

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Fourth Delegated Legislation Committee

DRAFT SECURITISATION (AMENDMENT)
REGULATIONS 2024

Tuesday 14 May 2024

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The Committee consisted of the following Members:

Chair: CAROLINE NOKES

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| † Afolami, Bim (<i>Economic Secretary to the Treasury</i>) | Johnson, Dame Diana (<i>Kingston upon Hull North</i>)
(Lab) |
| † Antoniazzi, Tonia (<i>Gower</i>) (Lab) | † Langan, Robert (<i>High Peak</i>) (Con) |
| Cruddas, Jon (<i>Dagenham and Rainham</i>) (Lab) | † Lewer, Andrew (<i>Northampton South</i>) (Con) |
| † Doyle-Price, Dame Jackie (<i>Thurrock</i>) (Con) | Morris, David (<i>Morecambe and Lunesdale</i>) (Con) |
| Duffield, Rosie (<i>Canterbury</i>) (Lab) | † Morrissey, Joy (<i>Lord Commissioner of His Majesty's</i>
<i>Treasury</i>) |
| † Fell, Simon (<i>Barrow and Furness</i>) (Con) | † Quince, Will (<i>Colchester</i>) (Con) |
| † Gardiner, Barry (<i>Brent North</i>) (Lab) | † Siddiq, Tulip (<i>Hampstead and Kilburn</i>) (Lab) |
| † Greenwood, Margaret (<i>Wirral West</i>) (Lab) | William Opposs, <i>Committee Clerk</i> |
| Hayes, Sir John (<i>South Holland and The Deepings</i>)
(Con) | † attended the Committee |
| † Howell, Paul (<i>Sedgefield</i>) (Con) | |

Fourth Delegated Legislation Committee

Tuesday 14 May 2024

[CAROLINE NOKES *in the Chair*]

Draft Securitisation (Amendment) Regulations 2024

9.25 am

The Economic Secretary to the Treasury (Bim Afolami): I beg to move,

That the Committee has considered the draft Securitisation (Amendment) Regulations 2024.

This statutory instrument forms part of the Government's programme to deliver a smarter regulatory framework for financial services and replace areas of retained EU law in financial services with an approach to regulation that is tailored properly to the UK. That includes the EU law relating to securitisation.

In January 2024, Parliament agreed to establish a new legislative framework to replace the assimilated securitisation regulation 2017. This included revoking regulations from UK legislation to enable the UK financial services regulators, the Prudential Regulation Authority and the Financial Conduct Authority, to make rules for securitisation. This framework will come into effect from 1 November 2024.

Occupational pension schemes—an issue of huge importance to you, Madam Chair, and to the whole House—are also subject to securitisation due diligence rules. Occupational pension schemes are supervised, not by the PRA or the FCA, but by the Pensions Regulator. However, the Pensions Regulator does not have equivalent statutory rule-making powers to the PRA and the FCA, and so cannot make the necessary rules for occupational pension schemes themselves. These rules need to be created in legislation instead. Therefore, this instrument, the Securitisation (Amendment) Regulations 2024, restates due diligence requirements for occupational pension schemes that invest in securitisations.

The Treasury's approach is necessary to avoid a regulatory gap after the coming into force of the revocation of securitisation regulation 2017, and to ensure consistency in due diligence requirements for institutional investors, whether those investors are subject to forthcoming FCA and PRA rules or supervised by the Pensions Regulator. This instrument maintains the Government's existing approach, where most rules governing occupational pension schemes' investors are set through legislation.

Legislating for these changes now has allowed the Government to reflect the outcome of the regulators' consultations and final policy views on these due diligence requirements for other financial services firms. The approach also ensures that occupational pension schemes face the same rules as other firms. These restated due diligence requirements include targeted adjustments to ensure that they are more principles-based and proportionate, and they clarify responsibility for due diligence requirements where investment decisions are

delegated. This should overall reduce regulatory burdens on occupational pension schemes and support their participation in the UK securitisation market.

This SI designates the FCA as responsible for supervising any occupational pension schemes that are acting as originators, sponsors or special purpose entities for securitisations, which aligns the supervision of occupational pension schemes with other firms that are undertaking these activities. But in practice the Treasury envisages that the impact will be minimal, as neither my Department nor the regulators are aware of any occupational pension schemes currently engaged in these activities. However, as is, I think, good practice in all legislation, the Government wish to anticipate the possibility for such involvement and deal with it now.

This SI also makes two changes to make the investor protection framework in the UK more effective and competitive, restating the prohibition on transacting securitisations through special purpose entities in high-risk jurisdictions. These high-risk jurisdictions are the three jurisdictions subject to Financial Action Task Force measures, namely the countries Iran, Myanmar and North Korea. The SI modifies the prohibition in two ways. It expands this restriction to investors in such securitisations, as well as the originators and sponsors of the securitisations. However, it also streamlines the requirement, reducing regulatory burdens by removing a redundant prohibition on engaging in securitisations in jurisdictions that do not comply with certain OECD model tax agreements. This also removes ambiguity from the requirement.

Together, the changes made by this SI will ensure consistency and integrity of UK securitisation regulation for institutional investors in securitisation, whether subject to regulator rules or restated provisions. The changes also ensure that the UK's requirements are more proportionate, streamlined and principles-based, whether for due diligence requirements on occupational pension schemes as institutional investors or for compliance with prohibitions on securitisations in the high-risk jurisdictions that I named.

I hope that the Committee will join me in supporting these regulations, and I commend them to the Committee.

9.30 am

Tulip Siddiq (Hampstead and Kilburn) (Lab): It is a pleasure to serve under you, Madam Chair. I thank the Minister for setting out the purpose of the statutory instrument before us today, which is complementary to the Securitisation Regulations 2024, which we debated in January. We supported those regulations in January and we will be supporting the ones before us today. We feel that these form part of an important package of reform aimed at developing a securitisation market in our country that contributes to growth in the real economy.

I have a couple of questions, which are based on the specific measures introduced by this SI. I welcome the fact that the PRA listened to our objections during its consultations and restored the existing language to do with confidentiality. However, I am sure the Minister will be aware that the sector still has concerns that the existing language creates some uncertainty. Does the Minister share those concerns, and has he raised the matter with the PRA?

Many of the industry's concerns regarding risk retention and credit granting were not addressed in the current version of the rules, so will the Treasury be working with regulators to ensure that these concerns are taken into account with future policy developments?

Finally, in terms of next steps, which the Minister did outline, the FCA and the PRA expect to consult on further changes to their securitisation rules in Q4 2024 and Q1 2025. How confident is the Minister that these timelines will be met?

9.31 am

Bim Afolami: I thank the shadow Minister for her remarks. In response to her first question in relation to the concerns from some that there is some uncertainty in the SI, I do not recognise that, but I am happy to

work with anybody in industry who feels that that is the case. I felt that the PRA had dealt adequately with the concerns that had been raised.

On the second point in relation to risk retention and credit granting, that is not something that has been brought up with me, but I am very happy to work with the hon. Lady and any others in industry who feel that that still needs to be addressed.

On the third and critical point around timing of rules being put in place by the PRA and the FCA, I am very confident that both Q4 and Q1 will be adhered to because, unlike this place, they will continue working in the event of a dissolution of Parliament.

Question put and agreed to.

9.33 am

Committee rose.

