



TOPICS:

Credit Risk

SOURCE:

European Banking Authority

The EBA Launches Consultation on Simplifying the Credit Risk Framework

- The EBA launched a public consultation on its **Discussion Paper on the simplification and assessment of the credit risk framework**: the consultation runs until 10 May 2026. This comprehensive review of the EU credit risk framework has the objective of **improving simplicity, efficiency and consistency**, while preserving risk sensitivity and alignment with Basel III standards.
- The paper forms part of the EBA's broader initiative to reassess the regulatory "stock" and future mandates arising from the **EU Banking Package**, particularly those affecting Pillar 1 capital requirements.
- The paper focuses on **two core areas**: the Standardised Approach (SA) and the Internal Ratings-Based (IRB) Approach. Under the **SA**, particular attention is given to real estate exposures, which remain a major source of complexity due to national market specificities and multiple derogations. The EBA questions whether certain reporting requirements - most notably loss data under CRR Article 430a - deliver sufficient supervisory value, and proposes potential harmonisation of loss definitions and a reassessment of how such data are used in determining risk weights.

- The paper also proposes pragmatic reliance on existing External Credit Assessment Institution (ECAI) mappings, including the temporary acceptance of ratings excluding government support, where rating scales remain compatible with previously approved mappings.
- In the **IRB** framework, the EBA identifies scope for simplification through consolidation of regulatory products, removal of duplications and improved consistency across modelling requirements. Key proposals include harmonising testing requirements for continuous and discrete models, clarifying and standardising the definition of "facility" and extending revised representativeness requirements - initially developed for credit conversion factors (CCFs) - to probability of default (PD) and loss given default (LGD) estimation. The paper also outlines several optional fallback approaches aimed at reducing modelling and supervisory burden, covering margins of conservatism, indirect cost estimation, downturn calibration, in-default LGD estimation, and broader use of fixed CCFs.

