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Industry Update

FCA and PRA Propose Targeted Reforms to UK Securitisation Framework

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On 17 February, the UK Financial Conduct Authority (FCA) and the UK Prudential Regulation Authority (PRA) published parallel consultation papers (CP26/6 and CP2/26 respectively, and together, the Consultation Papers) setting out proposed reforms to the UK securitisation framework.

The Consultation Papers seek feedback on proposals to, among other things: (1) simplify due diligence requirements; (2) streamline transparency obligations; (3) introduce additional flexibility in relation to risk retention; (4) create targeted exceptions to the ban on resecuritisations; (5) clarify the application of credit-granting criteria; and (6) disapply underlying exposure templates for single-loan securitisations. The deadline for responses to both consultations is 18 May 2026.

The tone of the Consultation Papers is notably industry-friendly, with the FCA and PRA seemingly acknowledging that the current regulatory framework remains overly burdensome for market participants both on the “buy” and “sell” side. These UK proposals also go further than the reforms that the European Commission proposed to the EU securitisation regime on 17 June 2025 to amend the EU Securitisation Regulation (Regulation (EU) 2017/2402) and the Consultation Papers reference in many places the FCA and PRA’s desire to reflect the more UK-centric “principles based” approach to regulation.

We outline below the key points in the Consultation Papers.

1. Due Diligence

The Consultation Papers propose replacing the current prescriptive due diligence requirements with a more standards-based approach. Instead of mandating compliance with a detailed list of checks, the revised framework would require institutional investors to undertake a risk assessment proportionate to the nature of the securitisation and aligned with their risk appetite and internal governance arrangements.

Initial Due Diligence

The proposals include the removal of the prescribed checklist for initial due diligence. In its place, investors would be required to obtain sufficient information to conduct an independent assessment of the securitisation’s risks. While investors would still need to consider the structural features and risk characteristics of the transaction, they would no longer be required to review a specified list of features.

STS Verification

Investors would no longer be required to verify the Simple, Transparent and Standardised (STS) status of a securitisation as part of their due diligence process.

Ongoing Due Diligence

The existing detailed monitoring requirements would also be replaced with a general obligation to monitor securitisation performance on a basis proportionate to the risk profile of the securitisation position. Investors would be required to maintain written policies and internal reporting procedures relating to the ongoing monitoring of securitisation exposures.

The FCA has noted that these proposals are intended to make the regime more proportionate and flexible while maintaining the desired goal of investor protection. They are also designed to facilitate greater access by UK investors to securitisations issued in overseas markets and support the competitiveness of FCA-regulated institutional investors.

2. Streamlining Transparency Requirements

The Consultation Papers propose, amongst other things, reducing the number of reporting templates and introducing a simplified underlying exposures template for CLOs. They suggest deleting certain reporting templates in SECN 11 and SECN 12 which the industry has indicated are costly to complete and burdensome for manufacturers. Whilst some would be deleted, the proposals also suggest replacing certain templates with a more principles-based approach.

The Consultation Papers also propose removing the distinction between public and private securitisations for transparency purposes, so that both would be subject to a single reporting regime.

3. Risk Retention

The Consultation Papers propose introducing greater flexibility in a manner in which risk retention can be satisfied, including permitting an “L-shaped” risk retention structure. Under this model, manufacturers would retain a certain percentage of the first loss tranche, with the residual risk retained by holding the remaining tranches in equal proportion.

This change is intended to provide additional structuring flexibility and to better align the UK regime with international market practice, supporting issuance into overseas markets, such as the US, where such structures are more familiar to investors.

4. Exceptions to Ban on Resecuritisations

Under the current UK framework, resecuritisations are generally prohibited unless specifically approved by the FCA or PRA. The Consultation Papers propose introducing targeted exemptions for two limited categories of resecuritisation, subject to specified conditions.

The proposed exemptions would apply to:

- The securitisation of securitisation positions constituted by a single exposure together with its related credit protection.
- The securitisation of the senior-most tranche of a securitisation.

Importantly, these exemptions would only be available if the originator and sponsor are PRA-authorized persons.

5. Credit-Granting Criteria

The Consultation Papers also propose clarifying the application of credit-granting standards. In particular, they confirm that sound and well-defined credit-granting criteria must apply to any exposure to be securitised, irrespective of whether other non-securitised exposures exist. In addition, the regulators propose replacing the term “non-securitised exposures” in SECN 8.2 with “comparable assets remaining on the firm’s balance sheet, if any”. This is intended to provide more certainty to manufacturers and the broader market regarding the minimum underwriting quality of loans that are to be securitised.

6. Disapplication of Underlying Exposure Templates for Single-Loan Securitisations

The Consultation Papers have noted the industry feedback on the disproportionate operational and cost burden of applying transparency requirements for single-loan securitisations under the UK government’s Mortgage Guarantee Scheme (MGS). The Consultation Papers highlight that this burden can, amongst other undesirable consequences, deter issuance of mortgages and other loans covered by some form of credit protection.

As such, the FCA and PRA propose to exempt any single-loan securitisations (whether or not they are residential mortgage-backed securities or benefit from credit protection) from the requirement to make underlying exposures information available in the prescribed underlying exposure template. This exemption would be implemented by amending SECN 11.3.1R(1) to carve out securitisations backed by a single underlying exposure from the requirement to complete the retained underlying exposure templates.

Conclusion

The proposals indicate a shift towards a more principles-based and proportionate UK securitisation framework. They outline a package of focused reforms across the existing securitisation framework, together with technical clarifications. If implemented, the proposals would amend a number of core components of the current regime that the FCA and PRA note are intended to maintain investor protection while simplifying certain operational requirements. The practical implications of the proposed reforms remain to be seen pending the outcome of the consultation and the publication of the final rules, particularly in the context of transactions involving both UK and EU regulatory frameworks.



If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings London lawyers:

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