



Just in Time



EBA - Discussion Paper on the Simplification and Assessment of the Credit Risk

March 2026

Executive Summary

The **EBA** has launched a **public consultation** on its Discussion Paper on the **simplification and assessment of the EU credit risk framework**, open until **10 May 2026**. The initiative seeks to **enhance simplicity, efficiency, and consistency across the framework**, while **preserving risk sensitivity and alignment with Basel III standards**.

The paper addresses the **Standardised Approach**, focusing on real estate exposures, reporting requirements, and potential harmonisation of loss definitions, and the **IRB Approach**, proposing consolidation of regulatory products, greater consistency in modelling, and optional fallback approaches to reduce both modelling and supervisory burden.

Overall, the Discussion Paper represents a strategic effort to **streamline EU credit risk regulation**, balancing **simplification** with **robust, risk-sensitive oversight**.



At a Glance

01	Introduction	04
02	Standardised Approach	07
03	Consolidating and Increasing Consistency in the IRB Rules	10
04	Simplified Approach in IRB Estimation	15
05	Conclusions & Takeaways	22

Keywords: CRR3, Credit risk, Standardised Approach, IRB approach, Real estate, ECAI, LGD, CCF



01

Introduction

Overview



Introduction 1/2

Overview 1/2

Standardised Approach

Internal Rating Based Approach

The **EBA** published in October 2025 its “**Report on the efficiency of the regulatory and supervisory framework**”, which provides a set of principles to **assess and strengthen** the **simplicity and efficiency** of the **regulatory and supervisory framework**.
 In the Discussion Paper, the EBA puts forward **several proposals for simplification** within the **credit risk framework, regarding both Standardised and IRB Approach**, aimed at **fostering discussion** on areas where improvements may be possible. Subsequently, the **EBA will assess the feedback received and consider potential simplifications** in order to ensure a balanced and robust prudential framework.

SA Approach

Balancing national specificities and supervisory convergence for real estate exposures Slide 8

Rely on existing ECAI mappings when possible Slide 9

Consolidating and increasing consistency in the IRB rules

Aggregating the IRB rules Slide 11

Harmonise testing requirements for continuous and discrete models Slide 12

Clarify and harmonise the definition of facility Slide 13

Clarify and harmonise representativeness requirements Slide 14

Simplified approaches in IRB estimation

Simplified approach for Margin of Conservatism Slide 16

Simplified approach for Direct and Indirect costs Slide 17

Simplified approach for Downturn estimation Slide 18

Simplified approach for estimation of LGD for defaulted assets Slide 19

Apply the fixed IRB-CCF derogation to a larger scope Slide 20

Introduce more flexibility around the CCF 12-month fixed horizon approach Slide 21

Introduction 2/2

Overview 2/2

Standardised Approach

Internal Rating Based Approach

The EBA published in October 2025 its "**Report on the efficiency of the regulatory and supervisory framework**", which provides a set of principles to **assess and strengthen** the **simplicity and efficiency** of the **regulatory and supervisory framework**.

In the Discussion Paper, the EBA puts forward **several proposals for simplification** within the **credit risk framework, regarding both Standardised and IRB Approach**, aimed at **fostering discussion** on areas where improvements may be possible. Subsequently, the **EBA will assess the feedback received and consider potential simplifications** in order to ensure a balanced and robust prudential framework.

Standardised approach

The EBA highlights the **complexity of the EU real estate framework**, shaped by **national, regional, and local specificities**, high **systemic risk**, and **politically sensitive** housing markets.

EBA proposes targeted **simplifications** to **enhance supervisory convergence**:

Balancing national specificities: These include **harmonising loss definitions** and reporting under CRR Article 430a, reassessing the use of loss data for preferential treatment of Income Producing Real Estate (IPRE) exposures

Rely on existing ECAI mappings: adopting **pragmatic approaches to ECAI mapping**, such as temporarily using ratings without government support, while **maintaining alignment with existing rating scales**.

The aim is to **reduce technical and modelling burdens**, ensure **consistency** between **estimation** and **application**, and uphold a balanced and robust prudential framework.

Internal Rating Based Approach

Consolidating and increasing consistency in the IRB rules: EBA supports the current balance between internal models and the Standardized Approach as a **necessary compromise**. To prevent low capital requirements, it has **restricted A-IRB** for Large Corporates and Financial Institutions. However, the Authority now proposes **further simplifications** in **specific technical areas**. This aim is to **reduce regulatory complexity** while **maintaining overall financial stability**.

Simplified approaches in IRB estimation: EBA is proposing a review of the **PD and LGD** guidelines (2017-2019) to better balance risk sensitivity with operational efficiency. The goal is to introduce **simplified, optional approaches** where high modeling complexity offers limited added value. This reform aims to **reduce maintenance costs** and supervisory burdens while ensuring continued prudence and full compliance with the **Basel 3** framework.

02

Standardised Approach

Balancing National Specificities and Supervisory
Convergence for Real Estate Exposures

Rely on Existing ECAI Mappings when Possible



Standardised Approach 1/2

Balancing National Specificities and Supervisory Convergence for Real Estate Exposures



As of today, **prudential regulatory provisions for real estate exposures** reflect the **EU market's national, regional, and local specificities**. Given the sector's **systemic** importance and the **high leverage of counterparties**, real estate has historically been a major source of financial instability, as seen in the 2008 crisis. Prudential requirements must therefore **balance harmonisation** of the regulatory framework with the need to accommodate local and national particularities, ensuring both **financial stability** and **proportional supervision**.

Simplification Improvement



The presence of **various derogation** within the framework, trigger the question of whether **further streamlining** is not possible, with a view to aggregating some measures that were initially thought to be **addressing specific purposes**, but whose **value added** as an independent measure may be perceived as **limited** (e.g., [loss data reported under CRR Art. 430a](#)).

Discussion Box



The EBA poses three strategic questions:

1. For the purpose of reporting under CRR Article 430a, **which definition of loss should be used?**
2. Should the **loss data** (CRR Article 430a) **be used for the assessment of RWs** of real estate exposures under CRR Article 126(4) and CRR Article 465(11)?
3. Which **elements** of the real estate framework should be **further simplified?**

Standardised Approach 2/2

Rely on Existing ECAI Mappings when Possible



According to CRR Art.138(g): “for exposures to institutions, an institution **shall not use an ECAI credit assessment that incorporates assumptions of implicit government support**, unless the respective ECAI credit assessment refers to an institution owned by or set up and sponsored by central governments, regional governments or local authorities”.

Currently, **Rating agency methodologies** typically incorporate government support by “**notching-up**” an intrinsic rating which reflects the credit worthiness excluding any external support.

Simplification Improvement



It is considered by EBA, to **facilitate a pragmatic use of ratings**, at least in the short term, that **ratings without government support can be temporarily used** until sufficient new data is available to perform a new mapping exercise, **if their rating scales for such ratings are fully compatible with those assessed by the EBA in previous mapping exercises.**

Discussion Box



The EBA poses one strategic question:

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

03

Consolidating and Increasing Consistency in the IRB Rules

Aggregating the IRB Rules

Harmonise Testing Requirements for Continuous and
Discrete Models

Clarify and Harmonise the Definition of Facility

Clarify and Harmonise Representiveness Requirements



Consolidating and Increasing Consistency in the IRB Rules 1/4

Aggregating the IRB Rules



Currently, the rules governing Internal Ratings-Based (IRB) models are fragmented across numerous documents, including:

- **EBA Guidelines**: for example, guidelines on PD and LGD estimation, guidelines on downturn LGD, etc.;
- **RTS (Regulatory Technical Standards)**: requirements for institutions, which competent authorities must use to assess compliance;
- **Validation Handbooks** and various **Q&As**.

Simplification Improvement



1. The **EBA's primary objective** is to make the regulatory framework **more readable and consistent**. This goal can be achieved by aggregating and consolidating the aforementioned texts based on their legal nature: **(a)** unifying the various guidelines into a single package and **(b)** simplifying the second-level texts (RTS).
2. Furthermore, the EBA is studying how to **incorporate Environmental and Social (E&S) risks** into credit risk models in the most appropriate way, balancing this integration against the risk of making the models and documentation excessively complex.

Discussion Box



The EBA poses two strategic questions:

1. **Consolidation vs. Stability**: should priority be given to regulatory consolidation or to regulatory stability? To this end, stakeholders are explicitly asked whether they have identified any redundant overlaps between the different requirements.
2. **E&S Factors**: is it possible to integrate E&S risks without making the system overly complex? Respondents are asked to identify specific areas where the EBA should provide further clarification.

Consolidating and Increasing Consistency in the IRB Rules 2/4

Harmonise Testing Requirements for Continuous and Discrete Models



The current framework allows for **two approaches** to assign risk parameters (PD, LGD, CCF): **(a) Grade/Pool-based Models (Discrete)**: where obligors are grouped into specific risk classes; **(b) Continuous Scale Models**: which allow for point-in-time estimates for each individual client (greater flexibility but resulting in higher complexity and reduced comparability).

Continuous models present technical difficulties during **back-testing** and in verifying **discriminatory power**, as it is challenging to compare an "infinite" range of individual estimates against actual realized defaults.

Simplification Improvement



To reduce the variability of **Risk-Weighted Assets (RWA)** and simplify supervisory controls, the EBA proposes:

1. **Mandatory Discretization**: requiring banks that use continuous models to group results into buckets or homogeneous classes solely for the purposes of testing and validation.
2. **Harmonization**: applying the same supervisory standards to both discrete and continuous models, making capital requirements more transparent and easier to compare across different institutions.

Discussion Box



The EBA is exploring ways to reduce the operational complexity of IRB models:

1. **Simplification Opportunities**: the EBA is inquiring whether there are preferred alternative approaches or, conversely, asking to identify areas where the **modelling burden** is disproportionate to the gain in risk sensitivity/accuracy.
2. **Data Collection and Calibration of Fall-back Approaches**: the EBA is evaluating whether the difficulties in sourcing granular data (specifically for LGD indirect costs) can be mitigated through a more pragmatic calibration of **fall-back approaches**.

Consolidating and Increasing Consistency in the IRB Rules 3/4

Clarify and Harmonise the Definition of Facility



The **CRR3 framework** introduces flexibility by allowing institutions to define a **facility** (credit line) as either a single contract or a group of contracts. This approach aims to align internal models with actual commercial lending practices.

This definition significantly impacts the entire risk calculation process, including the **definition of default** (for retail exposures), the counting of observations for **PD** estimation, and the calculation of **LGD** and **CCF**.

Simplification Improvement



1. The EBA suggests that adopting a **consistent and single definition** across all risk parameters would prevent **regulatory arbitrage**. Specifically, it would ensure that banks do not use different levels of aggregation solely to artificially reduce calculated risk.
2. While a uniform definition would simplify the regulatory landscape, mandating it could force institutions to **redesign their models**, thereby increasing the operational burden for both banks and supervisory authorities.

Discussion Box



The EBA is addressing the complexities introduced by the new facility definition under the CRR:

1. **Implementation Challenges:** what technical or operational difficulties have been encountered in implementing the new CRR facility definition? (e.g., IT system mapping issues or the management of complex credit lines).
2. **Consistency Across Parameters:** should a single, consistent facility definition be applied across all risk parameters (PD, LGD, and CCF), or is the current flexibility preferable?

Consolidating and Increasing Consistency in the IRB Rules 4/4

Clarify and Harmonise Representiveness Requirements



The **CRR regulation** stipulates that the historical data used to build risk models must be similar (**representative**) to a bank's current clients and loans to ensure accurate estimations.

Simplification Improvement



The EBA recently updated this framework in its **Guidelines on CCF**, introducing three key pillars:

1. **Development vs. Testing**: greater flexibility in selecting data for model construction, balanced by absolute rigor for testing data. If testing data is not representative, the results are considered biased.
2. **Reduced Bureaucracy**: simplified dimensions (criteria) used to measure whether data is consistent with the current portfolio.
3. **Data Scarcity**: specific management protocols for cases where historical data for CCF calculation is lacking.

Discussion Box



The EBA is now considering extending these simplifications to **PD and LGD models**, while providing clearer guidance on how to use data from external sources or banking pools:

1. **Extension of Adjustments**: which specific amendments would be necessary to reflect the specificities of PD and LGD?
2. **Further Simplifications**: ss further simplification of representiveness requirements necessary for PD and LGD (following the approach taken for CCF)? If so, what types of simplification would you suggest?

04

Simplified Approach in IRB Estimation

Simplified Approach for Margin of Conservatism

Simplified Approach for Direct and Indirect Costs

Simplified Approach for Downturn Estimation

Simplified Approach for Estimation of LGD for Defaulted Assets

Apply the Fixed IRB-CCF Derogation to a Larger Scope

Introduce More Flexibility Around the CCF 12-Months Fixed Horizon Approach



Simplified Approach in IRB Estimation 1/6

Simplified Approach for Margin of Conservatism



- **Mandatory Adjustments & Prudence:** Institutions must introduce appropriate adjustments to correct distortions and apply a Margin of Conservatism (MoC) proportionate to the expected range of estimation errors.
- **Classification (Cat. A & B & C):** Systematic mapping of deficiencies into mutually exclusive categories: **Category A** (data or methodology) and **Category B** (uncertainties due to internal process changes or external context) and **Category C** (general estimation error)
- **Data-Driven Conservatism:** The estimation must be increasingly prudent as data availability or reliability decreases; the MoC covers residual uncertainty that cannot be fully corrected through adjustments.
- **Application Logic:** The MoC is applied as an add-on to the "Best Estimate" of the risk parameter.

Simplification Improvement



- **Simplified Fallback for Cat. A & B:** EBA proposes an optional simplified approach for cases where the modeling burden is disproportionate to the actual risk, aiming to reduce complexity while maintaining an adequate level of prudence.
- **Standardization of Category C:** Addressing high methodological heterogeneity to improve comparability and consistency across banks, specifically to avoid counter-intuitive or excessively conservative results in Low Default Portfolios.

Discussion Box



EBA is considering simplification and standardization of the Margin of Conservatism (MoC):

For MoC categories A (data errors) and B (methodological deficiencies), the EBA suggests an optional fallback approach. Additionally, the proposal seeks to standardize the application of MoC Category C (general estimation uncertainty) to ensure more uniform supervisory reviews.

1. Do you see other potential simplification areas where the modelling burden is not commensurate to the gain in risk sensitivity?
2. Do you have any comments and suggestions with reference to the calibration of the fallback approaches?

Simplified Approach in IRB Estimation 2/6

Simplified Approach for Direct and Indirect Costs



- **Data Collection Requirements:** Institutions are mandated to collect and maintain detailed data regarding both direct and indirect costs incurred during the recovery process of defaulted exposures.
- **Realised Loss Integration:** All recovery costs must be explicitly included in the calculation of the realised loss.
- **Indirect Cost Allocation (Exposure-Weighted):** Institutions may use exposure-weighted averages to allocate indirect costs across the portfolio.
- **Statistical Methods:** Alternatively, allocation can be performed using statistical methods based on a representative sample of defaulted debtors or positions.

Simplification Improvement



- **Standardization of Recovery Costs:** The EBA recognizes the significant impact of these costs on final LGD estimates and suggests that they are suitable candidates for a more standardized regulatory approach.
- **Fixed Percentage Fallback:** A proposed fallback approach would allow for the application of a fixed percentage increase (either relative or absolute) to the realised or estimated LGD to simplify the accounting of recovery costs.

Discussion Box



EBA is assessing a Standardized Treatment of Direct and Indirect Costs in LGD:

To account for the difficulty in granularly allocating recovery costs, an optional fallback is introduced. This would allow institutions to use a **fixed percentage relative increase** of the realized Loss Given Default (LGD). This simplifies the calculation of realized LGD by replacing complex internal cost-allocation models with a calibrated add-on.

1. Do you have any comments and suggestions with reference to the calibration of the fallback approaches?
2. What do you perceive as challenges in your capacity to collect appropriate data, in particular in relation to indirect costs?

Simplified Approach in IRB Estimation 3/6

Simplified Approach for Downturn Estimation



- **Downturn LGD & CCF Requirements:** Institutions must apply LGD and CCF parameters that are appropriate for an economic downturn (DT) period.
- **Regulatory Landscape:** The framework is governed by the RTS on Downturn nature/severity, the Guidelines on Downturn LGD estimation, and the Consultation Paper on CCF Guidelines.
- **Methodological Framework & Comparison:** For Downturn LGD, institutions choose between three specific methodologies, comparing the outcome against both the Long-Run Average (CRR floor) and a "Reference Value" calculated as the simple average of the realised LGDs in the two years with the highest observed losses.

Simplification Improvement



- **Simplification via Reference Value:** The EBA is evaluating the use of the "Reference Value" as the foundation for a simplified estimation method, provided sufficient years of historical data are available.
- **Enhanced Fixed Add-on:** As an alternative to complex modeling, there is a proposal to strengthen and expand the role of the fixed downturn add-on currently outlined in the guidelines.

Discussion Box



EBA is considering an Alternative Methods for Downturn LGD and CCF Estimation:

For estimating parameters under economic stress, the EBA proposes a calibration structure similar to the **fixed add-on approach** or reference values established in the Guidelines on Downturn. This allows institutions with sufficient historical data to use these standardized benchmarks as a simplified basis for their estimations, streamlining the modeling of downturn conditions.

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

Simplified Approach in IRB Estimation 4/6

Simplified Approach for Estimation of LGD for Defaulted Assets



- **High Modeling Burden:** Requirement for analytical and specific estimations for exposures already in default.
- **Complex Modeling:** Necessity for specific modeling for both CCF and LGD.
- **Lack of Proportionality:** Uniform approach regardless of the materiality of the exposure or the risk of underestimation.

Simplification Improvement



- **Proportionality & Reduction of Modeling Burden:** Introduction of a simplified approach for exposures of low materiality.
- **Role of NPL Backstop:** The risk of undercapitalization is reduced by the "CRR NPL backstop," making simplified estimations possible.
- **CCF Simplification:** Use of estimates associated with the **rating grade prior to default**, contingent on strict policies and low post-default drawdowns.
- **LGD Simplification:** Transition toward a simpler, prudent approach similar to the **Standardised Approach (SA)** for the calculation of capital requirements on defaulted exposures, without specific modeling.

Discussion Box



EBA is considering Simplified Approaches for In-Default LGD:

For exposures already in a state of default, the EBA considers allowing a fallback approach based on a **Standardised Approach (SA)**. This would serve as a basis for estimating own fund requirements for in-default assets.

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

Simplified Approach in IRB Estimation 5/6

Apply the Fixed IRB-CCF Derogation to a Larger Scope



- **Low discriminatory power:** CCF models have a **limited ability** to **distinguish** between **exposures with different risk profiles**.
- **Difficulty in identifying risk drivers:** **Determining predictive factors** for future credit usage is complex.
- **Interaction across analysis levels:** **Facility-level** modelling requirements **may conflict with** behavioural patterns observed at the **obligor level**.
- **Region of instability:** **Issues** arise when an **exposure** is **nearly fully drawn** at the **reference date**.
- **Minimum floor of 50%:** CCF estimates are **constrained by a floor set at 50% of the SA-CCF**, limiting potential gains in risk sensitivity.

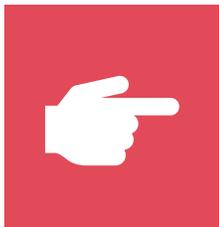
Simplification Improvement



In July 2025, the EBA published the “*Consultation Paper on Guidelines for CCF estimation*”, in which it proposed certain **simplified approaches** where the cost of modelling the **CCF factor** would not be commensurate with the underlying risk.

One of these approaches concerned the standardization of the CCF through the application of a **fixed CCF**, **to certain exposure segments, while continuing to apply own LGD estimates**.

Discussion Box



EBA is considering extending the fixed CCF derogation:

The EBA considers permitting the optional application of a fixed CCF to entire exposure categories, provided that all other requirements in the CP on CCF Guidelines are met.

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

Simplified Approach in IRB Estimation 6/6

Introduce More Flexibility Around the CCF 12-Months Fixed Horizon Approach



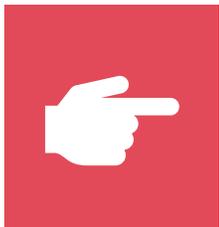
- **Target variable definition:** Reference date fixed 12 months before default may distort the observation window.
- **Risk differentiation:** Risk drivers must reflect values 12 months prior, limiting short-term drawing predictions.
- **Risk quantification:** Exposure weighting differs from other methods, potentially over- or underrepresenting defaults within 12 months.
- **Modelling complexity:** Mismatch between modelling and application phases may introduce bias and increase complexity.

Simplification Improvement



It is considered by the EBA that, in order to reduce modelling complexity and enhance consistency, **greater flexibility could be allowed around the 12-month fixed horizon** requirement, for example by **partially using a cohort approach**. Institutions would be required to **justify any significant deviations** from long-run average realised CCFs, while maintaining **alignment with LGD treatment** and the **50% IRB-CCF floor**. This approach, though a **partial deviation from Basel standards**, is not expected to materially affect own funds requirements and is supported by the RTS on off-balance-sheet items published in August 2025.

Discussion Box



EBA is considering greater flexibility around the 12-month fixed horizon for IRB-CCFs:

The EBA considers allowing partial use of a cohort approach to reduce modelling complexity and enhance consistency, while requiring institutions to justify significant deviations from long-run average realised CCFs.

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

05

Conclusions & Takeaways



Conclusions & Takeaways

	<p>The Discussion Paper issued by the European Banking Authority represents a strategic step in the review of the prudential framework for credit risk, aiming at enhancing regulatory simplicity, coherence and efficiency without undermining the resilience of the European banking system or the alignment with Basel standards.</p>
	<p>The analysis highlights that the current regulatory architecture, while having achieved a high degree of sophistication and risk sensitivity, has progressively accumulated complexity due to the layering of requirements, guidelines and technical standards developed over time. In this context, the proposal to consolidate regulatory products, remove duplications and harmonise key definitions constitutes a fundamental step towards improving the readability of the Single Rulebook and fostering greater supervisory convergence across competent authorities.</p>
	<p>Overall, the Discussion Paper promotes a balanced approach to regulatory refinement, based on a careful evaluation of the trade-offs between risk sensitivity, simplicity and implementation costs. Rather than pursuing simplification as an objective in itself, the proposed measures seek to enhance the internal coherence of the framework, reduce unjustified variability in risk-weighted assets and reinforce the credibility of internal model-based approaches.</p>
	<p>Standardised Approach (SA) - Real estate exposures remain one of the most complex areas of the framework due to national market specificities. The EBA considers harmonising the definition of loss and reviewing the use of loss data to improve the calibration of risk weights.</p> <p>External Credit Ratings - A pragmatic temporary solution is proposed to allow the use of ratings excluding government support when they rely on previously mapped rating scales, pending further data and mapping exercises.</p>
	<p>Internal Ratings-Based (IRB) Approach - Simplification opportunities include: Consolidation of regulatory guidance and technical standards; Harmonisation of continuous and discrete model validation; Clarification of facility definitions and data representativeness requirements.</p> <p>Model Simplification Options - The EBA explores optional simplified modelling approaches for: Margin of Conservatism (MoC); Downturn LGD estimation; Credit Conversion Factors (CCF) and in-default LGD estimation.</p>

ESSENTIAL SERVICES FOR FINANCIAL INSTITUTIONS

iason is an international consulting firm that has been supporting both financial institutions and regulators in topics related to Risk Management, Finance and ICT since 2008

Strategy

Strategic advisory on the **design** of **advanced frameworks** and **solutions** to fulfil both **business** and **regulatory needs** in Risk Management and IT departments

Methodology & Governance

Implementation of the designed **solutions** in bank departments **Methodological support** to both **systemically important financial institutions** and **supervisory entities**

Solution

Advanced **software solutions** for **modelling, forecasting, calculating** metrics and **integrating** risks, all on cloud and distributed in Software-as-a-Service (**SaaS**)

KEEP IN TOUCH



Company Profile

iason is an international firm that consults Financial Institutions on Risk Management.

iason integrates deep industry knowledge with specialised expertise in Market, Liquidity, Funding, Credit and Counterparty Risk, in Organisational Set-Up and in Strategic Planning.

Marco Musto



Michele Ferrandino



Alessio Quadrini



Tommaso Travenzoli



This is an **iason creation**.

The ideas and the model frameworks described in this presentation are the fruit of the intellectual efforts and of the skills of the people working in iason. You may not reproduce or transmit any part of this document in any form or by any means, electronic or mechanical, including photocopying and recording, for any purpose without the express written permission of iason.

www.iasonltd.com