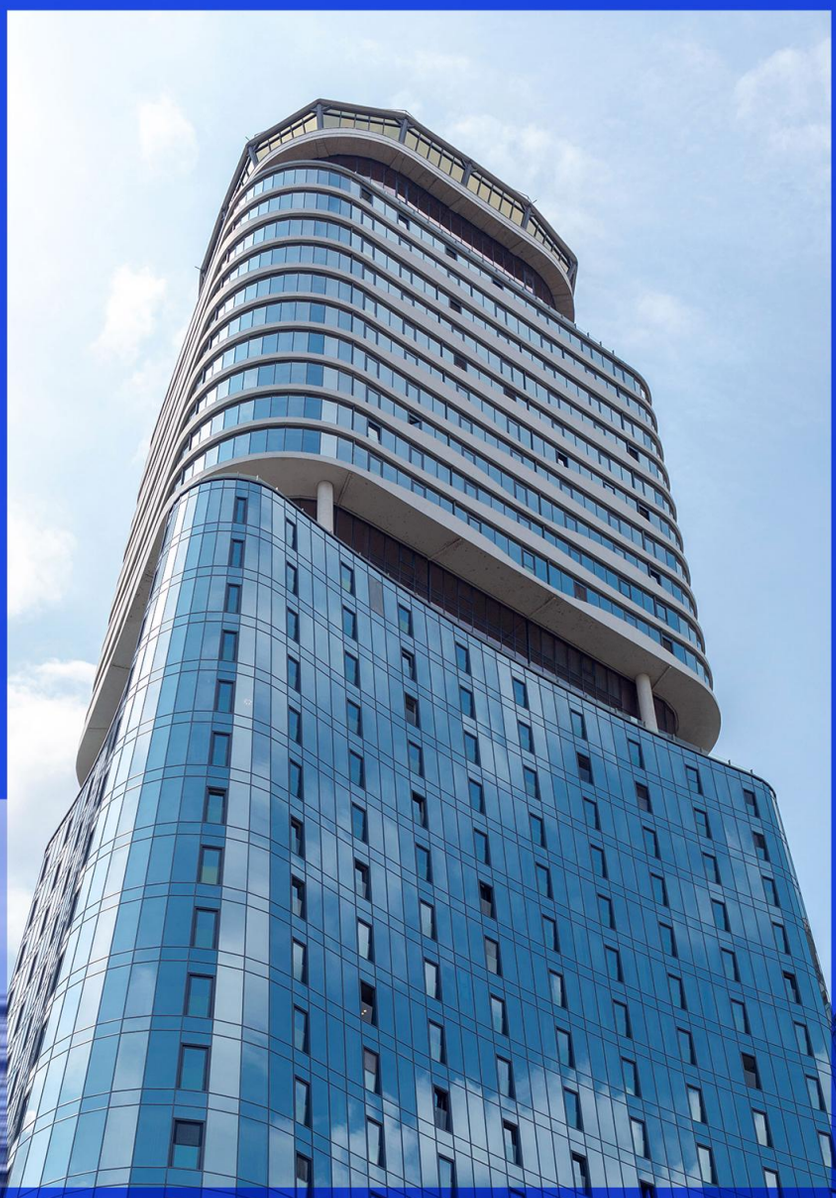
Securitisation & balance sheet optimisation

KPMG R&RA BSO network

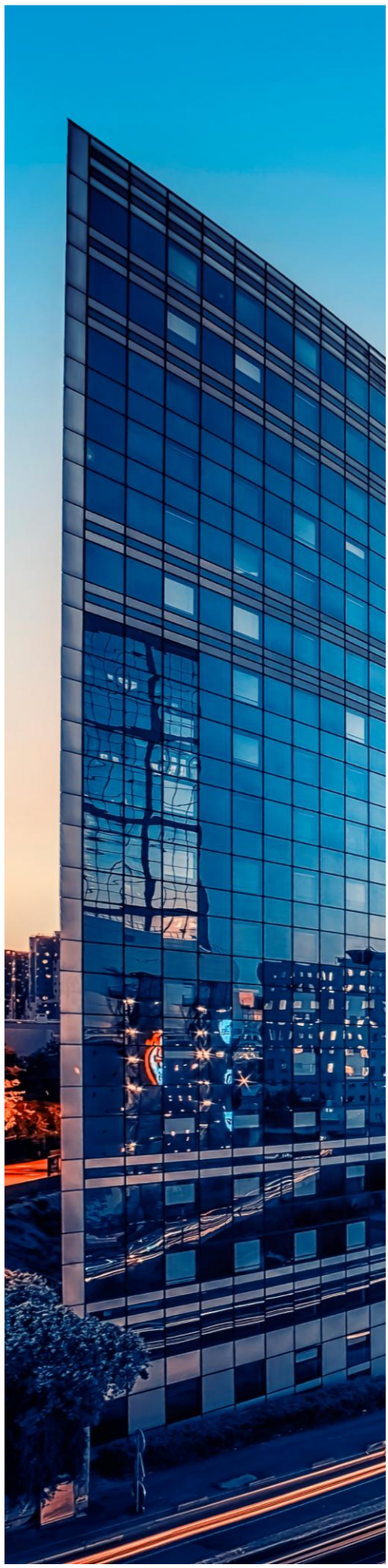


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May 2026

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Introduction

Securitisation continues to play a central role in balance sheet management for banks and other financial institutions. As in prior years, it remains a key mechanism to recycle capital, manage risk and support funding. However, the market is entering a more measured phase: while 2024 marked another year of record issuance and 2025 volumes remained robust, the emphasis is now shifting towards optimising returns under tighter capital, liquidity and risk constraints.

The ability to deploy securitisation flexibly and efficiently as part of a wider balance sheet strategy is becoming a critical differentiator. Institutions are increasingly treating securitisation not as a series of discrete transactions, but as an embedded operating capability. Treasury and finance functions are evolving towards centrally governed, repeatable platforms, enabling more dynamic balance sheet management and faster response to market conditions. This reflects a broader trend already underway, with banks moving to more centralised control of the balance sheet to improve balance sheet velocity and maximise returns.

Market feedback suggests that execution timelines have shortened relative to previous years, supported by this platform approach and by greater internal coordination across finance, risk and business teams. In our experience, this shift has been enabled by stronger governance frameworks, improved data, modelling and reporting capabilities, and a clearer articulation of how securitisation supports strategic objectives, rather than purely tactical capital and funding management.

At the same time, structural regulatory divergence across jurisdictions is becoming a defining feature of the landscape. Differences in the timing and interpretation of Basel 3.1/4/Basel Endgame implementation, alongside broader regional policy choices, are creating complexity for institutions operating across multiple markets. This fragmentation is increasingly influencing portfolio strategy, issuance planning and investor engagement, reinforcing the need for flexibility and careful coordination across jurisdictions.

The SRT market itself continues to mature and is now firmly established as a mainstream asset class, with sustained growth in issuance, investor participation and product diversity. However, this maturity has been accompanied by a sharpening of supervisory focus. Regulators are placing greater emphasis on areas such as operational risk, model risk, monitoring and disclosure, and the provision of leverage to end investors, including through recent supervisory communications such as the PRA's "Dear CFO" letter as well as more targeted institution-specific reviews and increasing ECB site visits to banks.

Alongside this, broader concerns are emerging around private credit markets, valuation transparency and risk transfer dynamics. These themes, together with reviews of individual programmes (including recent supervisory engagement with large bank SRT platforms), signal a continued elevation of regulatory expectations regarding governance, transparency and risk management, as typified by the ongoing PRA System-Wide Exploratory Scenario market process.

This raises an important question for the market: what does "good transparency" look like in practice? There is an opportunity for issuers and investors to shape this agenda constructively, particularly in areas such as performance reporting, ongoing monitoring and governance, in a way that supports both investor confidence and regulatory comfort, without unnecessarily constraining market development.

Another notable development is the continued expansion of SRT into new jurisdictions including institutions in the Middle East, Asia and other developing markets. In addition, the market is increasing in depth with smaller and newer banks entering. As these latter groups engage with securitisation, we are seeing a degree of "leapfrogging": many of these entities have newer and better data architecture & systems and are substantially less constrained by internal complexity in meeting relevant regulatory standards. This is introducing both convergence and innovation into the market and may influence future evolution in more established jurisdictions and among more established players.

Against this backdrop, securitisation remains one of the most powerful tools available to institutions seeking to enhance balance sheet efficiency and shareholder returns. However, its role is evolving: success increasingly depends not only on executing transactions, but on embedding securitisation within a broader, integrated approach to capital, liquidity and risk management. This paper sets out our latest perspectives on these developments, drawing on recent market activity, regulatory trends and our experience working with leading participants across the securitisation landscape. We hope it provides a useful overview of both the opportunities and the challenges facing the market as it continues to mature.

The KPMG team remains closely involved across all stages of securitisation and SRT programmes and would be pleased to discuss any of the themes raised.

Alec Innes – Partner

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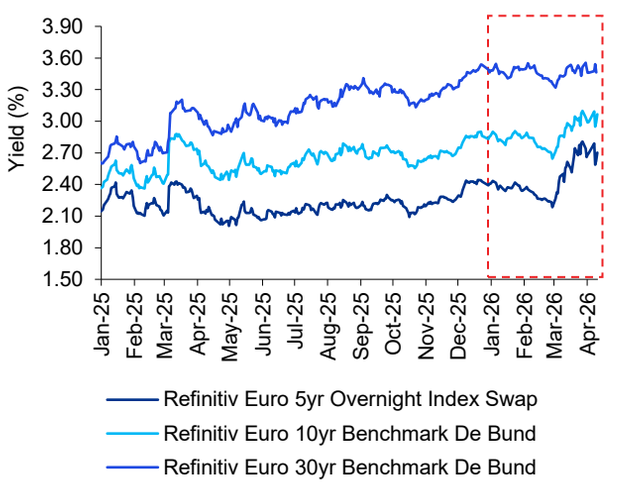
Securitisation issuance market review

Securitisation trends & issuance review

Rates and benchmarks

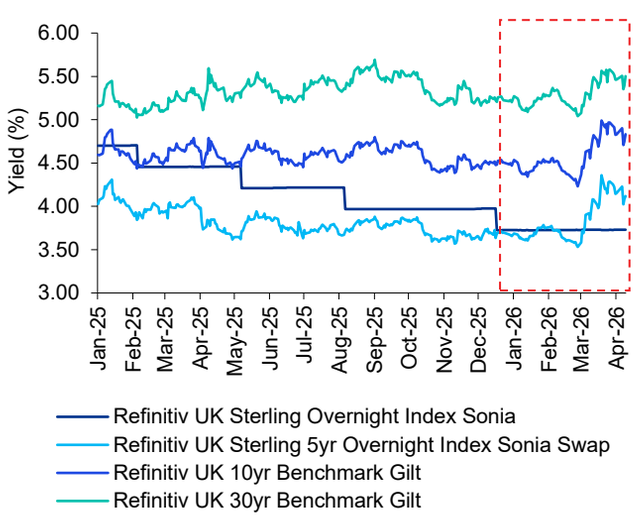
- Rates continued to test recent highs in Q1 2026 as the Iran war brought global economic momentum to a halt, with the IMF projecting slower growth and higher inflation.
- Rates had already been rising steadily over 2025, driven by Trump's inflationary tariffs and expectations of higher government spending, particularly in Germany.

Chart 1a – Euro benchmarks



Source: Refinitiv

Chart 1b – Sterling benchmarks

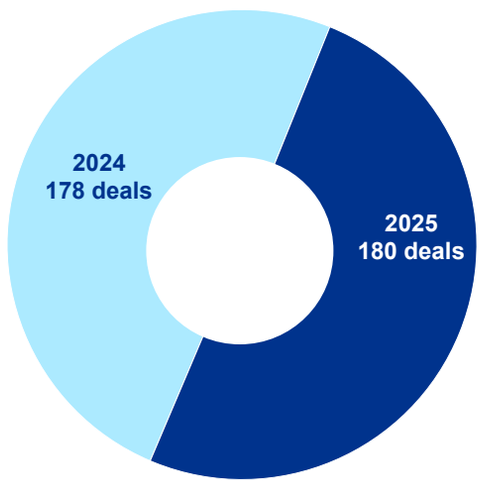


Source: Refinitiv

Deal issuance

In EU ABS and RMBS markets continued their strong momentum in 2025 with overall issuance higher than 2024, driven by strong CLO issuance, robust investor demand and tightening spreads.

Chart 2a – split of total EU ABS/RMBS 2024-2025 deal volume by year

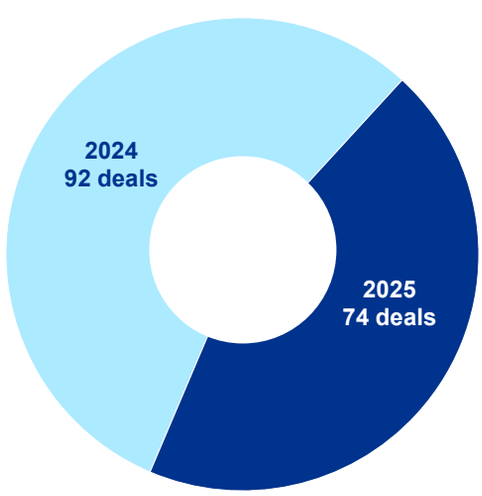


Total 2024 / 25 EU deals: 358

Source: Debtwire

UK issuance experienced a slowdown in 2025, driven by fewer large refinancing deals and market volatility

Chart 2b – split of total UK ABS/RMBS 2024-2025 deal volume by year



Total 2024 / 25 UK deals: 166

Source: Debtwire

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Securitisation trends & issuance review (cont.)

UK Deal issuance

Listed securitisation deals launched in the UK over Q1 2026 are outlined below.

Date	Borrower	Issuer Name	Asset class	Size (£'m)	Maturity	Coupon
RMBS						
Jan-26	Atom Bank plc	Elvet Mortgages 2026-1	Owner-occupied	378.7	Jan-68	AAA: S+0.54%
Jan-26	Santander UK	Holmes Master Issuer 2026-1	Owner-occupied	1250.0	Oct-72	AAA: S+0.53-0.60%
Jan-26	LendInvest BTL Limited MTF (LE) Limited	Pierpont BTL 2026-1	BTL	315.6	Dec-62	AAA: S+0.77%
Jan-26	Pepper Money Limited	Polaris 2026-1	OO and BTL	408.2	Jun-70	AAA: S+0.73%
Jan-26	Vida Bank Limited	Tower Bridge Funding 2026-1	OO and BTL	666.1	Jan-73	AAA: S+0.75%
Mar-26	Paratus AMC Limited	Braccan Mortgage Funding 2026-1	OO and BTL	436.5	Apr-68	AAA: S+0.85%
Mar-26	UK Seconds Lending Ltd / Pepper Money Limited	Castell 2026-1	Owner-occupied	422.0	Dec-62	AAA: S+0.89%
Mar-26	West One Secured Loans Limited	Elstree 2026-1	OO and BTL	284.3	Sep-66	AAA: S+0.85%
Mar-26	Together Financial Services Limited	Together Asset Backed Securitisation 15 2026-1ST1	OO and BTL	561.8	Mar-67	AAA: S+0.90%
ABS						
Feb-26	ABN AMRO, Deutsche Bank, Nomura, Societe Generale	Yondr UK 2026-1	Data centres	532.0	Feb-56	AA: 5.48%
Mar-26	Propel Finance No 1	Velocity 2026-1	Equipment finance receivables	314.3	Feb-37	AAA: S+0.88%
Mar-26	EdgeConneX Holdings IV	EdgeConneX Data Centers Europe 2026-1	Data centres	674.4[(a)]	Apr-56	A: 4.50%

Sources: Bloomberg, Moody's, S&P, Fitch, Morning Star

Note: (a) Euro-denominated issue of €777.5m, converted into pounds sterling at an exchange rate of €1 = £0.87

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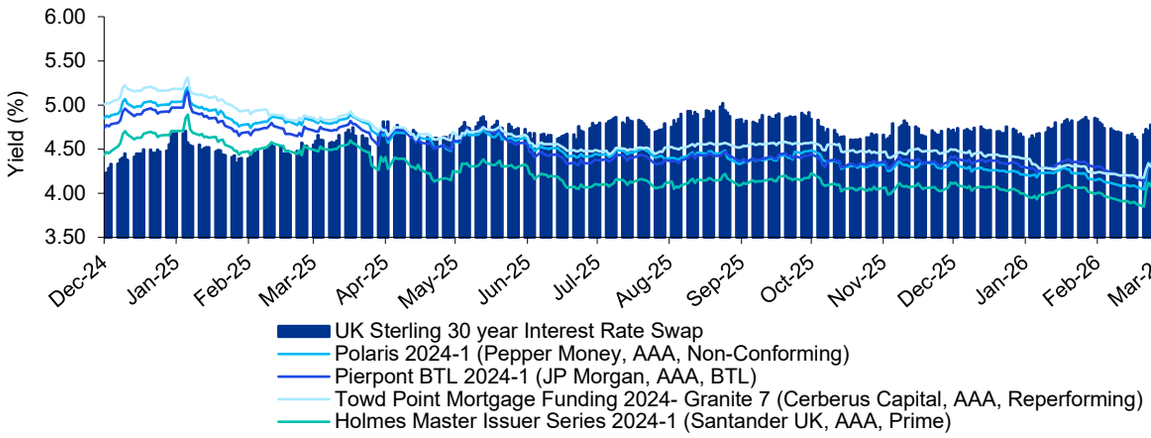
Securitisation trends & issuance review (cont.)

Bond yields

Implied credit spreads rose sharply in Q1 2026 (illustrated by yields on sample bonds from different asset classes), reacting to the economic uncertainty from the Iran War.

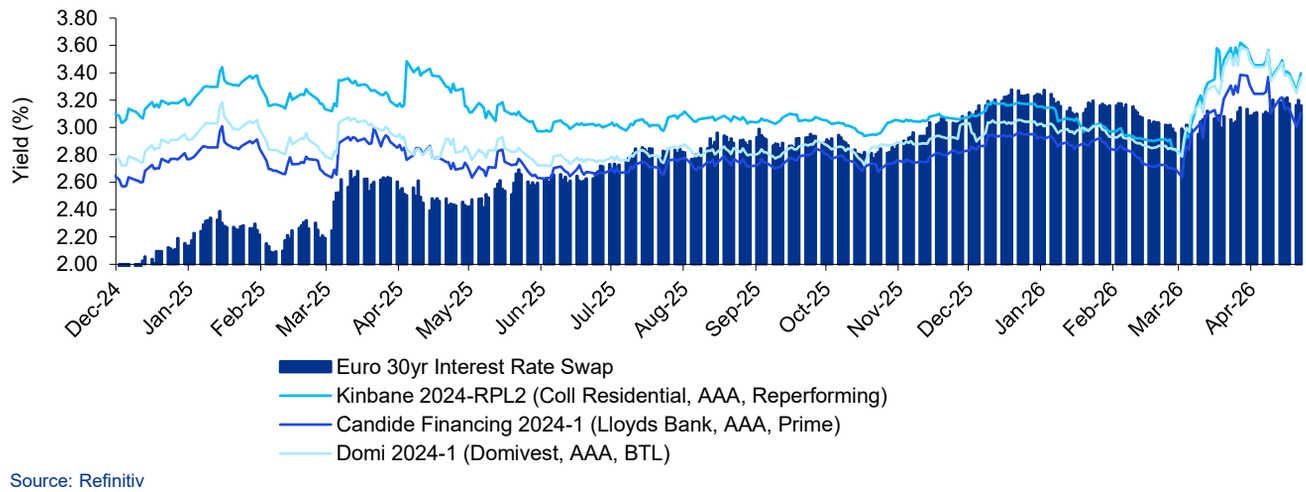
UK AAA RMBS securitisation issuance spreads experienced volatility over 2025, rising by 10bps to 60bps following the First Brand and Tricolor collapses in the US, before recently widening by up to 9bps following the Iran War. AAA spreads in Q1 2026 ended at 55bps, compared to a trough of 43bps in Q3 2025.

Chart 3a – RMBS AAA yields on selected UK issuance



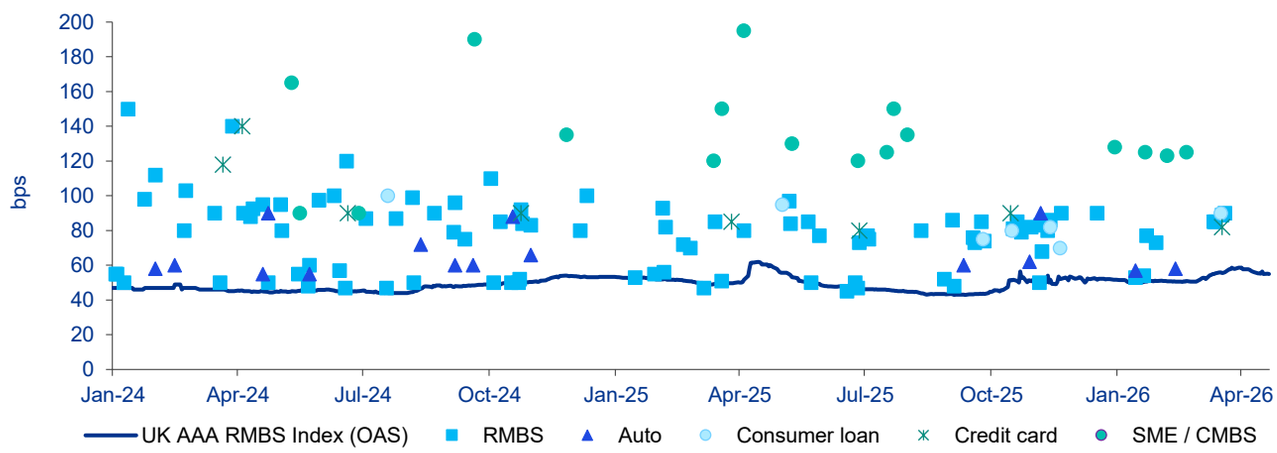
Source: Refinitiv

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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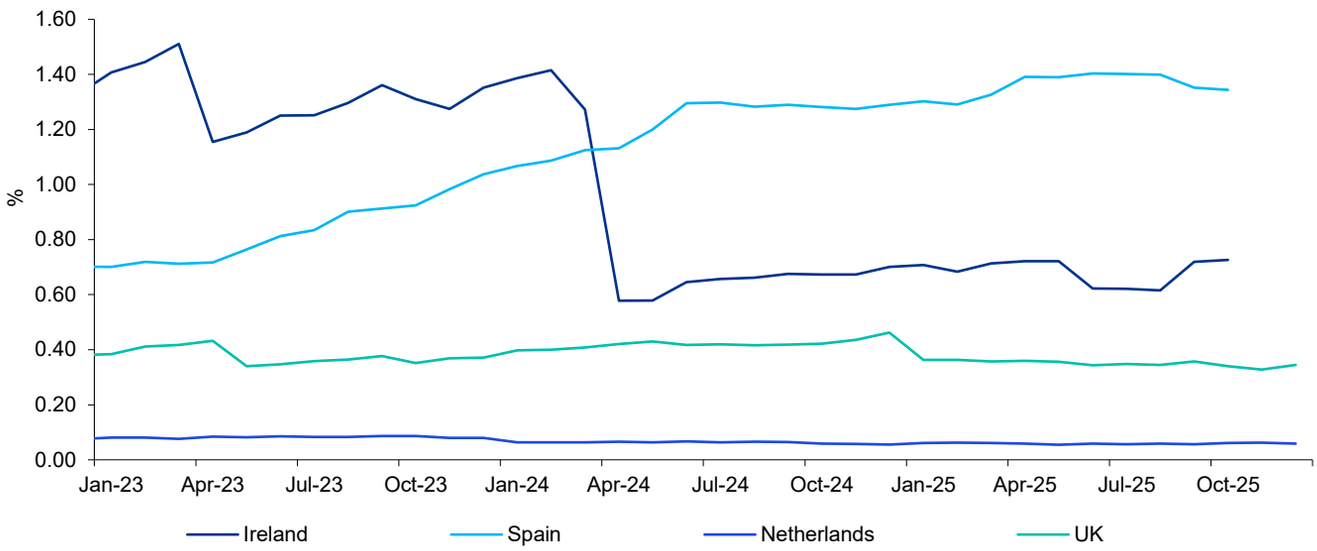
Securitisation trends & issuance review (cont.)

RMBS performance

Across Europe, prime RMBS arrears in 2025 have continued to increase in Spain, while remaining mostly flat across Ireland, the Netherlands and the UK.

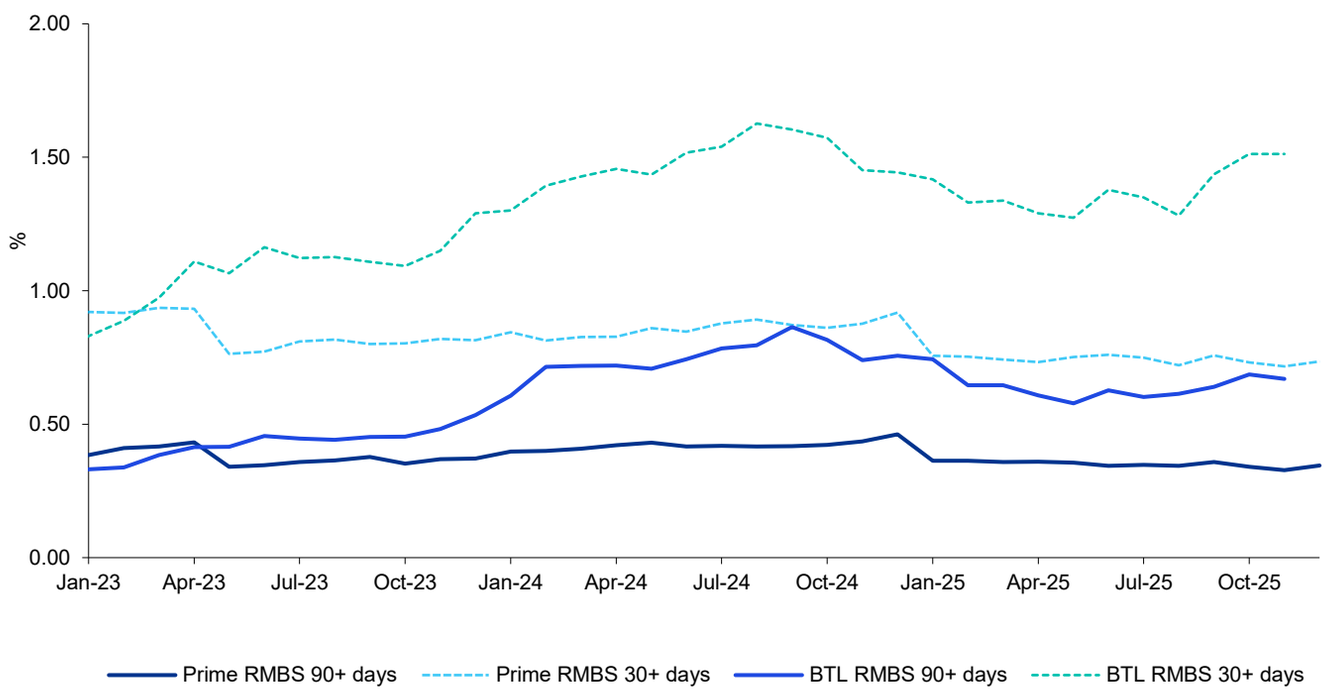
In the UK, prime arrears remained flat, while BTL arrears rose across the back end of 2025.

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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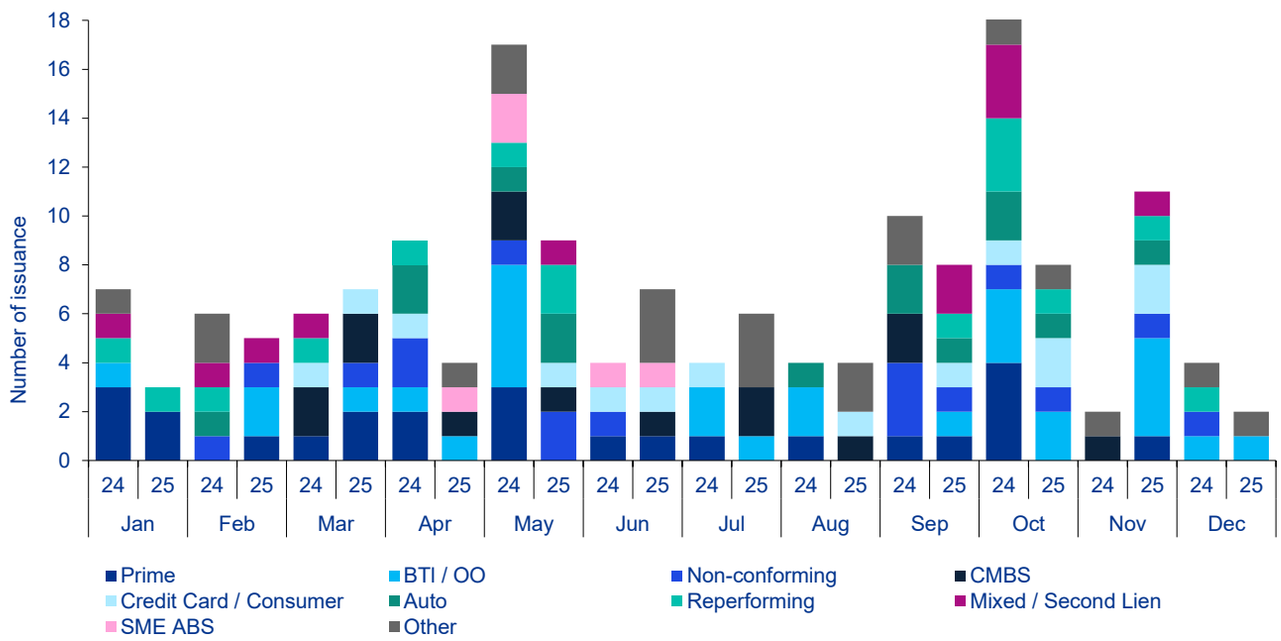
Securitisation trends & issuance review (cont.)

UK bank & non-bank market issuance

Out of the 74 UK ABS and RMBS deals completed in 2025,

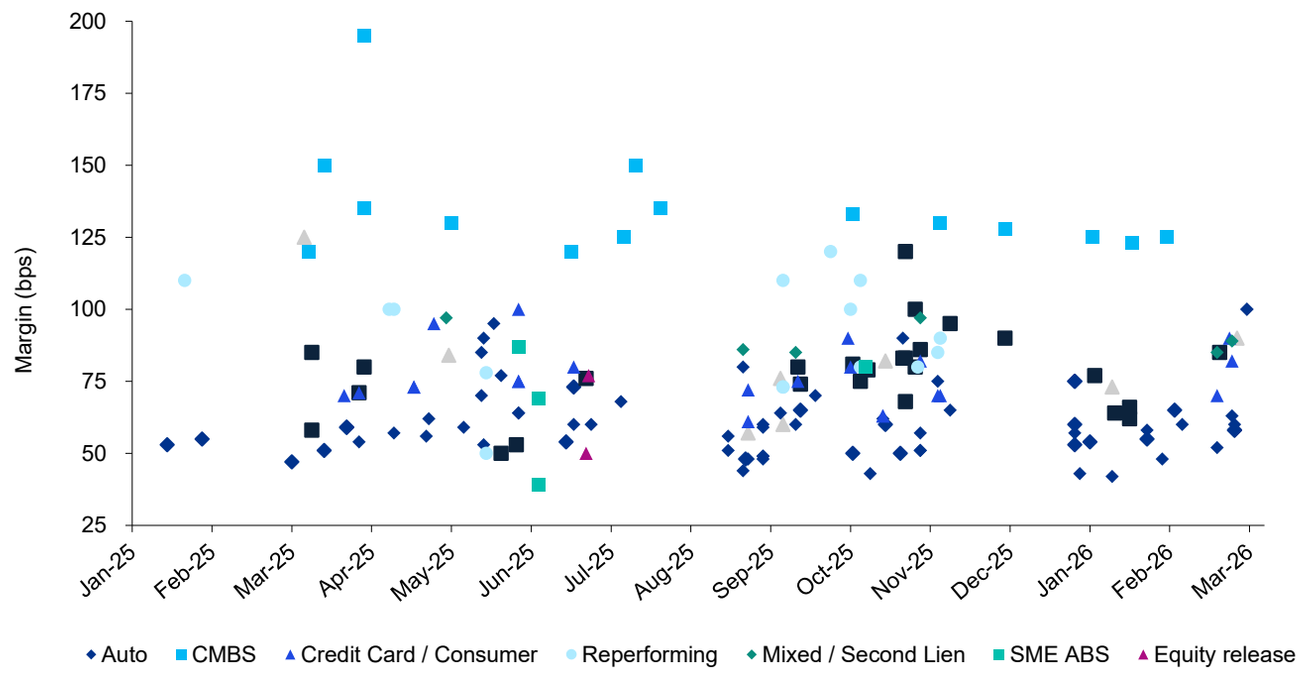
- 53% were residential mortgage-backed (2024: 62%).
- 12% were auto (2024: 10%).
- 11% were CMBS (2024: 8%).

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

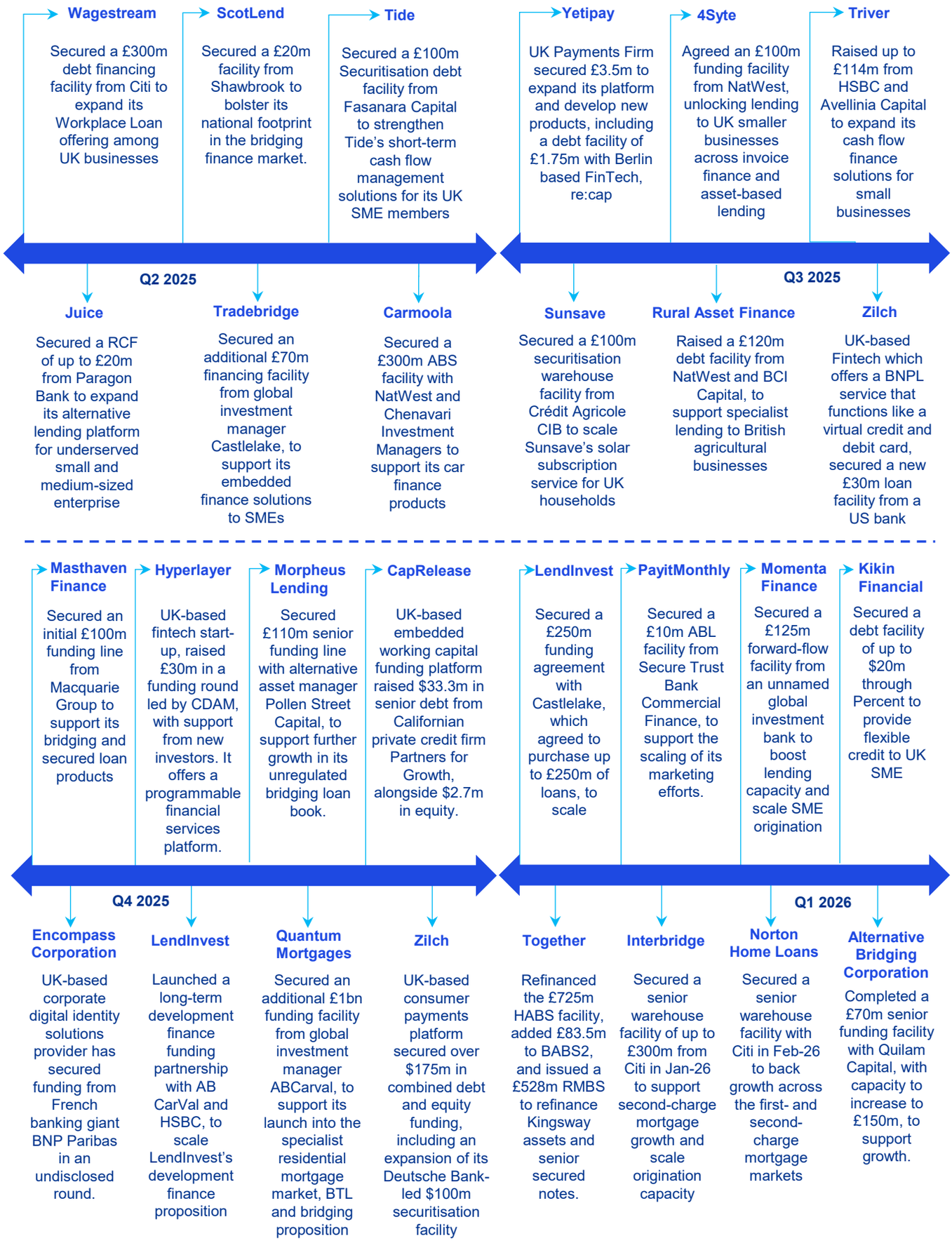


Source: Debtwire

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Securitisation trends & issuance review (cont.)

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



Source: KPMG, Public sources

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02

SRT market review

SRT Trends & issuance review

Summary

- 2025 was another year of strong issuance in the SRT market, with full-year volumes estimated by various market sources to exceed USD 30bn.
- Spreads normalised at the tight levels reached in Q4 2025, with investor feedback pointing to expectations of some widening in 2026 rather than further compression.
- The SRT market demonstrated resilience to macroeconomic volatility, with periods of broader market stress having limited impact on observed pricing and execution.

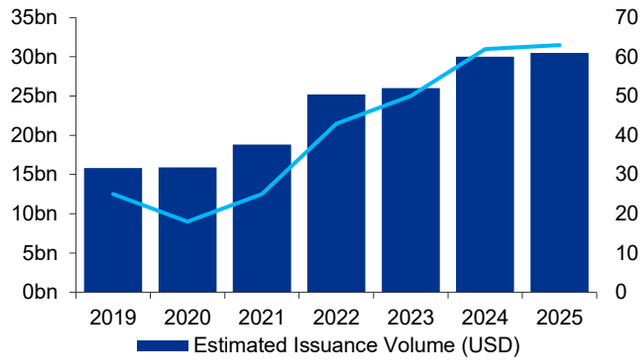
Review of recent issuance and trends

Following another record year in 2024, the SRT market remained active throughout 2025, with full-year issuance again estimated to be over USD 30bn. Given the opacity of the market, it is always quite difficult to estimate volumes precisely (e.g. some data may exclude cash SRT or transactions done by multi lateral development banks). Investor discussions over H2 2025 and early 2026 suggest the market is now in a more mature phase with a relatively stable investor base, repeat issuance from core participants and greater differentiation across transactions.

Corporate SRT continues to account for the majority of issuance, particularly for large, programmatic European banks. Portfolios with a high share of investment grade exposure remain well supported. However, market participants consistently highlighted that headline pricing should be interpreted with caution. Certain transactions executed during periods of market volatility or within small, concentrated investor groups were viewed as execution-driven and not necessarily representative of broader market clearing levels.

Relative value considerations have become increasingly important. While there is no perception of a general increase in SRT risk, competing opportunities across ABS, CLO and other private credit markets have reduced the incentive for investors to pursue SRT at increasingly compressed levels.

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

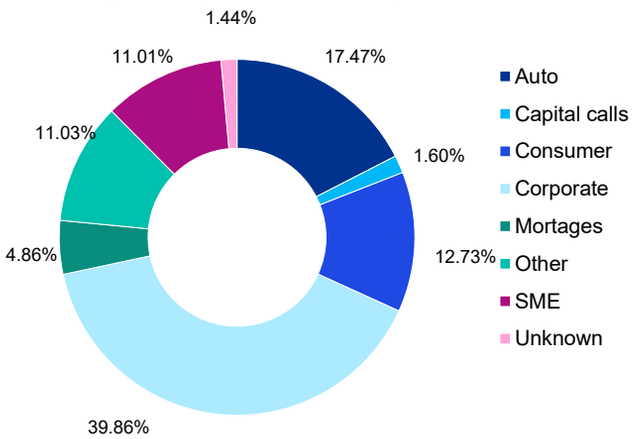


Source Blackrock, RTRA, KPMG estimates

From a pricing perspective, episodes of macro-driven volatility during 2025, notably around tariff announcements following “Liberation Day”, led to some widening in broader credit markets. However, the SRT market remained resilient, with no significant widening.

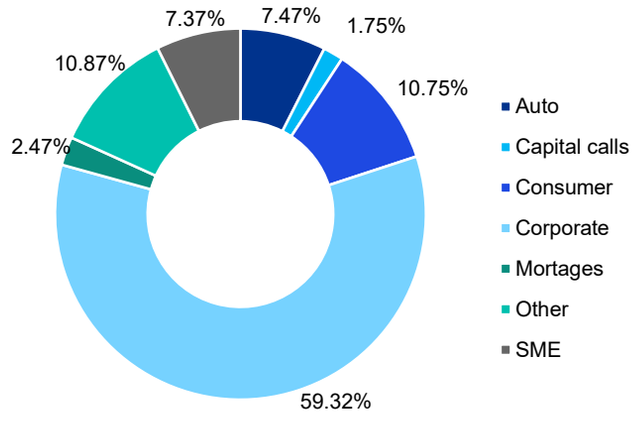
Overall, investors described market conditions as well supported, with capital continuing to be deployed, particularly in Europe. Quarter-on-quarter pricing movements were largely attributed to deal specific factors such as portfolio composition, tranche thickness, concentration and execution dynamics (e.g. syndicated vs. club vs bilateral), rather than a broader shift in underlying risk appetite. While some investors noted a more cautious underwriting approach amid ongoing macro and geopolitical uncertainty, this increased selectivity has not translated into a broad repricing of SRT risk.

Chart 6b – Asset class breakdown by tranche notional placed (2017 – Q1 2026)



Source: RTRA

Chart 6c – Asset class breakdown by tranche notional placed (2025 – Q1 2026)



Source: RTRA

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SRT Trends & issuance review (cont.)

Asset class evolution and investor differentiation

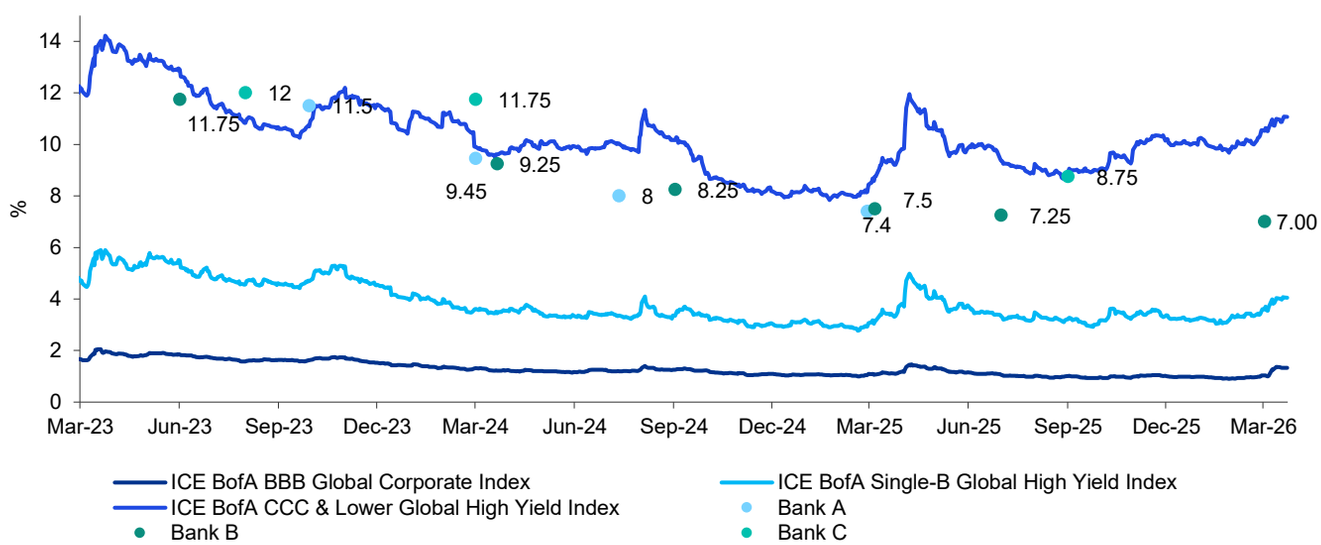
Differentiation across SRT asset classes has continued to increase. Corporate loans and revolvers as well as capital call facilities have remained very tightly priced, reflecting underwriting assumptions of low default probability.

Infrastructure-backed SRT transactions experienced modest widening during periods of heightened volatility in early 2025, before stabilising at levels still considered tight in a historical context. Investors cited concentrations (e.g. single-country exposure) as key drivers of incremental spread requirements, rather than deterioration in asset-level performance.

Commercial real estate ('CRE') SRT issuance increased significantly during 2025 following a period of subdued activity in the previous years. While the asset class remains heterogeneous (e.g. the granularity may vastly differ between transaction, with some diversified and some concentrated just across a few lines) and due diligence intensive, investors noted that the traditional CRE illiquidity premium has compressed as comfort with granular pools and established programmes has increased.

Geographically, Europe continued to dominate issuance, with US activity increasing at a measured pace. Investors highlighted the importance of accounting for regulatory-driven differences in tranche thickness and attachment points when comparing transactions across jurisdictions or against more standardised ABS and CLO structures.

Chart 7 – Credit Indices and SRT spreads



Source: ICE, RTRA, KPMG analysis

Leverage & Repo market

A key differentiating factor among SRT investors is the use of leverage by funds. While some credit funds enhance returns through financing structures such as NAV facilities or repo, others remain unlevered. This distinction has a direct impact on return requirements: leveraged investors may target mid-teens IRRs to their LPs and are therefore able to accept tighter spreads, whereas unlevered investors typically require higher headline yields and are more likely to pass on deals that do not meet their required returns on an unlevered basis. As a result, the use of leverage contributes to pricing dispersion and investor segmentation within the SRT market.

It is hard to estimate the share of leverage (via repo or fund financing) as data is private but some investors were estimating this share at c. 50% of investors.

Recent analysis by the Bank for International Settlements in a paper published in March 2026 highlights limited transparency in this area and calls for enhanced disclosure, in particular around investor funding structures (e.g. repo and NAV financing), the extent of leverage employed, and the linkages between banks and non-bank investors providing or receiving such financing.

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SRT Trends & issuance review (cont.)

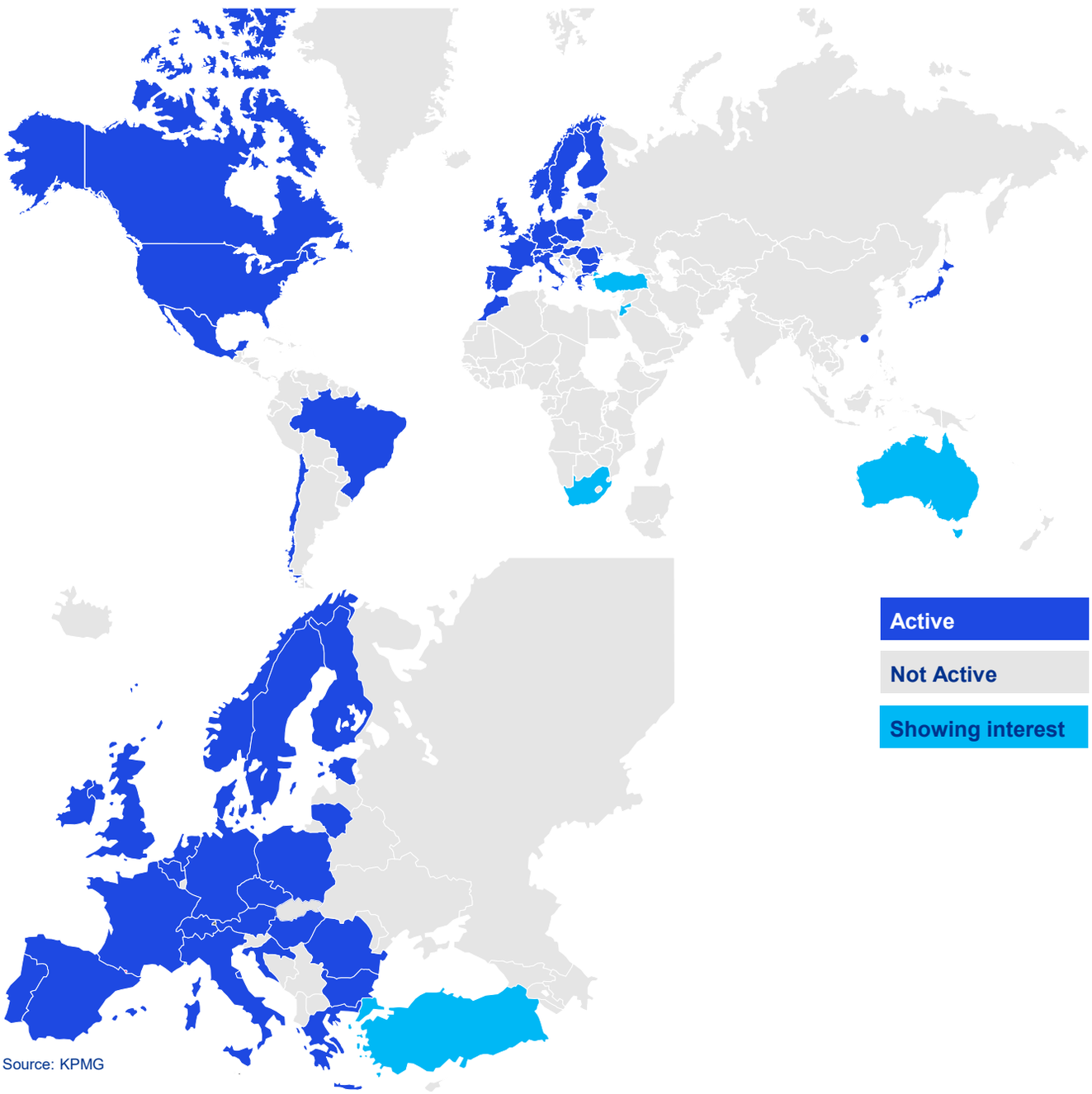
Geography update

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

UK challenger banks have shown a lot of interest in the SRT product especially considering the PRA proposal to change the formula for the p factor for standardised banks. During a round table held by KPMG with the PRA for small banks, the PRA was clear that it was supportive of smaller entrants into the market, if the deals were vanilla, appropriately structured and part of a long-term platform. However, it was clear that this was on the basis that any challenger had made appropriate investment in their Target Operating Model, governance and system to manage a platform safely.

The EIB Group and Coop Pank completed the first single-country SRT transaction in the Baltics in 2025, marking an important milestone for smaller European jurisdictions accessing the securitisation market. Subsequent activity, including a second Baltic SRT completed by Bigbank in March 2026, suggests growing momentum, with multilateral development banks playing a catalytic role and potentially paving the way for greater private investor participation over time.

Last the completion of a first APAC SRT by a Japanese lender in 2025 marks a step forward for the region's SRT market. While still behind Europe and the US, this shows Asian banks are starting to use SRT more actively as a capital management tool.



Source: KPMG

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US SRT update

US SRT market receives final clearance for takeoff

Despite issuance by large banks, US SRT activity in 2025 continued to lag the UK and EU markets. With Private Credit occupying the daily headlines as a potential source of systemic risk, SRT is no longer the misunderstood stepchild. Where the two intersect in SRTs for Net Asset Value (NAV) financing portfolios, there may be cause for concern, but no issues have surfaced yet. A proposed deal backed by private jets late last year may have been an early sign that the US market is ready for takeoff in 2026.

Investor demand remained robust in the face of market volatility, especially for low-loss portfolios. Freddie Mac had record issuance of its residential mortgage SRT programs in 2025. A Congressional hearing showed bi-partisan support for this GSE activity, but the body language suggest a laissez-faire attitude toward bank issuance as well.

Overall, US regulatory acceptance of SRTs may finally lead to greater activity in the US as a larger number of banks seek to optimise capital efficiency.

New Rules Offer Clarity – Basel End Game Impacts

The impact of the new Basel III NPR brings long-awaited clarity to the capital rules affecting SRT. The introduction of “eligible prepaid credit protection arrangements” allows for capital reduction based on guarantee structures and collateral arrangements that have underpinned SRT transactions in the US.

The proposal also brings a measure of increased risk sensitivity to standardised risk weights, in particular to Residential Mortgages, which can now be assigned a wider range of risk weights from 25% to 75%, depending on a Loan-to-Value scale. In addition, the risk weights are effectively lowered with the 45% risk weight applied to loans in the typical LTV range of 80%-90%, replacing the prior 50% risk weight.

The reduction in credit risk weights is in part designed to offset the addition of the op risk capital requirement, e.g., Corporate Exposures to 95% from 100%, or all other exposures to 90% from 100%.

The replacement of SSFA with the equivalent Basel Securitisation Standardised Approach (SEC-SA) capital calculations for securitizations will have no impact. The increase in the p-parameter for now remains unchanged at 0.5. However. the risk weight floor has been reduced meaningfully to 15% from 20%.

As seen in the example calculations below, the net result is that although risk differentiation and a slight reduction in general risk weights will already provide some relief (offset by add-ons elsewhere), the capital reduction from SRT remains significant.

	Residential Mortgage		Corporate Loan	
	Current	BIII NPR	Current	BIII NPR
Pre-SRT RW	50.0%	45.0%	100.0%	90.0%
Post-SRT RW	19.0%	14.3%	17.5%	13.1%
RW Saved	31.0%	30.8%	82.5%	76.9%
Pre-SRT Capital	50,000,000	45,000,000	100,000,000	90,000,000
Post-SRT Capital	19,000,000	14,250,000	17,500,000	13,125,000
Capital Saved	31,000,000	30,750,000	82,500,000	76,875,000

Chart 8a – Breakdown of issuance by tranche notional placed in 2025

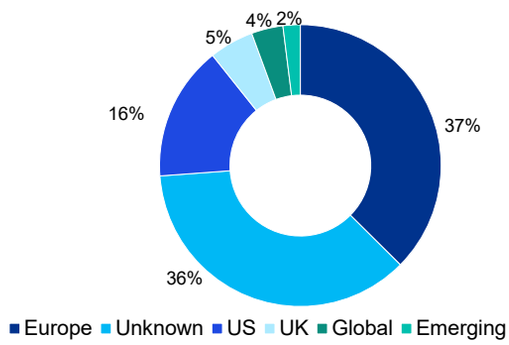
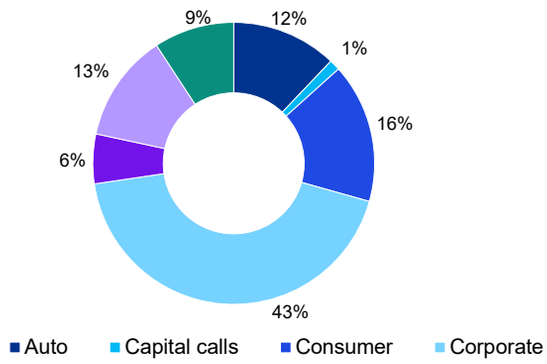


Chart 8b – Asset class breakdown by tranche notional placed (2025 – Q1 2026)



Source: RTRA

Note: (a) Other represents Asia, Americas, Emerging and Africa.
(b) US market participants tend to use "CRT", while '"SRT" is more prevalent in Europe.

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03

Regulatory developments



Latest regulatory developments

Regulatory environment

- The regulatory backdrop for SRT remains supportive in the EU and UK, but is increasingly jurisdiction-specific following the UK's post-transition adoption of the EU Securitisation Framework. Supervisors in both markets still recognise SRT as a valid balance sheet management tool, especially as Basel 3.1 raises RWAs for some portfolios. Focus has, however, moved beyond basic eligibility and SRT tests to closer scrutiny of governance, documentation and transparency.

European Union

- In the EU, the main development has been the European Commission's ('EC') June 2025 securitisation package, presented under the Savings and Investments Union agenda (a strategic initiative to integrate Europe's fragmented financial markets). The EC said the package would make the securitisation framework "*simpler and more fit for purpose*", aiming to remove barriers to issuance and investment while preserving financial stability.
- The EU reform agenda therefore remains focused on targeted legislative simplification rather than a change to the core SRT eligibility framework. [e.g. the implementation end of 2025 of the fast-track for process for qualifying SRT transactions.
- Basel 3.1 is, however, already live in the EU. Under CRR III, the output floor began phasing in from 1 January 2025. EBA materials and monitoring reports show calibration moving from 50% in 2025 to 72.5% in 2030 (with a certain number of temporary mitigants until 2033).
- So the output floor is now real in the EU, although current phasing-in levels are not yet binding for all institutions.

United Kingdom

In the UK, the position is more concrete for SRT execution. The PRA's Basel 3.1 final rules confirm implementation will start on 1 January 2027 (versus January 2026 previously). The delay reflects uncertainty over timing in "other major jurisdictions" (mainly the US) and growth / competitiveness considerations, while still targeting full implementation by 1 January 2030.

For SRT, the key UK development is the securitisation reform package set out in CP13/24 and finalised in PS19/25. The main change for synthetic securitisations is the introduction of a formulaic p-factor under SEC-SA, rather than requiring standardised firms to rely solely on the inherited fixed approach.

Firms may choose between the existing fixed p-factor and the new formulaic option. For non-STS securitisations, the formulaic p-factor is subject to a floor of 0.5 and a cap of 1; for STS securitisations, a floor of 0.3 and a cap of 0.5. The PRA also proposed that this option be available for both ordinary SEC-SA and output floor calculations

This is important because the PRA linked the change to the risk that a fixed p = 1 SEC-SA treatment, combined with the output floor, could undermine the economics of synthetic securitisations. In CP13/24, the PRA noted that a 0.5 floor for non-STS SEC-SA would substantially mitigate these unintended effects and avoid disruption to risk transfer.

This makes the reform particularly relevant for standardised banks, especially challenger banks using SRT on SME, corporate, consumer and infrastructure portfolios, where activity is increasing. Conceptually, the UK is moving away from a conservative inherited SEC-SA treatment towards a more risk-sensitive approach, narrowing the gap with SEC-IRBA.

At the same time, the PRA has strengthened its supervisory stance on how SRT transactions are structured and monitored. In its 9 April 2025 Dear CFO letter, the PRA highlighted observed practices in illiquid and structured financing portfolios and set out its expectations. This should be read alongside the July 2025 update to SS9/13, which emphasises that any capital reduction must be matched by a commensurate transfer of risk to third parties, as well as subsequent near-final and final restatement materials.

The PRA has also increased its supervisory focus on securitisation reporting and operational risk linked to SRTs at a number of banks. We expect this to become a broader thematic review in the UK, with rising EU supervisory activity suggesting potential alignment with the ECB.

United States

In the US, the regulatory picture remains more cautious than in Europe, with no comparable policy push to broaden the securitisation framework for SRT. Basel 3.1 implementation remains uncertain, which as mentioned, was one factor cited by the PRA in delaying its own UK timetable. In practice, US execution still depends heavily on transaction-specific supervisory engagement, making the market less predictable than the EU or UK. The US therefore matters mainly as a comparator and as an influence on global timing, rather than as a driver of current SRT regulatory innovation which comes more from Europe and the UK.

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Insurance securitisation: latest regulatory developments

Recent trends

Insurers use securitisation as both an investment asset and a risk management tool. Since the implementation of the post-Global Financial Services regulatory frameworks, insurers' use of securitisation has decreased significantly.

As such, structured assets continue to remain predominately in the hands of the most sophisticated insurers. This 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.

More recently, there have been efforts from policymakers to, at least partially, revive insurers' appetite for securitisation – particularly in the context of unlocking capital to support greater investment into domestic infrastructure and contributing to governments' growth and competitiveness objectives. The flipside, however, is increased supervisory scrutiny of certain arrangements, particularly those involving affiliated private capital providers and complex and/or illiquid assets.

Solvency UK

In the UK, annuity writers can benefit from the Solvency II Matching Adjustment (MA), which provides improved 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.

Changes to Solvency UK included the extension of Matching Adjustment eligibility – from June 2024 – to certain highly predictable assets. This opened up opportunities for new in-house or external securitisation to include highly predictable tranches. Last year's edition of this paper highlighted how some UK annuity writers have used securitisation models for equity release mortgages.

In October 2025, the PRA introduced the Matching Adjustment Accelerator (MAIA). This allows eligible insurers to self-assess assets for inclusion into their Matching Adjustment Portfolios (MAP) for up to 24 months prior to obtaining formal regulatory approval. This provides insurers with greater flexibility to act on time-sensitive deals, subject to additional governance and risk management requirements.

We also note that the market saw the first insurance issuance where at least one insurer effectively placed the non-matching tranche of a SII matching structure externally as opposed to the usual practice of holding internally against shareholder funds. It will be interesting to see if this will represent a trend in due course.

Solvency II review

In the EU Solvency II review, securitisation is explicitly positioned as a potential channel through which insurers can deploy capital in support of the real economy.

This includes the recalibration of capital charges for securitisation spread risk under the standard formula. Amendments to the Solvency II Delegated Regulation introduce lower and more risk-sensitive stress factors across securitisation categories, with the most material reductions applying to senior tranches, including certain non-STS structures where credit risk characteristics are considered comparable to high-quality corporate debt or covered bonds. These changes are intended to improve the capital efficiency of securitisation investments for insurers and to reduce disincentives that have historically limited participation in these markets.

The reforms also bring Solvency II treatment closer to the hierarchy applied within the banking framework, reducing cross-sector distortions and arbitrage. While capital requirements for junior and mezzanine tranches remain relatively conservative, the revised calibration introduces greater differentiation by rating and duration, better aligning regulatory capital with underlying risk.

Notwithstanding more favourable capital treatment, EU regulators have been clear that investments remain subject to the prudent person principle, requiring insurers to demonstrate that they can properly identify, measure, monitor and manage the risks arising from securitisation structures, including complexity, model risk and liquidity risk.

This emphasis is reinforced by the Solvency II review's broader Pillar 2 enhancements, including new macroprudential tools and liquidity risk management expectations.

The Solvency II reforms sit alongside wider EU policy initiatives to revitalise securitisation markets, including proposed amendments to the EU Securitisation Regulation and related prudential regimes.

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Insurance securitisation: latest regulatory developments (cont.)

PE-affiliated insurers and Funded Reinsurance: increased regulatory focus

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

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

There has been a corresponding increase in regulatory scrutiny of PE owned or partnered insurers. For example, the International Association of Insurance Supervisors (IAIS) has published a paper on structural changes in the life sector in November 2025.

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 graded 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. In addition, IAIS has introduced a definition of "alternative assets", which includes equity related, real estate, credit related/debt, hedge funds, commodities, infrastructure and structured securities containing an asset form any of the above asset classes.

Since then, the IAIS has continued to closely monitor developments, including through its Global Monitoring Exercises.

Meanwhile, in February 2026 EIOPA has launched a consultation seeking to harmonise supervisory approaches to the authorisation and supervision of PE-backed insurers, which has the potential to raise the bar for the approvals of future transactions.

Taken together, while securitisation remains an effective tool for asset diversification and capital efficiency, insurers should expect greater supervisory focus on the economic substance of transactions, including asset quality, leverage, valuation transparency and potential conflicts of interest.

Increased supervisory scrutiny of FundedRe

The growth of funded reinsurance (FundedRe) has attracted increasing scrutiny from insurance supervisors across key jurisdictions. While these structures have supported capital management, balance-sheet optimisation and the expansion of pension risk transfer markets, regulators have become concerned about scale, complexity, asset quality and systemic risk, particularly where transactions involve illiquid assets and offshore counterparties.

Although supervisory approaches differ, regulators in the UK, EU and Bermuda are increasingly aligned in identifying similar underlying risks and tightening expectations accordingly.

PRA: The PRA has taken the most explicit and prescriptive steps to date. In July 2024, it finalised SS5/24, accompanied by a Dear CEO letter, setting out enhanced expectations for UK life insurers entering into or holding FundedRe arrangements.

Since then, the PRA has been explicit that its previous principles-based supervisory approach may be insufficient given the growth and complexity of these transactions. It has signalled willingness to use its full supervisory toolkit, including capital add-ons and structural restrictions, and is exploring the prospect of a policy change to the regulatory treatment of FundedRe – at the time of writing, a consultation on this is imminent.

In addition, the 2026 Life Insurance Stress Test (LIST) has featured a FundedRe collateral recapture scenario. Even following the application of additional exploratory stresses on asset concentration and FundedRe recapture, insurers demonstrated strong solvency coverage of 153% and 144% respectively, indicating that these risks are not as systemic as the PRA may have initially suspected. Nevertheless, the LIST results did show that some firms' business models are more sensitive to such shocks.

Bermuda: The BMA, as the primary supervisor for many asset-intensive reinsurers, has introduced and proposed a number of enhancements, including more granular data requests, targeted stress testing, closer transaction-level scrutiny and enhanced expectations around liquidity management and the prudent person principle.

The BMA has stressed the importance of cross-border supervisory cooperation. It now also applies transaction-level pre-approval in certain circumstances, particularly for material long-term, asset-intensive reinsurance transactions.

EU: EU authorities are so far relying on supervisory convergence, enhanced disclosures and Pillar 2 scrutiny, particularly for firms with material funded reinsurance exposures.

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04

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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…

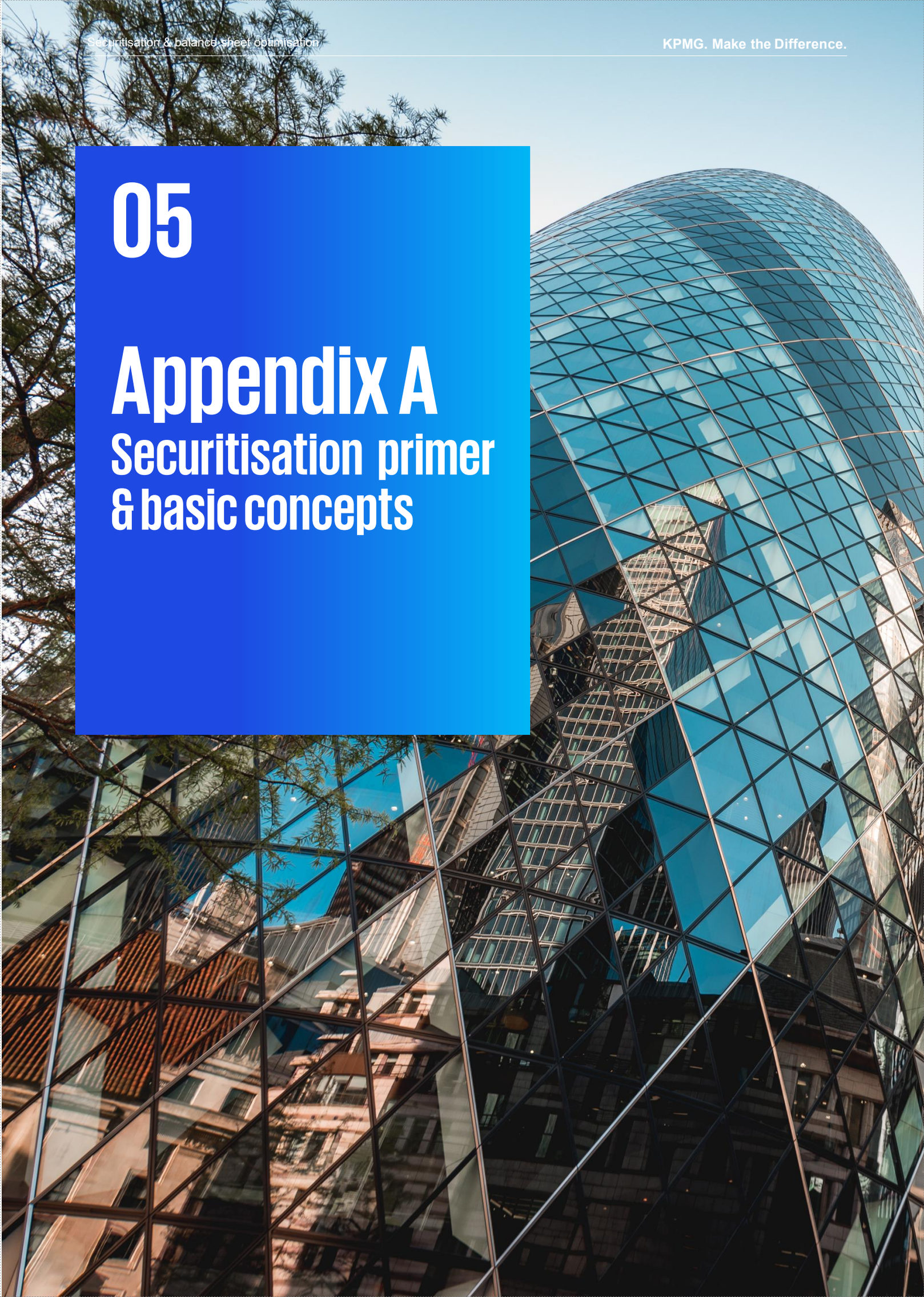


Verification Agent

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?

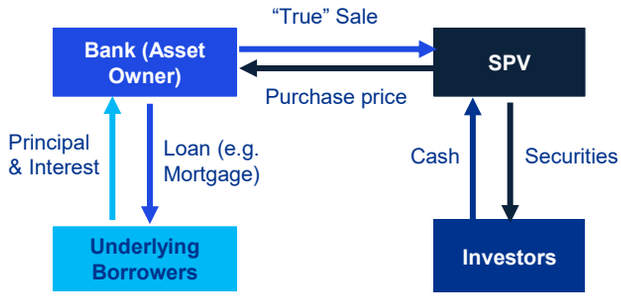
1. Reduce funding costs
2. Diversify funding sources
3. Transfer risk

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.

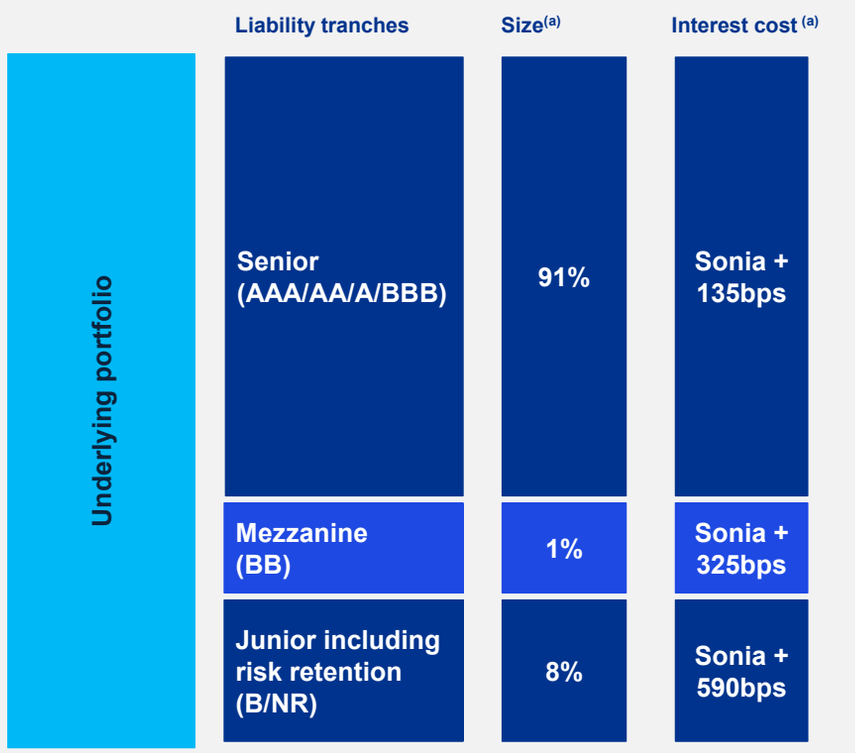


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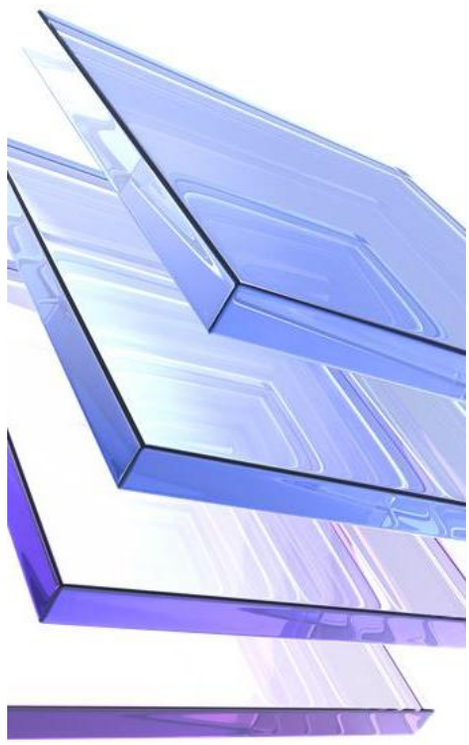
Securitisation mechanics

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

Sample securitisation liability structure (indicative)



Note: (a) 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)

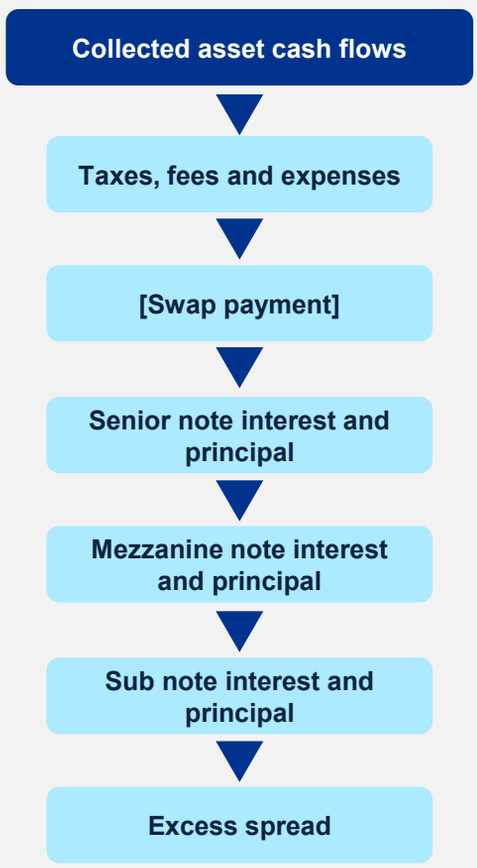
Waterfall

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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ERM securitisation basics

Background

Equity release mortgages (ERMs), commonly referred to as lifetime mortgages, allow homeowners to borrow against the value of their property, with interest rolling up and repayment deferred until death or entry into long-term care. Repayment is non-recourse, with the lender's claim capped at the realised property value through a no-negative-equity guarantee (i.e. the rolled-up amount of the loan cannot exceed the property value). While similar products exist in other jurisdictions, the ERM market is predominantly UK-based, reflecting the domestic legal framework, established consumer protections and strong institutional demand. As a result, the UK has seen the most developed use of securitisation within this asset class.

Under Solvency UK, ERMs have become increasingly important to UK life insurers due to their long-dated cash flows and close alignment with annuity liabilities. When structured appropriately, ERM exposures can support Matching Adjustment portfolios and deliver more efficient capital outcomes than holding whole loans directly. However, the complexity of the underlying risks, including longevity risk, house price dynamics and embedded optionality from the no-negative-equity guarantee, has led insurers to rely on securitisation to manage these risks in a controlled, capital-efficient and MA-eligible manner. ERM securitisations therefore provide a useful example of securitisation issued by insurers primarily for balance sheet optimisation, rather than as a traditional funding tool.

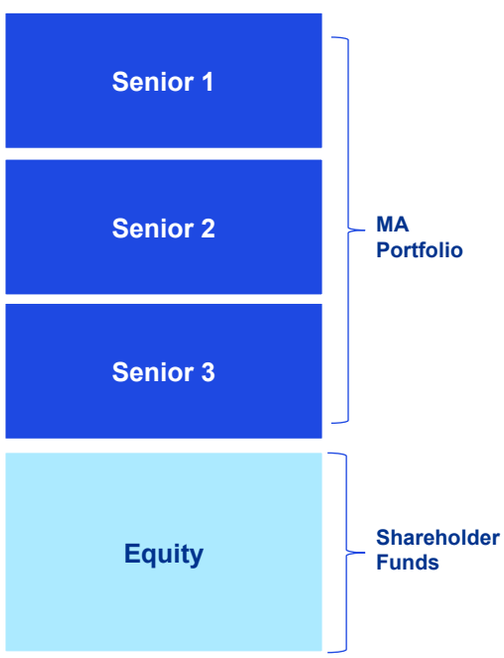
Two alternative structures for ERM securitisation

Two broad securitisation approaches are observed in the ERM market. In a consolidated in-house securitisation, the ERM portfolio is transferred to a special purpose vehicle (SPV) that remains within the insurer's consolidation boundary. These structures are typically designed to transform mortgage cash flows into bond-like instruments suitable for regulatory portfolios, particularly for Matching Adjustment purposes. Economic risk is largely retained by the insurer, and the benefits arise mainly from balance sheet structuring and regulatory operability rather than from recognised capital relief through risk transfer.

By contrast, a deconsolidated third-party securitisation involves transferring ERMs into an SPV that sits outside the insurer's consolidation group, with notes issued to external investors. These structures are designed to achieve genuine risk transfer, often targeting longevity or property-related downside risks through defined tranche subordination and loss allocation. While more complex and subject to greater regulatory scrutiny, such transactions can deliver meaningful capital relief and diversify sources of risk capital.



Structure 1

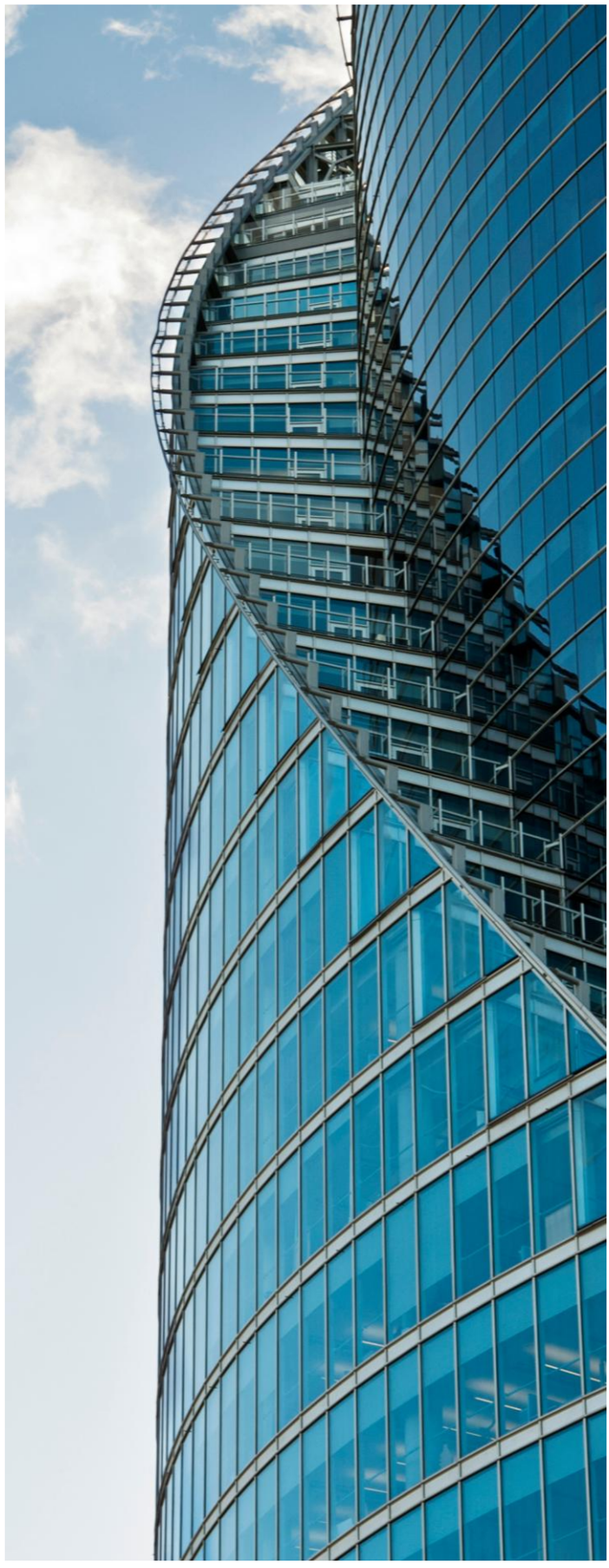


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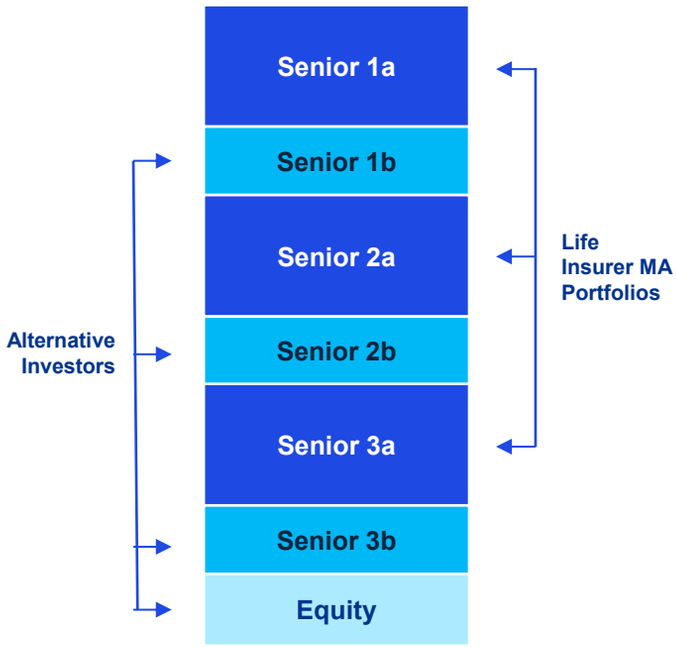
ERM securitisation basics (cont.)

A notable variation of this approach has emerged among insurers with significant ERM exposure. In these transactions, ERMs are sold to a third party that structures the assets into senior notes and an equity tranche. The senior notes are designed to be eligible for the Matching Adjustment and are typically sold back to the insurer, while the equity tranche is retained externally. Compared with an in-house restructuring, this approach allows pricing to be anchored to observable market transactions, reducing valuation judgement. It can also remove the need to apply the PRA's effective value test, as the insurer does not retain all notes. As the insurer is divesting the most volatile equity tranche, this also reduces the insurer's Solvency Capital Requirement.

Overall, the evolution of ERM securitisation illustrates how insurers are increasingly using structured assets as a strategic balance sheet management tool under Solvency II, with transaction design driven by regulatory, capital and risk considerations rather than funding needs.



Structure 2



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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

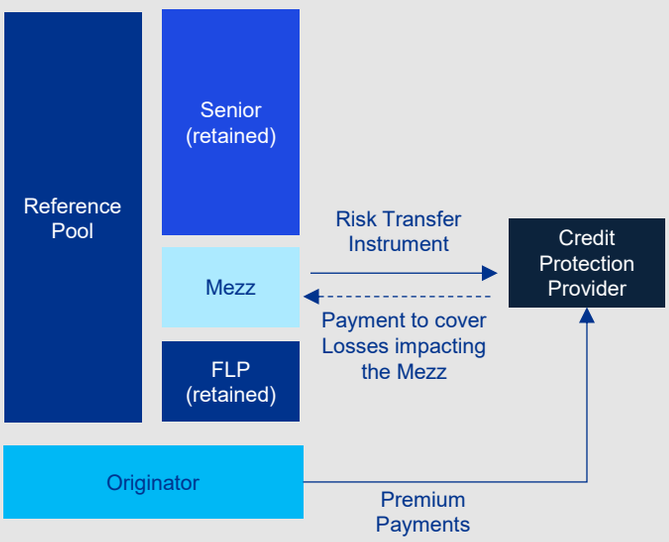
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Indicative structures

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.

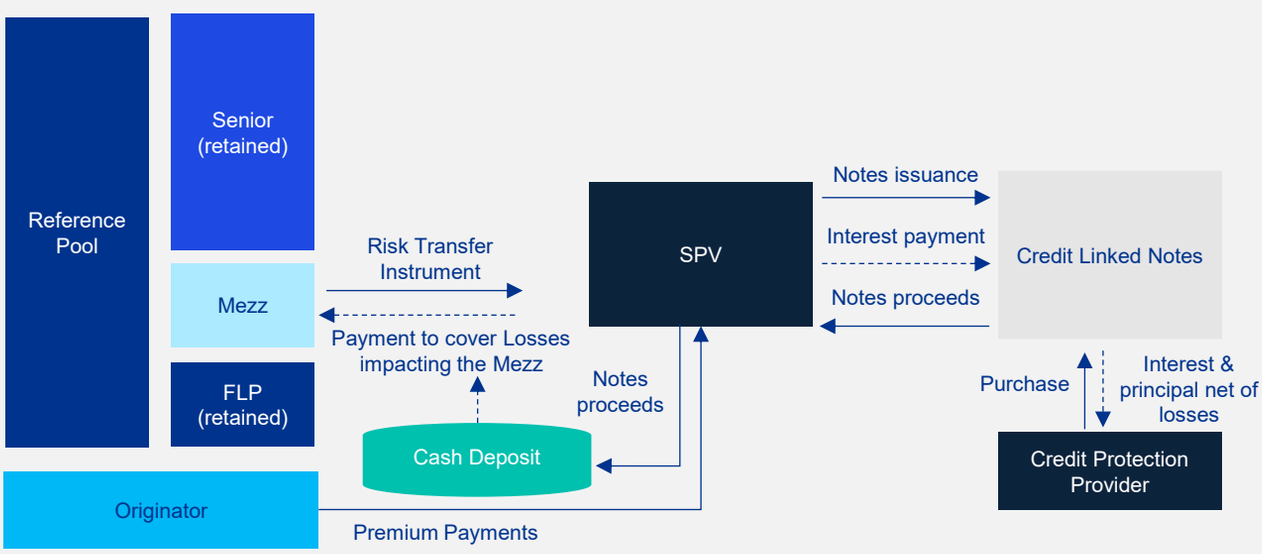
Unfunded synthetic securitisation



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)

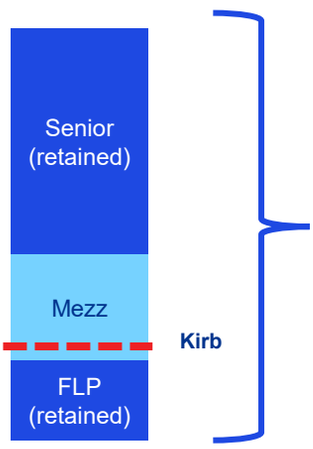


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Securitisation risk weight calculations

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).



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

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

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

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

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

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

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

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

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.

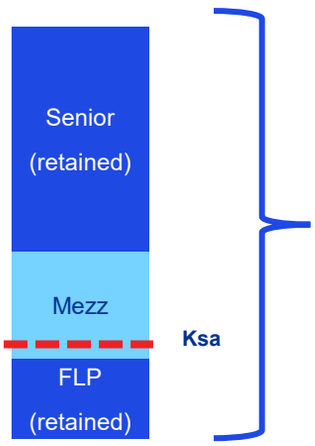
The level of this parameter directly affect the RW on the securitisation and its calibration is key.

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Securitisation risk weight calculations (cont.)

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).



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

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

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

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

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

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

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

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

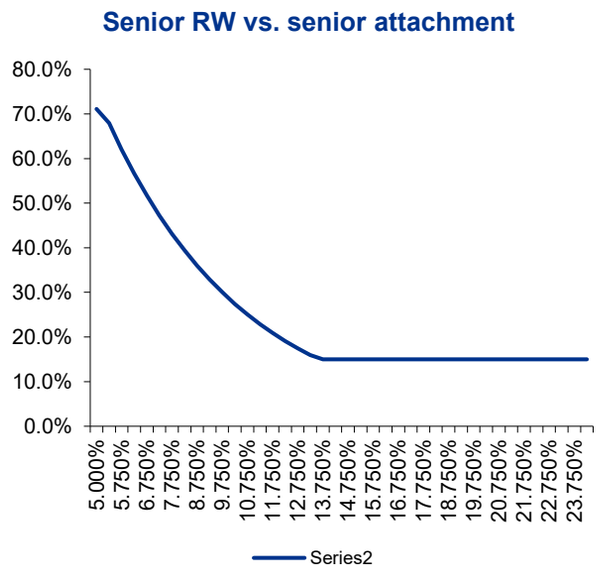
Where Ka is adjusted for delinquencies

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

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.



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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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