

## **Consultation Response**

### *EBA Consultation on Draft Guidelines on the methodology to estimate and apply credit conversion factors under the Capital Requirements Regulation*

29 October 2025

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The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on **the EBA consultation on the Draft Guidelines on the methodology to estimate and apply credit conversion factors under the Capital Requirements Regulation (hereafter referred to as GLs)**. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76. We summarise below our high-level response to the consultation, which is followed by answers to the individual questions raised.

#### **Executive Summary**

We consider the GLs will increase the level of complexity for IRB-CCF, notably through requirements such as a single facility definition, product mix, CCF in default, etc. The draft GLs also introduce many constraints that may lead to some inconsistencies between CCF and LGD models (e.g., if the post-default treatment in current LGD models differs from the max CCF method, how can consistency be ensured?).

We understand that EBA is still reflecting on a possible implementation deadline for the EBA Guidelines on CCF estimation. Based on our experience with IRB repair programs regarding CCF models, we propose that the EBA grants banks a sufficient timeline of 3-5 years for submission of models depending in the level of adaptation needed for bank after the final date of publication of the GL. Indeed, such time is necessary in order to provide meaningful modelling, given the connected aspects such as the redevelopment of LGD models to ensure consistency between LGD and CCF (e.g. additional drawings post default) or future mandates from EBA which could possibly have an influence on the required framework (e.g. IRB assessment methodology). This appropriate timeline for each bank should ideally be a discussion between the individual bank and their JST. Such a timeline is considered pragmatic based on firms experiences of the IRB repair implementation. If necessary, given the complexity of the GLs and interactions with other EBA mandates we support a further consultation or roundtable before the GLs are final.

We would also note that in several areas of the GLs the EBA sets out approaches which are different or in direct conflict with those currently applied by the SSM in the context of the ECB Guide to Internal Models ("EGIM" (July 2025) or expectations resulting from firms On-site inspections/ investigations.<sup>1</sup> We have set out our view of how the EBA should clarify the approach in the GLs and expect that there is a consequential alignment in the SSM's approach for consistency.

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<sup>1</sup> See answers to questions 2, 8, 14, 20, 26, 31 and 36

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Finally, we consider the most fundamental challenge with the latest CF estimation rules is the requirement to zero floor observed CCFs for risk quantification as set out in the level 1 text in Article 182(1). While we acknowledge that the EBA's work must be aligned with this level 1 specification we have highlighted in our response below (see final comments) the challenges introduced by this requirement and would recommend that the EBA reviews the impact of this in anticipation of any future changes to the CRR.

## Questions

- 1. How material are the cases for your institution where you would have to assign an SA-CCF to exposures arising from undrawn revolving commitments and thus restrict the use of own estimates of LGDs within the scope of application for IRB-CCF in the CRR3? For which cases would you not have enough data to estimate CCFs but have enough data to estimate own estimates of LGDs?**

Except for the type of exposures reverting to FIRB as a direct consequence of CRR3 and those under PPU, we do not expect there to be a significant amount of exposures arising from undrawn revolving commitments that would attract a SA-CCF and a restriction of the own estimates of LGD. Indeed, the CRR3 has already impacted on the non-revolving undrawn commitments which moved to SA-CCF. In addition, given the type of exposures remaining under A-IRB approach we expect to have enough data to estimate CCFs in addition to LGDs.

- 2. Do you have any comments related to guidance on the identification of a related set of contracts which are connected such that they constitute a facility?**

While we have some points of clarification set out below, the overall criteria for facility identification looks generally understandable and highlights the linkage with the risk management practices (which is in this sense reasonable). A couple of practical examples may be beneficial.

To reduce the complexity of tracking a connected facility it is proposed to **exclude interfacility transfers** for the calculations of the observed CCF (and LGD for consistency purposes). For example, where the available headroom of a revolving facility is transferred to a term loan to repay the term loan during a restructuring for operational reasons (e.g. to reduce/consolidate facilities), no new funds are disbursed to the obligor. However, the drawings on the revolving facility increases (with a commensurate increase in payments/recoveries on the term loan). This can distort the estimation of CCFs for the revolving facility and LGD for the term loan, despite no new funds having been disbursed to the obligor. By excluding interfacility transfers, the impact of varying interpretations and treatments of connected facilities are reduced.

We also note the EBA leverages on the CRR3 definition of facility, which allows us to consider a set of contracts for CCF calculation, however, we would like the EBA to be more explicit in the GLs that LGD and CCF can be calculated at distinct granularities. Indeed, the CRR definitions clarify that both the LGD and CCF parameters are related to a "single facility" as per articles 4.1(55) and 4.1(56), leaving the door open to an unintended reading of regulation that both parameters need to be calculated at the same level of granularity. It is worth highlighting that, taking a supervisory reading as per paragraphs 260/316 of the EGIM, it still allows in CRR3 for distinct granularities between LGD and CCF. Indeed, the rationale for calculating LGDs at a more aggregated level than the facility level is linked with the recovery processes, while the CCF parameters are linked with the way limits are granted and managed within the bank.

Finally, the restriction of IRB-CCF models to revolving commitments only makes it all the more difficult to align LGD calculation granularity (as LGD models would cover both revolving and non-revolving products) with the CCF calculation granularity.

**3. Do these GL cover all relevant aspects related to the definition of revolving commitments that you consider relevant for the scope of the IRB-CCF? Have you identified any product that should be in the scope of the IRB-CCF that is currently excluded in the GL? In terms of off-balance sheet exposures, how material are the exposures that fall within the defined scope of the IRB-CCF for your institution?**

In general, the GLs covers the relevant aspects for the definition of revolving commitments. The majority of the off-balance sheet exposures should be expected to be attributable to revolving commitments in scope of the IRB-CCF.

The definition of 'undrawn revolving commitment' in Art. 166 (8b) CRR is largely aligned to footnote 2 of the corresponding BCBS text in CRE 32.36 and only refers to loans ("obligor has the flexibility to decide how often to withdraw from the loan"). The text in CRE 32.36 generically refers to "extend credit, purchase assets or issue credit substitutes", i.e. does not specifically refer to loans. Also, the definition of commitment in Art. 5 (10) CRR generically refers to "extend credit, purchase assets or issue credit substitutes". Hence, to avoid misunderstanding, it could be clarified that Art. 166 (8b) CRR defines revolving by using a loan as an example but does not intend to restrict the definition of revolving commitments to commitments that can only be drawn in the form of loans. Hence, also commitments that can be drawn in the form of any other credit product apart from loan can qualify as revolving commitments. This implies that the term 'loan' is interpreted as 'exposure', i.e. 'where it lets an obligor obtain an exposure where the obligor has the flexibility to decide how often to withdraw from the exposure and at what time intervals, allowing the obligor to drawdown, repay and re-draw exposure advanced to it'. This interpretation is then also aligned to the general CRR definition of 'revolving exposure' in Art. 4 (151): "revolving exposure' means any exposure whereby the borrower's outstanding balance is permitted to fluctuate based on its decisions to borrow and repay, up to an agreed limit;".

The EBA should also nuance its position regarding deferred debit cards. The revolving definition is interpreted as the following 3 cumulative criteria being met:

- (a) The obligor has flexibility on drawings, within a given limit; AND
- (b) The obligor has flexibility on repayments: the obligor decides the timing of its reimbursements; AND
- (c) The drawing capacity is replenished by the amount reimbursed.

This reading is based on article 166(8)(b) of CRR: "a commitment shall be deemed "revolving" where it lets an obligor obtain a loan where the obligor has the flexibility to decide how often to withdraw from the loan and at what intervals, allowing the obligor to drawdown, repay and re-draw loans advanced to it. Contractual arrangements that allow prepayments and subsequent redraws of those prepayments shall be considered revolving."

Banks should determine the revolving feature of products based on CRR3. Some deferred debit cards will not meet for instance the criteria (b)/ (c) and will not be considered as revolving products. Overall, we think that considering increase of EAD for deferred debit cards is less of an issue because their drawings are off-set by the current account balance which is most of the time positive.

**4. Are there products that have an advised limit of zero but a nonzero unadvised limit that should be included in the scope of the IRB-CCF GL? How material are these cases for your institution?**

In the case of a product with advised limit = 0 but unadvised limit > 0 that have been granted only for purely operational reasons, e.g. to enable the capitalization of fees and interest to exceed the loan amount, these shall be considered as non-revolving products and as such excluded from the perimeter of application of IRB-CCF.

Additionally, with respect to point 17 b) we would like to clarify the point stipulating that a higher unadvised limit that is internally pre-approved by the institution can be excluded if the obligor is technically not able to draw beyond the advised limit without first requesting an increase. We would like to confirm that this also applies even if this increase in limit can be requested by the obligor and is granted without a subsequent automated or manual credit assessment.

- 5. Do you think that dynamic limits (e.g. limits the extent of which is dependent on the market value of financial collateral pledged by the obligor in relation to the revolving loan) warrant a specific treatment in the IRB-CCF GL? How material are these cases for your institution?**

From a methodological standpoint, and independent of the relevance of the product within the individual institutions, the inclusion of specific provisions would make sense given the peculiarity of the product, but this can be defined internally by the institution rather than providing specific guidance.

- 6. Have you identified any unwarranted consequences of including fully drawn revolving commitments in the scope of the IRB-CCF. How material are these cases for your institution?**

We do not see any ground in the level 1 text for developing an approach for fully drawn revolving commitments which would estimate the EAD above the full on-balance sheet drawn amount. As Article 166(8) of CRR indicates: "An institution that uses IRB-CCF shall calculate the exposure value for undrawn commitments as the undrawn amount multiplied by IRB-CCF" – if the undrawn amount is 0, the exposure value for undrawn part will be 0. In Article 182(1)(c) of CRR, only facilities which are close to being fully drawn are concerned by whether the CCF should be effectively quarantined ("Institutions shall ensure that their IRB-CCF are effectively quarantined from the potential effects of region of instability caused by a facility being close to being fully drawn at the reference date"). We understand that such specific treatment does not include fully drawn commitments.

- 7. Do you have any concerns on the introduction of the notion of the different samples that constitute the RDS for CCF estimation? Do you have a modelling practice implemented that deviates from this approach?**

The creation of different samples in the risk differentiation (training versus testing out-of-sample and out-of-time) and in the risk quantification is consistent with the practices (and requirements) of PD and LGD parameters as well, even before CRR3 finalization. Nonetheless we have the following observations:

- One potential concern for non-retail CCF models covering low default portfolios. Due to low number of observations, it may not be possible to meaningfully split the sample into "development" and "testing" for CCF estimation as required by Paragraph 43.
- Regarding paragraph 42 (a), If there is a common reason why a group of facilities are excluded, a summary table with exclusion type (incl. rationale) and materiality should be sufficient in our view. A case-by-case justification does not seem necessary. Therefore, we would suggest using the same wording as for retail CCF models (Par 42 (b)) in Par. 42 (a), and possibly add that in case of idiosyncratic exclusions, a case-by-case justification should be provided.

- 8. Are there cases for your institution where the calibration samples should be shorter than the sample used to calculate the long run average (LRA) CCF?**

This situation could be possible in the modelling experience: the backward replication of all the risk drivers may not always be possible for very old data, whereas the ECB within its EGIM steers banks to make all reasonable efforts to recover historical experience of losses and drawings (thus having the longest time series possible – see more below). We deem that this requirement should be set in a balanced manner because ultimately the CCF model should be calibrated to a downturn level: if the downturn falls within the period where there are observed

data (or, in the contrary case, if the downturn LGD is extrapolated) that period represents the calibration target for the CCF estimates, irrespective of whether the calibration sample is shorter or equal to the LRA. Therefore, stressing the full alignment, envisaging even the application of MoCs would be excessively penal.

As mentioned above we would like to highlight that the ECB and EBA provide two contradictory requirements for the LRA CCF: The draft CCF guidelines specify the formula for the LRA CCF based on an average of observed CCFs over a historical observation period, weighted by the number of facilities. However, according to EGIM 2025 §322, the LRA CCF should be calculated as the arithmetic average of the yearly averages of realised CCFs in that period. *(Draft GL CCF§ 86 Institutions should calculate the long-run average CCF as an arithmetic average of realised CCFs over a historical observation period weighted by the number of facilities. Institutions should not use for that purpose any averages of CCFs calculated on a subset of observations, in particular any yearly average CCFs or averages over facilities of the same obligor within one grade. / EGIM 2025§322 (d) When the historical observation period is considered to be representative of the LRA, the average realised CCFs should be computed as the arithmetic average of the yearly averages of realised CCFs in that period).*

Furthermore, also in relation to the LRA, in par. 322(e) of the 2025 EGIM the likely range of variability analysis of good vs. bad years for the CCF LRA is specified. However, the CP is silent on this requirement. We propose that in light of the CP's specification that the LRA is a sample average (as opposed to basing it on annual averages which was the basis for the good-vs.-bad-year analysis in the EGIM), the EBA clarifies that the requirements within the representativeness framework are sufficient to address deficiencies concerning the LRA period.

**9. Do you have any concerns with the requirements introduced to analyse and mitigate a lack of representativeness for CCF? Do the requirements on the different data samples when observing a lack of representativeness impede your ability to model CCF portfolios?**

We do not have specific concerns. On the one hand we welcome under the principle of simplification, an easier requirement in terms of representativeness for the training sample. However, the training sample would in fact be subject to the full representativeness requirements. Indeed, the creation of out-of-sample testing datasets (as well as the out-of-time), where the full representativeness vis-à-vis the application portfolio is required, are usually derived as stratification of the training samples. Therefore, as a direct consequence, the training sample shall ensure a full representativeness with the application portfolio as well. In any case, we have not detected any suggestion that the requirements would impede the ability to model CCF portfolios.

**10. Do you have any concerns with linking the fixed CCF to the lack of historical data available to the institution in relation to the coverage by the RDS of material subsegments of the application portfolio? How is your institution currently treating these cases?**

We are strongly concerned by this. We deem that if there is a problem of modellability of a specific perimeter, the direct adoption of SA-CCF as a fallback solution (or at maximum as a floor on punctual CCF estimates) would be a fairer approach. Indeed, a 100% CCF for revolving commitments would be an abruptly conservative method compared to the 40% SA-CCF, thus also creating a situation of a significant unlevel playing field between IRB and SA institutions. Therefore, the fixed CCF approach raises strong concerns and is a completely disproportionate measure.

More specifically, for non-retail CCF models covering low default portfolios, due to low number of observations driven by low default rates, material subsegments of the application portfolio may be under-represented (or not present at all) in the historical default data. Before concluding that a fixed 100% CCF setting should be applied, we would assess qualitatively (and quantitatively to the extent possible) if the CCF data of other similar subsegments could be used as proxy for the estimation of a CCF best estimate and a MoC covering potential non-representativity concerns.

Furthermore, the introduction of the fixed CCF does not appear to be fully aligned with the provisions of CRR3 Article 166(8b), which explicitly permits the use of SA-CCF for exposures where the minimum requirements for estimating IRB-CCF, as outlined in Section 6, are not met (e.g., due to data scarcity).

**11. Are there any concerns with requiring consistency in the analysis of changes in the product mix with the institution's definition of facility? Are institutions able to identify and link contracts (partially) replacing other contracts where the closing or repayment of one contract is related to the origination of a new contract? Are institutions able to link new contracts that are originated after the reference date to related contracts existing at reference date? In particular, is it possible in the case contracts that are revolving commitments are replaced by contracts that are non-revolving commitments (e.g. by a term loan)?**

This point is a major concern in respect of this CP. If not addressed and changed it could create potentially disproportionate and economically implausible effects on the estimation of the CCF, leading to levels of CCF higher than 100% in several situations (this is an arithmetical effect due to inclusion of only revolving facilities in the denominator versus all facilities - also related to non-revolving product like term loans - in the numerator). In this regard, the five points listed in par. 56 of the Section BR of the EBA paper, defined in the optic to isolate "distressed financing", and which as such qualifies the new facilities as "related" to existing ones at reference date, will be almost always be present (for instance, the simple fact of originating new finance within the 12 months observation period would lead to activate point c. and even in the case of a decrease of the drawn amount of the existing facility at the moment of the origination of new one, it could be argued that there could be a partial transformation thus presuming a link between the two in any case). Therefore, although the paper leaves room for justifications even in presence of the five cases listed in par. 56, rebutting all the circumstances in the context of the preparation of the RDS would require a huge effort (since the definition of "related facilities" as retrievable from par. 56 is much broader than the link of product transformation that can occur in the usual context of restructuring measures) and still a wide room for interpretation would remain, leading in the context of an Internal Model Investigations to a more conservative drift by supervisors.

In more detail:

- With regard to the five cases listed in par. 56, the one related to a., b. and d. could be fairly considered as distressed financing with little room for interpretation and treated as related facilities (although, with reference to point d. it would be beneficial to set out clearer threshold, e.g. 3 months by benchmarking the 90 days period for the Past Due classification). Conversely, concerning cases c. and e., treating them systematically as "distressed financing" and accordingly as "related facilities" looks excessively conservative. Indeed, the detailed understanding of the impact of changes in customer product mix as required by Article 182(1)(h) of the CRR also entails that IRB-CCF models reflect the institution's current policies and strategies regarding account monitoring, including limit monitoring, and payment processing (as recalled in the same Article). In this vein, new finance granted to a customer under an ordinary approval process and not presenting any specific signals of deterioration (e.g. watchlist classification or poor rating) cannot be seen structurally as a related facility to the existing revolving one 12-months before the default even if triggering the case c (as said before, this would be triggered by definition since the outstanding debt corresponding to the drawn amount of the existing facilities and the outstanding debt would be always and logically increasing). Indeed, the RDS for CCF estimation is based only on the defaults and, even in a situation of properly performing rating models, it may occur that customers with no bad rating and no specific signals of risk may suddenly deteriorate at a certain point in time and go into default (indeed defaults could occur also on good ratings) but at the moment when the new finance was approved and granted, and based on all the information available in that moment, the customer was considered as an ordinary performing client: as such the new finance does not have any specific linkage with the existing revolving facilities (even more so if it related to a non-revolving facility).

- A different assumption can be made in case of substitution/consolidation of existing facilities into others. In instances of cases with terminated facilities and opening of new ones where the articulation of the overall facilities at the moment of a default looks in a similar or even lower number of facilities compared to reference date, the transformation/consolidation (as depicted in the Case IX at page 34 of the paper) may be assumed for the calculation of realized CCF.

Finally, we note the EBA is not consistent in the GLs when asking for consistency between application and estimation on fully drawn commitments, but the selection of perimeter does not ensure such consistency. Indeed, paragraph 60 on page 71 of the GLs implies notably that if the facility is non-revolving at reference date but it becomes revolving between 12 months before default and default, it is included in the IRBA CCF modelling perimeter. However, in the CCF application at a certain snapshot/reference date of RWA calculation, the bank cannot anticipate future change of product type for a specific facility and can only observe the product nature at snapshot/reference data. This would then be inconsistent with the CCF estimation.

**12. Do institutions consider it proportionate to the risks of underestimation of CCF to perform the identification analysis and allocation procedure? If it is deemed not proportional, what would be an alternative approach that is still compliant with Article 182(1b) CRR?**

As raised in the previous question, we see the risks of disproportionate overestimation of the CCF resulting from economically implausible estimations, thus impacting the credit risk parameters also used for the origination of new facilities.

An alternative approach that would still ensure full compliance with Article 182(1b) and particularly to “demonstrate to the competent authorities that they have a detailed understanding of the impact of changes in customer product mix” would be to state more explicitly that the justifications provided by banks to counter the presumption of “related facilities” shall be founded on:

- An assessment of classification of risk stemming from the monitoring process and rating assigned at the moment of new finance granted in order to let the bank to set out a clear criterion for differentiating what is qualifiable as “ordinary finance” from “distressed” one.
- Checks of the articulation of facilities at reference date vis-à-vis default date with the focused control on the presence of terminated facilities and issuance of new one during the 12-month period, e.g. by checking the consistency of the overall outstanding amount at client level before and after the change.
- to the extent possible (and likely for just non-retail perimeters), assessment of historical single file.

**13. Do you have any concerns on the proposed approach for the treatment of so-called ‘fast defaults’? In case you already apply a 12-month fixed-horizon approach, do you apply a different treatment for ‘fast defaults’ in practice, (and if so, which one)? Is the ‘fast default’ phenomenon material according to your experience? If yes, for which exposures, exposure classes or types of facilities?**

The current formulation of the paper with respect to the customer product profile (ref. to Questions 11 and 12) in effect nullifies their presence, since it leads to considering almost all situations of new finance as related facilities. Therefore, under the current framing of the paper, the fast defaults would be limited to new clients that migrate to default before 12 months.

Further, from a methodological standpoint, these fast defaults may introduce bias in model estimation due to their shorter default horizon compared to other defaults. It is not possible to quantify and therefore correct for this bias. As an illustrative mitigation proposal, when this occurs, we propose for instance that fast defaults only be included in the scope if these defaults are common. For example, if the number of fast defaults exceed a certain percentage of the default observations.

Regarding the 12-month fixed-horizon approach, we consider it is more appropriate to provide additional flexibility by allowing the use of variable time-horizon approach at least for risk differentiation. This variable time-horizon approach more accurately captures client behavior between 12-month prior default and date of default, making it better suited for modeling CCF in low-default portfolios and consistent with the flexibility offered in the Guidelines on PD and LGD estimation (EBA-GL-2017-16).

**14. Do you have any concerns on the multiple default treatment? To what extent are your current models impacted by the application of a multiple default treatment?**

We do not have concerns – we deem that aligning the treatment to LGD one is the most logical criterion. Clearly this would have an impact when reviewing the models since the EGIM currently sets different expectations. It will be necessary for the ECB to review and align to the new EBA GL.

**15. Do you agree with the three principles for the calculation for realised CCF in the context of consumer product mix, and their implications for the cases mentioned as examples? In case of disagreement, what is the materiality of the cases with unwarranted results, in particular in relation with the definition of facility applied in your institution? In case of material unwarranted results, can you describe your alternative practice to this CP?**

The principles are overall understandable from a purely conceptual standpoint, however the calculation of realized CCF is strongly conditioned by previous requirements on the detailed understanding on the customer product mix (thus it is made the reference to in Questions 11 and 12).

In addition, we would like also to raise a point of attention regarding one case that is not covered in the examples provided. The cases listed in page 31-34 embed the situation of product mix/transformation covering revolving and term loans, however, there are revolving facilities (like the Multipurpose Credit Lines - MPCLs) that also embed the inherent possibility of product transformation from revolving to contingent liabilities (e.g. financial or trade guarantees). Specifically, the MPCLs may be drawn not only as pure cash (thus with a classical conversion from undrawn to drawn) but also from undrawn to guarantee. This means, following the three principles, and the requirement of “disaggregation” set out in par. 9 of the Section BR, that in the case of MPCL with already drawn amount as guarantees, this part shall be removed from CCF realization meaning both from drawn amount and limit amount. However, in case the previously drawn contingent liabilities/guarantee are executed thus converting as on-balance, they will contribute to increasing the cash drawdown with unplausible effects on the CCF realization (in other words they would contribute to the numerator but not to the denominator).

Therefore, we deem that the impact of contingent liabilities (not covered in the EBA paper examples) should be introduced and set out further (in particular the principles c. of the part 79 in the Section BR of EBA paper should also into account non-revolving items different from term loans).

See the following illustrative example:

- Limit of MPCL = 100 at T-12
- Drawn at T-12
  - o 50 Cash
  - o 20 Financial Guarantees (for sake of simplicity falling under Full Risk attracting SA-CCF = 100% according to Annex I CRR3)
- Undrawn at T-12 = 30

Within T-12 and T the 20 Guarantees are executed and converted to cash thus contributing to the 110 OBS at time of default T.



The following example shows the calculation of the CCF1 and consequent EAD1 in application according to the current frame of the EBA GL, whereas CCF2/EAD2 reports, in our opinion, the alternative calculation. Specifically under CCF1 the 20 guarantees shall be excluded from the denominator (that would be equal to 30 undrawn amount despite the 20 would be still an off-balance item at that moment) but in the numerator the 20 of drawn guarantees meantime executed will contribute to the 110 of OBS at default time T leading to 200% CCF  $((110-50)/30)$  and, in the stylized example of application, to EAD1 of 130  $(=200\%*30+50+20*100\%)$ .

However, and also pursuant to principle c. of par. 79 of Section BR of EBA paper applied to the contingent liabilities instead of term loans, the Drawn Guarantees amount, in case of conversion, shall be excluded from the 110 (i.e. from the numerator) otherwise we would be considering in the CCF estimation a non-revolving item already present at time T and we would have a double counting in application (20 Delta EAD in this stylized example) stemming from inflated CCF combined with adoption of SA-CCF on contingent liabilities in the application. Specifically, the CCF2 should be equal to 133%  $(110-20-50)/30$  with and EAD2 in application of 110  $(133\%*30+50+20*100\%)$ .

Based on the product features and the representation of such products in data, it should be up to the banks to determine their allocation methodology to ensure consistency between CCF numerator and CCF denominator and detail in procedures such allocation methodologies used in case of product mix or product transformation. Such allocation methods should be in line with the bank's granting process and monitoring of facilities.

**16. Are there any concerns related to the allocation mechanism described in these GL?**

The approach remains overly generic and likely to lead to conservative interpretations in the context of Internal Model Investigations. In particular, the case IX would require further elaboration in the approach of allocation: indeed, looking at that example the logical conclusion would be that out of the 200 outstanding of the Instruments X-A 150 are related to Terms Loans I-A and 50 to Revolving Instruments II-A (thus leading to a CCF = 0% that in this specific example would make absolutely sense). Therefore, the approach based on the outstanding/drawn amount of the consolidated facilities seems to be the most logical approach.

**17. Where credit lines are kept open even if the facility is in default, the alternative option described in this consultation box could lead to high realised CCF values. Is this a relevant element for your institution and if yes, why and how material are these cases within the scope of IRB-CCF models?**

The approach of the EBA could make sense from an economic perspective. Nonetheless it would require a review of the LGD models to ensure consistency. We would note an approach for applying the drawings would clearly lead to different levels of IRB-CCF, therefore it has a material impact also because default cases under going-concerns are very common in a credit portfolio. The netting approach described in the consultation box could be an alternative approach that would lead to a higher CCF compared to the maximum drawing approach, but also lower LGD since the netting would not subtract repayment from recoveries considered in the LGD to the same level as the maximum drawing approach. Regardless of this, the approach for the treatment of drawings should be consistent on the LGD side and we do not see the need to strictly prescribe one approach but allow having three permissible approaches (maximum drawings, monthly/quarterly netting and even the punctual drawing) to the extent that the treatment of repayment is fully consistent in respect of the LGD. In this regard, it has to be noted that on the LGD side, the ECB in the EGIM has required the calculation of LGD to be based on punctual recovery detection (thus leading consistently also to punctual recognition of drawings). Therefore, the EBA statement that punctual drawing approach is prone to create counter-intuitive results could be debatable since it is based on empirical evidence and leading in case of higher exposures to lower LGD (that is not an implausible connection). In any case, besides ensuring alignment between the EBA GLs and EGIM, the key pillar is the consistency of the treatment among CCF and LGD: insofar as this is ensured, it should be possible to permit different approaches for drawings after default.

**18. In case of multiple defaults, the CCF might also be driven by drawings while the obligor was in its default probation period or in the dependence period between the merged defaults. Do you expect this to be material for your CCF models?**

This effect may be relevant considering that in the course of the probation / dependence period the customer is essentially like-performing. Even in presence of higher drawings it is expected to also have higher recoveries from repayment on the LGD side (as per answer to Q17).

**19. Do you see any unwarranted consequences of the proposed approach for incorporating additional drawings after default? In particular, in order to maintain consistency between the realised CCF calculation and the calculation of the denominator of the realised LGD as described in paragraph 140 of the GL PD and LGD, would this require a redevelopment of your LGD models?**

As per our answer to Q17, pursuant to the current EGIM the supervisory approach was focused on the punctual drawing approach. Therefore, if the EBA GL pursues one prescriptive approach it will likely create the need for a material revision of banks' LGD models since the change, which impacts the calculation of the target variable, is not only prone to affect the risk quantification but also risk differentiation (especially given the link of the risk driver related to exposure size, which usually turns out to be a relevant risk differentiation factor). Therefore, since the key topic is to ensure the consistency between CCF and LGD, we think it is best to keep a spectrum of permissible approaches.

Nonetheless, some members have the following concern with the EBA's proposed approach, which could significantly increase modelling complexity and uncertainty.

It's noted this requirement introduces a dependency between LGD and CCF model development because it requires a recalculation of realised LGD considering the expected future drawings estimated within CCF model development. It is going to be very hard to implement this requirement because:

- 1) LGD and CCF models may not be developed at the same time; and
- 2) the definition of facility (which seems to be the level at which expected future drawings should be forecasted) may be different between LGD and CCF models, so further allocation mechanisms should be introduced.

Also, CCF models have a narrower scope with regard to LGD models as they cover revolving commitments only.

**20. Do you think that the relative threshold is an appropriate approach to restrict the use of the alternative CCF approach for those facilities in the region of instability? Do you think it is appropriate to define a single relative threshold per rating system or are there circumstances where multiple relative thresholds would be warranted? Do you see a need to use an absolute threshold in addition to the relative thresholds?**

The relative threshold based on utilization rate is an appropriate metric for the purposes of defining the region of instability and it would be best to grant institutions, given the specification of the local portfolios, the possibility to identify different thresholds under a structured approach defined according to the regulatory requirement set out by the GL. We also support complementing the utilization rate with also an absolute threshold to more effectively manage the small limits.

There could be circumstances (e.g. very different product types in the same portfolio) where multiple relative thresholds (e.g. one per calibration segment) would provide more effective protection against realised CCF outliers in the region of instability.

We would see the need to use an absolute threshold in addition to a relative threshold, to better isolate the instability resulting from small free limits, where banks' current CCF models are

based on this approach. To be noted that, depending on the type of portfolios, we could use either absolute or relative threshold or both of them.

Also related to CCFs in the ROI, we observe that paragraph 322(c) of the 2025 EGIM is typically interpreted as prohibiting statistical outlier treatment for risk quantification. We propose that the EBA clarifies that basic statistical techniques, such as the treatment of outliers using percentile or absolute caps, may be used to improve the robustness of risk quantification levels, especially in the ROI.

**21. Do you consider the guidance sufficiently clear in relation to the requirement for institutions to set up a policy to define a threshold value?**

Yes.

**22. Do you consider it appropriate to set a prescribed level or range for the de-fined threshold, and if so, what would be an appropriate level for the threshold? In case an absolute threshold is warranted, what would be an appropriate prescribed level for an absolute threshold?**

We consider it more appropriate not to set a predefined threshold but rather to set out a more flexible harmonised approach in the GLs which can be applied for calibrating the most representative threshold on the local portfolio of the institution.

Moreover, it would also be hard to quantify a range (even more so a level) that is appropriate for all portfolios / segments.

**23. Do you think that, for the facilities in the region of instability, and/or for fully drawn revolving commitments, a single approach should be prescribed (e.g. one of the approaches above defined in the Basel III framework), or that more flexibility is necessary for institutions to use different approaches they deem most appropriate for these facilities?**

We think the Limit Factor as reported in the GL, is a good approach considering that this metric would represent the target variable for the EAD estimation within the region of instability. As such, for CCF we support setting it out as one of the approaches for calculating the target variable, but we don't think this has to be the only approach if institutions have used a different metric within the three proposed by Basel or adapted one of the Basel approaches.

**24. If such flexibility is indeed warranted, what is the technical argumentation why prescribing a single alternative approach for these facilities is not suitable? Which cases or which types of revolving commitments could not be modelled under the approaches prescribed? Are there types of revolving commitments that could not be modelled by any of the approaches described in the Basel III framework?**

As mentioned in answer to the previous question, it would be relevant to allow use of other Basel approaches or adaptation of such approaches. As a reminder, Basel approaches consist of:

- Limit Factor approach: the predicted balance at default is expressed as a percentage of the total limit that is available to the obligor under the terms and conditions of a credit facility.
- Balance Factor approach: the predicted balance at default is expressed as a percentage of the current balance that has been drawn down under a credit facility.
- Additional Utilisation Factor approach: the predicted additional drawings in the lead-up to default are expressed as a percentage of the total limit that is available to the obligor under the terms and conditions of a credit facility.

Each Basel approach may raise the following issues in the calculation:

- The Basel approaches were not written in the context of a 12-month fixed horizon approach. However, one strong assumption is the reference date especially for the denominator in the calculation of each factor. Such reference date is 12 months before default, thus when applying the Basel approaches, the denominator is the drawn/balance amount or total limit at the reference date. However, the drawn/balance amounts or total limit amounts could evolve 12 months before default and the default (thus with a mismatch with amounts in the numerator). Such asymmetry between the numerator and the denominator is structurally an issue in all Basel approaches.
- Low total limits at reference date could create extreme values in the calculation under the Limit Factor and Additional Utilisation Factor approaches as the denominator is rather low.
- The Balance Factor approach could create instability issues due to the denominator being the drawn/balance amount at reference date, which could be disconnected with the drawn/balance amount at default date.

We describe below relevant adaptations of Basel approaches that banks could think of to illustrate the issues encountered (rather than supporting them as a prescriptive approach):

- In the Additional Utilisation Factor approach for instance, we understand that the calculation of an Additional Utilisation Factor is necessary (being the predicted additional drawings in the lead-up to default calculated as the difference in the drawn amount between default date and reference date, divided by the total limit at reference date). However, to circumvent issues related to low limits, we could express directly the EAD as the drawn amount at reference date + an additional drawing factor. Thus, the EAD will be an equivalent to what appears in the CCF numerator.
- Another way to circumvent the challenges could be to simplify significantly the approach where the scope is rather limited. In this case, we can think of expressing the EAD as the drawn amount at reference date + X amount. The X amount could be either calibrated or a fixed value.

As there could be different ways to best estimate the calculation depending on the cases as illustrated above, we would favour the EBA providing sufficient flexibility (use of Basel approaches or adaptations) in the calculation approaches in the Region of Instability so that banks can take the most relevant approach for their portfolios.

**25. Which of the three approaches described in the Basel III framework is preferred in case a single approach would be prescribed?**

Members did not see an advantage of any metric over another although it was noted the Limit Factor allows banks to get a direct estimate of EAD and it is reconcilable with CCF definition expected for the drawn amount at reference date at numerator and denominator.

**26. For the purpose of the long run average calculation, are there any situations where such intermediate exposure weighted averaging at obligor level would lead to a different outcome (that is unbiased) with regard to the CCF estimation? How material is this for your portfolio?**

This situation may occur in the case of facilities related to the same obligor falling within the same pool or grade. In general, we deem that the pure number-weighted average is acceptable, and we do not see the strict need to have this intermediate step. On this we highlight that current ECB EGIM takes a different approach (even if only for LGD but essentially and logically this is also extendable to CCF). The averaging shall be consistent between LGD and EAD.

Regarding Par 91(b), This requirement introduces a dependency between LGD and CCF model development because the maximum period of the recovery process (MRP) is defined within LGD model development, typically on LGD calibration segment or grade level. It is going to be very hard to incorporate the MRP into a CCF model because there could be 1) different definition of facility with regard to LGD model, 2) CCF segmentation level may be different from LGD segmentation level, 3) CCF grades may be different from LGD grades.

Assuming that the model to forecast expected future drawings for CCF is time-dependent (i.e. the higher is time since default, the lower are the forecasted drawings relative to drawn amount at default), then this requirement should not have material impact because incomplete defaults beyond the MRP typically have high time since default. Given low expected materiality and high complexity due to interdependence between LGD and CCF models, we would suggest reconsidering the requirement.

**27. Do you have any comments on the condition set to use the simple approach to estimate additional drawings after default. Do you consider that the simple approach is also relevant for retail portfolios?**

If one could demonstrate that 1) "internal risk management policies in place restrict additional drawings shortly after default" and 2) "low share of observed additional drawings after default" in the RDS, then we would not see issues preventing the use of the simple approach also for retail portfolios. The main benefit would be reducing model complexity without compromising conservativeness.

**It was considered that requiring institutions to exclude unresolved cases from the long run average CCF, if their realised CCF is lower than the LRA of the corresponding facility grade, could be seen as too conservative. Do you have any comments on this treatment introduced in the simple approach? Do you have specific examples when this treatment would not be appropriate?** We deem that excluding these cases from LRA calculation would not be in line with the CRR requirement set out in Article 182 to consider "all defaults", thus going beyond the level 1 text. Furthermore, the conditions for the application of the simple approach (on non-retail perimeter) are:

- Low materiality of these cases; or
- Presence of policies clearly restricting the possibility to draw after default.

Therefore, under the first condition, including or excluding them from the LRA should not generate significant effect in any case. Whereas, if the second condition applies, they should be kept for sake of representativeness of the estimation with the local process. As such, excluding this case is incorrect from a methodological standpoint.

**28. Do you have any comments on the modelling approach to estimate additional drawings after default for unresolved cases?**

The modelling approach essentially mirrors the logic and the steps foreseen by EBA GL on PD-LGD estimation for the open default on the LGD side. We note that the approach constitutes quite a significant layer of complexity in the estimation given it will also have an effect on LGD as well when it comes to open cases inference on those parameters. Hence, we would support the EBA leaving various possibilities for banks. A simpler approach may be considered (e.g. checking the long run on closed and substantially closed cases and given the realized drawings on still open default rescaling the inferred amount thus not including too many layers of complexity in this process).

Indeed, the implementation of the EBA's approach raises strong operational issues. Banks' current LGD and CCF models are currently developed with possible misalignment between LGD and CCF calculation granularities. Hence, one issue relates to mapping if banks were to reuse extrapolation from LGD model line by line. Moreover, as CCF grades are not defined on the same basis as LGD, the mapping for the maximum recovery period could be difficult when it is calibrated by LGD grades for example. One additional difficulty is that the LGD is developed for revolving and non-revolving lines which adds complexity. If banks were to use extrapolated AD estimates both for CCF and LGD as requested by EBA, this could imply redeveloping LGD models.

In our view, the key difference is that recoveries are naturally expected to materialise after default, hence, it makes sense to perform forecasts for unresolved cases. Conversely, drawings after default occur less often, esp. for portfolios where limits are actively managed and possibly cancelled upon or shortly after default. Overall, the requirement to develop an approach to forecast drawings after default for unresolved cases could be seen as significantly increasing modelling complexity and effort. Regardless of the portfolio being retail or non-retail, if one could demonstrate that 1) "internal risk management policies in place restrict additional drawings shortly after default" and 2) "low share of observed additional drawings after default" in the RDS, then we would welcome the possibility to use the "simple approach" and focus modelling effort on more material areas.

Another simpler approach may also be considered (e.g. checking the long run on closed and substantially closed cases and given the realized drawings on still open default rescaling the inferred amount thus not including too many layers of complexity in this process).

Another approach is for the EBA to clarify the governance to avoid unduly burdensome operational costs, by leaving the possibility that a modelling approach used for EAD redevelopment changing the additional drawing estimate does not require an LGD redevelopment and vice-versa. In other words, the modelling approach used to estimate additional drawings for unresolved cases can be at some point disconnected between LGD and CCF.

## **29. Do you have any concerns with the requirement to use as a maximum drawing period the maximum recovery period set for LGD?**

**Some members noted the following concerns:**

- The MRP used on LGD side is not deemed representative of a maximum drawing period. Indeed, the MRP is based on historical observations of exposures that have migrated to Liquidation status where the credit lines are terminated, and no additional drawings are possible. From a theoretical standpoint a dedicated maximum drawings period estimation would be needed based on the realizations of drawings observable only on period before the Liquidation status (when the customer is still in a going concern situation).
- This requirement introduces a dependency between LGD and CCF model development because the maximum period of the recovery process (MRP) is defined within LGD model development, typically on LGD calibration segment or grade level. It is going to be very hard to incorporate the MRP into a CCF model because there could be:
  - 1) different definition of facility with regard to LGD model,
  - 2) CCF segmentation level may be different from LGD segmentation level,
  - 3) CCF grades may be different from LGD grades.
- Under the reasonable assumption that the model to forecast expected future drawings for CCF is time-dependent (i.e. the higher is time since default, the lower are the forecasted drawings relative to drawn amount at default), then this requirement should not have material impact because incomplete defaults beyond the MRP have high time since default. Given low expected materiality and high complexity due to interdependency between LGD and CCF models, we would suggest dropping the requirement.
- It means that one internal model estimate is directly used as input for another (estimated additional drawings for unresolved cases becomes part of LGD, while the estimated maximum workout period becomes part of EAD model). In this respect the EBA could clarify the governance to avoid unduly burdensome operational costs – i.e. an EAD redevelopment changing the additional drawing estimate doesn't require an LGD redevelopment as well, and vice-versa.

On the other hand, some members welcomed the simplification and improved alignment due to using a maximum drawing period consistent with the MRP.

**30. For CCF estimation, do you use estimation methods that incorporate portfolio-level-calibration of the estimates? What are the main reasons to use a calibration at a level that is higher than the grade-level calibration?**

The main reason for a portfolio level calibration is the low number of datapoints available for the development of non-retail CCF models covering low default portfolios.

For firms that have CCF models based on portfolio-level calibration of the estimates, but where risk levels are materially different for homogenous pools within a portfolio and that also aligns with business intuition, the calibration segments may be typically defined at a lower level than the portfolio level. However, such firms typically avoid having too many calibration segments because of:

- (i) Model complexity considerations: The requirement to assess downturn and margin of conservatism at the calibration segment level increase model complexity as the number of segments increase.
- (ii) Limited observations: The number of observations per segment decreases as the number of segments increases especially for non-retail portfolios, and
- (iii) Artificial increase in RWAs: Having a too granular calibration segmentation may overstate RWAs due to the increased estimation error (and therefore larger MoC) when using many small pools compared to a few large pools.

It should be noted that it is also possible to define a calibration segment higher than the grade level and still be able to calibrate to the grade-level using e.g. a utilization/grade-linked calibration function. In such a setup firms have experienced conflict with assessment teams and request that EBA clarifies if such approach is acceptable, i.e. when calibrating to grade levels within a calibration segment using a calibration function, it should not be interpreted as having separate calibration segments for every grade level.

**31. Do you have any comments on the guidance for the CCF estimation of default-ed exposures?**

CRR lays down a specific RW formula for defaulted assets with the use of LGD-in-default (articles 153.1 and 154.1) which justifies that EBA clarifies LGDD requirements in EBA GL on PD-LGD estimation. When writing the GL on CCF estimation, we understand that the EBA has derived an approach for a CCF-in-default from what is required for LGD-in-default. However, contrary to LGD, CRR3 does not introduce any distinction in exposure value between defaulted and non-defaulted exposures (Article 166). Indeed, the same Articles 153(1) and 154(1) of CRR detail RWA for both non-defaulted and defaulted exposures with the same formula: Risk – weighted exposure amount =  $RW \cdot \text{exposure value}$ . Exposure value is determined by Article 166 which does not differentiate the CCF between defaulted and non-defaulted assets. There is also no such differentiation in the determination of EL as per article 158(5), with implicit reference to Article 166 for the definition of exposure value. Ultimately, SA-CCF are not differentiated between defaulted and non-defaulted exposures. Thus, we do not see any ground for the EBA to create a CCF-in-default. Our view is that we comply with CRR when we use performing CCF for all defaulted exposures for retail and non-retail exposures.

Indeed, introducing CCF-in-default models would introduce unwelcome complexity in the model landscape and challenges on some portfolios to retrieve sufficient data to model CCF-in-default. Moreover, there is a lack of proportionality with regards to the concerned IRBA CCF portfolio which is restricted to revolving commitments (with no mandatory IRBF in CRR3).

Overall, the requirement to develop a CCF in-default model based on the "modelling approach" significantly increases complexity and effort in an area that, for many portfolios, may not be very material because limits get cancelled upon or shortly after default. Regardless of the port-

folio being retail or non-retail, if one could demonstrate that 1) "internal risk management policies in place restrict additional drawings shortly after default" and 2) "low share of observed additional drawings after default" in the RDS, then we would welcome the possibility to use the "simple approach" for the CCF in-default model and focus modelling effort on more material areas.

**32. Do you have any comments on the determination of the low share of observed additional drawings after default in the historical observation period relative to the observed undrawn amount at default date? Do you consider it appropriate to set a prescribed threshold to determine what constitutes this low share? If so, what would be an appropriate value for such a materiality threshold?**

We do not consider it appropriate to set a prescribed threshold because it is hard to quantify and would not fit all portfolios / segments. Rather than a prescribed threshold, the adoption of the simple approach could be linked to the adoption of the simple approach on open default considering that the underlying reasons (i.e. limited materiality of the phenomenon and/or restrictive policies on additional drawings).

**33. Are there examples where the haircut approach should be considered the most appropriate approach for estimating the downturn CCF?**

We do not have specific examples for the adoption of a haircut approach. In case of an estimated downturn approach being needed, extrapolation seems to be more suitable.

**34. Do you think the add-on of 15 percentage points is adequately calibrated when the downturn impact cannot be observed nor estimated? Could you provide clear examples or reasons why this add-on should be higher or lower than 15 percentage points?**

As highlighted in the past consultation on EBA GL on PD-LGD estimation, the 15% add-on is a fallback approach expected to be adopted in very exceptional circumstances.

The 15pp add-on, in the context of CCF seems arbitrary, and cannot be verified internally by a bank. It can only potentially be tested using industry-wide realized CCF time-series data to determine an industry-average CCF increase over typical downturn periods. We also expect that such an add-on should vary with the available headroom, for example a 15% add-on would be overly penal for a nearly fully drawn commitment. Therefore, a fixed percentage add-on is too simplistic.

**35. Have you observed, or do you expect a (statistically significant) correlation between economic indicators and realised CCFs? If so, do you expect higher or lower levels of CCFs observed in the downturn periods compared to the rest of the cycle? Do you have policies in place that restrict or, on the other hand, relax the drawing possibilities in the downturn periods?**

In a downturn period it's not unusual to observe higher drawdown of the lines. Thus, a downturn effect could concretely exist. However, it is not implausible either that in a period of downturn there could be a worsening of the asset quality leading to proactive credit management and consequent reduction of the line, that can even lead to negative realized CCFs subsequently floored to 0% for the calculation of the LRA CCF. In this regard, it is relevant to highlight that the adoption of floor to 0% to the promptly realized CCF will lead to higher baseline LRA CCF and consequently to a lower relative increase in the Downturn CCF over the LRA.

**Clarity is also requested on whether the downturn CCFs should be floored (or not)** since this has been a recent point of contention with supervisory assessment teams. Our view is that the downturn CCFs should not be floored for:

- (i) Testing the relationship with macroeconomic variables, and
- (ii) Assessing the downturn impact.



It is understood that these guidelines must align with the CRR3 which introduced the flooring of the CCF LRA. However, it should also be acknowledged that negative credit conversion is not an unusual occurrence (in contrast to negative losses for LGD from where this flooring may have been borrowed). Negative CCFs are often linked to effective risk management activities to reduce exposure and credit conversion during economic downturns. Flooring the downturn CCFs will therefore weaken the observed link with macroeconomic factors and penalize banks for their effective risk management.

**36. The possibility to have no downturn effect on CCF estimates is restricted to the case where observations are available during a downturn period. Which alternative methodologies could be used to prove the non-existence of a downturn effect on CCF estimates, in the case where no observation is available during a downturn period?**

An analysis of the statistical significance of economic factors on the available time series corroborated with expert evidence and assessment of policy rules could be a possible approach to argue the absence of downturn period even if not observable in the time series. In any case, considering the period of downturn usually relevant at a European level, observations for at least one of them should be available and the observed downturn approach should be usually applicable.

As indicated by CRR 2021/930, downturn period is defined consistently for LGD and CCF. Given a certain sequencing of the necessary analysis to obtain final downturn estimates (definition of the impacted years, comparison with reference value...), we would like to highlight the need for the outcomes of such analysis to remain the best estimates rather than conservative estimates. In this perspective, given a certain complexity when combining all the sequences of the analysis for LGD and CCF, we are not immune to reaching a conclusion which will not provide the downturn best estimates. Thus, we fully encourage the EBA to provide backstops in the GL which ensure that downturn impact cannot solely be based on both highest LGD and highest CCF without connection to the downturn period.

**Additional comments on Article 182 (1)**

As noted in our introductory comments Article 182(1) of the CRR introduced in CRR3 and the requirement to zero-floor observed credit-conversion factors (CCFs) for risk quantification presents a number of significant challenges as follows:

1. Increased Conservatism Reduces Risk Sensitivity:

The introduction of additional conservatism artificially inflates the CCF risk level, thereby diminishing the risk sensitivity of the estimates. This outcome contradicts a core objective of risk sensitivity as outlined in BCBS 258<sup>2</sup>, one of the foundational documents underpinning the Basel III reforms. Since CRR3 and its related guidance aim to align with these reforms, the reduced sensitivity represents a misalignment with the original regulatory intent.

2. Dilutes impact of effective risk management and ignores product-specific characteristics:

Negative CCFs do not necessarily indicate poor data quality. They are attributable to product-specific features and credit management processes. Applying a zero-floor at default observation level to these values dilutes the impact of effective limit management. Notably, CRR3 acknowledges the validity of negative conversion factors for risk differentiation purposes. This suggests that while their economic relevance is recognized for distinguishing risk profiles, it is disregarded in the quantification of risk, leading to an inconsistent treatment.

3. Negative impact on Use Test:

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<sup>2</sup> BCBS, *The regulatory framework: balancing risk sensitivity, simplicity and comparability*, July 2013.

Where institutions intend to use the best-estimate from IRB-CCF model for other internal purposes, the zero-flooring may have a negative impact as the best-estimate does no longer reflect the true best estimate. Consequently, institutions may need to develop parallel models for non-capital purposes and invest additional effort to justify any deviations from the regulatory parameters.

If the original objective was to avoid situations where the predicted IRB-EAD is less than the outstanding amount at the observation date, a more suitable approach would be to apply an output floor rather than the current input floor, already referred to in the BCBS document of 2004<sup>3</sup>: *“For on-balance sheet items, banks must estimate EAD at no less than the current drawn amount [...]”*.

Please also refer to a recent position paper by the Association of Italian Financial Industry Risk Managers, which provides a more detailed analysis of this topic: [2025-Position-Paper-50-CCF.pdf](#)

We would ask the EBA to take these concerns and proposals into account for consideration in future revisions of the CRR

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<sup>3</sup> BCBS, *International Convergence of Capital Measurement and Capital Standards*, June 2004.