# Securitisation & balance sheet optimisation

**KPMG in the UK**

—

May 2025

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# Introduction

**Securitisation has been a core balance sheet management tool for banks and other institutions for decades, whether as a means of asset sale or for funding. In the current market it is now also the predominant tool for hedging large pools of assets and recycling funding and/or capital to drive NIM and ROTE. Banks are increasingly moving toward a more centralised model to drive balance sheet velocity and maximize returns for shareholders with securitisation as a core tool to be used in all its guises fluently. However, growing regulatory fragmentation is an increasingly important complicating factor in these markets.**

Securitisation markets have had a very strong year across most asset classes. Classic asset classes had a strong pipeline and there was signs of the re-emergence of deals based upon previously recently shunned assets such as CRE. SRT continued in both Europe and the UK to emerge as a mainstream asset class on par with others such as classic CLOs. Spreads were by and large tight(er), despite the downward pressure on rates putting cutting some scope for absolute return investors to meet their return hurdles.

The main story otherwise has been regulatory fragmentation with all major regulators diverging under the dual pressures of the needs for economic competitiveness and the new administration in the US. The ECB and UK took different approaches to the p-Factor. The PRA delayed implementation of Basel 4 by a year. The ECB delayed FRTB instead. Canada and Japan paused the implementation of the Basel 4 floor indefinitely.

With the Fed's amendment to Reg Q at the end of 2023, and the entrance of several significant US Banks into the risk transfer market, synthetic securitisation became more mainstream in the US. However, with the election of the new Trump administration, it became very unclear when or even if the US would publish the rules for the Basel endgame and so the expected growth in SRT in the US has not fully materialised yet.

All of this regulatory balkanisation, combined with recent "tariff on / tariff off" moves has made planning very challenging for issuers.

What is still clear is that the major thing banks can and need to do in order to drive returns to shareholders is to manage their financial resources and balance sheets dynamically.

A key tool has to be securitisation for different purposes and issuers fluency and ability to execute the right portfolio rapidly is becoming *de rigueur*, whether to adapt to changing market circumstances or manage risk limits or simply to increase balance sheet velocity. This is necessitating more centralised control by bank treasury and finance functions, more dynamic modelling and driving increasing levels of issuance.

A recent wrinkle has been the PRA's dear CFO letter to banks highlighting its concerns about leverage provided to investors on illiquid assets and SRT tranches which may weigh on pricing in these markets, especially if other regulators follow suite.

Amongst insurers the picture is also more mixed. UK life insurance companies are still using securitisation techniques to provide rated levels of certainty of cash flows to allow theoretically attractive asset classes such as equity release mortgages, whose mortality and morbidity characteristics align with their liabilities, and to achieve efficient capital treatment under the Solvency II matching regime. At the same time, some insurance business models such PE backed insurers have faced challenges around their investment approach to the asset classes. This paper's contention is that these techniques will, and should, have wider applications for such counterparties.

This paper is designed to capture the current state of the market, covering themes, trends and the high-level impact of the current regulatory shifts. KPMG's team is involved in each stage of these processes and is happy to assist with any questions or projects in these areas.

**Alec Innes – Partner**

> "The single most important thing banks can do to move the needle on shareholder returns is to drive balance sheet efficiency"

> "Increasing Regulatory divergence between US, EU, UK and other markets is complicating planning processes and making life harder"

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# 01

# Banks:

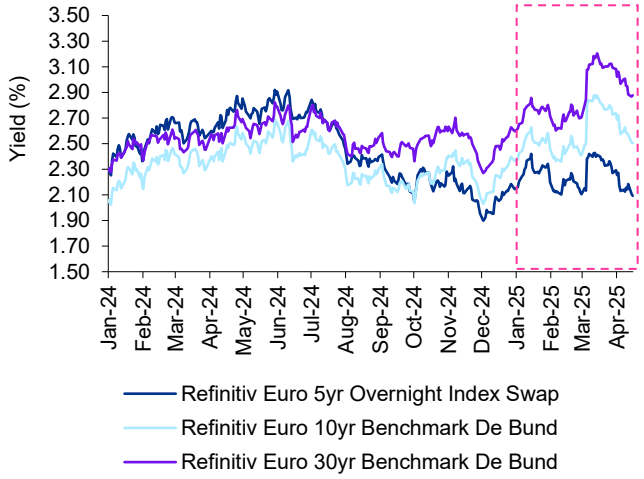
## Securitisation issuance market review

# Securitisation trends & issuance review

## Rates and benchmarks

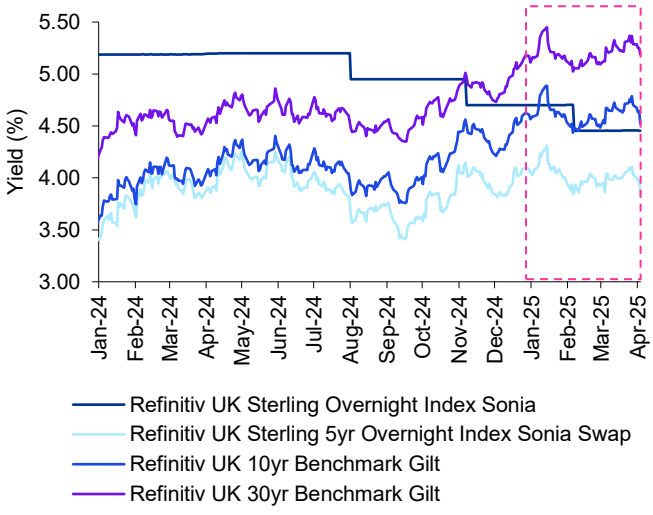
- Rates rose strongly over Q1 2025 to hit multi-decade highs, driven by Trump's inflationary tariffs and expectations of higher government spending, particularly in Germany.
- Rates have since given back part of these increases over April following the fallout from Trump's "liberation day" tariffs, with European rates dropping by up to 33bps from their peak in March, while UK rates reduced by up to 26bps.

### Chart 1a – Euro benchmarks




Source: Refinitiv

### Chart 1b – Sterling benchmarks

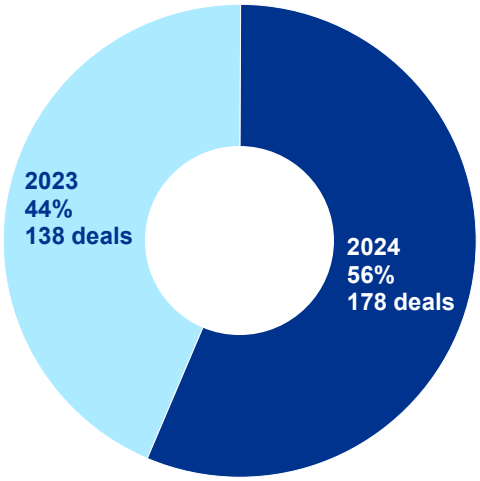



Source: Refinitiv

## Deal issuance

In EU ABS and RMBS markets, rising real incomes and declining interest rates have supported strong deal volumes with overall issuance higher than 2023.

### Chart 2a – split of total EU ABS/RMBS 2023-2024 deal volume by year

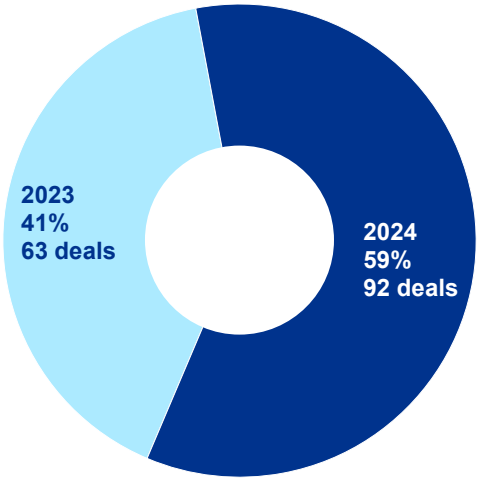



Total 2023 / 24 EU deals: 316

Source: Debtwire

The UK showed a similar resilience and increase in deal volume.

### Chart 2b – split of total UK ABS/RMBS 2023-2024 deal volume by year




Total 2023 / 24 UK deals: 155

Source: Debtwire

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# Securitisation trends & issuance review (continued)

## UK Deal issuance (continued)

Listed securitisation deals launched in the UK over Q1 2025 are outlined below.

| Date | Borrower | Issuer Name | Asset class | Size | Maturity | Coupon |
|---|---|---|---|---|---|---|
| **RMBS** | | | | | | |
| Mar-25 | Santander UK | Hazel Residential Plc | OO and BTL | £593.6m | Dec-68 | AAA: S+0.85% |
| Mar-25 | Aldermore Bank Plc | Oak No.5 Plc | Residential mortgages | £455.9m | Jul-72 | AAA: S+0.51% |
| Mar-25 | West One Secured Loans Ltd. and West One Loan Ltd. | Elstree 2025-1 1ST Plc | OO and BTL | £318.0m | Jan-65 | AAA: S+0.72% |
| Mar-25 | Clydesdale Bank and Yorkshire Bank Home Loans | Lanark Master Issuer Plc Series 2025-1 | Owner-occupied | £300.0m | Dec-69 | AAA: S+0.47% |
| Feb-25 | Together Personal Finance Ltd. & Together Commercial Finance | Together Asset Backed Securitisation 2025-2ND1 Plc | Residential mortgages | £276.8m | Sep-56 | AAA: S+0.93% |
| Feb-25 | UK Mortgages Lending Ltd. | Polaris 2025-1 Plc | Owner-occupied | £549.4m | Feb-68 | AAA: S+0.82% |
| Feb-25 | Nottingham Building Society | Lace Funding 2025-1 Plc | Owner-occupied | £395.4m | Nov-74 | AAA: S+0.55% |
| Feb-25 | Atom Bank Plc | Elvet Mortgages 2025-1 Plc | Owner-occupied | £399.0m | Dec-66 | AAA: S+0.56% |
| Feb-25 | Bradford and Bingley | Ripon Mortgages Plc (2025 Refi) | BTL | £3,599.0m | Aug-56 | AAA: S+0.70% |
| Jan-25 | Santander UK Plc | Holmes Master Issuer Plc 2025-1 | Residential mortgages | £750.0m | Oct-72 | AAA: S+0.53% |
| Jan-25 | Topaz Finance Plc | Antigua Moertgages Plc | Residential mortgages | £173.4m | Jan-28 | Class A: S+1.10% |
| **ABS** | | | | | | |
| Mar-25 | Bank of America Europe DAC | Taurus 2025-2 UK DAC | CMBS | £356.9m | Feb-2035 | AAA: S+1.50% |
| Mar-25 | Together Commercial Finance Ltd. | Together Asset Backed Securitisation 2025-CRE-1 Plc | CMBS | £522.2m | Jan-57 | AAA: S+1.20% |
| Mar-25 | Intrum Mortgages UK Finance Limited | Arima Mortgages PLC | CMBS & RMBS | £132.3m | Jul-56 | Class A1: S+1.25% |

Sources: Bloomberg, Moody's, S&P, Fitch.

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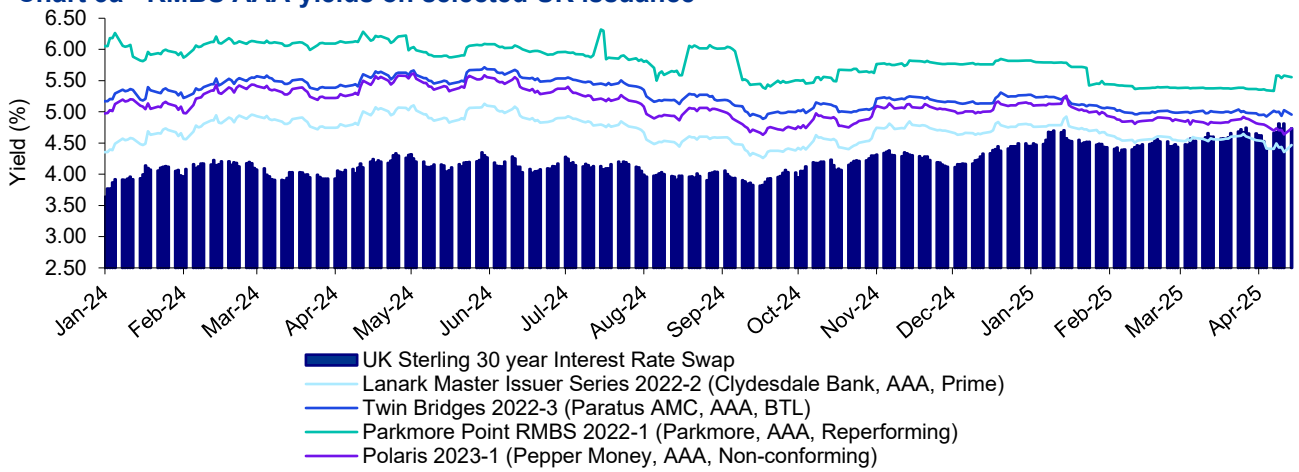
# Securitisation trends & issuance review (continued)

## Bond yields

Implied credit spreads had gradually tightened since 1Q24 (illustrated by yields on sample bonds from different asset classes), before rising in April 2024 reacting to the economic uncertainty from U.S. tariff announcements.

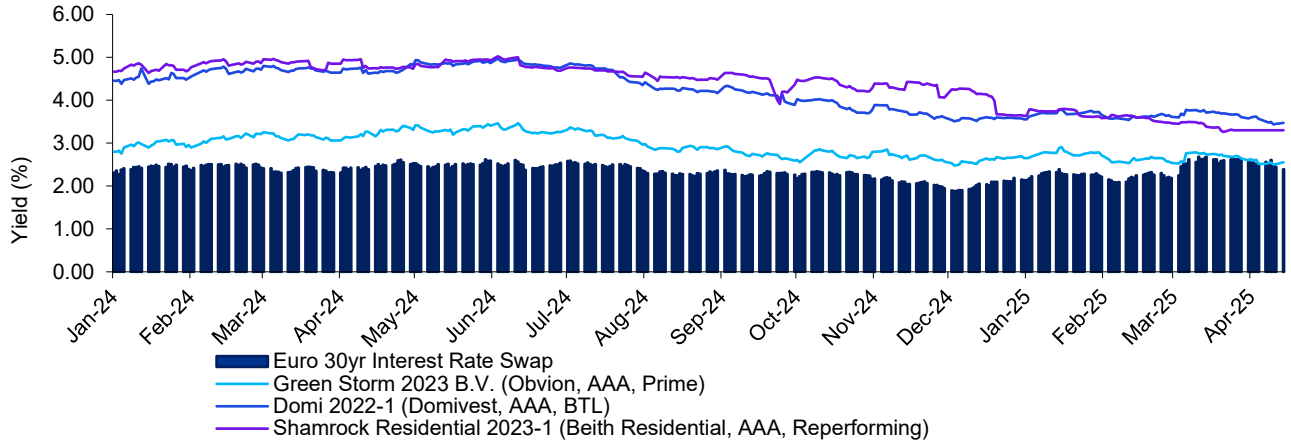
UK AAA RMBS securitisation issuance spreads had remained relatively steady over 2024 and 1Q25, fluctuating in a range of ~4bps to end at 50bps at March month end. Spreads have since risen sharply in April to 62bps.

### Chart 3a - RMBS AAA yields on selected UK issuance



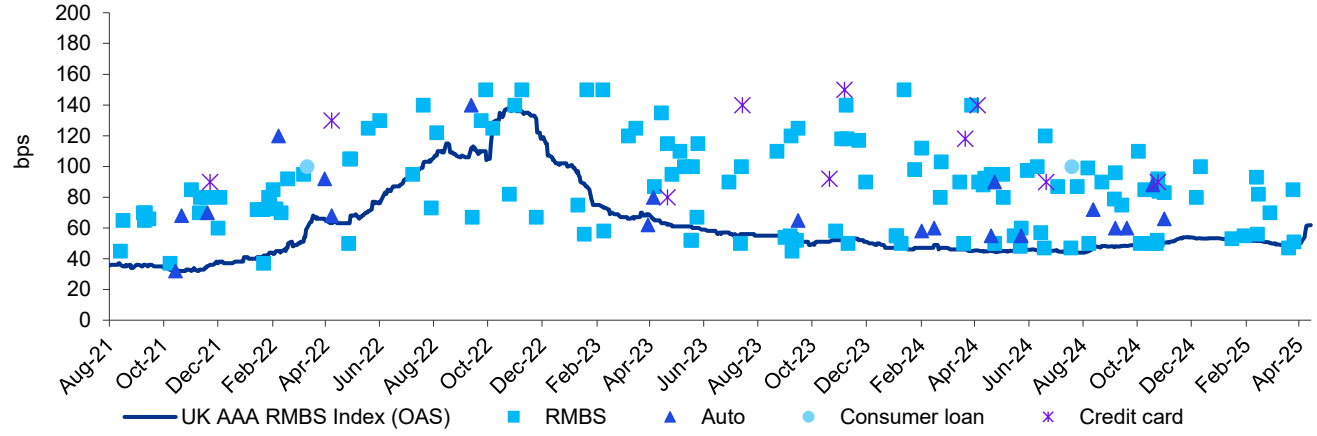

Source: Refinitiv

### Chart 3b - RMBS AAA yields on selected Euro issuance




Source: Refinitiv

### Chart 3c - AAA UK ABS Issuance Spreads




Source: Bloomberg and Debtwire

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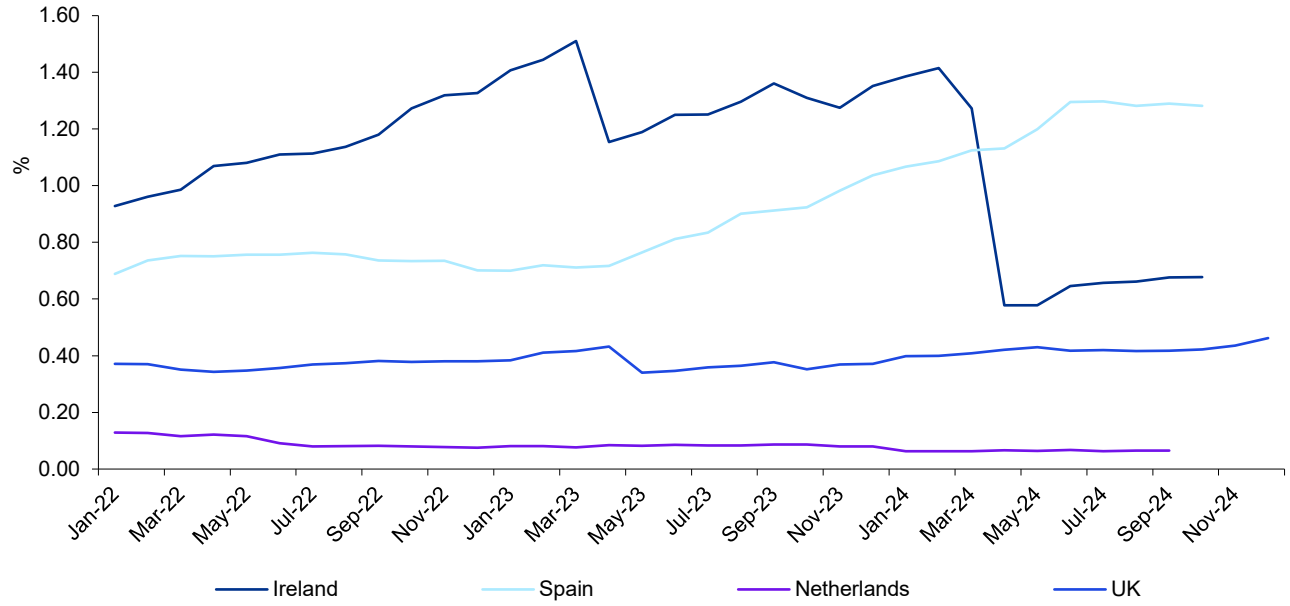
# Securitisation trends & issuance review (continued)

## RMBS performance

Across Europe, prime RMBS arrears in 2024 have continued to increase in Spain, began to tick up in the UK, reduced notably in Ireland and remained mostly flat in the Netherlands.

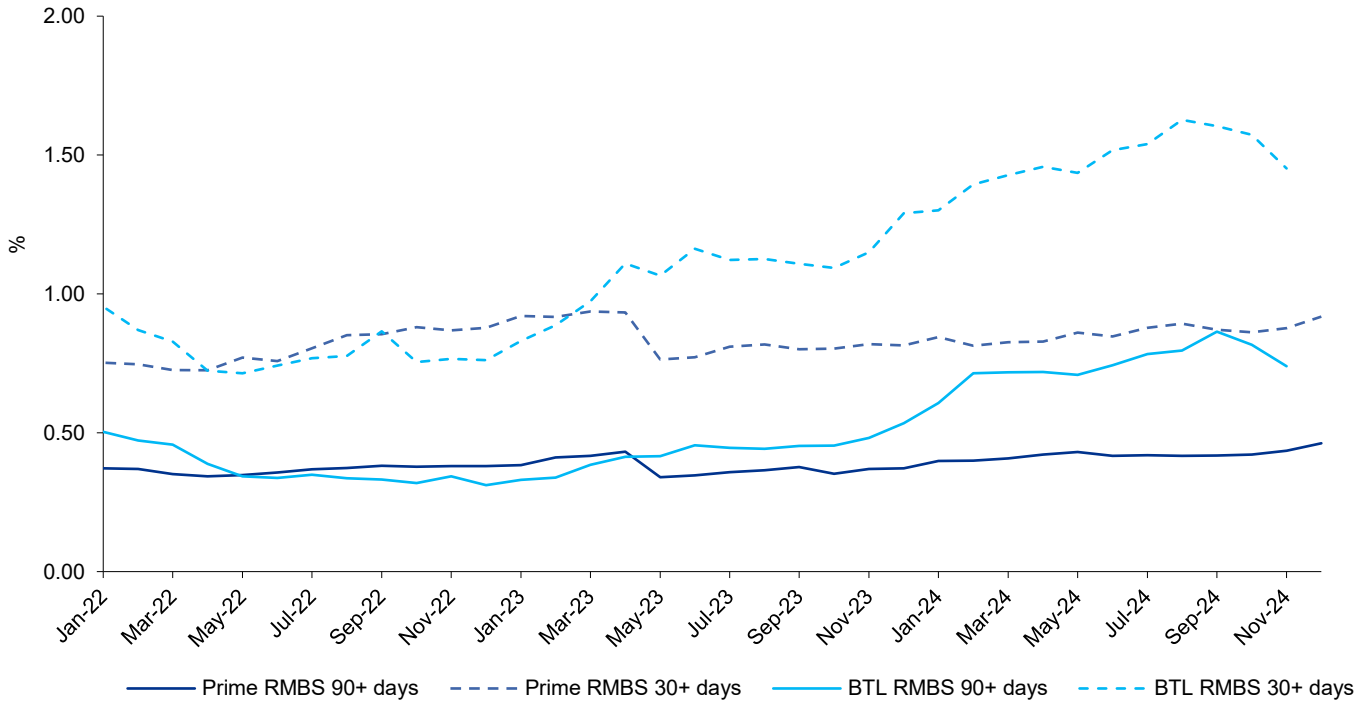
In the UK, prime arrears ticked up slightly, while arrears fell across BTL assets throughout 2024.

### Chart 4a – Europe Prime RMBS 90+days arrears for Moody's rated securitisation




Source: Moody's Investor Services

### Chart 4b – UK RMBS – 30+ and 90+ days arrears for Moody's-rated securitisations




Source: Moody's Investor Services

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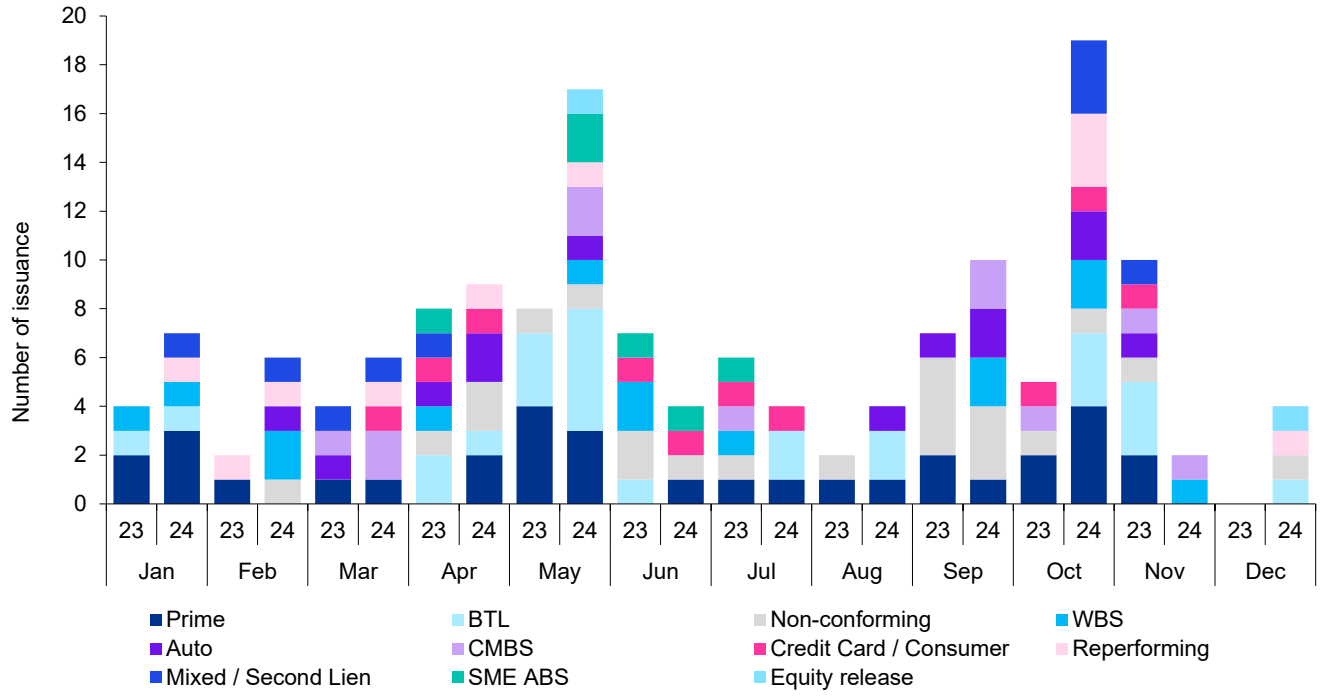
# Securitisation trends & issuance review (continued)

## UK bank & non-bank market issuance

Out of the 92 UK ABS and RMBS deals completed in 2024, 64% were residential mortgage-backed:

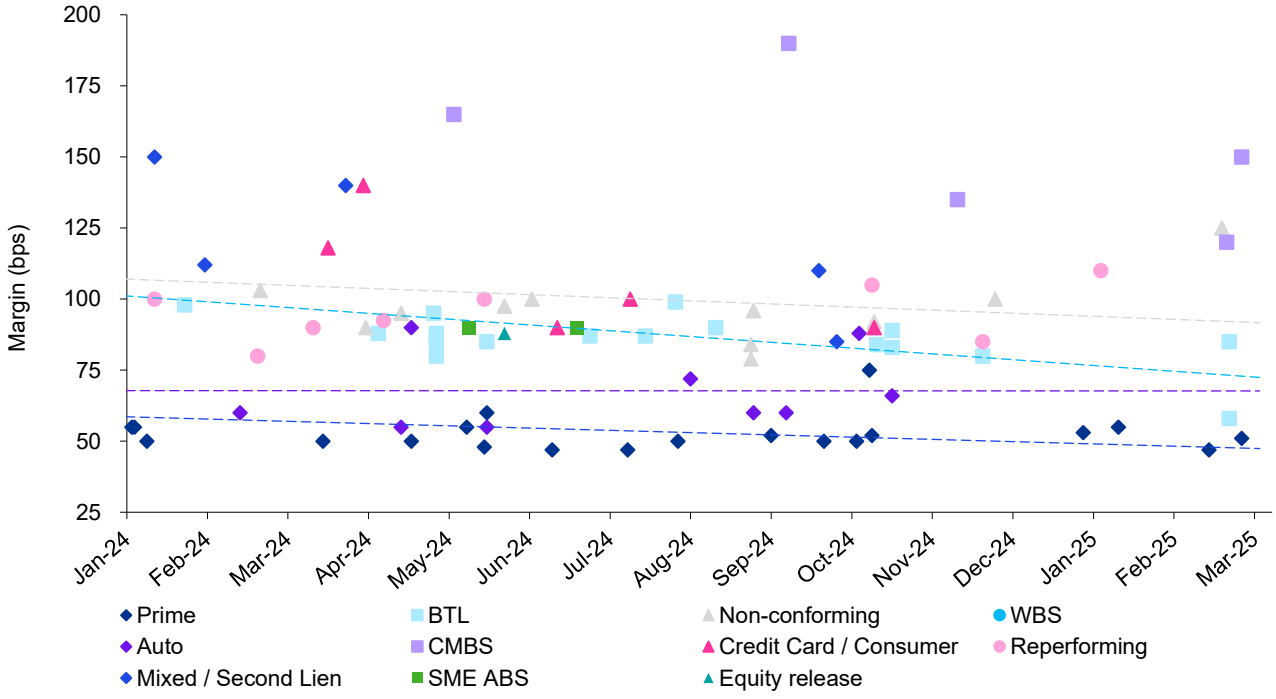
- 29% were prime mortgages (2023: 38%).
- 25% were BTL (2023: 24%).
- 17% were non-conforming mortgages (2023: 29%).

### Chart 5a – UK bank and non-bank public market deals by asset classes




Source: Debtwire

### Chart 5b – Recent bank and non-bank public market deal pricing




Note: Linear trendlines shown for four of the most prevalent asset classes (Prime, BTL, Non-conforming and Auto)
Source: Debtwire

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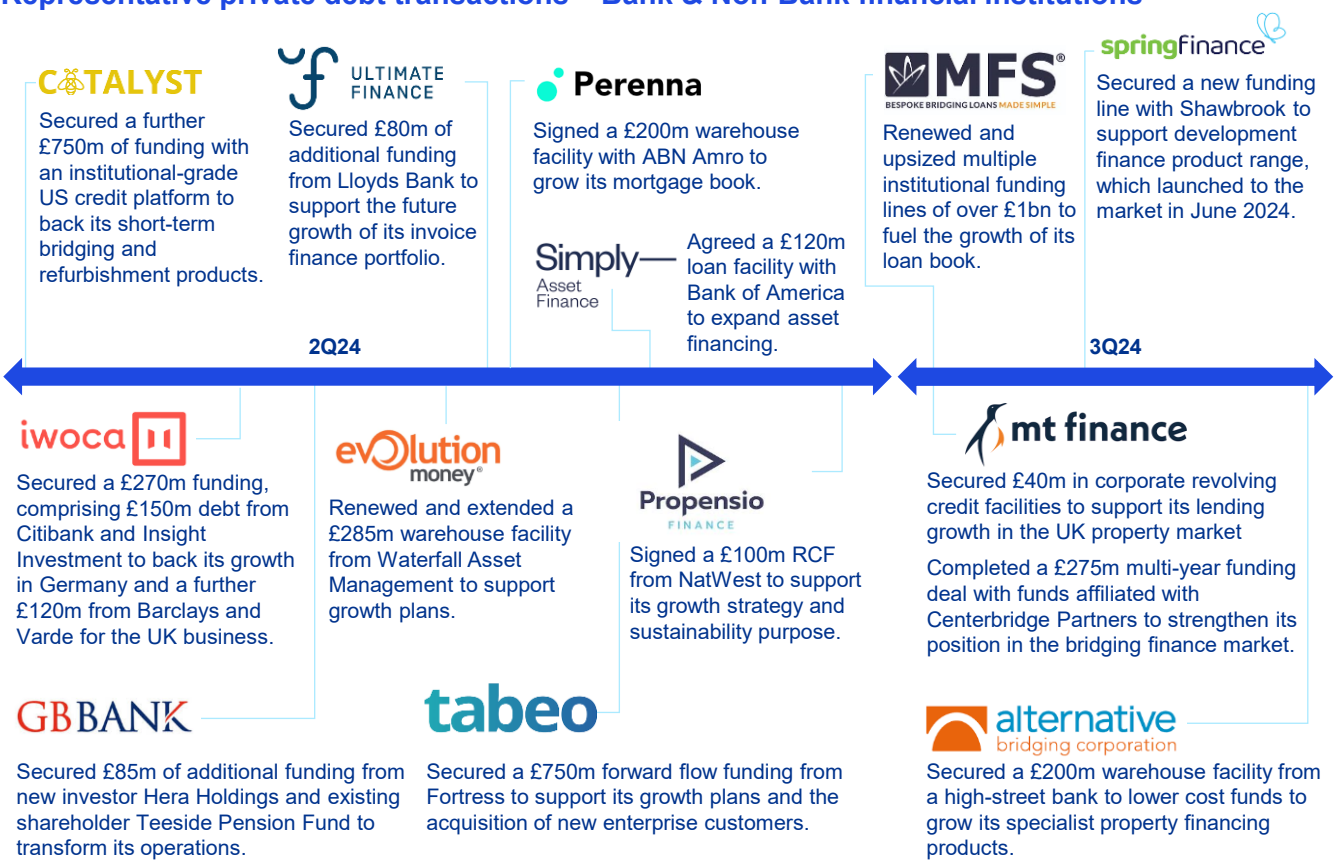
# Securitisation trends & issuance review (continued)

## Representative private debt transactions – Bank & Non-Bank financial institutions

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# SRT Trends & issuance review

## Summary

- 2024 was another year of record issuance in the SRT market with c. $30bn issuance according to market estimates.
- The spread tightening observed at the end of Q3 2023 continued throughout the year 2024 and seems to have reached a bottom as of Q1 2025.
- Strong supply of SRT dedicated money raised and expected to be deployed over the next couple of years.

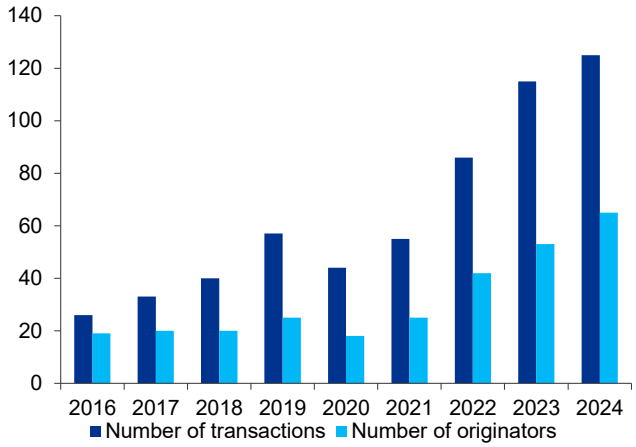
## Review of recent issuance and trends

2024 marked another record year of issuance for SRT transactions. Cross referencing several sources, we estimate that issuance reached USD 30bn equivalent in 2024 over c.125 deals (source: RTRA). As shown on graph 6a, the market really started booking in 2023, due to more clarity from the US regulator which in turn attracted many investors, including new ones.

Large corporate loans remain the dominant asset class with around 45% issuance (measured in terms of total tranche notional amount and based on reported data available), followed by Auto (16%), Consumer (16%), Mortgages and SME (respectively c. 7% each). Capital call facilities SRT are now a well-established asset class and 2024 saw a record number of such trades (mostly in the US).

More commercial real estate (CRE) transactions are expected to come to market, with several trades anticipated due to rates starting to come down.

**Chart 6a – Estimated number of SRT transactions and originator per year**

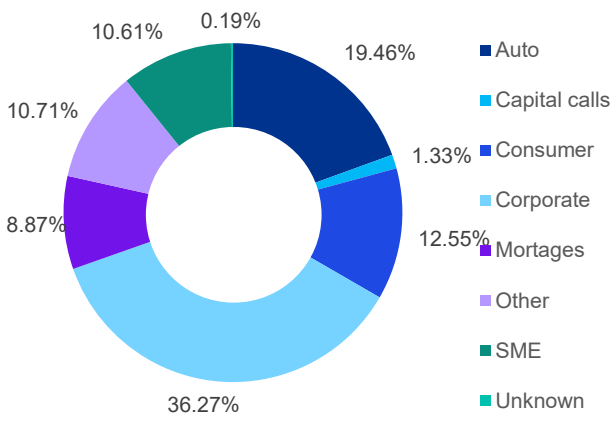



Source Blackrock, RTRA, KPMG estimates

This being said this asset class remains quite difficult, with a lot of idiosyncratic risk and due diligence requirements which may not suit all types of investors.

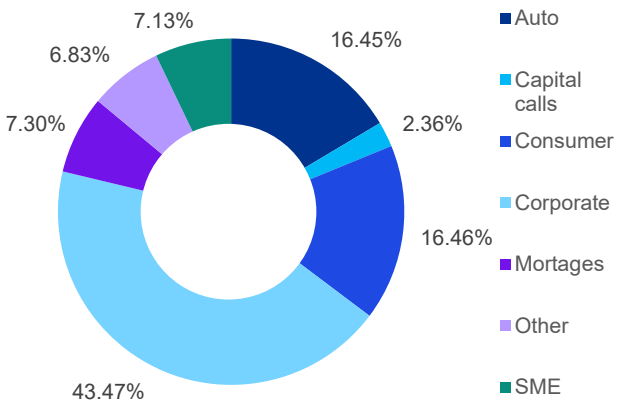
All in all, Q1 2025 seemed off to a good start with over 20 transactions printed (vs. 18 for Q1 2024, based on data reported by RTRA). Despite the uncertainty around the macro economic environment, it is expected that 2025 will be another strong year of issuance, with a lot of supply (in terms of SRT funds raised) still to be deployed.

**Chart 6b Asset class breakdown by tranche notional placed (2017-Q1 2025)**




Source: RTRA

**Chart 6c Asset class breakdown by tranche notional placed (2024 only)**




Source: RTRA

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# SRT Trends & issuance review (continued)

## Price tightening

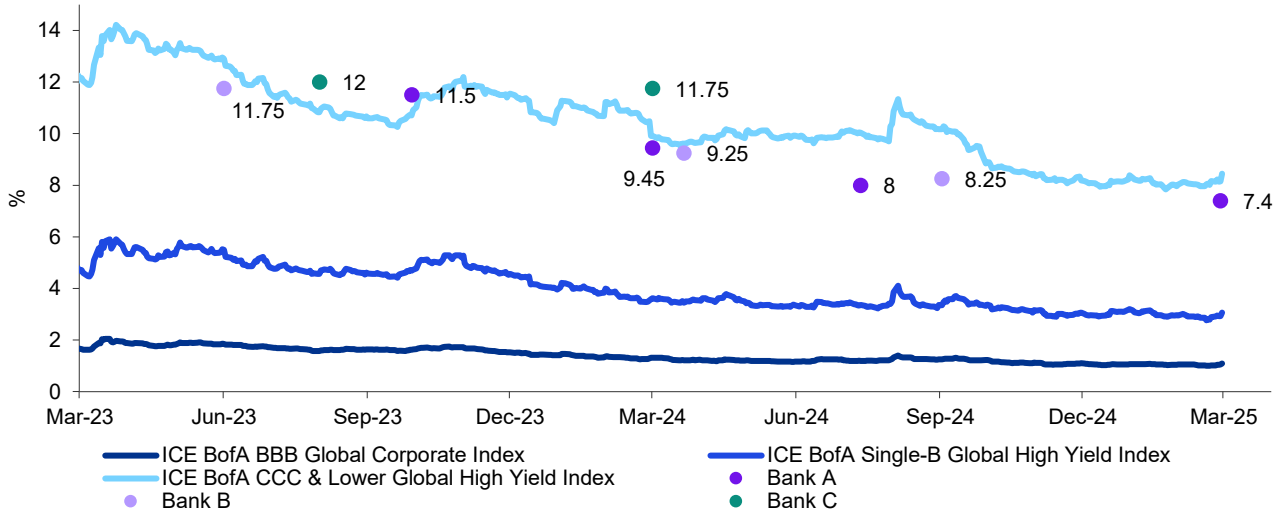
Recent issuances in the SRT market have shown significant price tightening, driven by a strong supply of SRT-specific money and the entry of dedicated SRT investors, as opposed to multi-strategy funds. The high demand for SRT trades since the second half of 2023 has led to competitive pricing and even sometimes oversubscription of transactions, particularly from programmatic issuers.

The intense spread tightening observed over the last 18 months has eroded the excess returns previously available compared to other credit products. Despite this, many SRT portfolio managers still find the market attractive on a risk-adjusted basis. The chart below shows the evolution of credit indices and issuance from SRT programs since March 2023 and shows this spread decreased over 3 programmatic issuers (i.e. frequent issuer that normally come to market regularly).

The tightening of spreads reflect the growing interest and confidence in the SRT market, but it also poses challenges for investors seeking higher returns. This has led sometimes established SRT investors to shy away from SRT investments to seek other opportunities in other credit products.

We also observed a trend where end investors such as pension funds start looking directly into investing in the SRT market by passing dedicated asset managers. We have seen several players looking at transactions directly and assessing them from an investment perspective.

**Chart 7 – Credit Indices and SRT spreads**




Source: ICE, RTRA, KPMG analysis

## Regulatory review

In 2024, the European Central Bank (ECB) introduced a fast-track process for SRT, aiming to expedite the approval process to less than (the current) three months if trades comply with certain criteria. This initiative was welcomed by the industry, although there are concerns about the inclusion of the contentious commensurate risk transfer tests from the European Banking Authority's (EBA) 2020 SRT report. We understand that there is no unanimous application of the 2020 SRT tests amongst relevant regulators and that some rely on different interpretation of the tests. Despite laying the foundation for a fast-track process (to be tested in the first half of 2025), the ECB warned about the prudential concerns related to banks providing leverage for credit funds to invest in SRTs, which we also observed in transactions.

The UK's PRA decided to halve the p factor. This regulatory shift is expected to impact the SRT market significantly, providing more flexibility and potentially reducing capital charges for banks.

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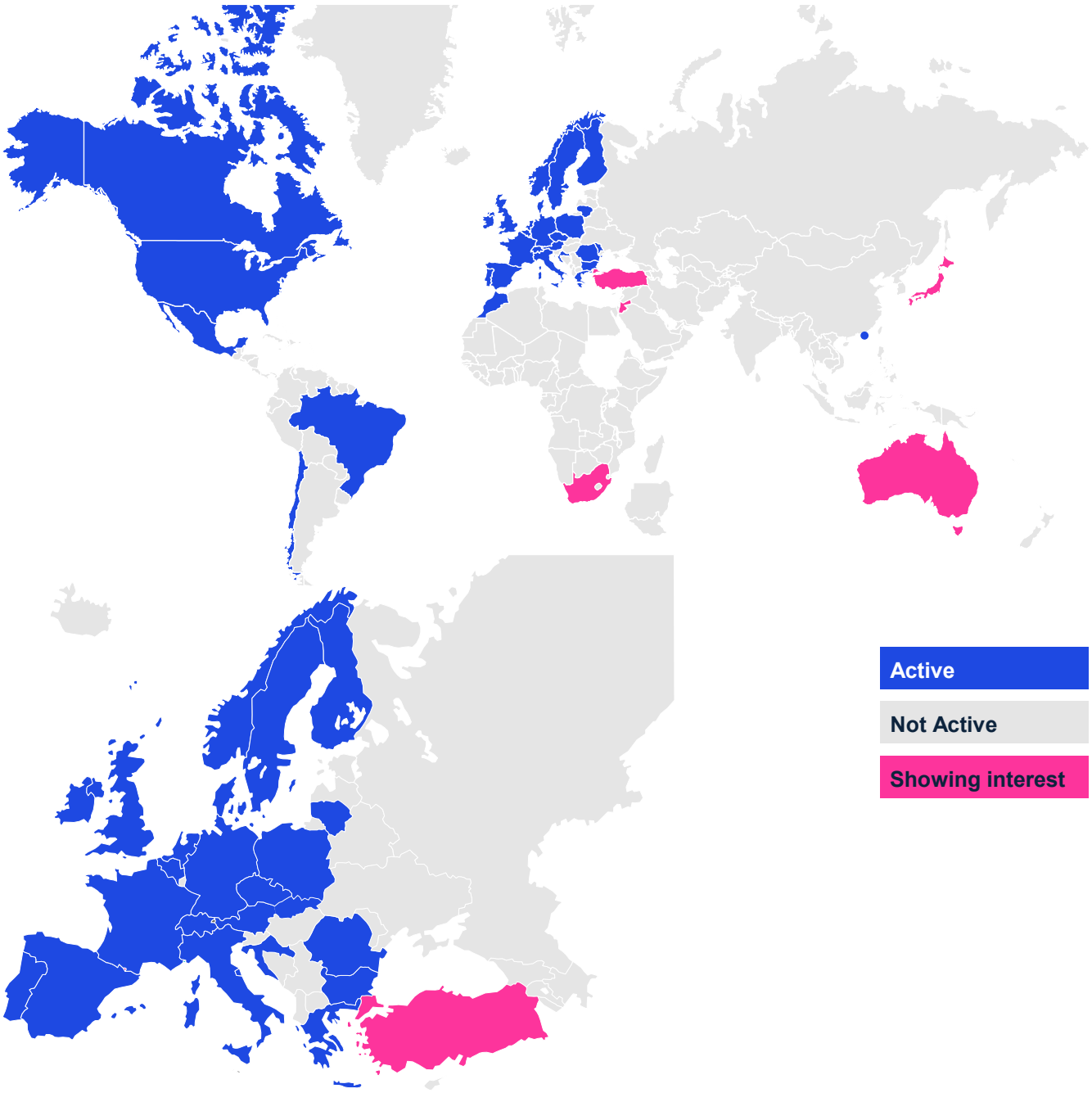
# SRT Trends & issuance review (continued)

## Geography update

European banks continued to dominate the market, representing close to 60 % of 2024 issuance volumes as measured by tranche notional. This being said, US banks became quite active in the second half of the year.

UK challenger banks and fintechs increased their SRT issuance, driven by Basel 3.1 and higher IFRS 9 provisions. Allica was the first challenger to come to market in 2024 and was followed by 2 other banks (Tandem Bank and Shawbrook). From a spread perspective these transactions may attract yield-hungry investors especially in the context of low SRT coupons, but present unique challenges, in terms of procedures and SRT governance as these banks are new to the market.

After years of discussion, Norway has recently opened its SRT market, marking a significant development in the country's financial sector. DNB bank was the first SRT transaction ever in the country and opens the door to new opportunities for risk management and capital efficiency.




Source: KPMG

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# US SRT update

## US SRT market still lagging Europe but gathering momentum

US CRT issuance activity in 2024 did not match lofty growth expectations but generally kept pace with the prior year. Demand from investors continued to outstrip supply throughout the year.

Momentum continued in 2025, with deals exceeding a total of $1bn in the first quarter. On balance, pricing still favors issuers, however economic uncertainty is driving a preference for lower risk portfolios referencing Autos, investment grade C&I, and Capital Call loans.

For example, Bank of America, which stayed out of the market in 2024, issued the first deal of 2025 with a small $90m (0-9%) SRT deal referencing 1$bn in investment grade corporate Loans. The pricing at a spread of 400bps reflected strong demand for higher quality paper in the market.

However, with general credit spreads showing recent vulnerability, CRT protection spreads will not be immune to widening should economic conditions continue to worsen.

Despite this prospect, the US market continues to search for a way to gain access to assets with higher yield, especially CRE.

Even though this lending sector has shown resilience, the prospect of further economic weakness presents a potential concentration in a vulnerable loan type for many regional banks. Investors see an opportunity to gain exposure - at the right price.

Larger banks intend to join JPMorgan, Citi, Goldman Sachs and other large banks which not only distribute their own deals but also structure and place deals for smaller US banks.

Smaller banks are equally motivated by competitive pressures to free capital and grow profitably; however, many continue to face hurdles in the form of internal change management and deal management infrastructure. Conversations with the primary regulator are essential to demonstrate a comprehensive understanding of CRT mechanics and the tradeoffs between credit risk and other risks in the risk inventory. Smaller banks can benefit from a deal arranger or other deal advisory partners to help them navigate their first transactions.

With increased issuance and transaction performance experience, we expect greater market participation over time by this group.

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### Uncertain Regulatory Landscape

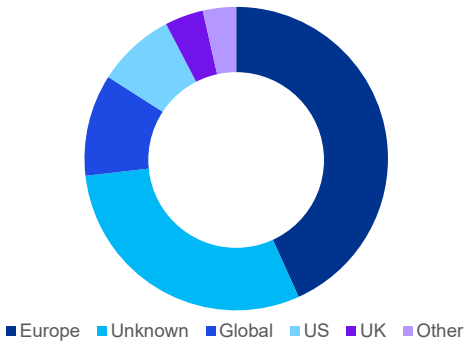
The anticipated abandonment of the Basel III “end game” proposal has not deterred the larger US banks from either optimizing capital or managing concentration risks though CRT transactions. Large non-US banks have taken advantage of US market appetite by selling USD issues referencing non-USD assets.

The standardized capital floor for the time being remains the operative constraint for US banks. This implies the continued use of the SSFA for SRT capital cost-benefit analysis and that the thicker 12.5% first-loss tranche will remain a consistent feature.

That said, the proposed “end game” increase in the capital calculation “p-value”, which would have significantly negatively affected CRT economics, may also not materialize as the final adoption of Basel III reconsidered.

Issuers of CRT CLNs are required per the September 2023 FAQ to request prior approval from the Fed. In 2024, six such deals were approved with the rest using Eligible Guarantor SPV / CDS structures which have blanket approval. With growing regulatory acceptance of the CLN format, it remains to be seen which format becomes the most prevalent.

**Chart 8 – Breakdown of issuance by tranche notionals in 2024**




*Other represents Asia, Americas, Emerging and Africa
**Source: RTRA**

[1] US market participants tend to use "CRT", while '"SRT" is more prevalent in Europe. In this paper we use both interchangeably.

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# 02

# Insurance:

## A recap of recent trends and the potential opportunity arising from Solvency UK

# Insurance securitisation

## Recent trends (see our 2024 paper for more detail):

Structured assets continue to remain predominately in the hands of the most sophisticated insurers. This exclusivity is largely due to the high Solvency II capital charges imposed unless the insurance firm uses an internal model which has to be approved by the regulator. Insurers without such models find it challenging to include these assets in their portfolios given the very high capital charges.

In the UK, annuity writers can benefit from the Solvency II Matching Adjustment (MA), which provides favourable capital treatment when liabilities are backed by investment-grade assets with fixed cash flow profiles. These insurers typically possess an approved Internal Model and use the securitisation of granular mortgage portfolios to create rated notes with the necessary fixed cash flow profile for MA.

Last year's paper elaborated on the potential of Solvency UK's changes, highlighting the use of highly predictable assets. This opened up opportunities for new in-house or external securitisation to include highly predictable tranches. However, as these rules only took effect on 30 June 2024, and since the use of these new asset classes requires approval from the Prudential Regulation Authority (PRA), they were not employed for the year-end 2024. It is anticipated that some insurers might leverage these assets by the end of 2025. For more details, refer to our prior year paper.

A notable trend has been observed among firms with equity release mortgages. These firms sell their mortgages to a third party, which then structures the asset into senior notes eligible for MA and an equity tranche that is not. The MA-eligible notes are subsequently sold back to the insurance firms.

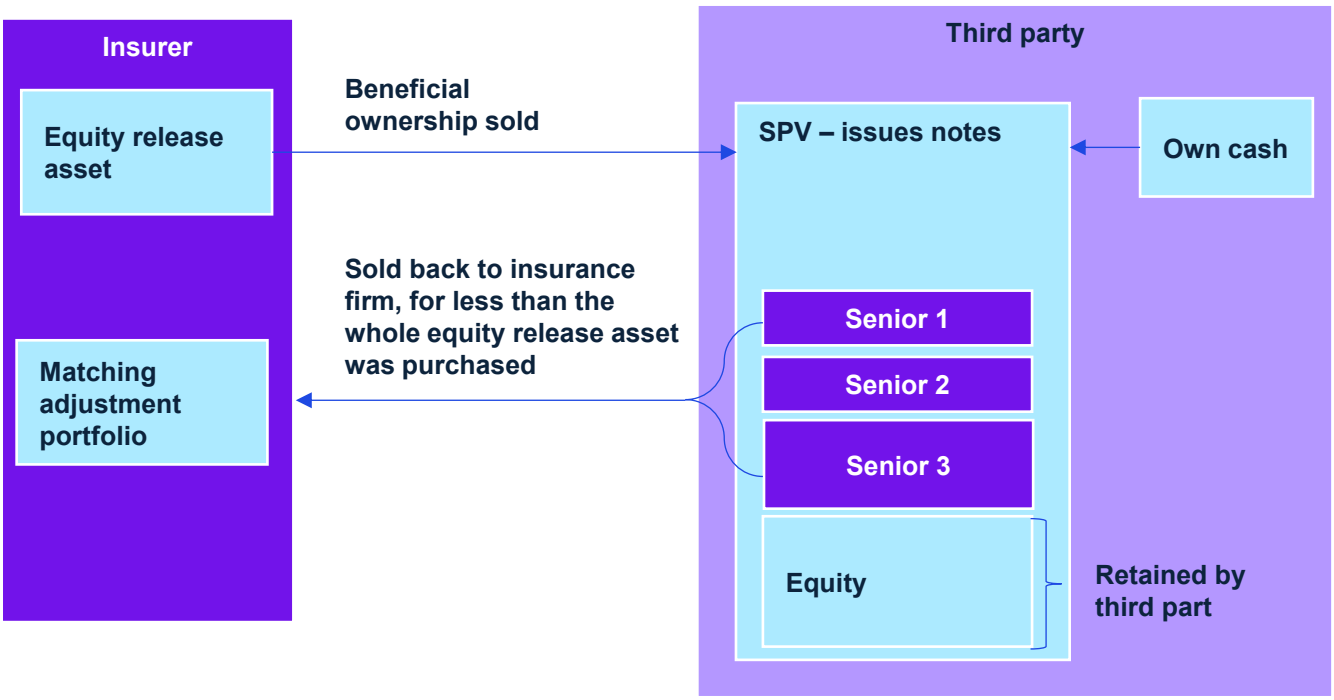
This method offers several advantages compared to an in house restructuring:

- Prices for each note are based on actual market transactions, reducing the judgement required and making valuations more robust.
- It eliminates the need for the PRA's effective value test (EVT) since the insurance firm does not own all the restructured notes. This can potentially increase the benefits derived from these assets.
- By removing the equity tranche, which is the most volatile, the Solvency Capital Requirement (SCR) is reduced as the insurer is no longer exposed to that volatility.

In conclusion, the strategic use of structured assets and the innovative approaches to their securitisation continue to evolve within the insurance industry, driven by regulatory changes and market opportunities. These developments are likely to shape the landscape of capital management and asset utilisation in the coming years.

## The new securitisation models that some UK annuity writers are using for equity release:

**Third party structures the equity release**

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# Insurance securitisation (continued)

## New areas of regulatory focus:

### Increased scrutiny of PE-backed insurers and insurers' investment into illiquid assets

As previously noted, structured assets are typically in the hands of largest, most sophisticated insurers. This has increasingly meant insurers backed by Private Equity (PE) funds.

This model of PE-backed insurers has come under increasing regulatory scrutiny – although the impact of this continues to be uncertain.

As a result, there has been a corresponding increase in regulatory scrutiny. For example, the International Association of Insurance Supervisors (IAIS) published a paper on structural changes in the life sector, highlighting alternative assets as major issues.

The IAIS raised potential concerns that insurers associated with PE firms are increasingly investing in privately placed corporate debt, where the same PE firm acts as a sponsor. In these cases, assets may be grated as investment grade due to internal securitisation by the PE firm although these assets may be more vulnerable to higher default rates due to the levels of leverage of the sponsored private debt.

The IAIS also proposes a definition of "alternative assets", which includes:

- **Equity related**: PE funds and unlisted equities.
- **Real estate**: unlisted residential estate funds, direct investment in land/real estate.
- **Credit related/debt:** unlisted property trusts, private credit funds, direct lending (loans and mortgages), unlisted debt instruments.
- **Other**: hedge funds, commodities, infrastructure
- **Structured securities** containing an asset from one of the above asset classes.

While the implications of an 'alternative asset' definition are unclear, any agreed definition may be a first step towards future supervisory monitoring and scrutiny.

The IAIS's concerns around the changing insurance business models of life insurers and their investment into illiquid assets are echoed by insurance regulators around the world. In particular:

- **BoE FPC** The November 2024 Financial Stability Report outlined concerns around investment in private assets, highlighting complexity of transactions, involvement of private equity, private asset valuation opacity, conflicts of interest, and risks of a recapture event.
- **PRA** SS5/24 outlines PRA expectations on Funded Reinsurance, and insurers will already be familiar with older policies such as SS3/17 on illiquid unrated assets and SS1/20 on the Prudent Person Principal. In addition, the PRA is also seeking to improve its framework for monitoring and supervising liquidity risk and has proposed new requirements for nine large insurers. Recent market stresses highlighted 'critical gaps' in liquidity reporting, hampering supervisors' ability to assess firms' liquidity exposures and responses in a stress scenario.
- **FCA** The FCA's recent review on valuation of private assets outlined the need for improvement on: valuation methodologies and frequency, transparency, functional independence/expertise, governance arrangements, and policies/procedures. While aimed at asset managers, insurers can also apply these lessons.
- **BMA** In Bermuda the BMA recently consulted on public disclosure of assets for commercial long-term insurers, noting that the life sector 'has increased allocation to illiquid, hard-to-value assets that are non-publicly traded and can be more complex than liquid traded assets.

In conclusion, there is increasing regulatory scrutiny both on the owners of insurers that are most likely to hold securitisation instruments, and on insurers' holdings of assets that can expose them to liquidity or risk management concerns. It remains to be seen how exactly this translates into implications for insurers' ability to invest into structured assets.

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# 03

# Regulatory developments

# Latest regulatory developments

## Regulatory environment

In our paper last year, we set out three regulatory themes as it pertained to the SRT market:

- A clearer set of standards and expectations from regulators, particularly in the UK and EU (e.g. through further definition on significant risk transfer);
- A more receptive attitude from regulators leading to the creation of incentives for securitisation (through, for example, the Simple Transparent and Standardised regime and rules for Non-Performing Loan securitisations); and
- An increased need for securitisations as a balance sheet management tool deriving from the changes in Basel 3.1 – both to risk weights in specific asset classes and due to the 'output floor'

These trends continue to inform regulatory developments in terms of easing the effective functioning of securitisation markets. For example:

- The European Commission, in its recent Saving and Investment Union plan, committed to publishing proposals in Q2 2025 on simplifying due diligence and transparency in securitisation, and adjusting prudential requirements for banks and insurers.
- Having on shored the EU Securitisation Regulation (SR), the PRA and FCA are planning to consult on future changes in the rules in Q4 2025 to review the definition of public and private securitisations and the associated reporting regime.

However, as you would expect given the increased usage of these tools from banks, we are also seeing increased interest from regulators in terms of how institutions are managing the risks associated with SRT transactions. So, for example, we have seen the PRA issue a Dear CFO letter in April 2025 reiterating the PRA's expectations on how firms should manage risks associated with SRT transactions. The PRA finalised its policy statement (PS 5/25) on step-in risks in April as well.

The drivers for using SRT tools therefore continue to be clear, as banks continue to grapple with Basel 3.1 impacts, and the regulatory regime broadly supportive. However, as firms use these tools more and more, they need to make sure that their risk management approaches keep pace to meet evolving regulatory focus in this area.

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# Latest regulatory developments (continued)

### UK Solvency II Reform (Solvency UK)

The UK has completed its review of the Solvency II regime. The changes in the rules on the Matching Adjustment came into effect on 30 June 2024, and the balance of the rules became effective from 31 December 2024 Eventually, the UK capital framework will be recast as 'Solvency UK', although the UK and EU regimes continue to be very closely aligned.

The UK Solvency II review was designed to encourage long-term investment in UK productive assets and to improve the competitiveness of the UK insurance industry while preserving policyholder security.

The main changes relevant to securitisation relate to investment (largely) by annuity writers who almost all use an Internal Model for their required capital calculations.

There are several aspects of the new rules relevant to UK insurers' use of securitisation:

- Widening of asset eligibility criteria to include assets with highly predictable cash flows, introducing potential for a change in the degree of re-structuring required to attain Matching Adjustment (MA) eligibility and opening up the prospect for investment in securitisations such as RMBS and CLOs whose cash flows are not fixed. This additional flexibility is limited to contributing to no more than 10% of a portfolio's MA benefit and comes with higher capital charges which will be complicated to calculate.
- Senior Manager Regime Fundamental Spread sufficiency attestation has been introduced, which could have an impact on the relative attractiveness of new securitised products.
- The introduction of notched ratings (rather than the letter rating approach of credit quality steps under SII 1.0), will improve the alignment between ratings and economics of assets intra rating letter and smooth the impact of rating transitions but will require significant model change.
- Similarly, the confirmed removal of the BBB cliff edge will likely encourage more rational investment behaviors around fallen angel assets. However, it is expected this is unlikely to drive material investment into sub-IG assets, though may encourage greater investment in BBB assets.
- Acceleration of the approval process of new assets is also a keystone of the reforms which combined with other components of the reforms could facilitate greater use of securitised assets and/or structural asset overlays.
- In addition, the PRA is currently consulting on the introduction of a Matching Adjustment Investment Accelerator (MAIA). This will allow insurers to include self-assessed eligible assets in their matching adjustment portfolio (MAP) without prior PRA approval, up to a certain limit. Insurers will then have 24 months to apply to regularise these assets into the MAP. This will provide insurers with flexibility for their investment decision.

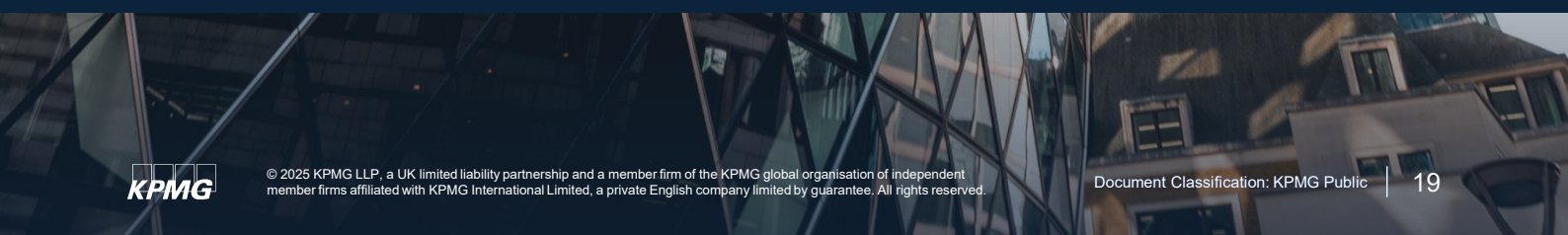
In summary, Solvency UK has the potential to unlock some degree of insurance capital for investment in UK securitised assets. In a rapidly growing Pension Risk Transfer market, even a small allocation to securitisation can amount to several £bn of potential investment.

### EU Solvency II Review

Separate to the reforms going on in the UK, the EU has also been reviewing the EU Solvency II regime. After a period of development and negotiation, the amending Directive has been approved by the European co-legislators and was published in the Official Journal in January 2025. European Member States now have two years to transpose the amending Directive into their own rulebooks. The rules are to apply from 30 January 2027 at the latest.

The broad purpose of the amendments are to enhance the effectiveness of the existing Solvency II regime and address the adequacy and alignment to market conditions of long-term guarantees. This is now followed by EIOPA consultations on level 2 and 3 rules, which will set out the detail requirements.

There is little of relevance to securitisation in the changes to the regime. The European Commission did publish a call for advice in 2021, asking ESAs to consider if the prudential frameworks should be reviewed to revive the EU securitisation market in a prudent way. EIOPA looked into whether there was a case for recalibrating the Standard Formula capital charges for securitisation, which are widely regarded as onerous for anything other than STS Senior securitisation. However, it concluded this was not the major reason why most insurers do not invest in securitisation, but rather a risk management decision.



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# 04

# KPMG team

# KPMG team

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# KPMG SRT Services

## SRT Valuations

A growing trend in the SRT market is the use of third party providers (SRT valuations traditionally being provided by the originator themselves or done in-house).

KPMG has developed an in-house SRT valuation methodology and is currently providing SRT marks for several asset managers in Europe and the US.

## Structuring

Offering a trusted advisor relationship, KPMG can guide firms through the structuring process and support in the delivery of desired commercial outcomes.

KPMG can assist you in the identification and selection of the most optimal portfolios to include in SRT transactions with considerations of capital relief, test calculations of transaction tranching and pricing.

## Operating model – Gap analysis

A robust operating model is key to ensure SRTs benefits are unlocked and risks are appropriately managed and mitigated.

KPMG has developed a modular approach to assess clients' operating models with regards to SRT. The assessment covers a number of areas including governance, risk management, monitoring/ reporting and IT Infrastructure.

## Regulatory, Accounting & Tax

The treatment of SRT transactions from a regulatory, accounting and tax perspective need to be determined taking into consideration the impact of transactions' structuring features.

KPMG can review transaction documentation to i)ensure it passes the SRT test ii)determine the potential accounting treatment and iii) flag any detrimental tax implications. KPMG can also support in responding to regulatory questions/challenges.

## Managed Service

Compared to other distribution tools (e.g., CDS, Insurance), the barriers to entry are higher and banks need a robust operating model to safely run and manage their SRT program.

KPMG can help you achieve your ambitions faster bringing the right capabilities, skillset to help you run your SRT platform. KPMG offers a broad set of services including investors onboarding and preparation of key internal and external reports…

## Verification Agent

A number of SRT deals require the appointment of a verification agent to check compliance with transactions eligibility criteria.

KPMG can act as a verification agent and assist clients in testing whether eligibility criteria are met either at the outset of the SRT transaction or retrospectively as part of the Credit Event testing.

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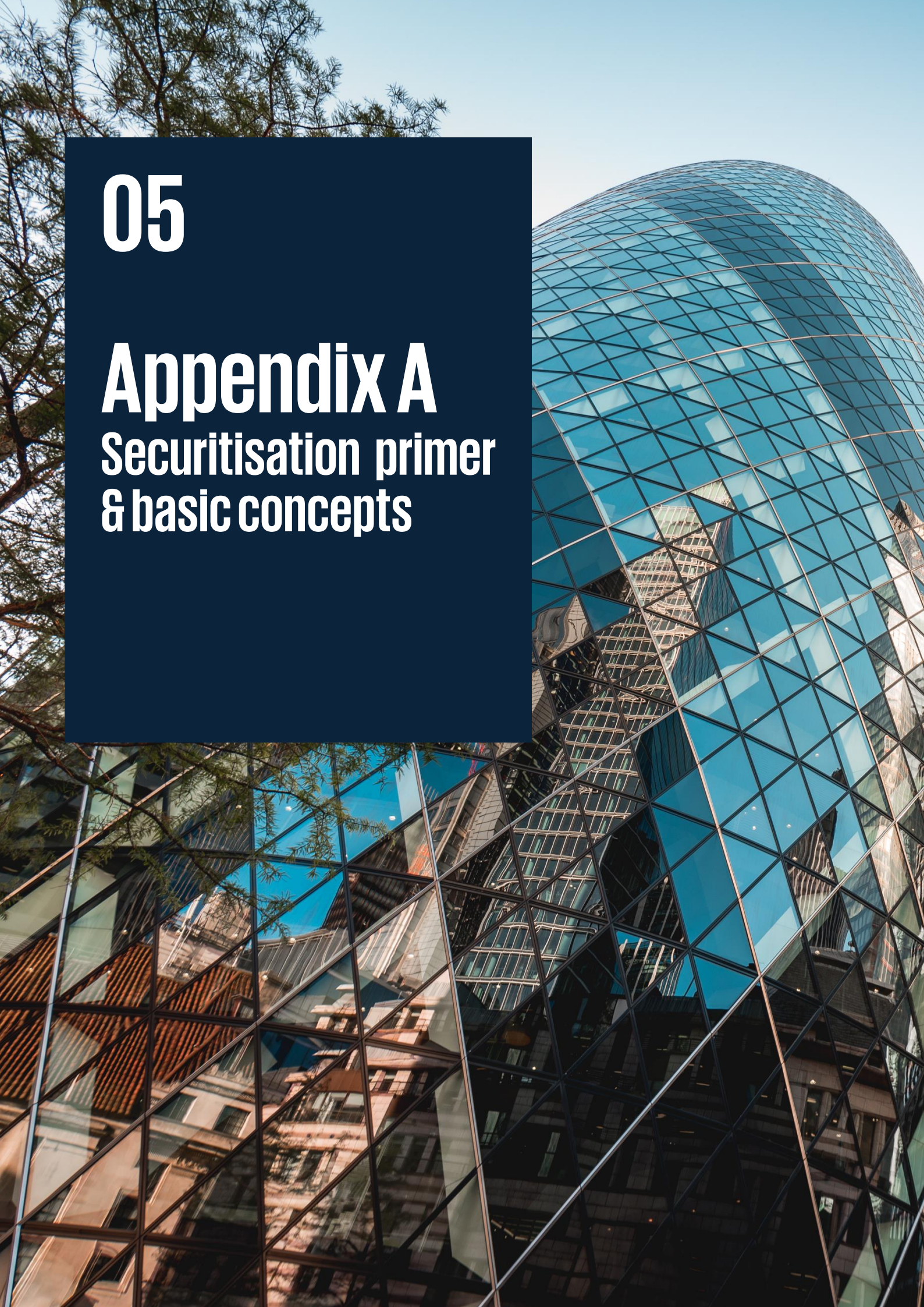


# 05

# Appendix A
## Securitisation primer & basic concepts

# Introduction

## The following slides provide a high-level introduction to securitisation

### What is Securitisation?

A financing transaction in which the cash flows to investors come directly from a portfolio of assets, without any recourse to a transaction counterparty such as the originator.

### How does Securitisation work?

Financial assets are sold (typically a beneficial interest is sold) to a Special Purpose Vehicle (SPV), which funds the purchase by issuing debt in a note (i.e. bond) format.

Multiple note tranches are issued, such that senior notes benefit from the subordination of more junior notes. Subordination is an important source of credit enhancement (a buffer against loss) for senior investors.

Cash flow from the asset portfolio is allocated to investors in a defined order (the 'waterfall'). In contrast to a cash securitisation, in a synthetic securitisation risk is transferred to investors via contract (financial guarantees and credit derivatives).

### Why use Securitisation?

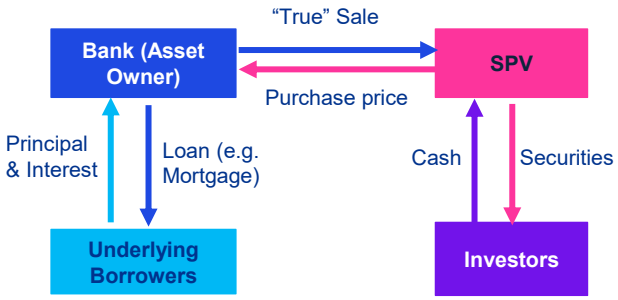
1. Reduce funding costs
2. Diversify funding sources
3. Transfer risk

### What assets can be securitised?

In a securitisation, collateral should comprise financial assets that are (often) granular and diverse enough such that performance data (e.g. default, prepayment) is capable of statistical analysis. That allows for a certain level of confidence about how similar assets will perform in the future.

Typical assets are loans, leases, mortgages and receivables, which can be secured (e.g. an auto loan) or unsecured (e.g. credit card debt). Other more exotic collateral include shipping loans, infrastructure loans…etc.

### Simplified structure:




### Key roles in a securitisation:

- Seller/Originator: the asset owner who sells the assets to the SPV is typically also the originator (i.e. original lender) but not always as in the case of CLOs.
- Issuer: typically an SPV that is bankruptcy remote, meaning it is not an operating company. It issues debt to purchase financial assets and enters into contracts with transaction counterparties (e.g. asset servicer). It is typically an 'orphan' company (owned by a charitable trust) and the risk of the parties is 'de-linked' from the risk of the assets.
- Investors: purchasers of the notes issued by the Issuer.

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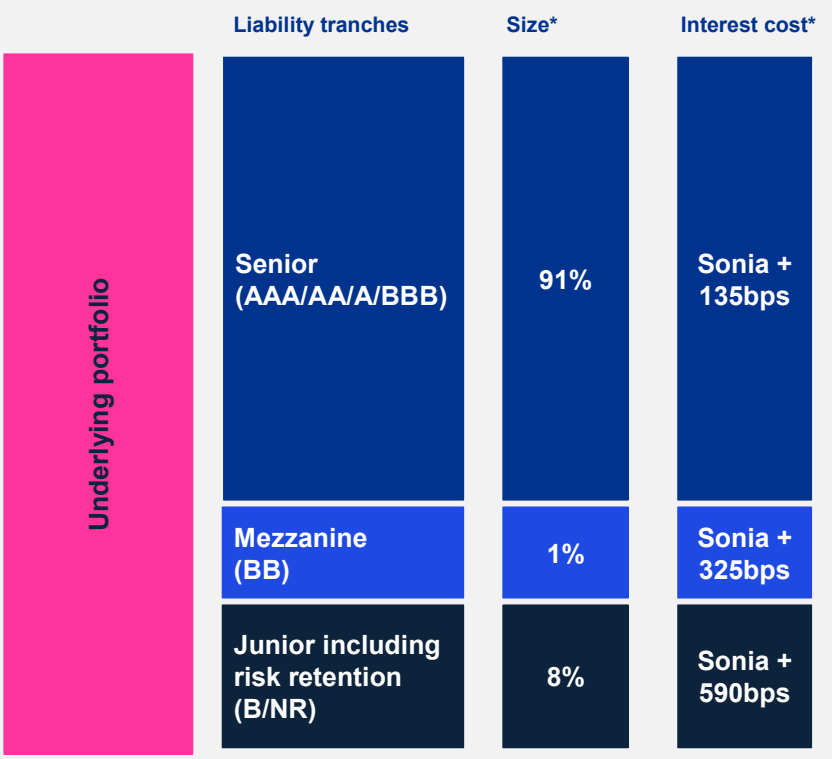
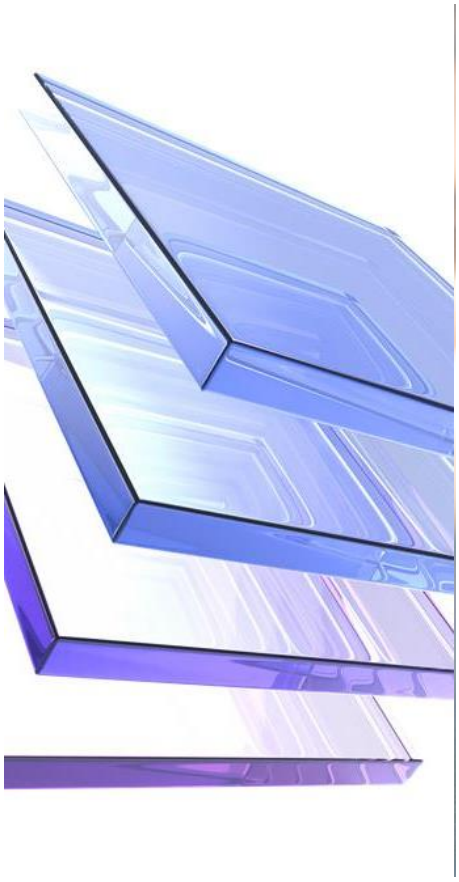
# Securitisation mechanics

## Tranching optimises risk-reward allocation to different pools of investors, lowering the blended cost of funds in the transaction

**Sample securitisation liability structure (indicative)**




*Weighted average size and spreads across recently rated Prime, Buy-To-Let, Owner-occupied, Second-Lien and Non-conforming RMBS transactions



### Tranching and target investors

Note tranching is done to optimise the balance of reward (note yield) with risk (probability of loss) sought by different categories of investors, to achieve the lowest blended cost of funds.

Losses are borne by note tranches differently, based on the transaction waterfall that defines in what order portfolio cash flows are allocated (see overleaf).

### Risk retention

Under UK, EU and US rules, the Seller in a securitisation (typically the asset originator) is required to retain 5% of the capital issued by the Purchaser (the SPV Issuer). This risk retention normally comprises the junior-most 5% of the SPV's liabilities (though there are other options, like a vertical slice). Risk retention capital is often in the form of an unrated, high yielding, deeply subordinated note, held together with a residual value certificate which sweeps surplus cash flow back to the Seller.

### Credit Enhancement

Credit enhancement for investors is comprised of:

(i) subordination (which funds over-collateralisation);

(ii) liquidity reserves (cash reserves or other support); and

(iii) excess spread (surplus cash flow stemming from the difference between portfolio yield and SPV expenses and interest costs).

### Rating agencies

Publicly listed securitisations are rated by rating agencies. However, even private securitisations are structured with reference to rating agency methodologies, or bank internal methodologies that are very closely based on agency methodologies.

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# Securitisation mechanics (continued)

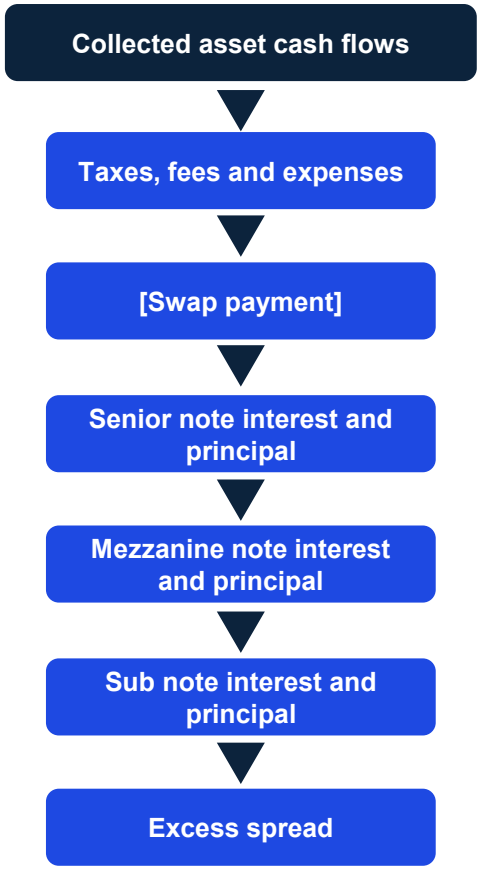
## Waterfall

The waterfall (normally 'Priorities of Payments' in most legal documentation) is the order in which funds available for distribution (e.g. from interest and principal, and cash available in reserve accounts) are distributed to the various tranches on the liability side.

The payment waterfall(s) may be combined or separate, depending on whether the available proceeds are divided between interest proceeds and principal proceeds. In addition, there will be several different versions of the waterfall, depending on circumstances: e.g. sequential payment of note coupons in the normal course, but allocation of all available cash to fully repay senior notes in the event of a trigger event (when pool performance deteriorates).

Waterfall triggers differ based on the asset class. In CLOs (collateralised loan obligations), when the value of the collateral drops below a certain point, interest payment on more junior tranches is diverted to repay senior tranches. In this example, we call the interest payment on the junior tranche 'deferrable', which in practice would cap the public rating that can be assigned to that tranche. Such mechanisms are common and can be customised to a given transaction. This is why investors (and rating agencies) pay close attention to the exact cash flow allocation rules, as it directly impacts their return.

**Typical cash flow payment waterfall (combined)**

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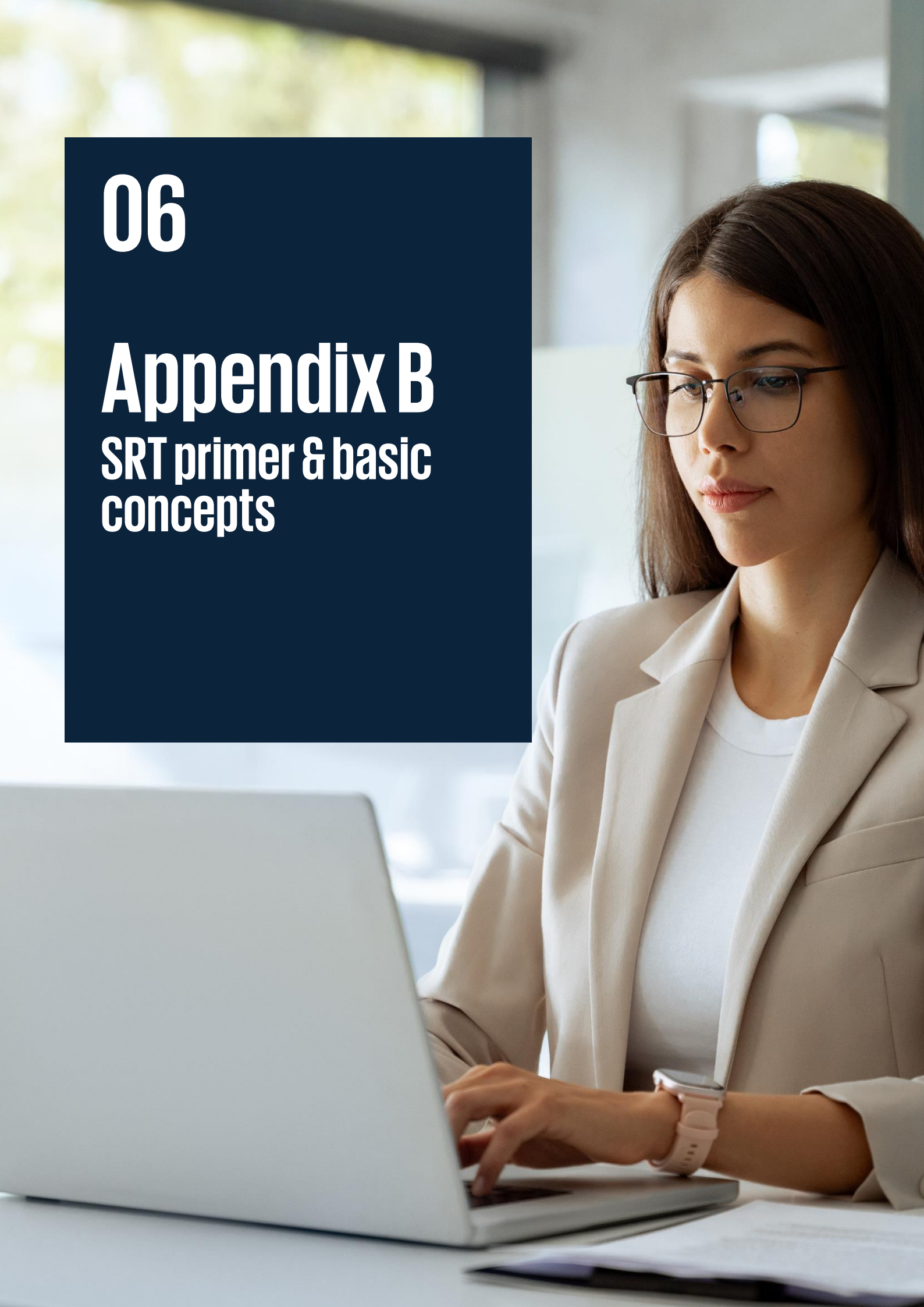

# 06

# Appendix B

## SRT primer & basic concepts

# Definition & key concepts

**Credit institutions:**

Regulated banks within a regulated jurisdiction; a number of European countries (Germany, France, Spain, Italy, Poland and the UK) account for a large share of issuance and this paper focuses on EU regulated institutions but the concepts are also applicable to other jurisdictions.

**Transferring the credit risk:**

Credit risk mitigation can be instrumented in different ways, often via financial guarantees and credit derivatives. Also, investors can provide credit protection either on a funded or unfunded basis (using credit linked-notes). The eligibility of such credit mitigation instrument is detailed in the CRR, Part 3, Title 2, Chapter 4).

**Regulatory capital:**

Regulatory capital is the amount of capital that a financial institution is required to hold by its regulator and is usually expressed as a capital adequacy ratio. [CAR = Tier 1&2 capital/RWA].

When a bank achieves SRT, it can derecognise the RWA of the original assets, thus lowering the denominator of the capital ratio and increasing the capital ratio.

The original Basel I recommendation was 8% but this ratio has evolved to include conservation and countercyclical buffers. In practice most European banks target CET 1 ratio well above 10% (the aggregate CET 1 ratio of ECB supervised bank was around 15.7% as of Q2 2023).

**Significant Risk Transfer ('SRT') transactions allow credit institutions to achieve a reduction in the amount of regulatory capital that they are required to hold by transferring the credit risk on a portfolio of assets to other parties either via a true sale securitisation or a synthetic transaction.**

**Assets:**

SRT portfolios cover a variety of underlying instruments, typically SME and corporate loans but a wide range of other assets including leases (auto, equipment…), consumer loans, credit cards, mortgages, project finance and infrastructure loans. The transaction structure will be impacted by the nature of assets and the typical Risk Weight they carry. In any case, high capital consuming assets (with high risk weights) and relatively low risk are ideal from an economic stand-point.

**True sale securitisation or a synthetic:**

A large share of SRT transactions can be done as synthetic trades given the lighter operational and legal burden of this type of transactions (i.e. no requirement to set up a separate SPV, no true sale of the assets, no need for typical securitisation parties to be contracted, account banks, back-up servicer.…). However, a number of transactions can also be done as cash securitisations to also offer funding to originators at the same time. This was not a salient feature in time of unconstrained liquidity with ultra-low interest rates but may be considered in the current rising rate environment. Also, until recently under Basel II rules, credit institutions following the standardised approach had to place the whole capital structure of the securitisation i.e. senior, mezzanine. The revision of hierarchy of approaches in 2018 allows standardised back to use the SEC-SA approach (which in practice means that tranching under a standardised approach can be similar to a SEC-IRBA (i.e. credit protection covering the mezzanines and/or First Loss Piece).

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# True sale vs synthetic securitisation

**The below table outlines the key differences between a true sale securitisation, where the ownership of the pool of assets is transferred to a special purpose entity and synthetic securitisation where the assets stay on the originator's balance sheet (hence why these transactions are commonly called 'balance sheet' securitisations). The sale of assets in a true sale does not necessarily mean however that the assets are derecognised for accounting purposes as it is often the case that the risk and reward substantially stays with the originator.**

| True Sale vs Synthetic Securitisation | | |
|---|---|---|
| | **True Sale** | **Synthetic** |
| **Sale of Assets** | Yes, sold to a special purpose vehicle | No, assets remains on the originator's balance sheet |
| **Purpose for bank** | Funding | Credit risk hedging/capital management |
| **Servicing of the portfolio** | A Servicer needs to be appointed but likely to be originator (often with Back-up servicing clauses) | Originator, nothing changes |
| **SPV required?** | Yes, to delink the risk of the assets from the originator | Possible for funded structures involving the issuance of notes (CLN) but not required (typically cheaper to do without) |
| **Accounting treatment of securitised assets** | May be derecognised by the originator if accounting rules are satisfied | Stays on the originator's balance sheet but a credit hedge is also recognised |
| **Regulatory derecognition** | Exposures derecognised | Exposures derecognised |
| **Syndication** | Widely distributed with traditional syndication | Very small number of investors and/or bilateral deals |
| **Capital structure** | Senior and mezzanine tranches sold to market (no first loss) | Usually mezzanine and/or first loss placed with investors |
| **External Ratings** | Often | No/rare |
| **Interest rate risk on underlying loans** | Hedged separately | N/A |
| **Currency risk on underlying loans** | Hedged separately | N/A |
| **Secondary market** | Usually, tradeable bonds | Usually, non-transferable credit protection with no secondary market |

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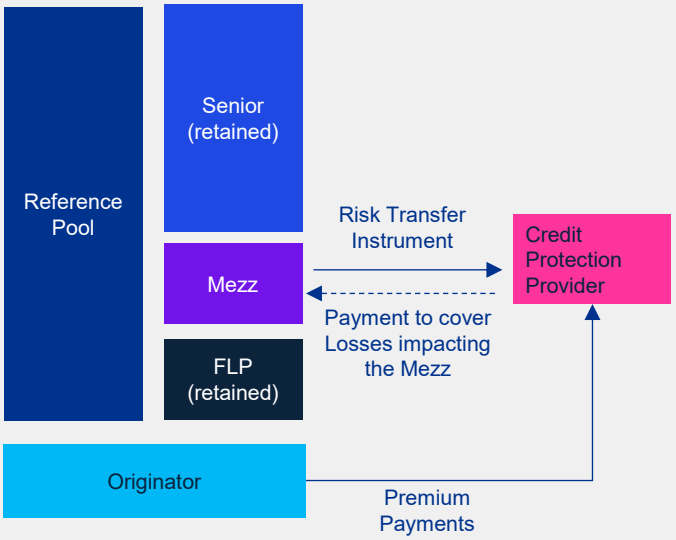
# Indicative structures

## Indicative structures

Synthetic securitisations structures to implement capital relief transaction may take different format notably depending on the nature of protection providers. In the below structure, the unfunded transaction typically resembles the one used by multilateral development banks such as the EIF (EIB Group) or EBRD. Given the high ratings of MDBs (the aforementioned institutions are AAA rated) an originator can allocate a 0% risk weight to the covered tranche even on an unfunded basis. This option would be the cheapest to implement but only works given the high credit quality of the guarantor.

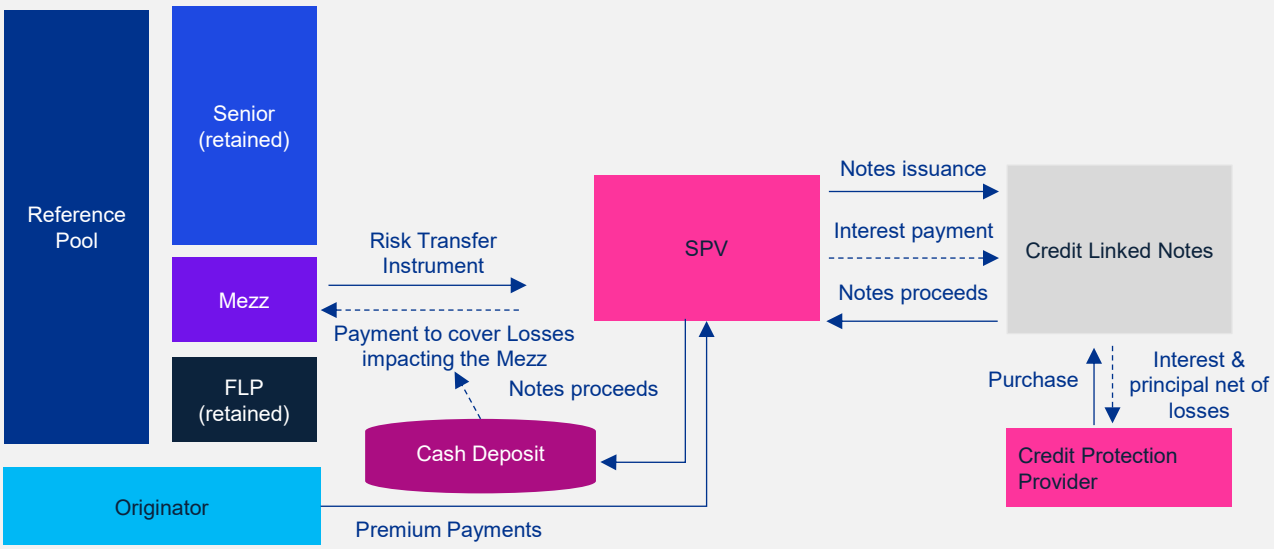
### Unfunded synthetic securitisation




Should the credit protection provider in the transaction be a non-rated counterparty (e.g. credit fund) the originator would need to have the protection provider post collateral to secure to contingent protection payments (should losses impact the covered tranche). This structure could therefore be adapted in a funded way (using financial guarantees or credit derivatives still).

The second structure below illustrates a funded trade where private investors purchase the credit linked notes issued by an SPV. From that perspective all the contingent protection payments are fully funded (and invested in cash deposits) ready to bear losses. This structure is typically used where investors are unrated (e.g. credit or hedge fund) and the originator needs certainty that the guarantor will not default on its obligation to cover credit losses (should they be allocated to the covered tranche). Other intermediary structure exist where the CLNs are directly issued by the originator (maybe less favored by regulators compared to SPV structures but more cost efficient).

### Funded synthetic securitisation (with SPV)

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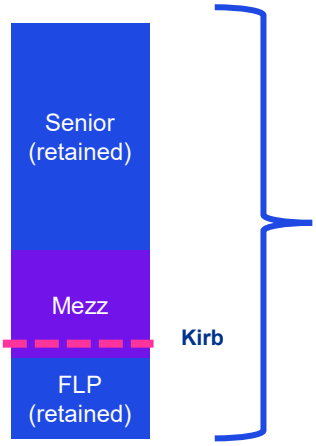
# Securitisation risk weight calculations

## Under SEC-IRBA

The CRR describes in article 259 the calculation of risk-weighted exposure amounts under the SEC-IRBA. This notably depends on the attachment and detachment points of the tranche and how they compare to the capital charge on the non-securitised portfolio (i.e. the Kirb parameter for IRB portfolios).




$$\text{RW} = 1\,250\%, \text{when D} \leq K_{IRB}$$

$$RW = 12{,}5 * K_{SSFA(K_{IRB})}, \text{ when A} \geq K_{IRB}$$

$$RW = \left[\left(\frac{K_{IRB}-A}{D-A}\right) * 12.5\right] + \left[\left(\frac{D-K_{IRB}}{D-A}\right) * 12.5 * K_{SSFA(KIRB)}\right], \text{ when A} < K_{IRB} < D$$

$$K_{SSFA(K_{IRB})} = \frac{e^{a*u} - e^{a*l}}{a(u-l)}$$

$$\text{a} = -\left(\frac{1}{\text{p} * K_{IRB}}\right)$$

$$\text{u} = \text{D} - K_{IRB}$$

$$\text{I} = \max(\text{A} - K_{IRB}, 0)$$

**Where** $\text{p} = \max[0.3, (\text{A} + \text{B} * \left(\frac{1}{\text{N}}\right) + \text{C} * K_{IRB} + D * LGD + E * M_T$

**The RW is subject to a 15% floor for non STS transactions and 10% for STS transactions.**

The parameters, A, B, C, D and E shall be determined according to the following look-up table:

| | | A | B | C | D | E |
|---|---|---|---|---|---|---|
| **Non-retail** | Senior, granular (N ≥ 25) | 0 | 3,56 | -1,85 | 0,55 | 0,07 |
| | Senior, non-granular (N < 25) | 0,11 | 2,61 | -2,91 | 0,68 | 0,07 |
| | Non-Senior, granular (N ≥ 25) | 0,16 | 2,87 | -1,03 | 0,21 | 0,07 |
| | Non-Senior, non-granular (N < 25) | 0,22 | 2,35 | -2,46 | 0,48 | 0,07 |
| **Retail** | Senior | 0 | 0 | -7,48 | 0,71 | 0,24 |
| | Non-Senior | 0 | 0 | -5,78 | 0,55 | 0,27 |

## Non-neutrality

The p factor in the formula above plays an important part in ensuring the principle 'non-neutrality' of the transaction whereby if an institution were to securitised a portfolio and fully retain the tranches on its balances sheet, the regulatory capital would be higher than the initial portfolio (to avoid any arbitrage). This was actually one of the possible arbitrage under Basel I.

The level of this parameter directly affect the RW on the securitisation and its calibration is key.

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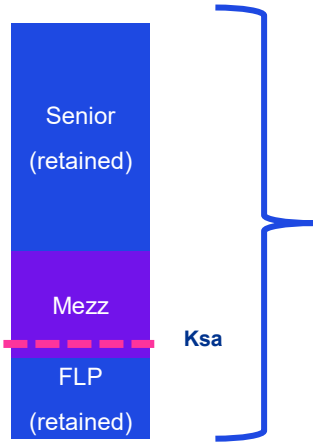
# Securitisation risk weight calculations (continued)

## Under SEC-SA

The CRR describes in article 261 the calculation of risk-weighted exposure amounts under the SEC-SA. As for the SEC-IRBA, the RW depend on the attachment and detachment points of the said tranche and how they compare to the capital charge on the non-securitised portfolio (i.e. KA parameter for standardised portfolios).




$$\text{RW} = 1\,250\%, \text{when D} \leq K_A$$

$$RW = 12{,}5 * K_{SSFA(K_A)}, \text{when A} \geq K_A$$

$$RW = \left[\left(\frac{K_A - A}{D - A}\right) * 12.5\right] + \left[\left(\frac{D - K_A}{D - A}\right) * 12.5 * K_{SSFA(K_A)}\right], \text{when A} < K_A < D$$

$$K_{SSFA(K_A)} = \frac{e^{a*u} - e^{a*l}}{a(u - l)}$$

$$\text{a} = -\left(\frac{1}{\text{p} * K_A}\right)$$

$$\text{u} = \text{D} - K_A$$

$$\text{l} = \max(A - K_A, 0)$$

$$\text{p} = 1 \text{ for a securitisation exposure that is not a resecuritisation exposure}$$

**Where Ka is adjusted for delinquencies**

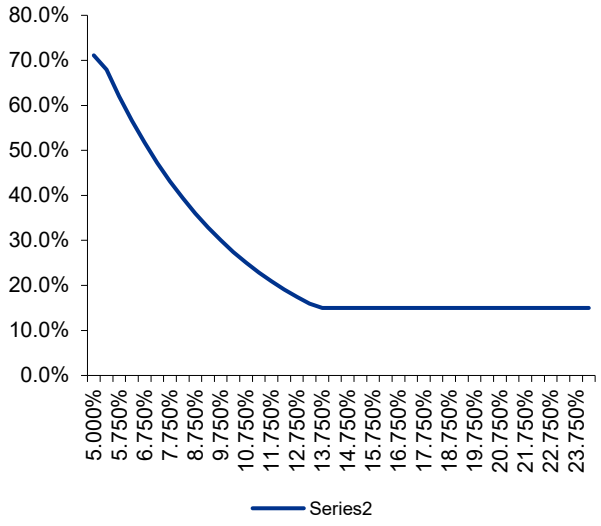
$$K_A = (1 - \text{W}) * K_{SA} + W * 0.5$$

**The RW is subject to a 15% floor for non STS transactions and 10% for STS transactions.**

Often transactions are structured such that the minimum risk weight calculated on the senior (retained) tranche is minimum (i.e. set at the relevant floor) although it may not always be the case depending on how the structure is expected to amortise (but rare).

The opposite graph illustrates how the risk weight on a senior tranche in a non-STS securitisation goes down to the 15% floor as the attachment point increases.

**Senior RW vs. senior attachment**

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# Numerical examples

## Simplified example – without XS spread

The below tables illustrate the potential economic incentive for an originator in doing an SRT transaction (using hypothetical parameters):

**Portfolio Assumptions**

- £500mn portfolio size
- 75% Risk Weight
- 356mn RWA
- 12.50% Target CET1
- Tax Rate 30%

The after-tax cost of capital is lower than the CET 1 ratio and this may indicate that the trade may be beneficial to the originator. Of course each originator has its own target for the cost of capital.

Also the above example is a day one calculation of potential capital benefit but the transaction need to be examined over its entire life (which may include consideration on calls).

Based on a portfolio size of £500m and a blended portfolio RW of 75% the RWA consumption of the portfolio is £356m (i.e. £500m x 75%).

| Assumed transaction structure | | | | |
|---|---|---|---|---|
| **Securitisation tranche** | **Percentage** | **RW** | **Retained** | **Guarantee Fee** |
| Senior | 91.50% | 15.0% | Yes | -- |
| Mezz | 7.00% | -- | No | 7.0% |
| Junior | 1.50% | 1250.0% | Yes | -- |
| XS | -- | 1250.0% | Yes | -- |

| Capital release | |
|---|---|
| **Category** | **GBP amount** |
| Ex-ante | 44,531,250 |
| Ex-post | 20,296,875 |
| | |
| Release | 24,234,375 |
| Release ratio | 54.42% |
| Cost of release | 2,450,000.00 |
| Cost of release After Tax | 1,715,000 |
| | |
| | |
| Cost of Capital Day 0 | 10.11% |
| **After tax** | **7.08%** |

## SRT benefits

The below table summarises the key benefits to originators and investors in executing SRT transactions:

| To the originator | To the investor |
|---|---|
| Capital released enables further lending or simply the strengthening of capital ratios (CET1 and MREL notably) | Access to diversified credit risk that may otherwise be inaccessible (e.g. SME lending); leverage off lending expertise of originator at little cost |
| Limit (concentration) management and freeing up of credit lines | Potentially attractive returns |
| Preserve corporate relationships (vs. straight divesture of the assets; particularly true for large syndicated corporate loans | Risk sharing partnership with originator and possibility to tailor transactions |
| Reduces P&L volatility created by provisioning requirements between stage 1 assets migrating to stage 2 since hedge accounting under IFRS 9 is recorded as a gain | |

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# Regulatory framework – SRT basics

## Demonstrating significant risk transfer

If a prudentially regulated bank can demonstrate to the regulator that it has removed the credit risk on a portfolio from its balance sheet, then it is allowed to disregard the RWEA of the asset pool and instead recognise the risk weighted assets corresponding to the retained tranches in the securitisation.

The set of rules and criteria to determine whether significant risk transfer has occurred is set in the Capital Requirement Regulation ('CRR') initially published in 2013 and amended in 2019 (notably including new securitisation risk weight calculation) and 2021 (with the adoption of the STS regime for balance sheet securitisation amongst others).

There are a number of quantitative tests to meet (which are detailed in the CRR but also in proposed regulation), however the 'spirit' of SRT is that capital relief achieved has to be commensurate with the credit risk transferred to third party investors (which can be a credit fund, a hedge fund, multilateral development banks…). In other words, it would increase systemic risk to allow banks to decrease significantly their capital requirements while retaining too much credit risk on their balance sheet (for a given portfolio of assets). The regulator therefore pays close attention to any technical features included in transactions that may mitigate the extent to which investors (protection sellers) may bear losses on the underlying portfolio during the life of the transaction (implicit support).

Because the regulation does not cover all technical aspects presents in transactions, in particular precise structural features (amortisation type, nature of excess spread…), the EBA published a discussion paper in 2017 (intended for discussion) that in practice serves as guidelines for the treatment of certain of those features, in particular the most contentious ones:

the type of amortisation between the various tranches of the structure, most typically a senior a mezzanine and a junior tranche (full pro rata across the capital structure with and without triggers, sequential)

- the presence of Excess Spread (none, use-it-or-lose it, with trapping mechanism) and its size
- Types of calls (time calls, SRT calls, clean-up calls)
- Cost of credit protection and instances where it would be deemed as too expensive (thus providing implicit support)

Any of the features that could make the protection buyer suffer losses instead of the protection seller would jeopardise the validity of SRT by the regulator and may result in the capital release being voided.

## STS framework

The introduction of the new Securitisation Regulation in January 2019 also put in place a framework for STS (Simple Transparent and Standardised transactions) that allows originators to apply lower threshold to the securitisation risk weight (in particular a 10% RW threshold vs. a 15% non-STS threshold). Although these criteria initially only applied to cash securitisations, they were then adapted to balance sheet (i.e. synthetic) securitisations in 2021 as part of a package of measures implemented as relief measures due to the Covid situation, which was a positive development for the market as a whole.

## An evolving regulatory framework

Regulation is part and parcel of the SRT market as it drives the dynamics, technical features and economics of those transactions. The European market where most of volumes come from is the most advanced and recent history has offered a lot of clarity with regards to what rules were applicable.

This is somewhat mitigated by the presence of regulatory calls in most transactions, allowing originators to call the deal should they fail SRT criteria due to unforeseen changes.


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