Clients&FriendsMemo

The UK's Prudential Regulation Authority Publishes Near-Final Rules Affecting Capital Treatments for SRTs

5 November 2025

Introduction

Under the CRR[1] and as part of the prudential regulation of credit institutions, regulated firms, including banks, must comply with risk-based capital ratio requirements. Generally speaking, this ratio is: (i) the amount of a firm's Tier 1 capital divided by its risk-weighted assets (**RWAs**); and (ii) a firm's total capital, and must amount to at least 8% of RWAs. The CRR contains detailed rules on: (i) how banks should calculate their RWAs for each of credit risk, market risk and operational risk exposure; and (ii) how banks can reduce such capital requirements by transferring the credit risk of the assets it holds to third parties. The CRR rules are multi-faceted and subject to a constant dialogue with regulators in order to ensure the stability of the banking system. In the UK, these rules are also subject to post-Brexit adaptation.

Market participants refer and use interchangeably the terms Credit Risk Transfer (**CRT**), Significant Risk Transfer (**SRT**), or "synthetic securitisations", to describe the type of transaction that transfers the credit risk on a portfolio of assets from the banks to third-party investors. The banks using SRT transactions to manage their regulatory capital: (i) achieve a preferential risk weighing for the senior tranche they typically retain, and (ii) in some instances, are even able to de-recognize the securitized assets altogether. Thus, SRT transactions reduce the amount of regulatory capital that a bank will have to hold against the asset portfolio that is subject to the SRT transaction.

Update: PRA policy

In its near-final policy statement (**PS**)[2] the UK's Prudential Regulation Authority (**PRA**) has provided feedback to its consultation paper (**CP**) 13/24 – *Remainder of CRR: Restatement of*

[1] In the EU, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, and in the UK, as implemented post-Brexit.

[2] https://www.bankofengland.co.uk/prudential-regulation/publication/2025/october/restatement-of-crr-requirements-near-final-policy-statement.

assimilated law (see our previous note[3] on this CP). (A number of proposals in CP13/24 were provided separately in PS12/25 – *Restatement of CRR and Solvency II requirements in PRA Rulebook – 2026 implementation*.) The PS contains some substantive proposals relating to the securitisation requirements and regulatory capital. The purpose of this note is to outline three topics in the PS that impact the way regulatory capital may be calculated in SRT transactions.

Formulaic p-factor in the SEC-SA

In the formulae used to calculate regulatory capital, the p-factor is a multiplier that increases capital requirements for securitisation exposures. In that respect, the PRA proposes to modify the Securitisation Standardised Approach (**SEC-SA**) so that, for each securitisation, firms may choose to either use: (1) the existing fixed p-factor (which is p=1 for securitisations that are not STS securitisations and p=0.5 for STS securitisations); or (2) the proposed formulaic p-factor as set out in CP 13/24. Generally, the formula will allow firms to calculate a more risk-sensitive p-factor based on transaction features like portfolio granularity and loss given default. The new SEC-SA option would be available for both capital calculations under the SEC-SA and output floor calculations.

UK originators of SRT assets using the SEC-SA will find the proposal for a formulaic p-factor impactful: the effect of its application would be to lower the cost of capital, which will likely motivate standardised banks and the new "challenger" banks to continue developing their SRT issuances.

Unfunded credit protection in synthetic SRT securitisations

The PRA will clarify the rules for the use of unfunded credit protection in synthetic securitisations. The PRA has taken the view that, in principle, it should be possible for originator institutions to use unfunded credit protection for achieving SRT where relevant requirements and supervisory expectations are met.

The PRA has decided to amend the draft rules to clarify that a "look-through" approach can be used to assign a credit quality step (**CQS**) to certain entities without a credit rating. For example, a regional government without a credit rating can be treated as having the same CQS as the central government. The PRA has also amended the draft rules to further exclude some low-risk entities from the scope of the CQS requirements, including some central banks, central governments, regional governments, international organisations and multilateral development banks. Further, the PRA has clarified that CQS requirements and exemptions from them apply to providers of counter-guarantees and guarantees of counter-guarantees that are eligible for CRM purposes in accordance with Article 214 of the Credit Risk Mitigation (CRM) Part.

[3] https://www.cadwalader.com/fin-news/index.php?eid=838&nid=113.

The benefit of this approach will be felt by UK insurance companies deploying capacity in the UK SRT market.

No STS for synthetic securitisations

The PRA has formally refused to extend the preferred capital treatment that an STS label gives to synthetic securitisations. This is in contrast with EU rules, but the availability of the lower p-factor mentioned above may mitigate the lack of an STS label.

Implementation and next steps

The PRA intends to publish the final polices and rule instruments of the requirements set out in this near-final PS in Q1 2026, alongside, or shortly after, it publishes the final PS covering the entire Basel 3.1 package (which package is currently scheduled to be implemented in the UK on 1 January 2027).

*　　*　　*

If you have any questions, please feel free to contact either of the following Cadwalader attorneys.

Alix Prentice	+44 (0) 20 7170 8710	alix.prentice@cwt.com
Assia Damianova	+44 (0) 20 7170 8564	assia.damianova@cwt.com