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MR/MM

EACB comments on
EBA Discussion Paper Simplification and assessment of the credit risk framework

General comments

We welcome the possibility to comment on the EBA proposals presented in the Discussion Paper on the simplification and assessment of the credit risk framework.

The continuous expansion of the regulatory framework over recent years has led to a significant increase in complexity and, on some occasions, introduced limited additional benefits in terms of risk sensitivity or financial stability, undermining the principle of proportionality. Against this background, we consider it appropriate for the EBA to explore opportunities to enhance the efficiency and clarity of the credit risk framework.

We would like to stress the importance of reviewing the credit risk regulatory framework to achieve greater clarity, proportionality, and efficiency. Continued progress in this area would benefit from a structured dialogue between the EBA and industry stakeholders, with focus on ensuring that any simplification measures deliver concrete and measurable outcomes, while safeguarding financial stability.

Answers to selected questions

Q1. For the purpose of reporting under CRR Article 430a, which definition of loss should be used?

We believe that the loss definition should be aligned with the accounting definition of actual (observed) annual losses as specified in the second implementation proposal suggested in “Box 1: Technical challenges when using loss data reported under CRR Article 430a”. The accounting-based credit loss definition would avoid unnecessary conservatism, would be subject to external audit, would not rely on loss estimates, would provide credit losses consistent with regulatory goals, and would be simpler to implement eliminating undue complexity.

In general, any new or additional regulatory loss definitions would increase complexity and operational burden for banks. Against this background, the introduction of a separate regulatory loss definition would not provide clear or defensible additional prudential value. Furthermore, in many EU countries, dual recourse is possible for debt recovery. When subsequent recoveries are not included in the credit loss reporting, the reporting provides a conservative view of credit loss amounts and risk levels of real estate exposures.

In line with the accounting definition of credit losses, loss reporting should also be based on credit loss booking in accounting rather than at the time of default. This would enable banks to report up-to-date and reliable credit losses without undue complexity. This would facilitate correct risk estimation for competent authorities.

Q2. Should the loss data (CRR Article 430a) be used for the assessment of RWs of real estate exposures under CRR Article 126(4) and CRR Article 465(11)?

We agree with the EBA proposal to use loss data (CRR Article 430a) for the assessment of RWs of real estate exposures under Art. 126(4) and 465(11) CRR. The riskiness of IPRE exposures should be appropriately

EACB AISBL – Secretariat • Rue de l’Industrie 26-38 • B-1040 Brussels
Tel: (+32 2) 230 11 24 • Fax (+32 2) 230 06 49 • Enterprise 0896.081.149 • lobbying register 4172526951-19
www.eacb.coop • e-mail : secretariat@eacb.coop

quantified, and risk weights should be aligned with the observed risk levels. Credit losses (when appropriately defined as accounting credit losses) provide an adequate estimate of the risk levels of real estate exposures as described in the CRR article 126.2.

Q3. Which elements of the real estate framework should be further simplified?

Several elements of the real estate framework could benefit from further simplification to create a prudential framework that focuses on proportionality and risk sensitivity, and better aligns regulatory requirements with actual risk outcomes.

First, a clearer application of the proportionality principle in relation to real estate collateral would be welcome. Greater differentiation based on the borrower's and real estate collateral's overall risk profiles, as well as factors such as low loan-to-value (LTV) or exposure-to-value (ETV) ratios, could allow for lighter requirements concerning monitoring and revaluation, where the actual risk is demonstrably low.

Second, national regulation often requires full compliance with all collateral-related requirements even in cases where the real estate collateral is not ultimately recognised in regulatory capital calculations. This can create unnecessary administrative burden without a corresponding prudential benefit.

Third, the existing requirement to apply a full visit with internal and external assessment for all immovable property collateral other than residential real estate in well-developed and mature property markets could merit further reflection. In jurisdictions where institutions have access to reliable and comprehensive property registers that already confirm the existence and key characteristics of the collateral, a full visit may provide limited additional prudential value. A clearer recognition of circumstances in which a desktop valuation supported by advanced statistical models would be sufficient could enhance proportionality, while ensuring that full visits remain required where valuation needs or risk factors genuinely warrant them.

Fourth, there is room to expand the use of statistical and model-based approaches. Wider acceptance of validated statistical models for property monitoring and assistance in valuation and risk assessment could enhance consistency, reduce manual processes, and better reflect underlying risk dynamics, while still maintaining appropriate supervisory oversight.

Fifth, it is very complex to verify, for each real estate market in each Member State, whether the so-called "hard test" set out in Article 125(2), third subparagraph, and Article 126(2), third subparagraph, of the CRR has been met. To enhance transparency in the application of the so-called 'hard test', we recommend introducing (i) a reporting obligation requiring the competent authority of the relevant Member State to report its assessment to the EBA or the ESRB, and (ii) disclosure obligations requiring the EBA or the ESRB to publish the outcome of that national assessment on its website.

Finally, to accelerate the construction of public housing, exposure to public housing companies or not-for-profit associations that are regulated by law and exist to serve social purposes and to offer tenants long-term housing should be excluded from the scope of ADC exposures. Non-profit building associations indeed do not build speculative projects. Instead, they focus on urgently needed affordable housing, in line with the European Affordable Housing Plan published in December 2025.

Q4. Which other clarifications do you consider necessary to apply the new ECAI framework?

EACB takes note that EBA is of the opinion that ratings without government support can be temporarily used, as long as they use rating scales that are compatible with the rating scales assessed in previous mapping

exercises. However, this view is not aligned with the ECB's position as expressed in ECB Guideline 2025/25. According to it, "*the ECB considers it necessary for national competent authorities to exercise, until 1 January 2027, the transitional option provided in Article 495e of Regulation (EU) No 575/2013 to allow continued use of such credit assessments for a limited period",* instead of the end of 2029.

These non-consistent communications by EU supervisors undermine legal certainty for EU banks.

Given that Fitch is the only ECAI that currently issues XGS ratings in line with Article 138e CRR, and that S&P is working on the issuance of an XGS rating, and assuming that the SSM as competent authority will follow their own ECB guide, this creates:

- Legal uncertainty by assuming the SSM will apply their own guidance.
- Competitive disadvantage of EU banks falling under SSM supervision, with banks not falling under SSM supervision located in an EU Member state where the national competent authorities are not following this ECB guidance.
- Competitive disadvantage with non-EU banks that do not have to apply XGS ratings as many of these exposures could be to non-EU banks.
- Concentration and competition risk with increasing compliance cost for banks that like to prevent a significant increase in their risk-weighted exposures to banks, as there is currently only one single provider of the intended ratings who is aware of its unique commercial position;
- Significant operational challenges and in RWA planning, stress testing, ... going forward.

Q5. Should the consolidation of regulatory products for credit risk be a priority or should the regulatory stability be preferable instead? Have you identified any redundancies in IRB products?

While the stability of the prudential framework is a relevant element to foster predictability and adequate implementation processes, consolidating the regulatory products for credit risk should be a priority. Indeed, streamlining these products will enhance clarity, reduce complexity, and improve efficiency in risk management.

Q6. Do you consider that the integration of environmental and social risks into the credit risk framework could be further enhanced without undermining its simplicity? Which areas, if any, would you prioritise for further work or clarification?

As highlighted in paragraph 26 of the discussion paper, a key challenge in effectively integrating environmental and social risks into credit risk management frameworks remains the limited availability of adequate data, particularly historical data. In this context, clearer guidance on transitional arrangements would be welcome, including on the extent to which expert judgement may be relied upon while sufficient data history is being built, and on the analytical thresholds for determining whether specific risk factors should be included or excluded.

In addition, the development of a shared data source for physical risk, accessible to all institutions, could support greater consistency in risk assessments, promote comparability across the sector, and help reduce methodological divergences.

Q7. Which requirements should apply in relation to the measurement of the performance of continuous models (e.g. back-testing)? How could testing requirements be facilitated and enhanced for continuous models that are compliant with CRR, Part three, Title II, Chapter 3, Section 6 (Requirements for the IRB approach)?

NA

Q8. Which requirements should apply in the application phase of continuous models (e.g. overrides)?

NA

Q9. Which challenges have you encountered in implementing the new CRR definition of facility?

NA

Q10. Should a consistent and single facility definition be applied across all risk parameters?

NA

Q11. Are adjustments proposed in the representativeness requirement for the CCF parameter also suited for PD and LGD risk parameters? Which amendments would be needed to accommodate PD and LGD specificities?

Yes, in particular, we would like to stress that the prioritisation of model performance over strict sample representativeness should also be reflected in the PD and LGD Guidelines, particularly when assessing the representativeness of data used for model development.

Q12. Do you consider further simplification of the representativeness requirement, as proposed for the CCF parameter, as necessary for PD and LGD and if so, what kind of simplification?

Further simplification is necessary regarding the assessment dimensions, such as the scope of application and the distribution of key risk characteristics. We believe that the adoption of the streamlined analysis approach similar to that in the CCF guidelines would be beneficial.

Q13. Should these simplifications be pursued? Do you have any preferred approaches with respect to these simplifications?

Yes, simplifying the framework for Margin of Conservatism (MoC) is strongly encouraged. At present, it requires significant modelling effort with limited impact. Any form of simplification - whether through fallback approaches or standardised methodologies - would be greatly appreciated. In particular, additional guidance or further simplification for low default models is essential.

Q14. Which requirements should apply in the application phase of continuous models (e.g. overrides)?

Defining fallback values for PD and LGD presents a greater challenge compared to the CCF parameter. Simple methods, such as applying a relative increase by a fixed percentage, could offer an easy-to-implement solution and be calibrated according to the current MoC level of supervised entities. Additionally, quantile-based approaches may also be worth considering.

Q15. Do you see other potential simplification areas where the modelling burden is not commensurate to the gain in risk sensitivity?

Several aspects of modelling low default portfolios – such as back testing, using alternative targets instead of observed defaults, and demonstrating risk differentiation – significantly increase modelling complexity. However, current guidelines generally lack specific guidance for these special cases.

Some institutions employ master scales to ensure comparability across different rating models, but meeting regulatory requirements (e.g., backtesting, homogeneity, heterogeneity, and adequate population of rating grades) often conflicts with this approach, resulting in modelling challenges and supervisory issues. Providing guidance on the use of master scale models or introducing tailored requirements would be helpful.

Additionally, the criteria for homogeneity and heterogeneity of rating grades could be further refined, potentially through standardised methodologies.

Q16. What do you perceive as challenges in your capacity to collect appropriate data, in particular in relation to indirect costs?

NA

Q17. Do you agree with the approach proposed by EBA? Do you see further measures as necessary?

We welcome the definition of an analytical framework to review the appropriateness of Level 1, as delineated in the figure on page 25. The approach proposed by the EBA is a useful basis for further development and improvement of the regulatory framework. We believe that the analytical framework can contribute to transparent decision-making and support a structured justification of EU-specific policy choices in relation to international standards.

However, in line with the principles of proportionality and efficiency underpinning the EU legal framework, it may be appropriate to recognise that the introduction of additional regulatory or supervisory measures is inherently associated with an increase in the overall complexity of regulatory architecture. Since 2013, institutions have been subject to a significant expansion in regulatory requirements, which has been accompanied by a corresponding increase in the complexity and resource intensity of compliance and implementation processes.

In this context, cost–benefit analyses conducted in relation to individual regulatory or guideline initiatives often conclude that incremental implementation costs are limited when assessed on a stand-alone basis, while supervisory and prudential benefits are clearly identified. **However, when assessed solely at the level of individual initiatives, such analyses may not fully capture the cumulative effects of regulatory developments over time, nor their combined impact on the efficiency and proportionality of the prudential framework.** We believe that these considerations should be carefully reflected in the "Simplicity of the Rules" and "Transaction Costs" principles of the analytical framework.

We agree that any further complexity in the regulatory landscape should be avoided. At the same time, we share the view that the current complexity should be remediated. Therefore, **the EBA (and the whole supervisory community) should include the simplification principle as one of the key targets. Also, the competitiveness of the financial sector and the need to ensure economic growth should be added as targets when issuing reports on L1 mandates and introducing new L2 or L3 initiatives.**