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COVER NOTE

From:	Letter from José Manuel Campa, Chairperson, European Banking Authority (EBA)
date of receipt:	18 August 2025
To:	John Berrigan, Director General, Directorate-General for Financial Stability, Financial Services and Capital Markets Union (FISMA) European Commission
Subject:	Banking Prudential: submission of draft RTS under Article 111(8) CRR – allocation of off-balance sheet items and specification of factors that might constrain institutions’ ability to cancel unconditionally cancellable commitments

Delegations will find attached the Final Report the EBA submitted on 18 August 2025 to the European Commission, containing the draft Regulatory Technical Standards (RTS) mandated by Article 111(8) of the Capital Requirements Regulation as regards the allocation of off-balance sheet items and specification of factors that might constrain institutions’ ability to cancel unconditionally cancellable commitments.

Background

Article 111(1)–(7) CRR establishes the rules for the determination of the exposure value of an asset item for the purposes of the Standardised Approach for Credit Risk. Paragraph (2) assigns off-balance-sheet (OBS) exposures—such as undrawn credit lines, guarantees and letters of credit—to one of five “buckets” with fixed credit conversion factors (0 %, 20 %, 50 %, 75 % and 100 %) based on the contractual and economic likelihood that an OBS item will become an on-balance-sheet exposure under stress.

Annex I of the CRR lists specific OBS products and their applicable buckets, ensuring a consistent capital charge across institutions. However, its limited scope leaves many OBS commitments and contingent items unaddressed. To close this gap, Article 111(8) empowers the Commission—on the basis of EBA draft RTS—to:

- Map every OBS item not explicitly covered in Annex I into one of the five buckets using risk-sensitive criteria (contractual conditionality, financial-covenant triggers, obligor discretion).
- Define factors that may constrain a bank's ability to cancel unconditionally cancellable commitments in practice, justifying a higher conversion factor.
- Establish a COREP-based notification process for institutions to inform the EBA of their classification of "other" OBS exposures.

Key draft RTS Features

- Assignment criteria for all off-balance-sheet items not listed in Annex I, ensuring consistent, risk-sensitive mapping across the five conversion-factor buckets.
- Four specific constraints on unconditional cancellation—risk-management or IT deficiencies, commercial considerations, reputational risk, and litigation risk—that elevate the applicable credit conversion factor when present.
- A streamlined COREP extension enabling banks to report any "other" OBS items and their chosen bucket with minimal additional reporting burden.

The report is available at this link: [Final report on the Draft RTS on Annex I.pdf](#)

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EBA-2025-D-5285

18 August 2025

Subject: Submission of the RTS on the annex 1 under Article 111(8) CRR

Dear Mr Berrigan,

In accordance with Article 111(8) of Regulation (EU) No 575/2013 (the Capital Requirements Regulation, CRR), as amended by Regulation (EU) 2019/876, the EBA is mandated to develop regulatory technical standards (RTS) specifying criteria that institutions shall use to assign off-balance sheet items to the buckets 1 to 5 referred to in Annex I; **factors** that might constrain the institutions' ability to cancel unconditionally cancellable commitments and the notification **process** for other off-balance sheet items.

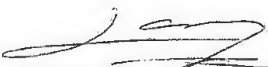
The RTS provide a harmonised framework at EU level for the treatment of off-balance sheet items that are not already mentioned in Annex I. This RTS forms part of the first phase of the EBA's credit risk roadmap on the implementation of the EU Banking Package.

It is my pleasure to submit to you today the final draft of these RTS, as endorsed by the EBA's Board of Supervisors. These standards were developed following the procedure described in Article 10 of Regulation (EU) No. 1093/2010 (EBA Regulation). As previously agreed, the draft regulatory technical standards are attached in Legiswrite format.

In addition, the draft regulatory technical standards will be published on the EBA's public website.

I look forward to the completion of the process of adoption of the standards.

Yours sincerely,


José Manuel Campa

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EUROPEAN
COMMISSION

Brussels, XXX
[...] (2025) XXX draft

COMMISSION DELEGATED REGULATION (EU) .../...

of XXX

on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards the allocation of off-balance sheet items and the specification of factors that might constrain institutions' ability to cancel unconditionally cancellable commitments under Article 111(8) of Regulation (EU) No 575/2013

(Text with EEA relevance)

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE DELEGATED ACT

Article 111(8) of Regulation (EU) No 575/2013 empowers the Commission to adopt, following the submission of draft technical standards by the European Banking Authority (EBA), and in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010, delegated acts specifying

- (a) the criteria that institutions are to use to assign off-balance-sheet items, with the exception of items already included in Annex I, to the buckets 1 to 5 referred to in Annex I;
- (b) the factors that might constrain institutions' ability to cancel the unconditionally cancellable commitments referred to in Annex I;
- (c) the process for notifying EBA about institutions' classification of other off-balance-sheet items carrying similar risks as those referred to in Annex I.

In accordance with Article 10(1) of Regulation No (EU) 1093/2010 establishing the EBA, the Commission shall decide within three months of receipt of the draft standards whether to endorse the drafts submitted. The Commission may also endorse the draft standards in part only, or with amendments, where the Union's interests so require, having regard to the specific procedure laid down in those Articles.

2. CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

In accordance with the third subparagraph of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has conducted a public consultation on the draft regulatory technical standards submitted to the Commission in accordance with Article 111(8) of Regulation (EU) No 575/2013. The consultation paper was published on the EBA website on 04 March 2024 and the consultation closed on 04 June 2024. In addition, the EBA invited the Banking Stakeholder Group, set up in accordance with Article 37 of Regulation No (EU) 1093/2010, to provide its advice on the draft standards.

Together with the final draft technical standards, the EBA has submitted an explanation on how the outcome of the public consultation and the feedback received from stakeholders have been taken into account in the development of the final draft. In line with the requirements of Article 10(1) of Regulation No (EU) 1093/2010, the EBA has also submitted its impact assessment, including an analysis of the costs and benefits related to the draft technical standards. This analysis is available on the EBA website as part of the Final Draft RTS package.

3. LEGAL ELEMENTS OF THE DELEGATED ACT

The assignment criteria proposed by the draft RTS aim at distinguishing between different levels of conversion risk of off-balance sheet items by referring to a simple set of risk characteristics of the respective items. The main elements of differentiation are financial covenants, whether a non-credit related event has to occur before the institution may become exposed to the risk of credit losses, as well as optionality that an obligor may or may not draw the off-balance sheet item.

These draft RTS proposes four factors to be considered as constraining institutions' ability to cancel an unconditionally cancellable commitment that relate to risk management processes, commercial considerations as well as to reputational and litigation risks. The factors constitute only a starting point for the considerations of the institutions, and the methodology to assess

whether these factors actually constrain institutions' ability to cancel the unconditionally cancellable commitments is not further specified in these draft technical standards.

The notification process of off-balance sheet-items not already included in Annex I will be implemented via the COREP framework. The use of an already existing reporting tool for the notification ensures a minimization of the reporting burden.

COMMISSION DELEGATED REGULATION (EU) .../...

of **XXX**

on supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council as regards the allocation of off-balance sheet items and the specification of factors that might constrain institutions' ability to cancel unconditionally cancellable commitments under Article 111(8) of Regulation (EU) No 575/2013

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, and in particular Article 111(8), third subparagraph thereof,

Whereas:

- (1) The percentages associated with the buckets referred to in Annex I to Regulation (EU) No 575/2013 are related to the likelihood that an off-balance sheet item will expose the institution to the risk of credit losses in case of a default. Considering this, items not covered in Annex I should be assigned to the relevant buckets based on whether or not the institution's exposure to the risk of credit losses in case of a default is additionally conditional to the occurrence of a contingent event or not. In particular, for those items not already listed in that Annex I, if a condition still needs to be met to expose the institution to credit losses in case of a default, the off-balance sheet item should be allocated to bucket 2. If this condition depends on a decision of the obligor to exercise a discretion, the off-balance sheet item should be allocated to bucket 3. Where the institution is already fully exposed to credit losses at default, the off-balance sheet item should be allocated to bucket 1.
- (2) Contractual requirements related to the obligor's creditworthiness that must be met for releasing the amount to be drawn should only be considered as contingent events where the institution's processes ensure that compliance with these contractual requirements is verified immediately before releasing an amount to be drawn such that non-compliance prevents a drawdown.
- (3) Some commitments, while unconditionally cancellable under their contractual terms, may not be cancelled *de facto* due to the presence of factors that may constrain the institution's ability to cancel them. In these cases, considering the actual likelihood that the institution will be exposed to the risk of credit losses in case of a default event, the commitment should be assigned to the relevant bucket disregarding the unconditional cancellability.
- (4) Shortcomings in the operationalisation of the contractual terms of unconditionally cancellable commitments, that may result in the institution failing to cancel them, may be represented by risk management deficiencies, commercial considerations, reputational risk or legal litigation risks.

- (5) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.
- (6) The European Supervisory Authorities have conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council¹.

HAS ADOPTED THIS REGULATION:

Article 1

Criteria for assigning off-balance sheet items not already included in Annex I to the CRR

1. For any off-balance sheet item not already included in Annex I to Regulation (EU) No 575/2013, institutions shall follow the criteria in paragraphs 2 and 3 for determining which amounts of such item shall be assigned to which of the buckets referred to in that Annex I.
2. Off-balance sheet items not already included in Annex I to Regulation (EU) No 575/2013 shall be assigned to bucket 1 as referred to in that Annex with the full amount for which the institution is already exposed to the risk of credit losses in the event of default of the obligor or the credit facility. In particular, any amount that the client is already required to draw in the future shall be assigned to bucket 1 referred to in Annex I to Regulation (EU) No 575/2013.
3. For treating an amount of an off-balance sheet item not already included in Annex I to Regulation (EU) No 575/2013 as not yet exposing the institution to the risk of credit losses in the event of default of the obligor or credit facility as referred to in paragraph 2, at least one of the following criteria shall be met:
 - (a) the client has a contractual right for drawing this amount in the future that still needs to be exercised before the amount is drawn;
 - (b) at least one non-credit risk related event still needs to occur before a default of the obligor or the credit facility exposes the institution to the risk of credit losses on this amount;
 - (c) at least one contractual requirement related to the client's creditworthiness that prevents a drawdown at least in case of a default according to Article 178 CRR must be met for releasing the amount and the institution has processes in place that ensure that non-compliance with any of such contractual requirements prevents the client from drawing this amount.If point (a) is met, the amount shall be assigned to bucket 3, otherwise the amount shall be assigned to bucket 2.
4. Off-balance sheet items where the contractual terms permit a cancellation to the full extent allowable under consumer protection, where applicable, and related legal acts, at any time without prior notice to the obligor or that effectively provide for automatic cancellation due to a deterioration in a borrower's creditworthiness, but

¹ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC(OJ L 331, 15.12.2010, p. 12).

where institutions identify that their unconditional cancellation is constrained by at least one of the factors referred to in Article 2, shall not be assigned to bucket 5 but shall be allocated to the bucket applicable if the right for unconditional cancellation is disregarded.

Article 2

Factors that might constrain the institutions' ability to cancel the unconditionally cancellable commitments

In determining its ability to cancel unconditionally cancellable commitments, an institution shall consider the following factors:

- (a) deficiencies in the risk management procedures, including shortcomings in the credit risk monitoring framework and in the IT systems and processes, that are related to the commitment, constraining the institution to execute, in a timely manner, its right to cancel commitments at any time;
- (b) commercial considerations of the institution aimed at avoiding negative impacts on the creditworthiness of the client or on the business relationship with that client, while the outcome of the creditworthiness assessment should have led to cancelling the commitment;
- (c) reputational risks for the institution arising from a potential negative perception of a cancellation vis-a-vis market-participants;
- (d) litigation risks, where the obligors would suffer a loss from the cancellation of the commitment, either in the form of forgone opportunities or non-reimbursable investments made in order to benefit from the commitment.

Article 3

Notification process

The institutions' classification of other off-balance sheet items carrying similar risks as those referred to in Annex I to Regulation (EU) No 575/2013 shall be reported in accordance with Implementing Regulation (EU) 2024/3117.

Article 4

Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

For the Commission
The President