ABI Associazione Bancaria Italiana

ABI response to EBA consultation on Draft guidelines on Credit Conversion Factor estimation under Article 182(5) of Regulation (EU) No 575/2013

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POSITION PAPER

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Questions for consultation

Fixed CCF and use of own estimates of LGD

Question 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?

The main reason why exposures fall out of the scope of modelled CCF and LGD is the obligation to revert to F-IRB for undrawn non-revolving exposures pursuant to CRR3. Exposures arising from undrawn revolving commitments that would attract a SA-CCF and a consequent restriction of the own estimates of LGDs for other reasons seem not to be very material.

Furthermore, regarding the second part of the question, given the type of exposure remaining under the A-IRB approach, it is expected that in most cases sufficient data will be available to estimate CCFs in addition to LGDs.

Level of facility

Question 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?

It is recognized that the Guidelines are based on the CRR3 definition of a credit facility as a "contract or set of contracts," and that the EBA cannot deviate from this Level 1 provision. The clarification that consistency with risk management practice and the presence of overarching arrangements should guide the identification of a "set of contracts" is welcomed. At the same time, there is a risk of divergent interpretations in practice, particularly in cases such as forward-starting loans or roll-overs of existing credit lines, where treating separate contracts as a single facility could lead to double-counting of exposures.

To avoid such uncertainty, ABI encourages EBA to provide further practical examples in the final Guidelines, illustrating how to distinguish between cases where aggregation is appropriate and those where it is not. This would enhance convergence and reduce excessive room for interpretation across institutions and supervisors.

Scope of IRB-CCF

Question 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?

Overall, the Consultation paper (CP) covers the relevant aspects for the definition of revolving commitments, and no specific product has been identified as falling outside the definition provided.

Question 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?

No specific product has been identified.

Question 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?

No special revolving-commitment treatment is warranted. Facilities with dynamic limits (e.g., Lombard, secured lending) are financing commitments by nature and should be treated accordingly - i.e., under commitment CCF rules - regardless of limit fluctuations.

Question 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?

There are concerns that the inclusion of fully drawn revolving commitments in the scope of IRB-CCF modelling is not fully aligned with the definition of credit conversion factors under Article 4(56) CRR. By definition, CCFs apply to the undrawn portion of a commitment; applying them to facilities that are already fully drawn appears inconsistent with the Level 1 text.

Should EBA nevertheless maintain the proposed approach, it is agreed that such cases should be isolated within the "region of instability" and treated under the alternative methodology based on the Limit Factor. While the number of fully drawn revolving commitments is expected to be relatively limited in practice (e.g., 5–10% of exposures in mixed-product portfolios), overdrawn facilities - where outstanding at default often falls below observation due to repayment requirements (e.g., <12 months) - may constitute a substantial share, particularly for small exposures; systemic unwarranted consequences are not expected, though allocation distortions in such segments should be monitored. However, it would be important to clarify - through illustrative examples - that situations such as forward-starting or rolled-over facilities should not lead to double-counting of exposures (e.g., including the undrawn portion in both the original and new facility

calculations), when applying the alternative CCF. This would provide additional certainty and foster consistency in supervisory expectations across institutions.

Additionally, further EBA guidance on the calibration of alternative realized CCFs would be helpful, particularly regarding flooring. Options such as flooring at 0% (where drawings are not negative) or at the reference date utilization rate (to align with standard CCF flooring logic) could be considered. Clarity on this would prevent future inconsistencies, although there is a risk of over-conservatism, including bias in the long-run average (LRA) CCF when zero-flooring over-utilized facilities, and the material impact of number-weighted averaging on small-exposure outliers.

Construction of RDS

Question 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?

No specific concerns are identified. The creation of different samples in risk differentiation (training versus out-of-sample and out-of-time testing) and risk quantification is consistent with the practices (and requirements) envisaged for PD and LGD parameters even before CRR3 finalization. Therefore, no specific deviation from this approach is highlighted.

Question 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 arise in modeling experience: backward replication of all risk drivers may not always be possible for very old data. It might be worth noting that the ECB, in its Guide to Internal Models (EGIM), calls for every reasonable effort to recover the historical experience of losses and drawings (in order to have the longest possible time series). This requirement should be defined in a balanced manner, as ultimately the CCF model shall be calibrated to a downturn level: if the downturn falls within the period for which observed data are available (or, if not, if the downturn LGD is extrapolated) that period represents the calibration target for the CCF estimates, regardless of whether the calibration sample is shorter than or equal to the long run average (LRA). Therefore, stressing full alignment, even the application of MoCs appears to be excessively penalizing.

Representativeness

Question 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?

No particular concerns are identified. On one side, the introduction of less stringent requirements for the training sample is welcomed from a simplification perspective.

However, it should be noted that the training sample would in fact be subject to full representativeness requirements. Indeed, the creation of out-of-sample (as well as out-of-time) testing datasets, which require full representativeness vis-à-vis the application portfolio, are usually derived as stratification of the training samples. As a direct consequence, the training sample shall ensure full representativeness with respect to the application portfolio as well. In any case, no requirements have been detected that clearly impede modeling the CCF portfolio.

Question 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?

The CP introduces the concept of a "Fixed CCF" for exposures that fall within the scope of the IRB-CCF framework, but for which institutions are unable to assign an IRB-compliant CCF due to not meeting the minimum estimation requirements. In such cases, institutions are required to apply a Fixed CCF that must be no less than 100%.

The introduction of the Fixed CCF does not appear to be fully aligned with the provisions of CRR III - 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).

Notwithstanding the above, while the introduction of a Fixed CCF for certain portfolios affected by data scarcity may offer a pragmatic solution — enabling institutions to apply their own IRB-compliant LGD estimates — the imposition of a minimum CCF of 100% appears overly conservative.

Consumer product mix

Question 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 part is considered to be the most concerning aspect of the entire Consultation Paper and is likely to have potentially disproportionate and economically implausible effects on the estimation of the CCF, leading to an LGD higher than 100% in several cases (a mathematical effect due to inclusion in the denominator of only revolving facilities versus all facilities – including non-revolving ones such as term loans - in the numerator). In this regard, the five points listed in par. 56 of the "Background and Rationale" (BR) Section of the EBA paper, defined with a view to isolating "distressed financing" which, as such, qualify new facilities as "related" to those existing at the reference date, will in practice

almost always be present (for instance, the simple fact of originating new loan within the 12 months observation period would lead to activate point c. and even if there is a decrease in the amount used of the existing facility at the time of the origination of new one, it could be argued that there could be a partial transformation, thus assuming a link between the two in any case).

Therefore, although the CP leaves room for justification even in presence of the five cases listed in par. 56, rebutting all circumstances in the context of the preparation of the Reference Data Set (RDS) would imply 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 with wide room for interpretation which, in the context of Internal Model Investigations, would likely lead to a conservative drift on the part of the supervisory Authority.

More in detail:

- with regard to the five cases listed in par. 56, those relating 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 taking as a reference the 90-day period for Past Due classification). Conversely, with regard to cases c. and e., treating them systematically as "distressed financing" and accordingly as "related facilities" appears overly conservative. Indeed, a detailed understanding of the impact of changes in the customer product mix, as required by Article 182(1)(h) of the CRR, also implies that IRB-CCF models should reflect the institution's current policies and strategies for account monitoring, including limit monitoring, and payment processing (as recalled in the same Article). Under this vein, new finance granted to a customer under an ordinary approval process, not presenting any specific signals of deterioration (e.g. watchlist classification or poor rating) cannot be seen structurally as a related to the revolving loan existing 12-months before the default, even if it triggers the case c. (which, as mentioned before, would be triggered by definition, since the outstanding debt corresponding to the drawn amount of the existing facilities and the outstanding debt would always and logically be increasing). Indeed, the RDS for CCF estimation is based only on cases of default and, even in a situation of properly performing rating models, it may happen that customers with not bad rating and not specific signals of risk may suddenly deteriorate at a certain point in time and default (indeed, cases of default could also occur in presence of good ratings) but at the time the new finance was approved and granted, and based on all the information available in that moment, the customer was considered as ordinary performing client: as such, the new finance does not have any specific linkage with the existing revolving facilities (even more so if it is related to a non-revolving facility)
- different assumptions can be made in case of substitution/consolidation of existing facilities into others. In cases involving terminated facilities and the opening of new ones, where the articulation of the overall facilities at the moment of the defaults looks in a similar or even lower number of facilities compared to reference date,

the transformation/consolidation (as depicted in Case IX on page 34 of the paper) maybe assumed for the purposes of calculating the realized CCF.

Question 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 elaborated in the previous question, there is a risk of disproportionate overestimation of the CCF, which may lead to economically implausible estimations, thus impacting the credit risk parameters also used for the origination of new facilities.

The alternative approach, which is considered to ensure full compliance with Article 182(1b) and in particular to "demonstrate to the competent authorities that they have a detailed understanding of the impact of changes in customer product mix", would be to envisage more explicitly that the justifications provided by banks to rebut the presumption of "related facilities" are based on:

- assessment of classification of risk stemming from the monitoring process and rating assigned at the time the new finance granted, in order to enable the bank to set out a clear criterion for distinguishing what qualifies as "ordinary finance" from "distressed" one
- check of the articulation of facilities at reference date compared to the default date with the focused control on the presence of terminated facilities and issuance of new ones during the 12-month period, e.g. by checking the consistency of the overall outstanding amount at the client level before and after the change
- to the extent possible (and probably only for non-retail perimeters), the assessment of single historical files.

12 month fixed horizon and 'fast defaults'

Question 13: Do you have any concerns on the proposed approach for the treatment of socalled '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?

Overall, no concerns arise from a methodological point of view, but the current formulation of the CP with respect to the customer's product profile (see Questions 11 and 12) in practice is expected to nullify the presence of "fast defaults", since it leads to almost all situation of new finance being considered as related facilities. Therefore, under the current approach of the draft Guidelines, fast defaults would be limited to very exceptional cases of new clients that migrate to default before 12 months.

Multiple default treatment

Question 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?

This point does not raise significant concerns and aligning the treatment with LGD is considered the most logical criterion.

Allocation mechanism

Question 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?

Although the principles are generally understandable from a purely conceptual standpoint, the calculation of realized CCF is strongly affected by the previous requirements relating to the detailed understanding of customer product mix (see Questions 11 and 12).

On top of that it is worth raising a point of attention regarding a case that is not covered in the examples provided. Indeed, the cases listed on pages 31-34 pertain to the situation of product mix/transformation covering revolving and term loans. However, there are revolving facilities (such as Multi-Purpose Credit Lines - MPCLs) that also involve the inherent possibility of product transformation from revolving to contingent liabilities (e.g. financial or trade guarantees). Specifically, MPCLs may be drawn not only as pure cash (i.e. with a classical conversion from undrawn to drawn) but also from undrawn to guarantee. This means that, following the three principles and the "disaggregation" requirement set out in paragraph 9 of the BR Section, in the case of MPCLs with already drawn amount as guarantees, that part shall be removed from CCF realization meaning from both the drawn amount and the limit amount. However, in case the previously drawn contingent liabilities/guarantee are executed thus converting to on-balance sheet items, they will contribute to increasing the cash drawdown with implausible effects on the CCF realization (in other terms, they will contribute to the numerator but not to the denominator).

The following example might be useful to illustrate the above:

- Limit of MPCL = 100 at T-12
- Drawn at T-12
    - 50 Cash
    - 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 chart shows the calculation of the CCF1 and consequent EAD1 in application according to the current frame of the EBA GL, whereas CCF2/EAD2 reports 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 the draft GL 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 are 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%).

	T-12	**T**	
Limit	100	100	
o/w Drawn Cash	50	110	*(of which 20 is conversion to cash of the previously drawn guarantees)*
o/w Drawn Guarantees	20		
o/w Undrawn	30		

CCF1	200%
CCF2	133%

EAD1	130
EAD2	110
Delta (double counting)	**20**

Therefore, it is considered that the impact of contingent liabilities (not covered in the CP example) shall be duly introduced and explored (in particular principle c. of part 79 of BR Section should also take into account non-revolving items other than term loans).

Question 16: Are there any concerns related to the allocation mechanism described in these GL?

The approach remains generic and prone to conservative interpretations in the context of Internal Model Investigations. In particular, case IX would require further elaboration in the approach of allocation: indeed, looking at this example, the logical conclusion would be that, out of the 200 outstanding of the Instruments X-A, 150 relate 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, it is believed that the approach based on the outstanding/drawn amount of the consolidated facilities seems to be most logical approach.

Additional drawings after default

Question 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?

Yes, this issue is relevant and material. Where credit lines remain open after default, the consultation's "alternative option" produces extremely high realized CCFs that distort conversion risk and destabilize estimation

The preferred approach, as outlined in the draft GLs, is to calculate additional drawings as the maximum drawn amount during default, discounted to the date of default, which avoids spurious CCF inflation while maintaining coherence with LGD measurement.

Some flexibility may be warranted to reflect portfolio diversity and alignment with LGD, such as short-horizon netting of drawings and repayments or punctual recognition of drawings when already applied in LGD, provided that consistency between CCF and LGD is maintained and model validation standards are met. All alternative implementations should be subject to governance safeguards, including explicit linkage to LGD definitions, back-testing to avoid systematic bias, and evidence of stable realised CCF distributions with appropriate risk-driver differentiation.

Question 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, during the probation/dependence period, the customer is factually like-performing. Anyway, even in presence of higher drawings, higher recoveries from repayment on LGD side are also expected, therefore the answer to the previous Question remains valid.

Question 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?

Under the current EGIM, expectation is for the punctual drawing approach. Therefore, if the EBA Guidelines were to adopt a prescriptive approach, this would likely entail a material revision of LGD models, as the change, which affects the calculation of the target variable, is likely to impact not only risk quantification but also risk differentiation (in particular with regard to the relation with the risk driver related to exposure size, usually a relevant risk differentiation factor). Therefore, since the key issue is to ensure consistency between CCF and LGD, it is considered appropriate to maintain a range of admittable approaches.

Region of instability

Question 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 the utilization rate is considered an appropriate metric for the purposes of defining the region of instability and it is considered appropriate to allow institutions, given the specificities of local portfolios, to identify different thresholds within a structured approach defined according to the regulatory requirement set out by the GL. It is considered appropriate to complement the utilization rate with an absolute threshold in order to manage products with small limits more effectively.

Question 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, the guidance appears sufficiently clear.

Question 22: 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 threshold?

It is considered more appropriate not to fix a predefined threshold, but rather to develop harmonized regulatory guidelines for calibrating a truly representative threshold on the local portfolio of the institution.

Question 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?

It is recognized the importance of ensuring convergence and reducing interpretative divergence in the region of instability. A single prescribed approach could therefore be acceptable, provided it is method (c.), which is most consistent with the standard CCF logic and differentiates facilities more appropriately by utilisation rate. By contrast, method (b.) appears conceptually weaker, as it measures increases in exposure against the drawn amount, producing unintuitive results especially where the drawn balance is small.

At the same time, calibration should remain segmented at product level to reflect material differences in conversion behaviour (trade guarantees typically show very low CCFs, while consumer credit lines behave quite differently). A "one size fits all" calibration risks misrepresenting risk across portfolios.

For fully drawn revolving commitments, the Basel CRE 36.95 formulations (par. 98.a for the region of instability, 98.b for fully drawn) appear reasonable and would align EU rules with international standards. In any case, the EBA is encouraged to provide additional

guidance on the applicability of realised CCF floors, given the potential for material capital impacts.

Question 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?

A single alternative CCF approach based on the Limit Factor is considered appropriate.

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

The Limit Factor approach is considered preferable (as also indicated in the CP) since it allows to get a direct estimate of EAD and is reconcilable with CCF definition expect for the drawn amount at reference date in the numerator and denominator.

Long run average CCF

Question 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 case of facilities related to the same obligor falling within the same pool or grade. In general, a pure number-weighted average appears sufficient and the intermediate step of averaging at obligor level is not considered necessary. In this regard, it should be noted that the ECB current EGIM outlines a different approach (on LGD, but basically and logically extendable to CCF).

Estimation of additional drawings after default

Question 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?

A simple approach can be a pragmatic expedient but should be allowed only under strict, evidence-based conditions. In particular:

- When it may be used. The simple approach is acceptable where the population of currently-defaulted facilities with a remaining undrawn amount is immaterial for the resulting LRA CCF. "Immaterial" should be assessed by the potential impact on the LRA CCF, not by an absolute procedural label: either a very small number of cases or a very small available headroom (i.e. potential drawdown is economically immaterial) are acceptable bases for the simple approach.

- Retail portfolios. For most retail portfolios (where historical data are plentiful) the simple approach will typically not be necessary. It may nevertheless be used for retail segments only where the same materiality test (potential impact on LRA CCF) is satisfied.
- Required pre-checks (to address the concern in Input C). Before adopting the simple approach an institution should: (i) run the modelling approach as an exploratory test (or equivalent sensitivity analysis) to confirm that using the simple approach does not materially change the LRA CCF; and (ii) document why the simple approach is an appropriate simplification for that segment. This addresses the point that the simple approach cannot be a shortcut that avoids the modelling work needed to demonstrate its acceptability.
- Operational and governance safeguards. Use of the simple approach should be subject to clear policy, periodic review, back-testing and reversion triggers (e.g. if the share of affected exposures or the sensitivity of LRA CCF increases materially). The institution must retain the ability and data to move to the full modelling approach if conditions change.
- Design of the materiality test. The test should be based on quantitative sensitivity (how much the LRA CCF would change if unresolved cases were imputed as resolved) and on the economic headroom available to draw; it should be proportionate and documented so supervisors can replicate the assessment.

Question 28: 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?

The proposed methodology is considered too simplistic, as it does not adequately consider the underlying reasons for the lower realised CCF observed for unresolved cases when compared to the resolved ones.

For example, in the presence of a decreasing trend in realised CCF (e.g., resulting from an improved recovery process or a more favourable macroeconomic scenario), it is logical that incomplete workout positions would predominantly feature in the most recent part of the historical series, which inherently displays lower realised CCFs. It is deemed incorrect to disregard these data within the LRA CCF calculation by applying the simple approach, particularly when the lower realised CCFs are attributable to distinct economic factors not related to the additional drawing topic.

A more appropriate, yet still straightforward, alternative could be a comparative analysis of closed recovery processes. This would involve comparing the realised CCF with and without considering additional drawings. The resulting differential could then be applied to the realised CCF of unresolved cases to ensure a more accurate estimation.

Question 29: Do you have any comments on the modelling approach to estimate additional drawings after default for unresolved cases?

The modelling approach basically mirrors the logic and the steps set out in the EBA Guidelines on PD-LGD estimation for open defaults on LGD side. Under this vein, it is only noted that the approach constitutes a rather significant layer of complexity in the estimation, with induced effect also on LGD when it comes to open cases inference on those parameters. A simpler approach could 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 avoiding adding layers of complexity in this process).

Question 30: Do you have any concerns with the requirement to use as a maximum drawing period the maximum recovery period set for LGD?

The maximum recovery period (MRP) used on the LGD side is not considered to be 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 in the period before the liquidation status (when the customer is still in a going-concern situation).

Calibration to the long run average

Question 31: 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 EGIM actually leads to the adoption of a calibration by pool/grade according to paragraph 322 "In accordance with Article 182(1)(a) of the CRR, institutions are required to calculate the default weighted LRA CCF separately for each facility grade or pool.".

CCF in-default

Question 32: Do you have any comments on the guidance for the CCF estimation of defaulted exposures?

There are mixed views on the guidance for CCF estimation of defaulted exposures. The marginal benefit of modelling incremental drawdowns post-default is limited, especially in non-retail IRB portfolios where draws are minimal or blocked, and varying reference dates add unnecessary complexity to a narrow scope (revolving commitments only). The simplified approach is proposed as the default standard for both retail and non-retail facilities, with clearer conditions, materiality thresholds, and, if modelling is retained, an alternative target variable like the Limit Factor (akin to the Region of Instability) to simplify and stabilize in-default EAD estimation, given CCF's inherent pre-default linkage.

However, CRR III input floors and prescribed CCFs can distort capital adequacy (e.g., high LGD predictions inflating EAD for low-utilization term loans), suggesting in-default CCF modelling may be needed to align with LGD estimates. It is proposed to clarify that the "committed amount" is the maximum between the limit and the drawn amount for overdrawn facilities. Additionally, paragraph 119(c) should align with 119(b), calculating the numerator as drawn amount at reference date plus subsequent additional drawings and capitalized fees/interest (discounted to reference date) for consistency with PD and LGD guidance. This balances simplification with addressing material risk distortions.

Question 33: 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?

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 the underlying reasons (i.e. limited materiality of the phenomenon and/or restrictive policies on additional drawings).

Downturn CCF

Question 34: Are there examples where the haircut approach should be considered the most appropriate approach for estimating the downturn CCF?

No specific examples can be provided for the adoption of haircut approach. In case estimated downturn approach is needed, extrapolation seems to be the most suitable one.

Question 35: 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?

The 15% add-on for downturn CCF, when impact cannot be observed or estimated, appears broadly conservative but may not be adequately calibrated across all contexts. As a fallback for exceptional cases, it aligns with past EBA GL on PD-LGD, yet its suitability varies by portfolio. For low-baseline CCF portfolios (e.g., credit cards with strong limit management), a 15pp increase could overstate risk, while high-volatility drawdown portfolios or those with historical stress indicating sharp utilization rises may require a higher add-on. A risk-sensitive approach with a minimum add-on, adjustable based on observed volatility or expert judgment, is proposed. Additionally, the add-on's arbitrariness and lack of verifiability suggest it should be tested against industry-wide realized CCF time-series data to determine an average downturn increase, ensuring a data-driven calibration.

Question 36: 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 downturn period, it can be not unusual to observe increased use of credit lines. Thus, a downturn effect could concretely exist. However, it is also not unlikely that in a period of downturn there could be a deterioration in asset quality, leading to proactive credit management and consequent reduction of the credit line, which may also 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 punctual realized CCF will lead to higher baseline LRA CCF and, consequently, to a lower relative increase in the Downturn CCF over the LRA.

Question 37: 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 the economic factor on the available time series, corroborated with expert evidence and assessment of policy rules, can be a possible approach to argue the absence of downturn period, even if not observable in the time series. Anyhow, considering the period of downturn usually relevant at European level, observations for at least one of them should be available and the observed downturn approach should be usually applicable.