Risk Accounting Standards Board's Response

to the Consultation Paper on

"Draft Guidelines on the methodology to estimate and apply credit conversion factors under the Capital Requirements Regulation"

(EBA/CP/2025/10/ July 2nd, 2025)

October 2025

Table of Contents

1. Purpose of this Submission 2
2. Executive Summary 2
3. Introduction to Risk Accounting 2
4. How Risk Accounting Supports the EBA's Objectives 3
Application to Long-Run Average Quantification 4
5. Cross-Regulatory Integration 4
6. Summary of Responses to Consultation Questions 4
7. Industry Collaboration and Pilot Implementation 5
8. To Conclude 5

1. Purpose of this Submission

This submission is intended to assist the EBA's consultation process by offering an industry perspective on how emerging operational risk measurement practices, such as Risk Accounting, could complement the regulatory framework.

The intention is to support future dialogue between institutions, supervisors, and standard setters, rather than to propose any immediate methodological change.

2. Executive Summary

Risk Accounting is an emerging approach that is gradually gaining traction in the market. It is presented here as a potential tool for institutions and supervisors to explore voluntarily, rather than as a prescribed or mandatory framework.

The EBA's proposed Guidelines on Credit Conversion Factor (CCF) estimation represent a commendable effort to enhance consistency, prudence, and comparability in the modeling of credit exposures under CRR3. The initiative rightly emphasizes more robust estimation practices and aims to ensure that institutions maintain sound, conservative assessments of potential drawdowns, especially in stressful conditions.

However, the practical implementation of the proposed framework presents significant challenges that may increase the workload for both institutions and supervisors without necessarily improving predictive accuracy. The reliance on statistical modeling of borrower behavior, which is often influenced by the bank's own actions, operational controls, and broader economic policies, may lead to increased complexity, fragmented modeling standards, and high governance burdens.

Institutions may face extensive data collection and calibration requirements, multiple definitions of thresholds and instability regions, and additional validation hurdles that stretch both internal and supervisory resources. For regulators, the oversight of such behaviorally driven models may prove equally demanding, as model outputs may not be directly linked to observable operational or control-based evidence.

Taken together, these dynamics risk diverting analytical effort away from the underlying operational drivers of drawdown behavior. Risk Accounting offers a potential, market-led complement to the current framework. By introducing a standardized, accounting-based measure of operational control performance, expressed through Risk Units (RUs), it enables both institutions and supervisors to observe and quantify the real factors influencing credit exposure and borrower behavior. This offers a more stable, transparent, and evidence-based foundation for interpreting and validating model results.

In this context, Risk Accounting does not replace statistical estimation. Rather, it provides the empirical anchor needed to interpret, validate, and simplify behavioral modeling under the proposed EBA framework, reducing complexity while enhancing confidence in capital adequacy assessments.

3. Introduction to Risk Accounting

Risk Accounting is a measurement system that captures the effectiveness of internal controls and the exposure to non-financial risks in quantifiable, standardized units

called **Risk Units (RUs)**. Each RU represents a consistent quantum of risk, allowing for:

- Objective and auditable measurement of operational control performance,
- Aggregation of non-financial risk exposure accumulations across business units and products,
- Integration of operational risk into financial and prudential reporting frameworks.

Risk Accounting draws on accounting logic, using double-entry structures and standardized valuation rules, to ensure traceability, consistency, and comparability across institutions.

Rather than replacing existing regulatory models, it could augment them by providing a *control-based perspective* on the causes and trajectories of risk exposure. It is currently under discussion and evaluation within parts of the industry as an innovative enhancement to risk management.

4. How Risk Accounting Supports the EBA's Objectives

The CCF Guidelines emphasize robust estimation, consistency with LGD and PD modeling, and sensitivity to borrower and product behavior. Risk Accounting could enhance these principles through:

Regulatory Objective	Limitation of Current Approach	Risk Accounting Contribution
Behavioral Sensitivity	Reliance on historical borrower data, limited anticipation of sudden drawdowns	Provides early warning of draw risk through operational control deterioration measured in RUs
Model Calibration and Thresholds	Difficulty justifying relative or absolute thresholds	Enables calibration based on observed RU trends, linking capital levels to actual control effectiveness
Downturn Adjustments	Lack of observable downturn data for all portfolios	Allows simulation of downturn scenarios through modeled RU volatility and control stress testing
Cross-Portfolio Consistency	Inconsistent operational practices across products	Offers a unified diagnostic framework across facilities, improving comparability and governance

By introducing a risk measurement system that reflects institutional behavior and operational resilience, Risk Accounting could transform latent risk drivers into measurable and auditable information, helping institutions develop better insights that complement regulatory aims.

Application to Long-Run Average Quantification

The consultation's requirement to derive long-run average (LRA) CCFs introduces a significant data and validation challenge for many institutions, as consistent historical drawdown data are often limited or structurally inconsistent.

Risk Accounting can complement this requirement by providing a continuous, operational measure of control performance and behavioral stability. The time series of Risk Units (RUs) allows institutions to monitor changes in operational risk conditions that influence drawdown tendencies, effectively serving as a forward-looking proxy for the long-run behavioral patterns that the LRA aims to capture.

This could enable institutions and supervisors to interpret LRA estimates more confidently, validate them against observable control trends, and ensure that quantification remains proportionate and evidence-based even when historical data are incomplete.

5. Cross-Regulatory Integration

Risk Accounting provides a bridge between multiple regulatory domains, enabling coherence and proportionality across frameworks:

- **Pillar 3 Data Hub Alignment:** Supports traceable, standardized operational risk disclosures that enhance transparency and comparability under the EBA's Pillar 3 Data Hub initiative.
- **ESG Integration:** Quantifies the control dimension of ESG-related risks, aligning with sustainability reporting requirements and conduct risk oversight.
- **Operational Resilience Frameworks:** Provides early indicators of degradation in resilience, supporting preemptive remediation and supervisory dialogue.
- **And more…**

Because Risk Accounting produces standardized, auditable metrics, it could also improve the quality of supervisory dialogue by giving both parties a common view of operational performance and behavioral risk factors. This aligns with the EBA's broader objective of improving data transparency and comparability across institutions.

These integrations have been highlighted in prior responses to EBA consultation papers, demonstrating how the Risk Accounting framework can be applied across prudential and non-financial risk regulations.

6. Summary of Responses to Consultation Questions

Our detailed responses to the consultation paper illustrate how Risk Accounting could strengthen the implementation of CCF modeling across several dimensions:

- **Improving behavioral insight:** by capturing the operational context of drawdowns.
- **Enhancing conservatism with proportionality:** by tying add-ons and thresholds to measurable control conditions.

- **Supporting model validation:** by providing evidence-based justification for deviations or simplifications.
- **Facilitating supervisory transparency:** by introducing a standardized diagnostic language between institutions and regulators.

Each question response draws on the same principle: that observable operational behavior, rather than purely statistical data, drives both risk emergence and mitigation. Risk Accounting provides a possible link between internal operations and regulatory measurement that could support a more balanced supervisory framework.

7. Industry Collaboration and Pilot Implementation

This section highlights the importance of market-led exploration and the potential for industry-led pilots. Broader testing and adoption by financial institutions could provide the empirical foundation regulators need to consider the relevance of Risk Accounting more fully within supervisory practices.

We welcome the opportunity to engage with the EBA and member institutions to explore market-led pilot implementations of Risk Accounting within the regulatory ecosystem. Such pilots could focus on:

- Integrating RU diagnostics into existing IRB modeling frameworks,
- Testing RU-based thresholds for defining regions of instability in CCF estimation,
- Using RUs as a cross-validation tool for operational resilience indicators under the forthcoming DORA and Basel frameworks.

The framework is designed to be scalable and proportionate, allowing institutions of different sizes to apply it at varying levels of sophistication, depending on data availability and materiality.

We believe that broader market participation and adoption would help demonstrate the framework's practicality and effectiveness. This could, in turn, provide regulators with a sound evidence base for potential future consideration.

8. To Conclude

We invite the EBA to explore and observe how industry adoption of Risk Accounting might demonstrate its value in practice, while encouraging open dialogue on how such evidence could inform future supervisory development.

The proposed EBA Guidelines represent a valuable advancement toward consistency and prudence in CCF estimation. Risk Accounting complements these goals by providing an empirically grounded, operationally focused framework that makes non-financial risk measurable, comparable, and actionable.

We invite the EBA to monitor and engage with emerging market applications of Risk Accounting and to consider how such evidence from industry pilots might inform future methodological guidance. We would also welcome the opportunity to share technical insights and empirical observations from ongoing industry work, to help ensure that future supervisory methodologies remain both practical and forward-looking.