



TOPICS:

Credit risk

SOURCE

European Banking Authority

EBA Consults on Draft Guidelines on the Methodology to Estimate and Apply Credit Conversion Factors Under the Capital Requirements Regulation

- The EBA has issued a **Consultation Paper on Draft Guidelines for Credit Conversion Factor (CCF) Estimation**, pursuant to Article 182(5) of Regulation (EU) No 575/2013, as amended by CRR3. These guidelines aim to establish a consistent methodology for institutions using the Internal Ratings-Based (IRB) Approach to estimate CCFs, particularly for revolving off-balance sheet (OBS) commitments such as credit cards and overdrafts. **The consultation is open until 15 October 2025.**
- **The guidelines respond to changes introduced under Basel III and CRR3**, which limit the IRB-CCF application to undrawn revolving commitments not subject to a 100% CCF under the standardised approach. Institutions must use standardised CCFs for other OBS exposures or where minimum IRB model requirements are unmet. The guidelines extend principles from existing EBA guidance on Probability of Default (PD) and Loss Given Default (LGD) to support consistency across IRB risk parameters.
- **A simplified framework is introduced** due to the relatively lower materiality and application scope of CCFs. Simplifications apply to defaulted exposures, downturn conditions and data representativeness, and include an option to use fixed CCF values in limited data scenarios. Methodologies distinguish between fully drawn and undrawn exposures, prescribing a limit factor approach when standard CCF calculations are unfeasible.
- **The guidelines require a 12-month fixed-horizon approach**, with each CCF estimate anchored to a reference date 12 months prior to default. Institutions must assess data governance, representativeness, and customer product transformations during the pre-default period. Specific attention is given to “fast defaults,” multiple default scenarios, and the integration of both advised and unadvised limits when estimating realised CCFs.

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