

## Chapter 2

# Requirements on STS securitisations

## 2.3 STS criteria: Simple, transparent and standardised asset backed commercial paper securitisation

### 2.3.1

**R**

- (1) An *ABCP transaction* must fulfil the following requirements to be considered an *STS securitisation*:
  - (a) those in ■ [SECN 2.3.2R](#) to ■ [SECN 2.3.22R](#);
  - (b) the *FCA* must have received an *STS notification* in respect of that *securitisation* and must have included the *securitisation* in the list it publishes under regulation 10(2) of the *Securitisation Regulations 2024*; and
  - (c) the *sponsor* involved in the *ABCP programme* of which that *ABCP transaction* forms part must be *established in the United Kingdom*.
- (2) An *ABCP programme* must fulfil the following requirements to be considered an *STS securitisation*:
  - (a) those in ■ [SECN 2.3.30R](#) to ■ [SECN 2.3.37R](#);
  - (b) The *FCA* must have received an *STS notification* in respect of that *securitisation* and must have included the *securitisation* in the list it publishes under regulation 10(2) of the *Securitisation Regulations 2024*; and
  - (c) the *sponsor* involved in the *ABCP programme* must be *established in the United Kingdom*.
- (3) For the purposes of ■ [SECN 2.3](#), a ‘seller’ means ‘*originator*’ or ‘*original lender*’.

### Transaction-level requirements

### 2.3.2

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- (1) Any *SSPE* must acquire title to the underlying exposures in a manner enforceable against the seller or any other third party, whether transfer of title is by means of:
  - (a) true sale;
  - (b) assignment; or
  - (c) another transfer with the same legal effect as (a) or (b).
- (2) The transfer of the title to the *SSPE* must not be subject to severe clawback provisions if the seller becomes insolvent.

- 2.3.3** **R** (1) For the purposes of ■ SECN 2.3.2R(2), the following are severe clawback provisions:
- (a) those allowing the seller's liquidator to invalidate the sale of the underlying exposures solely because it was concluded within a certain period before the declaration of the seller's insolvency;
  - (b) provisions where the *SSPE* can prevent the invalidation referred to in (a) only if it can prove it was not aware of the seller's insolvency at the time of sale.
- 2.3.4** **R** For the purposes of ■ SECN 2.3.2R if provisions of national insolvency laws allow a liquidator or court to invalidate the sale in the following circumstances, such provisions are not severe clawback provisions:
- (1) fraudulent transfers; or
  - (2) unfair prejudice to creditors or transfers intended to improperly favour particular creditors over others.
- 2.3.5** **R** If the seller is not the *original lender*, the transfer of the underlying exposures to the seller by any of the means in ■ SECN 2.3.2R(1) (whether direct or through one or more intermediate steps) must meet the requirements in ■ SECN 2.3.2R, ■ SECN 2.3.3 and ■ SECN 2.3.4R.
- 2.3.6** **R** If the transfer of the underlying exposures is performed by assignment and perfected after the transaction's closing, the triggers to effect such perfection must be set broadly enough to require perfection in all of the following events:
- (1) severe deterioration in the seller's credit quality standing;
  - (2) the seller's insolvency; and
  - (3) unremedied breaches of the seller's contractual obligations, including the seller's default.
- 2.3.7** **R** The seller must provide representations and warranties that, to the best of its knowledge, the underlying exposures included in the *securitisation* are not encumbered or otherwise in a condition that can be foreseen to adversely affect the enforceability of the transfer by the means in ■ SECN 2.3.2R(1).
- 2.3.8** **R**
- (1) The underlying exposures the seller transfers to the *SSPE* (if an *SSPE* is used) or that are otherwise securitised must meet predetermined, clear and documented eligibility criteria prohibiting active portfolio management of those exposures on a discretionary basis.
  - (2) For the purposes of (1), substitution of exposures that are in breach of representations and warranties is not considered active portfolio management.

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The underlying exposures must not include any *securitisation positions*.

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(3) Exposures transferred to the *SSPE* (if an *SSPE* is used) or otherwise added to the *securitisation* after the closing of the transaction must meet the eligibility criteria applied to the initial underlying exposures.

(1) After the underlying exposures have been selected, they must be transferred to the *SSPE* (if an *SSPE* is used) or otherwise securitised without undue delay.

(2) At the time of selection, the underlying exposures must not include exposures in default within the meaning of Article 178(1) of the *UK CRR* or exposures to a credit-impaired debtor or guarantor who, to the best of the *originator's* or *original lender's* knowledge:

(a) was, at the time of origination, where applicable:

(i) on a public credit registry of persons with adverse credit history; or

(ii) if there is no such public credit registry, another credit registry that is available to the *originator* or *original lender*;

(b) has a credit assessment or a credit score indicating that the risk of contractually agreed payments not being made is significantly higher than for comparable unsecuritised exposures the *originator* holds, if any;

(c) has been declared insolvent;

(d) had a court grant its creditors a final non-appealable right of enforcement or material damages as a result of a missed payment within 3 years before the date of origination; or

(e) has undergone a debt restructuring process with regard to its *non-performing exposures* within 3 years before the date of transfer of the underlying exposures to the *SSPE* (if an *SSPE* is used) or other means of securitising the underlying exposure.

(3) If a credit-impaired debtor or guarantor has undergone a debt restructuring process as described in (2)(e), the underlying exposures may include exposures to that credit-impaired debtor or guarantor if:

(a) the restructured underlying exposure has not presented new arrears since the date of the restructuring, which must have taken place at least 1 year before the date the underlying exposures were transferred to the *SSPE* (if an *SSPE* is used) or otherwise securitised; and

(b) the information the *originator*, *sponsor* and *SSPE* have provided in accordance with ■ **SECN 6.2.1R(1)** and ■ **SECN 6.2.1R(5)(a)** explicitly sets out:

(i) the proportion of total underlying exposures, which have been restructured;

(ii) the time and details of the restructuring; and

(iii) their performance since the date they were restructured.

- 2.3.11 **R** The debtors must, at the time the exposures are transferred, have made at least one payment, except in the case of *revolving securitisations* backed by exposures payable in a single instalment or with a maturity of less than 1 year (including, without limitation, monthly payments on revolving credits).
- 2.3.12 **R**
- (1) The *securitisation* must not be structured so that repayment of *securitisation investors* depends predominantly on the sale of the assets securing the underlying exposures.
  - (2) Paragraph (1) must not prevent such assets from subsequently being rolled over or refinanced.
  - (3) If a *securitisation's* underlying exposures are secured by assets, and the value of those assets is guaranteed or the risks related to that value are fully mitigated by an obligation on the seller of those assets, or on another third party, to repurchase them, that *securitisation* does not contravene the prohibition in (1).
- 2.3.13 **R**
- (1) The interest rate and currency risks arising from the *securitisation* must be appropriately mitigated. Any measures taken to that effect must be disclosed.
  - (2) The *securitisation* must be structured such that:
    - (a) the *SSPE* does not enter into derivative contracts, unless to hedge interest rate or currency risk; and
    - (b) the pool of underlying exposures does not include derivatives.
  - (3) Any derivatives into which the *SSPE* does enter in accordance with (2)(a) must be underwritten and documented according to common standards in international finance.
- 2.3.14 **R**
- (1) The transaction documentation must clearly and consistently set out definitions, remedies and actions relating to:
    - (a) delinquency and default of debtors;
    - (b) debt restructuring;
    - (c) debt forgiveness;
    - (d) forbearance;
    - (e) payment holidays;
    - (f) losses;
    - (g) charge offs;
    - (h) recoveries; and
    - (i) other asset performance remedies.
  - (2) The transaction documentation must clearly specify:
    - (a) the priorities of payment and events triggering any change to these; and
    - (b) the obligation to report such events.

- (3) Any change in the priorities of payments which will materially adversely affect a *securitisation position's* repayment must be reported to *investors* without undue delay.
- 2.3.15** **R** The transaction documentation must include clear:
- (1) provisions facilitating timely resolution of conflicts between different classes of *investors*;
  - (2) definitions of voting rights;
  - (3) allocation of voting rights to classes of *investor*; and
  - (4) identification of responsibilities of the trustee and other entities with fiduciary duties to *investors*.
- 2.3.16** **R**
- (1) Before pricing or original commitment to invest, the *originator* and the *sponsor* must make the following data available to potential *investors*:
    - (a) except as provided in (2), data covering a period of at least 5 years about static and dynamic historical default and loss performance, such as delinquency and default data, for substantially similar exposures to those being securitised; and
    - (b) the sources of the data in (1)(a) and the reasons those exposures are substantially similar to those being securitised.
  - (2) If the data in (1)(a) relates to trade receivables and other short-term receivables, it must cover a period of at least 3 years.
  - (3) If the *sponsor* cannot access such data, it must obtain from the seller access to static or dynamic data about the historical performance of exposures substantially similar to those being securitised (such as delinquency and default data).
- 2.3.17** **R**
- (1) *ABCP transactions* must be backed by a pool of underlying exposures that are homogeneous in terms of asset type, considering the specific characteristics relating to the asset type's cash flows, including their contractual, credit-risk and prepayment characteristics.
  - (2) The pool of underlying exposures must have a remaining weighted average life of not more than 1 year. The underlying exposures must not have a residual maturity of more than 3 years.
  - (3) By way of derogation from (2), pools of auto loans, auto leases and equipment lease transactions must have a remaining weighted average life of not more than 3.5 years. The underlying exposures must not have a residual maturity of more than 6 years.
  - (4) Further details specifying which underlying exposures are homogeneous for the purposes of (1) are set out at ■ **SECN 2.4**.
  - (5) The underlying exposures must not include loans secured by residential or commercial mortgages.

- (6) The underlying exposures:
  - (a) must contain contractually binding and enforceable obligations, with full recourse to debtors;
  - (b) must have defined payment streams relating to rental, principal, interest, or any other right to receive income from assets warranting such payments;
  - (c) may generate proceeds from the sale of any financed or leased assets; and
  - (d) must not include any *transferable security*, other than corporate bonds not listed on a *trading venue*.

- 2.3.18** **R**
- (1) Any referenced interest payments under the *ABCP transaction's* assets and liabilities must:
    - (a) be based on generally used market interest rates or generally used sectoral rates reflective of the cost of funds; and
    - (b) not reference complex formulae or derivatives.
  - (2) Referenced interest payments under the *ABCP transaction's* liabilities may be based on interest rates reflective of an *ABCP programme's* cost of funds.

- 2.3.19** **R**
- Following the seller's default or an acceleration event:
- (1) no amount of cash may be trapped in the *SSPE* above what is needed to ensure the *SSPE's* operational functioning or the orderly repayment of *investors* under the *securitisation's* contractual terms. However, an amount of cash may be so trapped if exceptional circumstances require it to be used (in the *investors'* best interests) to pay expenses to prevent deterioration in the underlying exposures' credit quality;
  - (2) principal receipts from the underlying exposures must be passed to *investors* via sequential payment of the *securitisation positions*, as determined by the *securitisation positions'* seniority; and
  - (3) no provisions may require automatic liquidation of the underlying exposures at market value.

- 2.3.20** **R**
- (1) The underlying exposures must be originated:
    - (a) in the ordinary course of the seller's business; and
    - (b) following underwriting standards at least as rigorous as those the seller applied at the time of origination to similar unsecuritised exposures, to the extent there are any.
  - (2) The *originator* or the *original lender* must fully disclose to the *sponsor* and other parties directly exposed to the *ABCP transaction* without undue delay:
    - (a) the underwriting standards pursuant to which the underlying exposures are originated; and
    - (b) any material changes from prior underwriting standards.

- (3) The seller must have expertise in originating exposures of a similar nature to those securitised.
- 2.3.21** **R** If an *ABCP transaction* is a *revolving securitisation*, the transaction documentation must include triggers for termination of the revolving period, including in the following circumstances:
- (1) the underlying exposures' credit quality deteriorating to or below a predetermined threshold; and
  - (2) an insolvency-related event with regard to the seller or the *servicer* occurring.
- 2.3.22** **R** The transaction documentation must clearly specify:
- (1) the *sponsor's*, *servicer's*, any trustee's and ancillary service providers' contractual obligations, duties and responsibilities;
  - (2) the processes and responsibilities necessary to ensure that the *servicer's* default or insolvency does not result in servicing terminating;
  - (3) provisions ensuring derivative counterparties and the account bank are replaced in the case of their default, insolvency, and other specified events, where applicable; and
  - (4) how the *sponsor* meets the requirements of ■ **SECN 2.3.25R**.
- Requirements on the sponsor of an STS ABCP programme**.....
- 2.3.23** **R** The *sponsor* of an *ABCP programme* must:
- (1) be a *CRR firm*; and
  - (2) not be an *investment firm*.
- 2.3.24** **R** The *sponsor* of an *ABCP programme* must:
- (1) be a liquidity facility provider;
  - (2) support all *securitisation positions* on an *ABCP programme* level by covering all liquidity and credit risks and any material dilution risks of the securitised exposures as well as any other transaction and programme-level costs if necessary to guarantee to the *investor* the full payment of any amount under the ABCP with such support; and
  - (3) disclose to *investors* a description of the support provided at transaction level and of the liquidity facilities provided.
- 2.3.25** **R** (1) Before a *credit institution* may sponsor an *STS ABCP programme*, it must demonstrate to the *PRA* that its role under ■ **SECN 2.3.24R** does not pose risks to its solvency and liquidity, even in extremely stressed market conditions.



- (2) The requirement referred to in (1) is fulfilled if the *PRA* has determined, based on the review and evaluation referred to in regulation 34A(2) of the *Capital Requirements Regulations 2013*, that:
  - (a) the arrangements, strategies, processes and mechanisms that *credit institution* has implemented; and
  - (b) the own funds and liquidity that *credit institution* holds, ensure sound management and coverage of its risks.

**2.3.26** **R** The *sponsor* must:

- (1) perform its own due diligence;
- (2) verify compliance with the requirements set out in **■ SECN 4.2.1R** and **■ SECN 4.2.2R** or equivalent *PRA rules*; and
- (3) verify the seller has in place servicing capabilities and collection processes meeting the requirements specified in Article 265(2)(h)–(p) of the *UK CRR* or equivalent requirements in a *third country*.

**2.3.27** **R** The seller, at the level of a transaction, or the *sponsor*, at the level of the *ABCP programme*, must satisfy the risk-retention requirement referred to in **■ SECN 5** or equivalent *PRA rules*.

**2.3.28** **R** Before pricing or original commitment to invest, the *sponsor* must make available to potential *investors* pricing on request:

- (1) the aggregate information required by **■ SECN 6.2.1R(1)** or equivalent *PRA rules*; and
- (2) the information required by **■ SECN 6.2.1R(2)** to **■ SECN 6.2.1R(7)** or equivalent *PRA rules*, at least in draft or initial form.

**2.3.29** **R** If the *sponsor* does not renew the funding commitment of the liquidity facility before it expires, the liquidity facility must be drawn down and the maturing securities must be repaid.

**Programme-level requirements**

**2.3.30** **R**

- (1) All *ABCP transactions* within an *ABCP programme* must fulfil the requirements of **■ SECN 2.3.2R** to **■ SECN 2.3.22R**.
- (2) Notwithstanding (1), a maximum of 5% of the aggregate amount of the exposures underlying the *ABCP transactions* and which are funded by the *ABCP programme* may temporarily not comply with the requirements of **■ SECN 2.3.10R**, **■ SECN 2.3.11R** and **■ SECN 2.3.12R** without affecting the *ABCP programme's* STS status.
- (3) For the purposes of (2), an appropriate and independent external party must regularly verify compliance of a sample of the underlying exposures.

- (4) The *sponsor* of the *ABCP programme* must comply with the requirements under ■ SECN 2.3.23R to ■ SECN 2.3.29R;
- 2.3.31** **R** The remaining weighted average life of the underlying exposures of an *ABCP programme* must not be more than 2 years.
- 2.3.32** **R** The *ABCP programme* must be fully supported by a *sponsor* in accordance with ■ SECN 2.3.24R.
- 2.3.33** **R** The *ABCP programme* must not contain any *resecuritisation*. The credit enhancement must not establish a second layer of tranching at the programme level.
- 2.3.34** **R** The securities an *ABCP programme* issues must not include the following clauses, if they are exercisable at the discretion of the seller, *sponsor* or *SSPE*:
- (1) call options;
  - (2) extension clauses; and
  - (3) other clauses that affect the final maturity of those securities.
- 2.3.35** **R**
- (1) The interest rate and currency risks arising at *ABCP programme* level must be appropriately mitigated. Any measures taken to that effect must be disclosed.
  - (2) The *ABCP programme* must be structured such that:
    - (a) the *SSPE* must not enter into derivative contracts, unless to hedge interest rate or currency risk; and
    - (b) the pool of underlying exposures does not include derivatives.
  - (3) Any derivatives into which the *SSPE* does enter in accordance with (2)(a) must be underwritten and documented according to common standards in international finance.
- 2.3.36** **R** The *ABCP programme's* documentation must clearly specify:
- (1) the responsibilities of the trustee and other entities with fiduciary duties, if any, to *investors*;
  - (2) the contractual obligations, duties and responsibilities of the *sponsor* (who must have expertise in credit underwriting), any trustee and other ancillary service providers;
  - (3) the processes and responsibilities necessary to ensure that the *servicer's* default or insolvency does not result in servicing terminating;
  - (4) the provisions ensuring derivative counterparties and the account bank at *ABCP programme* level are replaced in case of their default,

insolvency and other specified events, where the liquidity facility does not cover such events;

- (5) the remedial steps that must be taken on specified events, or on the *sponsor's* default or insolvency to achieve collateralisation of the funding commitment or replacement of the liquidity facility provider (as appropriate); and
- (6) that the liquidity facility must be drawn down and the maturing securities repaid if the *sponsor* does not renew the liquidity facility's funding commitment before it expires.

### 2.3.37

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The *servicer* must have:

- (1) expertise in servicing exposures of a similar nature to those securitised; and
- (2) well-documented and adequate policies, procedures and risk-management controls relating to the exposures' servicing.