UK regulators have gone far enough to ensure that UK-originated securitisation activity increases in the coming years.

For further information, or to discuss the potential implications of the proposed package of reforms, please reach out to any author of this article or any other member of the Skadden Financial Institutions Group.

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