

**Bank of England PRA**

# Appendix 3: Aggregate Cost-Benefit Analysis

**Consultation paper | CP2/26**

February 2026

Draft for consultation



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# Aggregated costs benefit analysis (CBA)

1.1 This appendix sets out the Prudential Regulation Authority's (PRA) impact analysis of the expected aggregated costs and benefits of implementing the proposals in this consultation paper (CP) as a whole.

1.2 The individual policy chapters contain additional analysis of the expected costs and benefits of the specific proposals set out in this CP. This appendix should be read in conjunction with the policy chapters.

1.3 The results suggest that the market-wide annualised aggregate costs from implementing the full package of measures would be in the region of £300,000–£500,000, compared to annualised aggregate cost savings in the region of £4.2 million per year, as well as, an ongoing per transaction cost saving in the region of £1.6 million–£3.3 million. This equates to a market-wide estimated net benefit of the proposals between £5.5 million–£7 million per annum. These figures are displayed in Table 1 below.

**Table 1: Summary of costs and benefits associated with the proposals in CP2/26<sup>1</sup>**

	Lower Bound	Upper Bound
A: Market-wide annual cost savings	£4.2 million	£4.2 million
B: Market-wide per transaction cost savings	£1.6 million	£3.3 million
C: Market-wide annualised costs	£300,000	£500,000
<b>A+B-C: Market-wide net benefit</b>	<b>£5.5 million</b>	<b>£7 million</b>

## Overall approach to the CBA

1.4 Where it has been reasonable to do so, the PRA has produced quantitative estimates of costs and benefits associated with the proposals set out in this CP.

1.5 In the course of preparing this CBA, the PRA has made use of responses to a 2024 European Commission (EC) targeted consultation on the functioning of the European Union

<sup>1</sup> All figures have been rounded to the nearest appropriate unit. Row A is a central estimate of market-wide annual cost savings.

(EU) securitisation framework. Following the UK's departure from the EU, EU securitisation general requirements were substantially restated in the Securitisation Part of the PRA Rulebook, meaning that industry feedback to the EC consultation is pertinent. Due to the cost to firms of completing regulatory surveys, and the sufficiently wide scope of the EC consultation, the PRA deemed it disproportionate to re-survey firms for the purpose of this CP.<sup>2</sup>

1.6 The costs and benefits are defined relative to a baseline (or counterfactual) which is the regulatory requirements that securitisation market participants would face if the proposals in this CP were not implemented. All costs and benefits set out in this appendix have been evaluated relative to current requirements applicable to PRA-authorised firms.

1.7 The PRA notes that as the estimated average annual issuance of securitisations in the UK is relatively small, the costs and benefits estimated in this CBA may take a longer time horizon to materialise than would otherwise be the case. This is due to the lower transaction volume which necessarily will mean that fewer market participants will be impacted by the proposals in this CP at one time and so will limit the speed at which the aggregate costs and benefits materialise. Additionally, due to economies of scale, cost savings relating to current securitisation transactions will take longer to offset initial investments.

### **Affected firms and markets**

1.8 The proposals in this CP apply to all PRA-authorised firms who currently, or will in the future, enter into the securitisations market. There are 50 dual (PRA and FCA) regulated originators/sponsors. The PRA calculates that the total outstanding value of UK public securitisations is £180 billion, spread across 382 individual securitisations with a total issuance size of £46 billion per annum. The private securitisation market may be as large or even larger than the public market. However, while securitisation regulatory reporting captures firms' exposures to securitisations, these exposures are typically firms' investments in securitisations including any retained exposures to their own securitisations; securitisations exposures sold to third party investors are normally excluded from regulatory reporting. This CBA can only include estimates based on information available to the PRA.

1.9 The analysis of costs and benefits considers the impact across the whole UK securitisations market using the estimated number of outstanding public securitisations.<sup>3</sup> Some costs and benefits only apply to firms who have permission to use the Internal Ratings Based (IRB) approach and are opting to implement it for their securitisation exposures. The aggregate net CBA figures set out above assume that a PRA-authorised firm with an IRB permission implemented the full package of proposals set out in this CP.

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<sup>2</sup> All nominal euro values have been translated to pound sterling using the historic average method. The EC consultation period lasted between 9 October 2024 and 4 December 2024. Using Office of National Statistics (ONS) daily exchange rate data, the historical average exchange rate during that period is 1.000 GBP = 1.199476 EUR.

<sup>3</sup> Market-wide estimates include PRA and FCA dual regulated firms and also FCA solo-regulated firms due to data restrictions.

## Direct impacts on costs

### Impact on firms' compliance costs

**Table 2: Summary table of quantitative cost impact associated with relevant proposals**

Proposal Area	Summary of impact	Net cost impact
Chapter 2 Proposal 1 – Due diligence	Market-wide ongoing per transaction cost saving of £1.6 million–£3.3 million.	Net cost saving
Chapter 2 Proposal 3 – Transparency	Market-wide annual cost saving of £2.3 million.	Net cost saving
Chapter 3 Proposal 1 – IRB approach to single-loan residential mortgage securitisations	<p>Market-wide annualised implementation cost of £300,000–£500,000.</p> <p>Average annual cost saving of £2 million to PRA- authorised firms implementing the proposed IRB approach.</p>	Net cost saving

1.10 Current due diligence and transparency rules create disproportionately large operational costs for PRA firms. Proposals in this CP that aim to streamline these requirements are anticipated to result in a cost saving to both issuers and investors.

1.11 With regard to Proposal 1 in Chapter 2, firms responding to the EC survey estimated that largely similar proposals would result in an ongoing per transaction cost saving of between 25-50% of current due diligence spending.<sup>4</sup> Firms responding to the same survey estimated the initial one-off cost of complying with due diligence requirements to be approximately £31,000. These same respondents also estimated the ongoing cost of continuing to comply with these requirements to be approximately £11,000 per year. Therefore, by applying a saving of between 25-50%, the PRA estimates a one-off per transaction cost saving of between £8,000 and £16,000 on all securitisation transactions entered into, following implementation of these proposals. The PRA also estimates a cost saving of between £3,000 and £5,000 on all outstanding securitisation positions as ongoing due diligence requirements would be significantly reduced. The PRA has been unable to

<sup>4</sup> [Targeted consultation on the functioning of the EU securitisation framework 2024 – Finance.](#)

accurately annualise this cost-saving because some due diligence is carried out prior to holding a securitisation position, and some is continuously carried out while holding the position. This means the cost-saving occurs at varying stages of the investment process rather than once per transaction.

1.12 On average, there are 74 UK public securitisation issuances annually. Utilising this figure, the PRA estimates market wide one-off per transaction cost savings of between £500,000 and £1.2 million. Additionally, there are estimated to be 382 total outstanding public securitisations currently in existence, so the PRA estimates a cost saving of between £1 million and £2 million on ongoing due diligence compliance on these pre-existing securitisations. By summing the one-off cost savings to new transactions, and the cost saving to transactions already in existence, the PRA estimates the total market-wide cost savings associated with Proposal 1 to be between £1.6 million and £3.3 million. This figure is likely to be an overestimate as it represents the cost saving to both dual-regulated firms and FCA solo-regulated firms.

1.13 With regard to Proposal 3 in Chapter 2, the PRA proposes several changes to make disclosure requirements more proportionate, such as disapplying some templates and requiring firms to use streamlined versions of remaining templates that would be set out in FCA rules. Proposal 3 is anticipated to result in reduced start-up costs as well as operational ongoing costs associated with originating securitisation structures.

1.14 The transparency proposals set out in [FCA CP26/6](#) and reflected in this CP, are estimated to have a total market-wide cost saving of approximately £8.6 million and a cost saving to PRA-authorized firms of £2.3 million. This cost saving was calculated using the estimated cost currently incurred of completing relevant templates as reported in the EC report.<sup>5</sup> The PRA has then applied a methodology to scale up these costs for each template based on a relevant multiplier, for example, for the underlying exposures template the number of outstanding public securitisations (382) was used.

1.15 The PRA recognises that Proposal 3 in Chapter 2 also includes the proposal to disapply the Inside Information and Significant Event template, however, due to lack of appropriate data the PRA has not attempted to quantify the cost saving related to this proposal. However, the PRA considers this cost saving to be relatively small.

1.16 The PRA estimates PRA-authorized firms to comprise approximately 26% of the total market share. This is estimated as a proportion of PRA-authorized originators/sponsors (about 50 out of total 139). Consequently, PRA-specific cost savings is estimated as 26% of market-wide cost savings.

1.17 The reduction in compliance costs associated with the due diligence and transparency proposals would be passed on to end users of financial services markets to some degree through lower prices and greater funding for lending. The cost reductions may also facilitate marginally greater competition. Operational costs are likely to be disproportionately burdensome for smaller firms as they have fewer resources to dedicate to understanding and

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<sup>5</sup> [Targeted consultation on the functioning of the EU securitisation framework 2024 – Finance](#).

implementing the processes necessary to meet PRA requirements. This relatively higher barrier to entry to the securitisation market may harm competition. The reduced compliance costs associated with due diligence and transparency should better enable smaller firms to participate in the securitisations market, and to grow faster than they otherwise would under the counterfactual.

1.18 The proposed alternative (refer to proposal in Chapter 3 of this CP) relating to an IRB treatment for single-loan residential mortgage securitisation structures would provide greater business model flexibility for PRA-authorized IRB firms. The PRA estimates that this new capital treatment could result in risk weights 15%-40% lower than under the current requirements. This may allow more capital to be reinvested in further participating in the securitisations market or in other profit-yielding activities.

1.19 Assuming average 30% reduction in risk weights, the PRA estimates that PRA-authorized firms with IRB permission that currently take part in the MGS would on average experience a £2 million per annum cost saving from utilising the proposed new IRB approach.<sup>6</sup>

1.20 The PRA expects that this proposal would generate an implementation cost for PRA-authorized firms who opt to use the new approach. Industry feedback, ran through the PRA's standard cost model (SCM), indicated that while there would be a material one-off implementation cost, there would be minimal ongoing cost associated with the change.

1.21 The PRA applied its annualisation tool to the estimated one-off costs and estimate annualised market-wide costs of between £300,000–£500,000 per annum. The market-wide cost was estimated using the number of PRA-authorized firms with IRB permissions, creating the upper bound; and the number of such firms currently participating in the MGS scheme, creating the lower bound.

1.22 Proposal 6 in Chapter 2 of this CP is anticipated to further reduce operational costs to firms by making the PRA Rulebook easier to understand therefore lowering the administrative burden associated with rule compliance. Due to a lack of information regarding the administrative burden of the PRA Rulebook, this cost saving has not been quantified.

1.23 In summary, the anticipated one-off costs are materially smaller than the estimated cost reductions and the proposals are expected to reduce firms' operational and capital costs overall.

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<sup>6</sup> This figure is calculated by assuming that the average £900 million change in RWAs translates to a £72 million change in firms' capital requirements because Pillar 1 capital requirements are calculated as 8% of RWAs. Using parameters derived from empirical research the PRA then estimates that firms reduce their actual capital in response to this change in requirements by between £36 million and £58 million. The PRA assumes that this capital was costing firms between 9% and 15% per annum and is replaced by debt which costs firms 3% per annum after their ability to offset interest payments against corporation tax is taken into account. On the basis of empirical research, the PRA also assumes a 50% reduction in the potential cost saving due to the 'Modigliani-Miller effect' – ie, as firms' leverage increases, what they need to pay to raise capital also increases. Under these assumptions, it follows that  $£72 \text{ million} \times (9\% - 3\%) \times 50\% \approx £2 \text{ million}$  is an average real average capital saving.



## Direct costs to the PRA

1.24 The proposals in this CP are expected to impose minimal cost on the PRA.

## Direct impact on the resilience of PRA-authorised firms

1.25 The proposals in this CP will promote the safety and soundness of PRA-authorised firms through:

- Encouraging greater capital efficiency, and diversifying credit risk and funding risk through incentivising greater securitisation activity;
- Increasing firms' access to liquidity facilities; and
- Improving PRA rule clarity and transparency.

1.26 The proposals in this CP seek to remove current disincentives to participating in the securitisation market. Securitisation, with adequate safeguards, can benefit safety and soundness as it can support funding diversification, free up capital to allow banks to extend new credit to the real economy, allow banks to manage credit risk more effectively and provide non-bank investors, such as insurance companies and pension funds, with access to a broader pool of assets.

1.27 Proposals in this CP, in particular Proposal 4, would potentially enable PRA-authorised firms to gain greater access to liquidity, thus potentially increasing firms' resilience in stress by diversifying their funding sources.

1.28 The PRA has previously emphasised the role of timely access to liquidity in financial stability as it ensures that firms can meet obligations under normal and stressed conditions without jeopardising their solvency or triggering systemic risk.<sup>7</sup> Access to liquidity also supports the continuity of core business operations. Such flexibility enhances both firm resilience and investor confidence.

1.29 With regard to Proposal 5 in this CP, the PRA considers that clear and transparent rules benefit safety and soundness. Clear and simple rules should make it easier for firms to comply which in turn may promote resilience.

1.30 The PRA considers prudent credit granting standards to be vital to safe participation in the securitisation market, for investors and issuers alike. The proposals in this CP would retain and clarify the requirement that underlying exposures must have been subject to sound and well-defined credit granting criteria and would therefore benefit the safety and soundness of the securitisation market participants.

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<sup>7</sup> [Financial Stability Report – June 2024](#).



## Impacts on markets for financial services

1.31 The proposals in this CP, are expected to lead to better outcomes for UK industry and households who rely on financial services markets, such as via lower prices and a greater quantity or quality of products or services available, due to:

- Reducing compliance costs;
- Allowing for greater business model flexibility; and
- Allowing greater access to overseas securitisation markets.

1.32 The reduction in compliance costs has been set out above. The remainder of this section explains the impact of providing greater business model flexibility and access to overseas securitisation markets. The PRA does not expect the overall impact of these effects on the size of the securitisation market to be large and has not been able to estimate it. However, the PRA does consider a small increase is plausible and paragraphs 1.42 and 1.43 below provide an illustrative calculation of what a 5% increase might imply for lending to the UK real economy.

### Greater business model flexibility

1.33 The PRA considers that Proposals 2 and 4 in Chapter 2 of this CP would allow for greater business model flexibility for PRA-authorised firms.

1.34 Proposal 2 in Chapter 2 would allow firms greater flexibility in how they structure their risk retention to best fit their business model. This could foster competition by allowing for a greater number of business types and models to grow. The PRA has observed industry feedback that the L-shaped risk retention method could have a positive impact on firms' business models and future business planning.<sup>8</sup>

1.35 Proposal 4 in Chapter 2 would exempt certain resecuritisation structures from the current prohibition in Article 8 of the Securitisation Part. This would allow for greater business model flexibility by encouraging firms to participate in these exempted resecuritisations, creating new opportunities to access funding and liquidity. It could also increase incentives to participate in the Mortgage Guarantee Scheme (MGS) or similar private schemes, as such loans would be permitted to be resecuritised. This creates a capital incentive for firms to diversify their business practices and benefits firms already active in this area.

1.36 Finally, Proposal 1 in Chapter 3 of this CP is for a new IRB approach to single loan residential mortgage securitisations. This would allow for greater business model flexibility by permitting firms who already have IRB permission from the PRA to adapt their models to better reflect the economic substance of these exposures. This could allow firms to increase their participation in such schemes or to enter into them for the first time.

1.37 Business model flexibility may stimulate competition by lowering barriers to entry. Additionally, the increased business model flexibility that these proposals aim to facilitate

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<sup>8</sup> [Securitisation Regulation Review](#), paragraph 3.7.

may encourage greater innovation by allowing firms to tailor risk management approaches to new financial products and services. Such flexibility may also build confidence in expansion by giving firms greater certainty in planning and scaling operations, thus fostering growth and competitiveness.

### **Greater access to overseas securitisation markets**

1.38 Proposal 2 in Chapter 2 of this CP could benefit international competitiveness of PRA-authorized firms by giving greater access to overseas securitisations markets. The L-shaped risk retention method that the PRA has proposed to allow is currently permitted in the United States (US) and Japan. UK securitisations whose risk retention is structured in such a way may prove more attractive to certain US or Japan-based investors. Additionally, securitisation positions originated in the US or Japan that use L-shaped risk retention would be available for PRA-authorized firms to invest in.

1.39 The PRA considers that this would promote the international competitiveness of UK firms by allowing them to reach a wider investor base. It could also make the UK more attractive to overseas firms to set up and issue securitisations.

### **Impacts on the wider economy**

1.40 As discussed above, these proposals may generate greater access to liquidity for PRA-authorized firms thus creating a benefit to safety and soundness. This, in turn, promotes the wider UK economy by ensuring banks are better equipped to meet short-term obligations and withstand cash outflows during times of stress. This may support the level of economic output in the medium term.

1.41 Additionally, these proposals may cut operating costs for PRA-authorized firms, allowing firms to reinvest capital in alternative activities such as lending, thus promoting longer term economic growth.

1.42 The PRA conducted a scenario-based analysis to estimate how a hypothetical 5% increase in the size of UK public securitisations following the proposals in CP2/26 would impact wider lending. The current total outstanding value of UK public securitisations is £180 billion; in the scenario, this figure would increase by £8.7 billion.

1.43 A large proportion of public securitisation transactions are for funding purposes. The value of the securitisation position which is sold, minus any operational costs, is available for lending. Often, the entire position is sold, with the exception of 5% risk retention. Therefore, the PRA estimates that a 5% increase in the size of the UK securitisations market could make up to £8.3 billion available for additional lending. Please note that these figures represent PRA estimates with a high degree of uncertainty and are for illustrative purposes only.