To:
European Banking Authority

October 24, 2025

Feedback to the Consultation Paper 'Draft Guidelines on Credit Conversion Factor estimation under Article 182 (5) of Regulation (EU) No 575/2013',

Dear European Banking Authority,

please find attached our consolidated feedback regarding the Consultation Paper 'Draft Guidelines on Credit Conversion Factor estimation under Article 182 (5) of Regulation (EU) No 575/2013'

Yours sincerely,

The EURO CRO Group

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1. Introduction

The content of the present document has been agreed upon by the major European credit institutions participating in the EURO CRO Group[1] and intends to provide consolidated feedback to the Consultation Paper 'Draft Guidelines on Credit Conversion Factor estimation under Article 182 (5) of Regulation (EU) No 575/2013', hereinafter referred to as 'GL' or 'draft GL'.

2. General Comments

Significant increase in model complexity and resources:

The EBA has emphasized that the draft guidelines aim to bring simplification. While we acknowledge that the guidelines provide helpful clarifications, we are concerned that the level of detail in the requirements may unintentionally increase complexity. This level of granularity could pose significant challenges for practical implementation.

As a result, a substantial increase in personnel may be required, not only in the areas of model development but also for auditing, validation, and on the regulator's side. These additional demands on human resources would also have a significant impact on multiple areas within banks' risk management functions, potentially redirecting resources away from other critical tasks.

We view the considerable expansion of modeling units as being primarily regulatory driven and it is anticipated that banks will focus primarily on meeting the new requirements.

Moreover, the approach laid down in the draft GL may benefit from further refinement to ensure it remains proportionate to its objectives. To effectively achieve simplification, a more balanced and pragmatic framework that focuses on essential, high-impact measures could be more effective than the current level of granularity. Without such adjustments, the GL will increase risk by reallocating personnel and will fail to achieve the intended improvements in financial system stability.

We therefore would like to highlight sizeable concerns of the EURO CRO Group on this GL that we assess to be contradicting in achieving a simplification in the regulatory framework without lowering capital demands. Thus, we ask EBA to re-evaluate and revise the GL to assure that the implementation of required redevelopment of the CCF models can be performed efficiently, balancing better cost and benefits for both, institutions and regulatory bodies. As one example we think it is not appropriate that an EBA GL on CCF estimation is also affecting directly the LGD estimates, and thus possibly triggering further material model changes not only on CCF but also on LGD models, that have already been reviewed and validated by the supervisors in the context of IRB Repair.

[1] BBVA, BNP Paribas, BPCE, Commerzbank, Credit Agricole, Deutsche Bank, ING, Intesa Sanpaolo, Nordea, Santander, Société Generale, Unicredit.

Uneconomic CCF models:

In addition to that, the GL will also lead to uneconomic CCFs. The examples provided in the draft GL suggest that CCFs greater than 100% are expected. Consequently, we anticipate that many finally calibrated pools will result in CCF values exceeding 100%.

From an RWA calculation perspective, this leads to uneconomic outcomes:

Given that *EAD = Drawn Amount + CCF * Open Limit* and *RWA = EAD * Risk Weight* (for the sake of easiness, assume a risk weight of 50%), an obligor (P1) which is fully drawing the granted amount for his credit product is seen less risky than the ones who do not fully use the granted credit line, as the EaD as well as the RWA increase when the drawn amount decreases. With other words, whenever customers start to increase their drawings (thus increase their actual on-balance exposure to the bank), the bank will consider them as less risky. This represents a contradiction from the economic and risk management perspective.

Client ID	Granted amount	Drawn amount	Undrawn amount	Calibrated CCF	EaD	Risk weight	RWA
P1	5,000	5,000	-	130%	5,000	50%	2,500
P2	5,000	3,000	2,000	130%	5,600	50%	2,800
P3	5,000	1,000	4,000	130%	6,200	50%	3,100

As a result, banks may be incentivized to encourage clients to fully draw down their credit lines, as doing so becomes more effective in terms of reducing RWA. This raises concerns about the economic logic as well as the fair level playing field, especially as CCF >100% are not applied in the standardized approach (SA) nor in the FIRB.

Please also note that the considerations contained in this document about the draft GL CCF must necessarily be read in conjunction with another conservative measure recently introduced in Level 1 regulation (CRR3): the quantification floor at 0% for negative realized CCF, which is problematic applied on a granular level and which will additionally lead to higher CCFs. This floor, which was not part of the original Basel Framework but was subsequently introduced during the Trilogue phase leading to final CRR text without dedicated industry consultation, raises concerns from both a quantitative and qualitative perspective:

- **Regulatory inconsistencies**: The requirement introduces conflicts within the regulation and between jurisdictions.
- **Conceptual issues:** Negative CCFs are economically meaningful and naturally occur in certain scenarios.

- **Economic consequences:** the increase of CCFs determines three main effects:
    1. A competitive disadvantage of the credit institutions in European countries with respect to credit institutions not directly applying the CRR (e.g. UK, USA)
    2. A competitive relative disadvantage between credit institutions using internal models with respect to credit institutions resorting to the standardized approach
    3. Institutions may need to adopt RWA containment strategies that restrict credit, potentially reducing liquidity in the real economy
- **Modelling impacts**, articulated in three main considerations:
    1. the floor introduces an upward bias and implies a significant impact in terms of increase of the final estimated parameters
    2. the floor prevents models from reflecting improvements in proactive management practices and processes
    3. the floor increases the divergence between CCF estimates used for regulatory capital and those used for IFRS9 accounting purposes.

The combination of the quantification floor (highly impacting on the left tail of the CCF distribution) and the conservatism introduced by some elements of Draft GL CCF (highly impacting on the right tail of the CCF distribution) is pushing CCF estimates well beyond the expectations of financial institutions.

As an additional aspect in this context, we also want to highlight that in our view, a variable horizon during the twelve months prior to default is also relevant to capture counterparties' behavior and it allows to account for changes in facility terms during this period of time.

We believe that the use of a variable time horizon should also be allowed, at least for risk differentiation purposes, where a higher volume of data may be useful, e.g., to assess changes in counterparties' behavior for corporate low-default portfolios.

<u>Negative effects on economy:</u>

Besides significantly increased model complexity and uneconomic CCF models, there are further negative effects expected as the implementation of the GL will lead to significantly higher RWA, not only due to the models itself but also as a result of the surcharges applied to findings in the models. These additional costs will likely have a profound impact on the availability and cost of financing across Europe, as the increase in capital requirements will make lending either significantly more restrictive or more expensive. This, in turn, is expected to have a negative effect on the macroeconomy and the overall economic strength of Europe.

Such a development raises concerns about the unintended consequences of the GL. While the objectives may focus on enhancing financial stability, the additional burden

on banks may constrain their ability to provide affordable credit, thereby hampering growth and innovation across the European economy. Balancing regulatory goals with economic considerations is therefore essential to ensure guidelines do not inadvertently weaken Europe's competitive position or its economic resilience.

Implementation deadline:

We understand that EBA is still reflecting on a possible implementation deadline of the EBA Guidelines on CCF estimation. To cope with EBA new requirements, sufficient time granted to banks is necessary in order to provide meaningful modelling given connection with the redevelopment of LGD models to ensure consistency between LGD and CCF (e.g. additional drawings post default) or futures mandates from EBA which could possibly have an influence on the required framework (e.g. IRB assessment methodology). Already approved models under IRB repair were reviewed based on current regulatory requirements and EGIM supervisory expectations were also used as a standard by IMI missions, even if EGIM is of non-binding nature. Banks were pushed in some aspects to comply with supervisory expectations which deviate from EBA new requirements (e.g. 2-step calculation for LRA CCF calculation, treatment of commitments not yet accepted). **For all these reasons, it is of utter importance that the EBA provides sufficient transitional arrangements with a deadline for submission of model changes depending on the intensity of the remediation for banks (e.g. from 3 to 5 years after the final date of publication of the GL, to be discussed between the institution and the JST on an ad-hoc basis). Such proposal is considered as a pragmatic timeline based on our experience of the implementation of IRB Repair.**

3. Feedback to Consultation Boxes of the draft GL

Question	Answer
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	The consultation paper 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. This may occur, for example, when LGDs are robustly estimated, but CCFs are not, or when subsegments of the application portfolio lack observed defaults in the RDS. In such cases, institutions are required to apply a Fixed CCF, which incorporates a MoC quantified by the institution. The minimum level of final CCF including MoC must be no less than 100%. First and foremost, 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). Notably, this article makes no reference to the LGD estimation approach, which in our

estimate own estimates of LGDs?	view supports the continued applicability of the IRB-LGD combined with SA-CCF approach. Regardless of the point above, while the introduction of a Fixed CCF for 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. This threshold may disproportionately disadvantage institutions using IRB-CCF compared to those applying the SA-CCF, particularly in the case of unconditionally cancellable commitments, where the gap between Fixed CCF and the corresponding SA-CCF can be significant for the same type of product. In addition, the requirement to apply a 'sufficiently conservative' MoC presents practical challenges, as its calibration can be complex and highly judgmental. The fact that the MoC may explicitly push final CCF values above 100% could further disadvantage institutions opting for the Fixed CCF approach instead of the SA-CCF. This issue is particularly relevant given that Supervisory Authorities tend to adopt a cautious stance when it comes to model estimates and may therefore require additional prudential uplifts, further amplifying the conservatism embedded in the final figures. Disproportionate MoCs are expected for portfolios with low volumes of data or when the starting level of the realised CCFs is very low (though not sufficiently robust), conflicting with the concept of MoC that should serve only to cover for the residual uncertainty.
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?	We generally welcome the additional flexibility that is given by the approach of a set of related contracts. We suggest that that approach should also be an option when it is demonstrated that this is economically reasonable. This is for example the case when a customer has more than one revolving commitment and can freely shift money back and forth. In such a constellation different realized CCF are not meaningful. Given the terminology used, the interpretation suggests that not only legally connected products can be viewed as linked, but also those that are practically or operationally connected. We want to note that the identification of such relationships likely requires the use of advanced algorithms to effectively analyze and determine the connections. In addition to that, we would like the EBA to be more explicit in the Guidelines that LGD and CCF can be calculated at distinct granularities. Indeed, the CRR definitions clarify

	that both the LGD and CCF parameters are related to a 'single facility' as per articles 4.1(55) and 4.1(56), leaving the door open to an unintended reading of regulation that both parameters need to be calculated at the same level of granularity. It is worth highlighting that supervisory reading as per paragraphs 260/316 of the ECB Guide to Internal Models (July 2025) is still allowing in CRR3 distinct granularities between LGD and CCF. Indeed, the rationale for calculating LGDs at a more aggregated level than the facility level is linked with the recovery processes, while the CCF parameters are linked with the way limits are granted and managed within the bank. Moreover, the restriction of IRB-CCF models to revolving commitments only makes it more difficult to align LGD calculation granularity (as LGD models would cover both revolving and non-revolving products) with the CCF calculation granularity.
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?	EBA should nuance its position regarding deferred debit cards. The revolving definition is interpreted with 3 cumulative criteria being met: (A) The obligor has flexibility on drawings, within a given limit; AND (B) The obligor has flexibility on repayments: the obligor decides the timing of its reimbursements; AND (C) The drawing capacity is replenished by the amount reimbursed. This reading is based on article 166(8b) of CRR: "a commitment shall be deemed "revolving" where it lets an obligor obtain a loan where the obligor has the flexibility to decide how often to withdraw from the loan and at what intervals, allowing the obligor to drawdown, repay and redraw loans advanced to it. Contractual arrangements that allow prepayments and subsequent redraws of those prepayments shall be considered revolving." Banks should determine the revolving feature of products based on CRR3. Some deferred debit cards will not meet for instance the criteria (B) / (C) and will not be considered as revolving products. Banks should determine the revolving feature of products based on CRR3/European law definition. Overall, we think that considering increase of EAD for deferred debit cards is less of an issue because their drawings are off-set by the current account balance which is most of time positive.
Question 4: Are there products that have an advised limit of zero but a non-zero unadvised limit that should be included in the scope of the IRB-	No, all such products should not be in scope of CCF models. With respect to point 17 b) we would like to ask for clarification. This point stipulates that a higher unadvised limit that is internally pre-approved by the institution can be excluded if the obligor is technically not able to draw beyond the advised limit without first requesting an

CCF GL? How material are these cases for your institution?	increase. We would like to confirm that this also applies even if this increase in limit can be requested by the obligor and is granted without a subsequent automated or manual credit assessment.
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 answer.
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?	We do not see in level 1 text any ground for developing an approach for fully drawn revolving commitments which would estimate the EAD above the full on-balance sheet drawn amount. As article 166.8 of CRR indicates 'An institution that uses IRB-CCF shall calculate the exposure value for undrawn commitments as the undrawn amount multiplied by IRB-CCF', if the undrawn amount is 0, the exposure value for undrawn part will be 0. In article 182.1c of CRR, only facilities which are close to be fully drawn are concerned by the fact that CCF should be effectively quarantined ('Institutions shall ensure that their IRB-CCF are effectively quarantined from the potential effects of region of instability caused by a facility being close to being fully drawn at the reference date'). We understand that such specific treatment does not include fully drawn commitments.
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?	It could be that model performance will decline when evaluated on test samples (out-of-time and out-of-sample) compared to the development sample. However, there is no possible universal guidance on how much performance drop is acceptable. The extent of allowable degradation depends on the specific application, risk tolerance, and organizational requirements. Institutions should be allowed to define their own thresholds for acceptable performance degradation, based on their specific context, taking qualitative as well as quantitative arguments into account. There are concerns for non-retail CCF models covering low default portfolios. Due to low number of observations, it may not be possible to meaningfully split the sample into

	'development' and 'testing' for CCF estimation as required by Paragraph 43. Regarding paragraph 42 (a): If there is a common reason why a group of facilities are excluded, a summary table with exclusion type (incl. rationale) and materiality should be sufficient in our view. A case-by-case justification does not seem necessary. Therefore, we would suggest using the same wording as for retail CCF models (Par 42 (b)) in Par. 42 (a), and possibly add that in case of idiosyncratic exclusions, a case-by-case justification should be provided.
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?	Yes, these situations can arise where the calibration sample is necessarily shorter than the one used for the LRA CCF. This can occur because replicating all risk drivers for very old data can be difficult or impossible. We believe the primary goal of calibration is to ensure the model properly reflects a downturn level. Therefore, the historical period that contains the relevant economic crisis (or is used for extrapolation) must be the true calibration target. To demand a full alignment of the samples and then also apply a Margin of Conservatism for this reason would result in an excessive and methodologically unjustified penalty.
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 answer.
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	We are strongly concerned by this and deem that if there is a problem of modellability of a specific perimeter, the direct adoption of SA-CCF as a fallback solution (or at maximum as a floor on punctual CCF estimates) would be a fairer approach. Indeed, a 100% CCF for revolving commitments would be an abruptly conservative method compared to the 40% SA-CCF, thus also creating a situation of a significant unlevel playing field between IRB and SA institutions. Therefore, the fixed CCF approach raises strong concerns and is a completely

subsegments of the application portfolio? How is your institution currently treating these cases?	disproportionate measure. This can be in particular sensible for non-retail CCF models covering low default portfolios. Due to low number of observations driven by low default rates, material subsegments of the application portfolio may be under-represented (or not present at all) in the historical default data. Before concluding that a fixed 100% CCF setting should be applied, we would assess qualitatively (and quantitatively to the extent possible) if the CCF data of other similar subsegments could be used as proxy for the estimation of a CCF best estimate and a MoC covering potential non-representativity concerns.
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)?	Meeting this requirement would necessitate the development of complex algorithms combined with longitudinal data analyses. However, the costs and efforts associated with developing such algorithms are disproportionate to the expected benefits in terms of improved risk differentiation. Moreover, this point could create potentially disproportionate and economically implausible effects on the estimation of the CCF, leading to a level of CCF higher than 100% in several situations (this is an arithmetical effect due to inclusion of only revolving facilities in the denominator versus all facilities - also related to non-revolving product like term loans - in the numerator). In this regard, the five points listed in par. 56 of the Section BR of the EBA paper, defined in the view to isolate 'distressed financing', and which as such qualifies the new facilities as 'related' to existing ones at reference date, will almost always be present (for instance, the simple fact of originating new financing within the 12 months observation period would lead to activate point c. and even in the case of a decrease of the drawn amount of the existing facility at the moment of the origination of new one, it could be argued that there could be a partial transformation thus presuming a link between the two in any case). Therefore, although the paper leaves room for justifications even considering the five cases listed in par. 56, rebutting all the circumstances in the context of the preparation of the RDS would require a huge effort (since the definition of 'related facilities' as retrievable from par. 56 is much broader than the link of product transformation that can occur in the usual context of restructuring measures) and still a wide room for interpretation would remain, leading in the context of an Internal Model Investigation to a more conservative drift by supervisors. In more detail: • With regard to the five cases listed in par. 56, the one related to a., b. and d. could be fairly considered

	as distressed financing with little room for interpretation and treated as related facilities (although, with reference to point d. it would be beneficial to set out a clearer threshold, e.g. 3 months by benchmarking the 90 days period for the Past Due classification). Conversely, concerning point c. and e., treating them systematically as 'distressed financing' and accordingly as 'related facilities' looks excessively conservative. Indeed, the detailed understanding of the impact of changes in customer product mix as required by Article 182(1)(h) of the CRR also entails that IRB-CCF models reflect the institution's current policies and strategies regarding account monitoring, including limit monitoring, and payment processing (as recalled in the same Article). In this vein, new finance granted to a customer under an ordinary approval process, not presenting any specific signals of deterioration (e.g. watchlist classification or poor rating) cannot be seen structurally as a related facility to the existing revolving one 12-months before the default even if triggering the case c. (that, as said before, would be triggered by definition since the outstanding debt corresponding to the drawn amount of the existing facilities and the outstanding debt would be always and logically increasing). Indeed, the RDS for CCF estimation is based only on the defaults and, even in a situation of properly performing rating models, it may occur that customers with no bad rating and no specific signals of risk may suddenly deteriorate at a certain point in time and go into default (indeed defaults could occur also on good ratings) but at the moment when the new finance was approved and granted, and based on all the information available in that moment, the customer was considered as an ordinary performing client: as such the new finance does not have any specific linkage with the existing revolving facilities (even more so if it related to a non-revolving facility). • A different assumption can be made in case of substitution/consolidation of existing facilities into others. In instances of cases with terminated facilities and opening of new ones where the capture of the overall facilities at the moment of a default results in a similar or even lower number of facilities compared to reference date, the transformation/consolidation (as depicted in the Case IX at page 34 of the paper) maybe assumed for the calculation of realized CCF.

	• EBA is not consistent in the Guidelines when asking for instance for consistency between application and estimation on fully drawn commitments but the selection of perimeter does not ensure such consistency. Indeed, paragraph 60 page 71 of the Guidelines imply notably that if the facility is non-revolving at reference date but it becomes revolving between 12 months before default and default, it is included in the IRBA CCF modelling perimeter. However, in CCF application, at a certain snapshot/reference date of RWA calculation, the bank cannot anticipate a future change of a product type for a specific facility and can only observe the product nature at snapshot/reference data. It would then be inconsistent with the estimation of 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 raised in the previous question, we see the risks of disproportionate overestimation of the CCF resulting from economically implausible estimations, thus impacting the credit risk parameters also used for the origination of new facilities. An alternative approach that would still ensure full compliance with Article 182(1b) and particularly to 'demonstrate to the competent authorities that they have a detailed understanding of the impact of changes in customer product mix' would be to state more explicitly that the justifications provided by the banks to rebut the presumption of 'related facilities' shall be founded on: • An assessment of classification of risk stemming from the monitoring process and rating assigned at the moment of a new financing being granted to let the bank to set out a clear criterion for differentiating what is qualifiable as 'ordinary finance' from 'distressed' one. • Checks of the capture of facilities at reference date vis-à-vis default date with the focused control on the presence of terminated facilities and issuance of a new one during the 12-month period, e.g. by checking the consistency of the overall outstanding amount at client level before and after the change. • to the extent possible (and likely for just non-retail perimeters), assessment of historical single file.
Question 13: Do you have any concerns on the proposed approach for the treatment of so-called 'fast defaults'? In	Overall, we do not have concerns from the methodological standpoint but the current formulation of the paper with respect to the customer product profile (ref. to Questions 11 and 12) is such to factually nullify their presence, since it leads to consider almost all situations of new financing as related facilities. Therefore, under the current framing of the paper, the fast defaults would be limited to very

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?	exceptional cases of full new clients that migrate to default before 12 months. In our view, a variable horizon during the twelve months prior to default is also relevant to capture counterparties' behavior and it allows to account for changes in facility terms during this period of time. We believe that the use of a variable time horizon should also be allowed, at least for risk differentiation purposes, where a higher volume of data may be useful, e.g., to assess changes in counterparties' behavior for corporate low-default portfolios
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?	We do not have concerns; the treatment of multiple defaults is aligned with the LGD framework which was already implicit to guarantee the coherence between LGD and CCF.
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?	We suggest that EBA does not impose the allocation methods. It should be up to the banks to ensure consistency between CCF numerator and CCF denominator and detail in procedures the allocation methodologies used in case of product mix or product transformation. Such allocation methods should be in line with the bank's granting process and monitoring of facilities. Moreover, we note that a senseful CCF calculation is strongly conditioned from previous requirements on the detailed understanding on the customer product mix (thus reference is made to Questions 11 and 12). In case an institution is not able to handle changes in the product customer mix effectively (meaning correctly identify them with very high probability), the input for CCF calculation is already incorrect, leading to further issues in deriving a senseful model. On top of this we would like to raise a point of attention regarding one case that is not covered in the examples provided. The cases listed on page 31-34 embed the situation of product mix/transformation covering revolving and term loans, however, there are revolving facilities (like

	the Multipurpose Credit Lines - MPCLs) that also embed the inherent possibility of product transformation from revolving to contingent liabilities (e.g. financial or trade guarantees). Specifically, the MPCLs may be drawn not only as pure cash (thus with a classical conversion from undrawn to drawn) but also from undrawn to guarantee. This means, following the three principles, and the requirement of 'disaggregation' set out in par. 9 of the Section BR, that in the case of MPCL with already drawn amount as guarantees, this part shall be removed from CCF realization meaning both from drawn amount and limit amount. However, in case the previously drawn contingent liabilities/guarantee are executed thus converting as on-balance, they will contribute to increasing the cash drawdown with unplausible effects on the CCF realization (in other terms they would contribute to the numerator but not to the denominator). Therefore, we deem specifically that the impact of contingent liabilities (not covered in the EBA Paper example) shall be introduced and set out (in particular the principles c. of part 79 in the Section BR of EBA paper should also into account non-revolving items different from term loans).
Question 16: Are there any concerns related to the allocation mechanism described in these GL?	Based on the examples introduced in the GL CCF, we would like to address both, methodological and general concerns regarding the principles: • We see the approach demonstrated for cases I & II very critical. Case I and Case II can refer to those instances when 'new finance' is granted to the obligor, either by extending the limit of existing revolving commitment or by adding a new revolving contract at the client facilities pool. In both cases the customer has drawn within his limits, which should not result in a CCF > 100%. From a theoretical standpoint, the approach of consolidating this case within a single calculated CCF may be regarded as conceptually sound, particularly where the new financing relates to the same facility granted to the client. Nonetheless, the methodology of calculation gives rise to distortions in the measurement of the realised CCF: if the denominator of the CCF accounts only for the original facility and excludes the new financing, the ratio becomes artificially inflated, thereby overstating risk and distorting the LRA-CCF. This distortion is evident in the example provided, where the calculation yields a CCF of 200%. The unduly prudential aspect introduced for these cases, when read in conjunction with the floor on quantification already imposed by the new Article 182 CRR, produces a double hyper-prudential

	effect on the LRA-CCF, pushing the estimated CCFs further away from their actual realisations or any economic meaning. Indeed, outliers will be produced and the right tail of CCF distribution (i.e., high realised CCF) inflated, while left tail (i.e., negative CCF realisation which are common in practice) is unduly restricted. Additionally, any limit increase (within the reference period) represents a new credit decision, whether it occurs automatically because of improved obligor quality metrics or as a single-case decision made by a credit officer. From our perspective, institutions should have the flexibility to make an adjustment of the limit at reference date by the increased amount in case they see it as appropriate. • In Case IV, only the revolving part of the facility is included in the CCF numerator (EAD), while the same EAD in the LGD denominator of the same facility will capture both term loan and revolving parts, raising concerns on how consistency between CCF and LGD calculations can be ensured, as required by EBA/GL/2017/16. • All the examples shown with a CCF of 200% look rather harmless, but if a limit is increased from 1000 EUR to 5000 EUR with an initial drawing of 500 EUR and a final drawing of 5000 EUR this results in a CCF of (5000 – 500) / (1000 – 500) = 900%. At no point in time has the customer drawn beyond a granted limit and a CCF of 900% is not justified. • Moreover, as a side effect, if banks perceive that the extension of financing could mechanically lead to a higher estimated CCF in the event of a client's default, regardless of whether there are any indications of increased credit risk at the time of the extension, they may be discouraged from granting additional limits even to high-quality clients. This, in turn, would undermine their role in supporting the real economy. For above reasons, it is suggested to modify the CCF formula to account also for new finance into limit used at formula's denominator.
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	The proposed approach for applying the treatment of drawings would evidently result in differing levels of IRB-CCF, which has a material impact on credit risk calculations. This is particularly relevant given that default cases under a going-concern assumption are prevalent in many credit portfolios. Moreover, there are notable concerns regarding the formula provided. Specifically, it does not adequately address the significant differences between the maximum drawn amount and the maximum exposure, the latter of

your institution and if yes, why and how material are these cases within the scope of IRB-CCF models?	which may also account for additional components such as fees and recoveries. This discrepancy could result in inconsistent or misleading outcomes, raising critical questions about the practical application of the formula in diverse institutional contexts. Given that data granularity and availability vary significantly across institutions, a one-size-fits-all approach, such as prescribing a specific formula, is neither feasible nor appropriate. Not only would such an approach fail to account for institution-specific differences, but it would also add unnecessary complexity to data processing. Therefore, instead of prescribing a single methodology, we recommend allowing institutions flexibility to adopt methodologies that align with their available data granularity and internal practices. That said, there are concerns regarding the consistency between LGD and CCF models.
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 in the course of the probation / dependence period the customer is essentially like-performing. Even in presence of higher drawings it is expected to also have higher recoveries from repayment on the LGD side.
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	Yes, the majority of banks see material consequences for this newly proposed methodology (max drawing) for considering post default drawings: This new methodology could impact the CCF as well as the LGD models already submitted. Since the GL does not allow selecting the alternative approach (addition of all post-default drawings without netting) already taken into account for LGD models, a redevelopment will be necessary to align with the CCF guidelines if there is no flexibility given on the consistency expectations between LGD and CCF. Additionally, the proposed approach can raise concerns with 2 different LGD formulas between revolving and non-revolving exposures that initially had the same LGD model. Could you please provide more details on what is expected in such situations?

a redevelopment of your LGD models?	We highlight that this possible misalignment between the LGD and CCF models could lead to additional challenges during IMI missions and the review of estimate works. More time granted to institutions to allow them to align CCF and LGD models should be contemplated.
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?	We believe it would be relevant to offer greater flexibility in the approach outlined in the GL, allowing institutions to choose from a variety of options. For example, incorporating both relative thresholds related to CCF and absolute thresholds concerning undrawn amounts could provide additional alternatives to isolate facilities with very low off-balance-sheet exposure and improving the ability of identifying relevant cases more effectively. For the avoidance of doubt, banks can use absolute and/or relative thresholds to identify region of instability.
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?	Par. 95 states that the threshold should be based on a dispersion measure, with the objective of ensuring that the ROI is as small as possible. However, there is no clear guidance on how to handle situations where a single outlier significantly impacts the variance, potentially leading to a ROI that includes numerous normal observations just to exclude that single outlier. From our perspective, banks should have the flexibility to define their own measures, which are not limited to dispersion measures, provided they can demonstrate a strong ability to identify high CCF value constellations effectively. This approach would allow institutions to implement methodologies better suited to their specific portfolios and ensure consistent and effective risk identification. Institutions shall have the flexibility to select as main objective measure either a dispersion measure or a classification measure that covers the balance between non outliers and outliers, given the fact that there is no one-size-fits-all approach.
Question 22: Do you consider it appropriate to set a prescribed level or	We consider it more appropriate not to set a predefined threshold but rather set out a more flexible harmonised approach in the regulatory guidelines which can be applied for calibrating the most representative threshold on the local portfolio of the institution. Amongst others, the

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?	appropriate value depends on the limit amount and policies on drawing after default, which differs between rating systems, products and institutions themselves.
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?	We do not think that a single approach is relevant (see answer to Question 24).
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	It would be relevant to allow the use of other Basel approaches or adaptation of such approaches. As a reminder, Basel approaches consist of: • Limit Factor approach: the predicted balance at default is expressed as a percentage of the total limit that is available to the obligor under the terms and conditions of a credit facility • Balance Factor approach: the predicted balance at default is expressed as a percentage of the current balance that has been drawn down under a credit facility • Additional Utilisation Factor approach: the predicted additional drawings in the lead-up to default are expressed as a percentage of the total limit that is available to the obligor under the terms and conditions of a credit facility Each Basel approach may raise the following issues in the calculation: • The Basel approaches were not written in the context of a 12-month fixed horizon approach. However, one strong assumption is the reference

approaches described in the Basel III framework?	date especially for the denominator in the calculation of each Factor. Such reference date is 12 months before default, thus when applying the Basel approaches, the denominator is the drawn/balance amount or total limit at the reference date. However drawn/balance amounts or total limit amounts could evolve between 12 months before default and the default (thus with a mismatch with amounts in the numerator). Such asymmetry between the numerator and the denominator is structurally an issue in all Basel approaches • Low total limits at reference date could create extreme values in the calculation under Limit Factor and Additional Utilisation Factor approaches, as the denominator is rather low • The Balance Factor approach could create instability issues due to the denominator being the drawn/balance amount at reference date, which could be disconnected with the drawn/balance amount at default date. Below we describe below relevant adaptations of Basel approaches that banks could think of, to illustrate the issues encountered (rather than supporting them as a prescriptive approach): • In the Additional Utilisation Factor approach for instance, we understand that the calculation of an Additional Utilisation Factor is necessary (being the predicted additional drawings in the lead-up to default calculated as the difference in the drawn amount between default date and reference date, divided by the total limit at reference date). However, to circumvent issues related to low limits, we could express directly the EAD as the drawn amount at reference date + an additional drawing factor. Thus, the EAD will be an equivalent to what appears in the CCF numerator. • Another way to circumvent the difficulties could be to significantly simplify the approach where the scope is rather limited. In this case, we can think of expressing the EAD as the drawn amount at reference date + X amount. The X amount could be either calibrated or a fixed value. As there could be different ways to best estimate the calculation depending on the cases as illustrated above, we would favour the EBA providing sufficient flexibility (use of Basel approaches or adaptations) in the calculation approaches in the Region of Instability so that banks can take the most relevant approach for their portfolios.
Question 25:	See answer to Question 24.

Which of the three approaches described in the Basel III framework is preferred in case a single approach would be prescribed?	
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 the case of facilities related to the same obligor falling within the same pool or grade. In general, we deem that the pure number-weighted average is acceptable, and we do not see the strict need to have this intermediate step. On this we highlight that current ECB EGIM takes a different approach (even if only for LGD but essentially and logically this is also extendable to CCF). If the alignment of EGIM with the GL should occur, institutions should be granted more time to remediate CCF models currently aligned with EGIM. Our analysis indicate that not all outliers can be captured in the ROI (for instance due to future limit increases, see answer to question 16) and we ask for more flexibility of the treatment of outliers in the LRA calculation in order to provide economically meaningful CCF models with final CCF parameters below 100%. In addition, we want to note that due to the need to floor negative CCFs at zero, we are only producing outliers on the right tail of the distribution leading to bias in the final CCF estimation.
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?	The simplification for Q27 to Q32 shall be also allowed for retail exposures. Moreover, the new requirements on CCF projections may have an impact on already existing LGD models which should be assessed for consistency reasons. Could you clarify that estimated future additional drawings should be included in LGD models?
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	Yes, the simple approach should generally also be an option for retail portfolios. We don't see the rationale behind a restriction to the non-retail portfolios. We deem that excluding these cases from LRA calculation would not be in line with the CRR requirement set out in Article 182 to consider 'all defaults', thus going beyond the level 1 text. Furthermore, the conditions for the application of the simple approach (on non-retail perimeter) are:

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?	• Low materiality of these cases; or • Presence of policies clearly restricting the possibility to draw after default. Therefore, under the first condition, including or excluding them from the LRA should not generate significant effect in any case. Whereas, if the second condition applies, they should be kept for sake of representativeness of the estimation with the local process. As such, excluding this case is incorrect from a methodological standpoint.
Question 29: Do you have any comments on the modelling approach to estimate additional drawings after default for unresolved cases?	The estimation of additional drawings after default for unresolved cases will bring further complexity as a time dependent model (time in default) will be required to estimate the EaD. In addition, if the additional drawings can`t be estimated properly (meaning low model performance), the final model output of the CCF estimation will decrease, as the 'input' to the actual CCF model is incorrect. A simpler approach may be considered, e.g. checking the long run on closed and substantially closed cases and given the realized drawings on still open default rescaling the inferred amount thus not including too many layers of complexity in this process. Furthermore, we want to point out the following concerns to this and the following question: While we appreciate the alignment and consistency, the implementation of the EBA approach raises operational issues. For example, a consequence of the approach is that one internal model estimate is directly used as input for another (estimated additional drawings for unresolved cases becomes part of LGD, while the estimated maximum workout period becomes part of EAD model). Can EBA clarify the governance to avoid unduly burdensome operational costs? Meaning an EAD redevelopment changing the additional drawing estimate doesn't require an LGD redevelopment as well, and vice-versa? Please note that the models in place for LGD and CCF are currently developed with possible and justified differences between LGD and CCF calculation granularities. There would be a first issue of mapping if we were to reuse extrapolation from LGD model line by line. Moreover, as CCF grades are not defined on the same basis than LGD, the mapping for the maximum recovery period could be difficult when it is calibrated by LGD grades for example. One additional difficulty is that the LGD is developed for revolving and non-revolving lines which further complicates the issue. If we were to use extrapolated

	additional drawing estimates both for CCF and LGD as requested by EBA, this could imply redeveloping LGD models.
Question 30: Do you have any concerns with the requirement to use as a maximum drawing period the maximum recovery period set for LGD?	We do not deem the MRP used on LGD side representative of a maximum drawing period. Indeed, the MRP is based on historical observations of exposures that have migrated to Liquidation status where the credit lines are terminated, and no additional drawings are possible. From a theoretical standpoint a dedicated maximum drawings period estimation would be needed based on the realizations of drawings observable only on period before the Liquidation status (when the customer is still in a going concern situation). We consider that it adds additional constraints with no conceptual meaning and possible bias introduction.
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?	No answer.
Question 32: Do you have any comments on the guidance for the CCF estimation of defaulted exposures?	CRR lays down a specific RW formula for defaulted assets with the use of LGD-in-default (articles 153.1 and 154.1) which justifies that EBA clarifies LGD requirements in EBA GL on PD-LGD estimation. When writing the GL on CCF estimation, we understand that the EBA has derived an approach for a CCF-in-default from what is required for LGD-in-default. However, contrary to LGD, regulation does not introduce any distinction in exposure value between defaulted and non-defaulted exposures (article 166). Indeed, the articles 153.1 and 154.1 of CRR detail RWA (=risk weight * exposure value) for both non-defaulted and defaulted exposures with the same formula. Exposure value is determined by article 166 which does not differentiate CCF between defaulted and non-defaulted assets. There is also no such differentiation in the determination of EL as per article 158.5, with implicit reference to article 166 for the definition of exposure value. Eventually, SA-CCF are not differentiated between defaulted and non-defaulted exposures. Thus, we do not see any ground for the EBA to create a CCF-in-default.

	This is why our reading is that we comply with CRR when we use performing CCF for all defaulted exposures for retail and non-retail exposures. As a matter of fact, introducing CCF-in-default models will introduce overcomplexity in model landscape with difficulties on some portfolios to retrieve sufficient data to model CCF-in-default. Moreover, there is a lack of proportionality with regards to the concerned IRBA CCF portfolio which is restricted to revolving commitments (with no mandatory IRBF in CRR3).
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?	From our point of view the performing CCF shall be applied for defaulted clients.
Question 34: Are there examples where the haircut approach should be considered the most appropriate approach for estimating the downturn CCF?	We do not see specific examples for the adoption of a haircut approach. In case of an estimated downturn approach being needed, extrapolation seems to be more suitable.
Question 35: Do you think the add-on of 15 percentage points is adequately calibrated when the	For an LRA of e.g. 10 percentage points, an add-on of 15 percentage points would appear disproportionately large. Such LRA levels have, for instance, been observed for specific products. From our perspective, it would therefore be more economically reasonable to adjust the add-on in

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?	line with the respective LRA values, for instance as a multiplicative factor.
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?	We expect economic factors to primarily affect default rates rather than CCF realisations, as the latter are based on defaulted exposures. Consistent with this view, we do not observe systematically higher or lower CCF levels during downturn periods. Instead, deviations from the LRA represent an expected outcome, as downturn periods, by construction, contain fewer observations than the full period underlying the LRA. In addition to that, we want to note that it's also important to consider that during a downturn two opposing effects are at play: increased client drawdowns for liquidity, which raises realised CCFs, and our proactive credit management, which often reduces lines and can result in negative CCFs. This leads us to the question of whether to apply a 0% floor during downturn analysis. We argue that for the purposes of testing macroeconomic relationships and quantifying downturn impact, realised CCFs should not be floored. Negative CCFs are a frequent and direct result of effective risk management. Flooring this data for analytical purposes weakens the observable statistical link and unfairly penalizes institutions for prudent credit management.
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	An analysis of the statistical significance of economic factors on the available time series corroborated with expert evidence and assessment of policy rules could be a possible approach to argue the absence of downturn period even if not observable in the time series. In any case, considering the period of downturn usually relevant at a European level, observations for at least one of them should be available and the observed downturn approach should be usually applicable. Moreover, in determining downturn period for CCF estimation, par. 146 explicitly asks for the inclusion of the "yearly default rates of the portfolio in scope of application of CCF model" in the indicators' set as per art 2(1)(c) of CDR 2021/930. In the Background and Rationale recital 141 it is clarified that the requirement of art. 182 CRR to analyse the correlation between default frequency and

during a downturn period?	magnitude of conversion factor can be covered in this way, under Downturn framework. This approach appears to be inconsistent with the original intent of the CDR on Downturn, which requires that the indicators selected to identify downturn periods reflect the evolution of the economic cycle independently of the institution's own (default, loss or drawdown) experience. In fact, the CDR 2021/930 explicitly requires the assessment of external default rates (to which institution's internal default experience contributes but it does not restrict the analysis to it). Moreover, the use of internal default rates solely for CCF downturn estimation could lead to misalignments in the identification of the downturn period, which should—by design—be consistent across LGD and CCF parameters, as both are meant to reflect macroeconomic or system-wide conditions. Such inconsistencies may ultimately trigger increased supervisory scrutiny and requests for alignment or justification of divergent downturn periods across risk parameters. As indicated by CDR 2021/930, downturn period is defined consistently for LGD and CCF. Given a certain sequencing of the necessary analysis to obtain final downturn estimates (definition of the impacted years, comparison with reference value…), we would like to highlight the need for the outcomes of such analysis to remain the best estimates rather than conservative estimates. In this perspective, given a certain complexity when combining all the sequences of the analysis for LGD and CCF, we are not immune to reaching a conclusion which will not provide the downturn best estimates. Thus, we fully encourage the EBA to provide backstops in the GL which ensure that downturn impact cannot solely be based on both highest LGD and highest CCF without connection to the downturn period.