Public Hearing: Consultation on Guidelines on Credit Conversion Factor estimation

EBA Prudential Regulation and Supervisory Policy

Virtual meeting, 3 September 2025

Ground rules for this virtual meeting.

Mic and video off

Please keep yourself muted and the video off while listening.

Questions/comments?

Please use the chat or raise your hand to ask for the floor.

Slides on EBA website

The presentation used today will be made available on the EBA's website after this hearing.

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EBA Roadmap on CR mandates under CRR3

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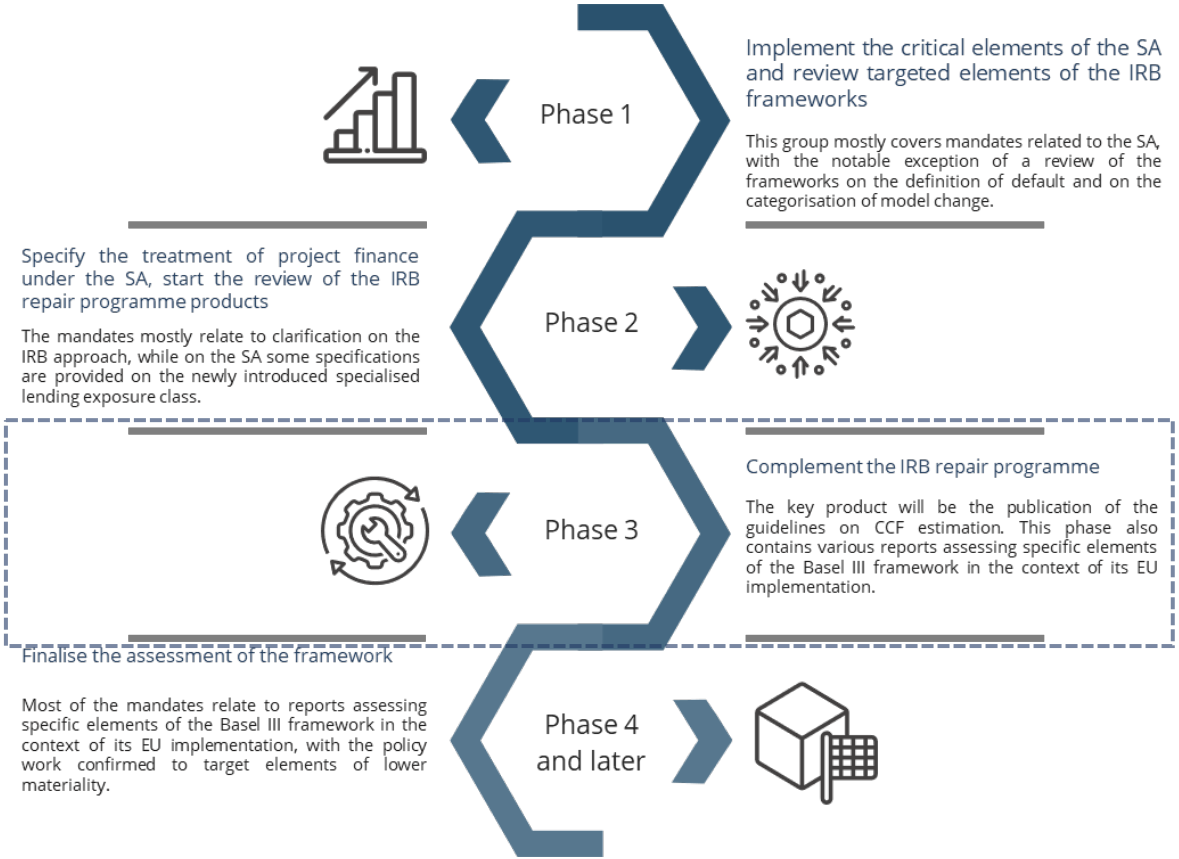
EBA Roadmap – Overview CR



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02

Overview of new CCF guidance

Legal Basis for Guidelines

Article 182(5) provides a legal mandate to EBA to publish Guidelines on Credit Conversion factor estimation under the A-IRB approach.

Institutions apply a risk weight (RW) to exposure values, and for off-balance sheet items, calculate exposure using a credit conversion factor (CCF), which can be standardized (SA-CCF) or modeled under IRB with supervisory approval. The EBA is mandated to provide guidance to specify the methodology institutions shall apply for the own estimation and application of CCFs, i.e. the IRB-CCF GL.

Finalization of IRB repair program.

The new EBA Guidelines for IRB-CCF estimation follow CRR3 updates and act as a finalization of the IRB repair program, now that regulatory requirements on CCF have stabilized.

CP contains questionnaire to test proportionality and materiality of policy choices

- The CP on the GL on CCF includes **questions on the proportionality and materiality of the policy choices**.

- The EBA welcomes feedback on the detailed questions in the CP, as well as on whether these proposed guidelines reflects appropriately **the balance between consistency with existing regulation and the simplification of the CCF estimation approach** where the risk of underestimation is low.

Aim to ensure coherence across risk parameters in IRB, promoting a stable modelling landscape

- **Leverage on existing Guidance:**
  - PD and LGD GL: e.g., margin of conservatism (MoC), review of estimates, modelling approach for in-default CCF and downturn CCF.
  - EBA's Validation handbook: model testing expectations.
- **Scope of IRB-CCF:** clarify relevant concepts of undrawn revolving commitments
- **Updated approach for representativeness**: framework is simplified, to facilitate sound and feasible practices
- **New CCF-Specific guidance:** the definition of realized CCF, aims for consistency with LGD estimation.
- **Optional simplified approaches:** additional drawings after default, in-default CCF, downturn CCF, fixed CCF.

Overview of Guidelines

Chapter 4 – Framework for CCF estimation and application

- Section 4.1: Principles for specifying the range of application of rating systems
- Section 4.2: CCF estimation methodologies
- Section 4.3: Human judgment in estimation of risk parameters

Chapter 5 – Data requirements

- Section 5.1: Data governance
- Section 5.2: Construction and storage of modelling data
- Section 5.3: Representativeness
- Section 5.4: Data structure for the CCF estimation
- Section 5.5: Calculation of realised CCFs

Chapter 6 – Risk differentiation

- Section 6.1: Risk driver selection
- Section 6.2: Testing model performance

Chapter 7 – Risk quantification

- Section 7.1: Calculation of the long run average
- Section 7.2: CCF Calibration

Chapter 8 – CCF for Defaulted exposures

- Section 8.1: General requirements specific to CCF in-default estimation
- Section 8.2: Simple approach for in-default CCF estimates
- Section 8.3: Modelling approach for in-default CCF estimates

Chapter 9 – Treatment of Deficiencies and Margin of Conservatism

- Section 9.1: Identification of deficiencies
- Section 9.2: Appropriate adjustment
- Section 9.3: Margin of Conservatism

Chapter 10 – Downturn CCF

- Section 10.1: General requirements for the downturn CCF estimation
- Section 10.2: Requirements that apply to the final downturn CCF estimates
- Section 10.3: Downturn CCF estimation for defaulted exposures
- Section 10.4: Downturn CCF estimation for a considered downturn period
- Section 10.5: Reference Value

Chapter 11 – Application of the risk parameters

- Section 11.1: Conservatism in the application of risk parameters
- Section 11.2: Human judgment in the application of risk parameters
- Section 11.3: Use test

Chapter 12 – Review of estimates

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This presentation highlights several key topics where feedback is especially welcome to ensure robust and proportional requirements.

03

Scope of IRB-CCF

Scope of IRB-CCF - revolving commitments

CRR 3: modelling restricted to ‘undrawn revolving commitments' (Art. 166(8b)).

GL: (1) Specify each 3 terms of CRR 3, (2) require consistency between scope of estimation and scope of application (i.e. RDS construction consistent with portfolio of application), (3) provide specific clarifications

1. **Binding offers:** contractual arrangements offered by an institution, but not yet accepted by the client, that would become commitments if accepted by the client, may increase exposure at default.
2. **Unadvised limits:** the absence of formal acceptance of the unadvised limit by the client should not prevent the institution from modelling such unadvised limit.
3. **Revolving products with contractual clauses:** the revolving nature is not invalidated by the following clauses: (i) the outstanding balance is scheduled to be repaid in full on fixed due dates on an interval basis; (ii) there are contractual fees or (higher) interest rates pertaining to the drawing and repayment of the commitment; (iii) there is a duration after which the commitment matures, or the revolving nature expires.
4. **Fully drawn facilities:** fully drawn up to their limit at application date may still increase exposure at default ==> should be treated as 'almost fully drawn facilities'

04

Representativeness framework

Representativeness: updated general framework

1. **Differentiation between development and testing sample:**
   - The PD and LGD GL differentiate between the data used for development and quantification.
   - CCF GL, further differentiation between the development and the testing sample.

2. **Implications of lack of representativeness differs across the three datasets:**
   - **Development sample**: this is subordinate to the actual model performance.
     - If the model performance is appropriate → may not be required to make adjustments.
     - if the model performance is weak → redevelop the model / select different sample.
   - **Testing sample** → data adjustments (e.g., by selecting a different testing sample).
   - **Quantification sample**: → appropriate adjustments and the incorporation of a margin of conservatism.

3. **Expected future changes in the structure of the application portfolio:**
   - Product type becoming more material in the application portfolio but not yet reflected in the default data.→ take into account future changes by making a positive appropriate adjustment and apply a corresponding MoC. Human judgment may be applied in the application of the parameters.

Representativeness: dimensions to analyse

Several existing dimensions are clarified:

1. Definition of Default
2. Scope of application
3. Internal policies and external factors
4. Economic or market conditions

One dimension relates to an inherent lack of historical data available to the institution

5. Material subsegment of the application portfolio

   subsegments of application portfolio without sufficient default observations to test model performance.

   → limited possibilities to select a different data sample or to use a different development approach to solve the issue. Allowed to apply the fixed CCF.

05

Realised CCF

Customer product profile and definition of facility

CRR3 definition of facility and CCF estimation:

- For estimation and application, one single CCF per facility (also when there are several revolving limits).
- A facility is defined at either the level of a single contract or at a set of contracts.

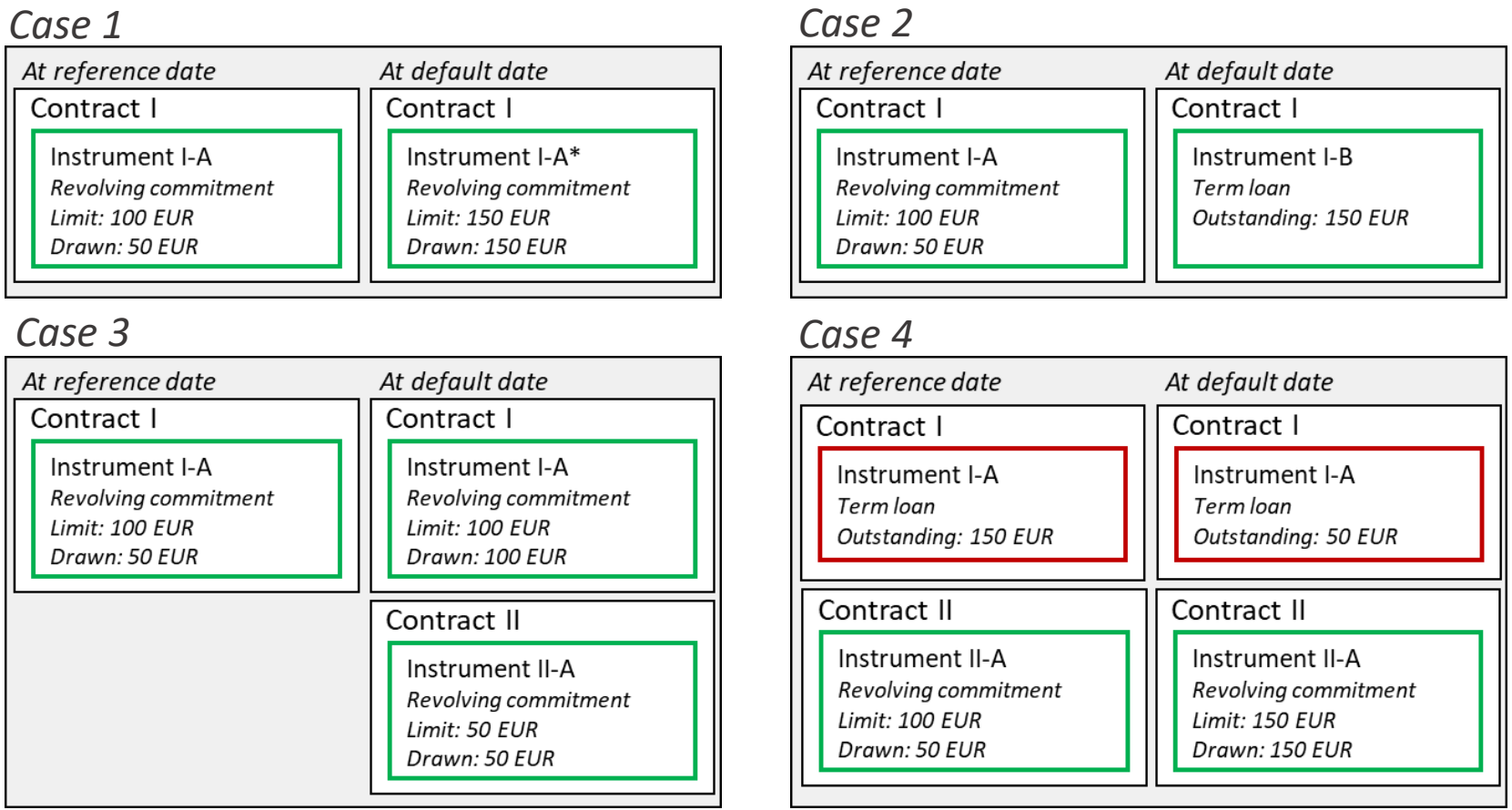
CCF GL - institution to have a clear facility definition:

- Define structures that connects contracts → single facility
- Demonstrate when contracts are not connected → separate facilities

Change in customer product profile change:

- Identify changes in customer product profile between reference and default dates, including the restructuring of contracts.
- Justify changes in the customer product mix not considered related.
- Allocate drawings and repayments to the correct (set of) contract(s) at reference and default date.

Realised CCF - customer profile changes



Realised CCF - Region of instability (RoI)

1. **Quarantine facilities in the RoI.**
   - Test predictive power to assess whether RoI is quarantined:
     - At the level of the CCF estimate and at the level of the final exposure value estimates.
     - Test inside and outside of the RoI.

2. **Apply an alternative CCF for facilities in RoI.**
   - May estimate and apply limit factor: *the realised drawn amount at default as a percentage of the limit at reference date.*

3. **Conditions to use an alternative CCF.**
   - Use of alternative definition of realised CCF limited to where normal CCF estimation is infeasible (not able to meet testing requirements).
   - RoI should be identified as being above a certain threshold value relative to the utilisation rate.
   - Policy on definition of the value of the relative threshold: based on a dispersion measure (such as the variance) of the realised CCF.

06

Simple approaches in CCF estimation

Simple approaches in CCF estimation

1. **Estimating additional drawings after default in the realised CCF.** Use LGD-like modelling, or simple approach:
   - **For incomplete defaults -** only when materiality is low**:**
     - Estimate realised CCF as the maximum between:
       i. the observed average grade CCF, and
       ii. the realised CCF of facility calculated as if no drawings are observed after estimation date.
   - **For in-default CCF -** only when materiality is low**:**
     - Apply the non-defaulted grade level CCF estimates based on latest available grade before default.
   - **For downturn component of in-default CCF** - no materiality condition:
     - Apply the downturn component of the CCF estimates for non-defaulted exposures.

2. **Fixed CCF -** only when unsatisfactory data availability, or materiality is low:
   - include a MoC in CCF estimate such that the CCF estimate has a minimum value of 100%.

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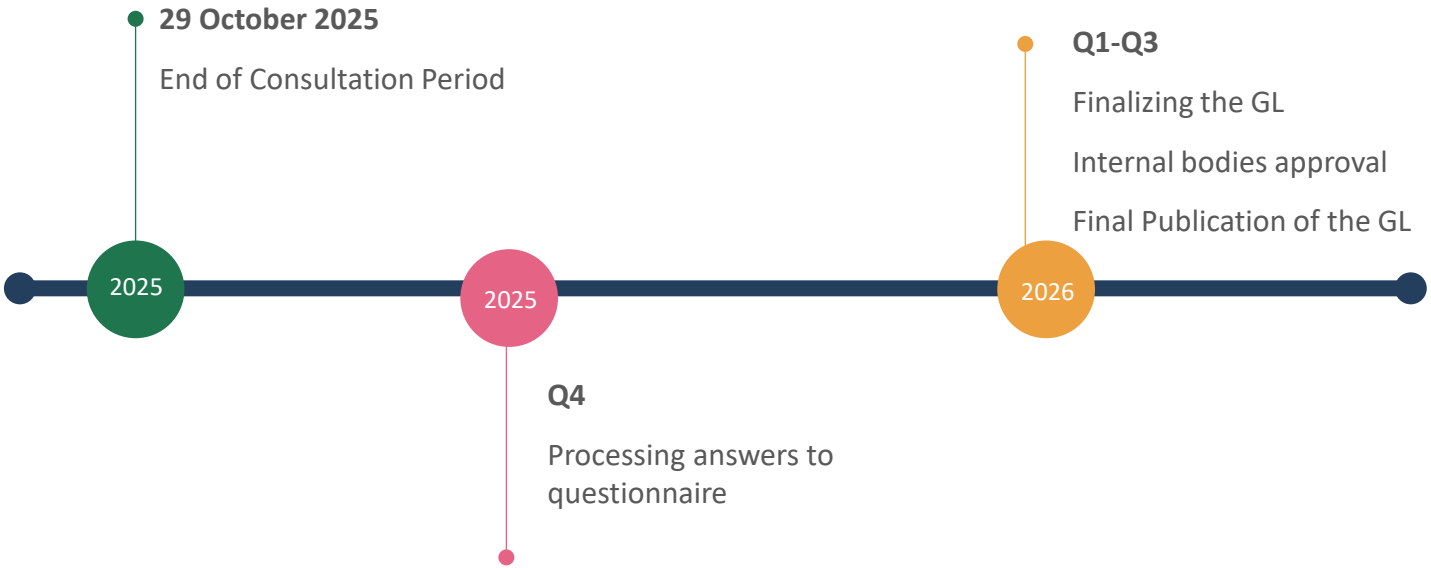
Next Steps

Next steps


29 October 2025
End of Consultation Period
2025
2025
Q4
Processing answers to questionnaire
Q1-Q3
Finalizing the GL
Internal bodies approval
Final Publication of the GL
2026

Thank you!

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Annex I

Other relevant new guidance

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Overview of other relevant topics in CCF estimation

1. **Multiple defaults:** where the time between the moment of the return of the exposure to non-defaulted status and the subsequent classification as default is shorter than nine months, institutions should treat such exposure as having been constantly defaulted from the first moment when the default occurred.
2. **Fixed reference date:** the fixed reference date for facilities should be defined as 12 months prior to their date of default. Where a defaulted facility 'is not revolving' 12 months prior to the default date, but the facility 'is revolving' at any point in time 12 months prior to default, institutions should use as reference date the earliest date prior to default date where the facility 'is revolving'. Where necessary, any bias on the CCF estimates should be addressed via an appropriate adjustment.
3. **Additional drawings after default:** Where institutions include additional drawings by the obligor after the moment of default in their CCF estimates they should calculate the realised CCF by increasing the drawn amount at default date by the positive difference between the maximum of the drawn amounts after the moment of default, discounted to default date, and the drawn amount at default date.

Annex II

Overview of questions in CP

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Fixed CCF and use of own estimates of LGD

Q1: 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 esti-mates of LGDs?

Level of facility

Q2: 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?

Scope of IRB-CCF

Q3: 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?

Q4: 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?

Q5: 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?

Q6: Have you identified any unwarranted consequences of including fully drawn re-volving commitments in the scope of the IRB-CCF. How material are these cases for your insti-tution?

Construction of RDS

Q7: Do you have any concerns on the introduction of the notion of the different sam-ples that constitute the RDS for CCF estimation? Do you have a modelling practice implemented that deviates from this approach?

Q8: 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?

Representativeness

Q9: Do you have any concerns with the requirements introduced to analyse and miti-gate 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?

Q10: 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?

Consumer product mix

Q11: 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 con-tract 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)?

Q12: 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?

12-month fixed horizon and 'fast defaults'

Q13: 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?

Multiple default treatment

Q14: 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?

Allocation mechanism

Q15: 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 par-ticular 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?

Q16: Are there any concerns related to the allocation mechanism described in these GL?

Additional drawings after default

Q17: 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?

Q18: 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?

Q19: Do you see any unwarranted consequences of the proposed approach for incor-porating additional drawings after default? In particular, in order to maintain consistency be-tween 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?

Region of instability (1/2)

Q20: 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 circum-stances where multiple relative thresholds would be warranted? Do you see a need to use an absolute threshold in addition to the relative thresholds?

Q21: Do you consider the guidance sufficiently clear in relation to the requirement for institutions to set up a policy to define a threshold value?

Q22: Do you consider it appropriate to set a prescribed level or range for the defined 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 thresh-old?

Q23: 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 ap-proaches above defined in the Basel III framework), or that more flexibility is necessary for in-stitutions to use different approaches they deem most appropriate for these facilities?

Region of instability (2/2)

Q24: 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 pre-scribed? Are there types of revolving commitments that could not be modelled by any of the approaches described in the Basel III framework?

Q25: Which of the three approaches described in the Basel III framework is preferred in case a single approach would be prescribed?

Long run average CCF

Q26: 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?

Estimation of additional drawings after default

Q27: 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?

Q28: 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 intro-duced in the simple approach? Do you have specific examples when this treatment would not be appropriate?

Q29: Do you have any comments on the modelling approach to estimate additional drawings after default for unresolved cases?

Q30: Do you have any concerns with the requirement to use as a maximum drawing period the maximum recovery period set for LGD?

Calibration to the long run average

Q31: 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?

CCF in-default

Q32: Do you have any comments on the guidance for the CCF estimation of defaulted exposures?

Q33: 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?

Downturn CCF

Q34: Are there examples where the haircut approach should be considered the most appropriate approach for estimating the downturn CCF?

Q35: 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?

Q36: Have you observed, or do you expect a (statistically significant) correlation be-tween 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?

Q37: 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?

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