

Chapter 5

Requirements on risk retention

5.2 Retention of a material net economic interest

- 5.2.1 **R** The *originator, sponsor or original lender* of a *securitisation* shall retain on an ongoing basis a material net economic interest in the *securitisation* of not less than 5%. That interest shall be measured at the origination and shall be determined by the notional value for off-balance-sheet items.
- 5.2.2 **R** Where the *originator, sponsor or original lender* have not agreed between them who will retain the material net economic interest, the *originator* shall retain the material net economic interest.
- 5.2.3 **R** There shall be no multiple applications of the retention requirements for any given *securitisation*.
- 5.2.4 **R** The material net economic interest shall not be split amongst different types of retainers and shall not be subject to any credit-risk mitigation or hedging.
- 5.2.5 **R** For the purposes of ■ SECN 5, an entity shall not be considered to be an *originator* where the entity has been established or operates for the sole purpose of securitising exposures.
- 5.2.6 **R** Subject to ■ SECN 5.2.7R, *originators* shall not select assets to be transferred to the *SSPE* with the aim of rendering losses on the assets transferred to the *SSPE*, measured over the life of the transaction, or over a maximum of 4 years where the life of the transaction is longer than 4 years, higher than the losses over the same period on comparable assets held on the balance sheet of the *originator*.
- 5.2.7 **R** *Originators* may select assets to be transferred to the *SSPE* that ex ante have a higher than average credit risk profile as compared to the comparable assets, if any, that remain on the balance sheet of the *originator* provided that the higher credit risk profile of the assets transferred to the *SSPE* is clearly communicated to the *investors* or potential *investors*.
- 5.2.8 **R** (1) Only the following shall qualify as a retention of a material net economic interest of not less than 5% within the meaning of ■ SECN 5.2.1R:

- (a) the retention of not less than 5% of the nominal value of each of the *tranches* sold or transferred to *investors*;
 - (b) in the case of *revolving securitisations* or *securitisations of revolving exposures*, the retention of the *originator's* interest of not less than 5% of the nominal value of each of the securitised exposures;
 - (c) the retention of randomly selected exposures, equivalent to not less than 5% of the nominal value of the securitised exposures, where such non-securitised exposures would otherwise have been securitised in the *securitisation*, provided that the number of potentially securitised exposures is not less than 100 at origination;
 - (d) the retention of the *first loss tranche* and, where such retention does not amount to 5% of the nominal value of the securitised exposures, if necessary, other *tranches* having the same or a more severe risk profile than those transferred or sold to *investors* and not maturing any earlier than those transferred or sold to *investors*, so that the retention equals in total not less than 5% of the nominal value of the securitised exposures; or
 - (e) the retention of a first loss exposure of not less than 5% of every securitised exposure in the *securitisation*.
- (2) (a) By way of derogation from (1), in the case of *NPE securitisations*, where a *non-refundable purchase price discount* has been agreed, the retention of a material net economic interest for the purposes of (1) shall not be less than 5% of the sum of the net value of the securitised exposures that qualify as *non-performing exposures* and, if applicable, the nominal value of any performing securitised exposures.
- (b) The net value of a *non-performing exposure* shall be calculated by deducting the *non-refundable purchase price discount* agreed at the level of the individual securitised exposure at the time of origination or, where applicable, a corresponding share of the *non-refundable purchase price discount* agreed at the level of the pool of underlying exposures at the time of origination from the exposure's nominal value or, where applicable, its outstanding value at the time of origination.
- (c) In addition, for the purpose of determining the net value of the securitised *non-performing exposures*, the *non-refundable purchase price discount* may include the difference between the nominal amount of the *tranches* of the *NPE securitisation* underwritten by the originator for subsequent sale and the price at which these *tranches* are first sold to unrelated third parties.

5.2.9

R

- (1) Where:
- (a) a *mixed financial holding company*;
 - (b) a *UK parent institution*;
 - (c) a *financial holding company* that is *established in the United Kingdom*; or
 - (d) a subsidiary of such a company or institution,

as an *originator* or *sponsor*, securitises exposures from one or more *CRR firms*, *FCA investment firms* or other *financial institutions* which are included in the scope of supervision on a consolidated basis, the requirements set out in ■ SECN 5.2.1R to ■ SECN 5.2.5R may be satisfied based on the consolidated situation of the *mixed financial holding company*, *UK parent institution* or *financial holding company* concerned.

- (2) Subject to the modifications for *FCA investment firms* in (3), (1) applies only if *CRR firms*, *FCA investment firms* or *financial institutions* which created the securitised exposures:
 - (a) comply with the requirements in Chapter 4 of the Internal Capital Adequacy Assessment Part of the *PRA Rulebook*; and
 - (b) deliver the information needed to satisfy the requirements in ■ SECN 4 or equivalent *PRA rules*, in a timely manner, to the *originator* or *sponsor* and, if the *originator* or *sponsor* is a subsidiary, to the *mixed financial holding company*, *UK parent institution* or *financial holding company* which is the parent undertaking of the subsidiary.
- (3) In the case of *FCA investment firms*, compliance with the requirements set out in Article 4.2 of Chapter 4 of the Internal Capital Adequacy Assessment Part of the *PRA Rulebook* are modified in accordance with this subparagraph:
 - (a) *FCA investment firms* must have internal methodologies that enable them to assess the credit risk of exposures to individual obligors, securities or *securitisation positions* and credit risk at the portfolio level;
 - (b) the internal methodologies must not rely solely or mechanistically on external credit ratings; and
 - (c) where an *FCA investment firm* determines the amount of own funds that it should hold by reference to a rating by an external credit assessment institution or by reference to the fact that an exposure is unrated, this does not exempt the *FCA investment firm* from additionally considering other relevant information for assessing its allocation of internal capital.
- (4) In ■ SECN 5.2.9R 'subsidiary' has the meaning given in Article 4(1)(16) of *UK CRR*.

5.2.10

R

■ SECN 5.2.1R to ■ SECN 5.2.5R shall not apply where the securitised exposures are exposures to or exposures fully, unconditionally and irrevocably guaranteed by:

- (1) central governments or central banks;
- (2) regional governments, local authorities and 'public sector entities' within the meaning of Article 4(1)(8) of *UK CRR*;
- (3) institutions to which a 50% risk weight or less is assigned under Part Three, Title II, Chapter 2 of *UK CRR* and articles 132a to 132c of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the *PRA Rulebook*;

- (4) national promotional banks or institutions within the meaning of Article 2(3) of Regulation (EU) 2015/1017 of the European Parliament and of the Council; or
- (5) the multilateral development banks listed in Article 117 of *UK CRR*.

5.2.11

R

■ SECN 5.2.1R to ■ SECN 5.2.5R shall not apply to transactions based on a clear, transparent and accessible index, where the underlying reference entities are identical to those that make up an index of entities that is widely traded, or are other tradable securities other than *securitisation positions*.