

EBA/CP/2025/06

30 April 2025

Consultation Paper

On Draft Regulatory Technical Standards amending Delegated Regulation (EU) 2023/206 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the types of factors to be considered for the assessment of the appropriateness of risk weights for exposures secured by immovable property and the conditions to be taken into account for the assessment of the appropriateness of minimum loss given default values for exposures secured by immovable property

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1. Responding to this consultation

The EBA invites comments on all proposals put forward in this paper.

Comments are most helpful if they:

- respond to the question stated;
- indicate the specific point to which a comment relates;
- contain a clear rationale;
- provide evidence to support the views expressed/ rationale proposed; and
- describe any alternative regulatory choices the EBA should consider.

Submission of responses

To submit your comments, click on the 'send your comments' button on the consultation page by 30.05.2025. Please note that comments submitted after this deadline, or submitted via other means may not be processed.

Publication of responses

Please clearly indicate in the consultation form if you wish your comments to be disclosed or to be treated as confidential. A confidential response may be requested from us in accordance with the EBA's rules on public access to documents. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the EBA's Board of Appeal and the European Ombudsman.

Data protection

The protection of individuals with regard to the processing of personal data by the EBA is based on Regulation (EU) 1725/2018 of the European Parliament and of the Council of 23 October 2018. Further information on data protection can be found under the Legal notice section of the EBA website.

2. Executive Summary

1. The EBA is mandated under Article 124(11) of Regulation (EU) No 575/2013, as amended by Regulation (EU) 2024/1623 (the CRR3), to develop, in close cooperation with the ESRB, draft RTS to specify the types of factors to be considered by national authorities designated in accordance with Article 124(8) of that Regulation in assessing the appropriateness of the preferential risk weights for exposures secured by immovable property under the Standardised Approach of credit risk.
2. The same mandate was included in Regulation (EU) 2019/876 amending Regulation (EU) No 575/2013 (the CRR2), which was delivered in October 2021 jointly with the sister mandate under CRR2 Article 164(8) regarding the IRB Approach of credit risk, on the conditions to assess the appropriateness of the minimum LGD values for exposures secured by immovable property. The draft RTS¹ encompassing both mandates were subsequently adopted under Delegated Regulation (EU) 2023/206².
3. In addressing this mandate, the EBA has undertaken an assessment of the amendments brought by the CRR3 regarding real estate exposures under the Standardised Approach of credit risk. Based on this analysis, the EBA proposes that the types of factors set out in that Delegated Regulation remain unchanged, noting that the scope of CRR3 amendments either relate to exposures outside the remit of Articles 125 and 126, or refer to the recalibration of risk weights, while the RTS remain neutral on the specific level of the risk weights and focuses solely on the factors to be assessed by national authorities.
4. Therefore, the draft RTS put forward for consultation keeps unchanged the factors already specified under Article 1 of Delegated Regulation (EU) 2023/206, and solely adjusts the legal references to align with the CRR3. Considering that Article 2 of that Delegated Regulation also addresses the conditions to be assessed under CRR Article 164(4), it has been deemed appropriate for the sake of regulatory consistency to also propose an alignment with the CRR3 of the legal references of Article 2 of that Delegated Regulation considering that the amended Article 164 CRR3 no longer sets “minimum LGD values” at portfolio level but “LGD input floor values” at the individual exposure level.

Next steps

Article 124(11) CRR requires the Final Report on the draft RTS is to be delivered by 10 January 2026.

¹ [EBA RTS 2021 12 EBA Final Report on draft RTS on Articles 124\(4\) and 164\(8\) of the CRR.pdf \(europa.eu\)](#), published in the Official Journal of the European Union [Delegated Regulation - 2023/206 - EUR-Lex \(europa.eu\)](#) OJ L 29, 1.2.2023, p. 1–5

² Official Journal of the European Union [Delegated Regulation - 2023/206 - EUR-Lex \(europa.eu\)](#) OJ L 29, 1.2.2023, p. 1–5

3. Background and rationale

3.1 Background

5. National authorities designated in accordance with Article 124(8) of Regulation (EU) No 575/2013 (the CRR) are to assess, at least annually, whether the risk weights for exposures secured by residential or commercial immovable property located in their Member State, as set out under Articles 125 and 126 of the CRR, are appropriate based on historical losses and forward-looking immovable property developments. The EBA is mandated under Article 124(11) of the CRR to develop, in close cooperation with the ESRB, draft RTS to specify further the types of factors that are to be considered by national designated authorities in their assessment.
6. The same mandate was included under the CRR2. The RTS delivered accordingly described how to compute those historical losses by means of harmonised reporting and specified the factors to be considered when assessing forward-looking elements.
7. Specifically, historical losses were defined with reference to the specific reporting requirements set out under CRR Article 430a and mirrored accordingly in the COREP reporting requirements. Regarding loss expectations, this was defined as the best estimate of losses considering:
 - A horizon of at least 1 year, or up to 3 years if so determined by the authority.
 - Historical and cyclical real estate characteristics gathered through price evolution and its volatility.
 - Structural characteristics of national real estate markets and their financing.
 - Supply and demand drivers.
 - The riskiness of real estate exposures.
 - The expected evolution of real estate prices and their volatility, noting that if there is related uncertainty a margin of prudence is to be applied.
 - The expected evolution in meaningful macroeconomic key variables that could affect the solvency of borrowers, including an assessment of related uncertainty.
 - The time horizon for developments to materialise.
 - National specificities related exclusively to the real estate market and its financing.
 - Any other indicator that provides insight into forward-looking developments or supports data quality.
8. Further, the RTS made reference to national authorities having due regard to other macroprudential measures in force that address identified systemic risks, including national measures that refer to limits on loan-to-value/debt-to-income/debt-service-to-income, and other instruments addressing lending standards. Finally, the RTS noted that factors may relate exclusively to certain

property segments or specific parts of the territory of a Member State, in which case the use of specific data is allowed other than the harmonised national losses collected in COREP.

9. In terms of retail exposures secured by immovable property and treated under the IRB Approach, the RTS further specified the conditions to be taken into account by national designated authorities when assessing the appropriateness of the minimum LGD values for those exposures. As relevant conditions, the RTS identified:

- Demand and supply conditions of real estate markets.
- Conditions that affect drivers of LGD estimates.
- Other conditions that indirectly affect the value of collateral taken into account in LGD estimates.

10. Additionally, the RTS required designated authorities to also have regard to:

- Whether macroeconomic imbalances are related to an economic downturn and are therefore already considered in the downturn LGD estimates for the respective exposures.
- Other macroprudential measures in force that already address the identified systemic risks affecting the adequacy of the LGD minimum values, such as loan-to-value, debt-to-income, or debt-service-to-income limits or other instruments addressing lending standards.
- The degree of uncertainty concerning the evolution and price volatility of immovable property markets.
- National specificities exclusively related to the real estate market and its financing.
- Benchmarking comparisons of LGD estimates across institutions or Member States for comparable exposures, where relevant and available.

3.2 Rationale

11. The CRR3 has increased the risk sensitivity for exposures secured by immovable property under the Standardised Approach, which raises the question whether these amendments may impact the types of factors to be considered by national authorities in setting up national macroprudential measures related to the relevant real estate risk weights under the Standardised Approach of credit risk. The changes introduced in this regard by the CRR3 are summarised as follows.

12. First, a more conservative risk weight is applied to real estate exposures where repayment is materially dependent on the cash flows generated by the property securing the exposure (Income-Producing Real Estate), and none of the conditions pursuant to points (1) to (4) of Article 124(2)(a)(ii) CRR3 are met. This type of riskier exposures is not eligible for the preferential treatment under CRR Articles 125 or 126, hence it is outside the mandate of this draft RTS. Therefore, no change to the RTS is proposed related to this amendment of the CRR3.

13. Second, a dedicated treatment is introduced for land acquisition, development and construction exposures (ADC), which refers to loans to companies or special purpose entities financing any land

acquisition for development and construction purposes, or development and construction of any residential property or commercial immovable property. A 150% flat risk weight is assigned to those exposures, unless the exposure meets either of the two conditions for a preferential 100% RW for residential ADC in accordance with Article 126a(2) CRR3 that will be further specified in upcoming EBA Guidelines. This dedicated conservative treatment targets exposures considered riskier, which are backed up by unfinished property and where the institution's exposure is not towards a natural person but towards the constructor or real estate developer. As this exposure type is not eligible for the preferential risk weight treatment under CRR Articles 125 or 1263, no change to the RTS is proposed.

14. Third, the loan-splitting approach is retained⁴, when relevant safeguards are met, where the secured part of the exposures is recalibrated, as well as the share of the exposure considered as secured. No change to the RTS is proposed, as the RTS refer to the factors to be considered by national designated authorities in assessing the appropriateness of preferential risk weights, regardless of the risk weight calibration.
15. Fourth, the option for a whole-loan approach is introduced, where the driver of the associated risk weight depends on the exposure-to-value (ETV). This approach introduces higher risk sensitivity in the risk weight calibration, whereby higher ETVs are associated with higher risk weights. As the RTS refer to the factors in assessing the appropriateness of preferential risk weights, regardless of the risk weight calibration, no change to the RTS is proposed.
16. Hence the draft RTS proposed for consultation leave unchanged the factors already specified under Article 1 of Delegated Regulation (EU) 2023/206, with the proposal to solely adjust the legal references to align with the CRR3.
17. It is recalled that Delegated Regulation (EU) 2023/206 embedded jointly the mandates under CRR2 Articles 124(4) and 164(8), both dealing with the assessments of the appropriateness of input parameters for the determination of own funds requirements for credit risk exposures secured by immovable property. They were delivered in a single RTS to ensure consistency between the two assessments. Although the CRR3 does not include any mandate to produce regulatory technical standards regarding Article 164, it has been deemed appropriate for the sake of regulatory consistency to take this opportunity to also propose an alignment with the CRR3 regarding the legal references of Article 2 of that Delegated Regulation, which deal with the national macroprudential measures under CRR Article 164. Such alignment is required because Article 164(4) CRR2 referred to "minimum LGD values" at portfolio level for the exposure-weighted average LGD for all retail exposures secured by residential property and for the exposure-weighted average LGD for all retail exposures secured commercial immovable property. By contrast, the amended

³ Articles 125 and 126 of the CRR are only applicable to non-ADC exposures, as set out under Article 124(2) of the CRR. Specifically, ADC exposures are subject to a dedicated treatment specified under the new Article 126a of the CRR.

⁴ The loan-splitting approach makes a distinction between 1) the secured part of the exposure secured by real estate collateral, which is assigned a 20% risk weight up to certain thresholds of the property value, and 2) the unsecured part, which is assigned the risk weight of the counterparty.

Article 164(4) CRR3 sets “LGD input floor values” applicable at the level of individual retail exposures secured by residential property and at the level of individual other retail exposures secured by residential property or commercial immovable property. The amended paragraphs 6 and 7 of Article 164 CRR3 also take account of those amendments.

4. Draft regulatory technical standards amending Delegated Regulation (EU) 2023/206

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

of XXX

amending Commission Delegated Regulation (EU) 2023/206 of 5 October 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the types of factors to be considered for the assessment of the appropriateness of risk weights for exposures secured by immovable property and the conditions to be taken into account for the assessment of the appropriateness of minimum loss given default values for exposures secured by immovable property

(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 ⁽⁵⁾ and amending Regulation (EU) No 648/2012, and in particular Article 124(11), third subparagraph, thereof,

Whereas:

1. Due to the entry into force of Regulation (EU) 2024/1623 of 31 May 2024 ⁽⁶⁾ amending Regulation (EU) No 575/2013, Commission Delegated Regulation (EU) 2023/206 should be amended to correct references to Article 124 of Regulation (EU) No 575/2013 that have become obsolete and to reflect the change in terminology in Article 164 of Regulation (EU) No 575/2013 related to the possibility for an authority designated in accordance with Article 164(5) of Regulation (EU) No 575/2013 to set

⁽⁵⁾ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1, ELI: <http://data.europa.eu/eli/reg/2013/575/oj>).

⁽²⁾ Regulation (EU) 2024/1623 of the European Parliament and of the Council of 31 May 2024 amending Regulation (EU) No 575/2013 as regards requirements for credit risk, credit valuation adjustment risk, operational risk, market risk and the output floor (OJ L, 2024/1623, 19.06.2024, ELI: <http://data.europa.eu/eli/reg/2024/1623/oj>).

higher LGD input floor values, instead of higher minimum LGD values, for exposures located in one or more parts of the territory of the Member State of that authority.

2. This Regulation is based on the draft regulatory technical standards submitted to the Commission by the EBA.
3. The European Banking Authority has 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 Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council ⁽⁷⁾,

HAS ADOPTED THIS REGULATION:

Article 1

Amendments to Delegated Regulation (EU) 2023/206

Delegated Regulation (EU) 2023/206 is amended as follows:

- (1) the title is replaced by the following:

‘Commission Delegated Regulation (EU) 2023/206 of 5 October 2022 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards specifying the types of factors to be considered for the assessment of the appropriateness of risk weights for exposures secured by immovable property and the conditions to be taken into account for the assessment of the appropriateness of the loss given default input floor values for exposures secured by immovable property’;
- (2) Article 1 is amended as follows:
 - (a) in paragraph 1, first subparagraph, the introductory wording is replaced by the following:

‘When assessing the appropriateness of the risk weights referred to in Article 124(9), first subparagraph, of Regulation (EU) No 575/2013, the authorities designated in accordance with Article 124(8) of that Regulation shall determine all of the following:’;
- (3) in paragraph 1, point (a) is replaced by the following:

‘(a) the loss experience as the ratio of the following:

 - (i) in the case of exposures secured by residential property or by mortgages on residential property as referred to in Article 124(9), first subparagraph, of Regulation (EU) No 575/2013, the losses reported in accordance with

⁷ 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. 12–47, ELI: <http://data.europa.eu/eli/reg/2010/1093/2024-12-30>)

Article 430a(1), point (a), of that Regulation and the exposure value reported in accordance with Article 430a(1), point (c), of that Regulation;

- (ii) in the case of exposures secured by commercial immovable property or by mortgages on commercial immovable property as referred to in Article 124(9), first subparagraph, of Regulation (EU) No 575/2013, the losses reported in accordance with Article 430a(1), point (d), of that Regulation and the exposure value reported in accordance with Article 430a(1), point (f), of that Regulation;’;

(c) in paragraph 2, first subparagraph, the introductory wording is replaced by the following:

‘The authorities designated in accordance with Article 124(8) of Regulation (EU) No 575/2013 shall determine the loss expectation referred to in paragraph 1, point (b), in either of the following ways:’;

(d) in paragraph 2, the last subparagraph is replaced by the following:

‘When determining the loss expectation referred to in paragraph 1, point (b), the authorities shall reflect the forward-looking immovable property market developments referred to in Article 124(9), first subparagraph, point (b), of Regulation (EU) No 575/2013 during a forward-looking horizon of at least one year and, if so determined by that authority, up to three years.’;

(e) paragraph 4 is replaced by the following:

‘Where there is a lot of uncertainty as to the factors referred to in paragraph 3, point (e), the authorities designated in accordance with Article 124(8) of Regulation (EU) No 575/2013 shall consider a margin of prudence when determining the loss expectation in accordance with paragraph 2 of this Article.’;

(f) in paragraph 5, the introductory wording is replaced by the following:

‘For the purposes of paragraph 1, the authorities designated in accordance with Article 124(8) of Regulation (EU) No 575/2013 shall have regard to other macroprudential measures in force that already address the identified systemic risks affecting the appropriateness of the risk weights referred to in Article 124(9), first subparagraph, of that Regulation, including the following measures in national law designed to enhance the resilience of the financial system.’.

(2) Article 2 is amended as follows:

(a) the title is replaced by the following:

“Conditions to be taken into account for the assessment of the appropriateness of the LGD input floor values for retail exposures secured by immovable property”;

(b) in paragraph 1, the introductory wording is replaced by the following:

‘When assessing the appropriateness of the LGD input floor values in accordance with Article 164(6) of Regulation (EU) No 575/2013, the authorities designated in accordance with paragraph 5 of that Article shall, when performing the systemic risk assessment on the

basis of macroeconomic imbalances affecting LGD estimates beyond the economic cycle, have regard to all of the following conditions:’;

(c) in paragraph 2, point (b), the introductory wording is replaced by the following:

‘other macroprudential measures in force that already address the identified systemic risks affecting the adequacy of the LGD input floor values, including the following measures in national law designed to enhance the resilience of the financial system:’.

(3) Article 3 is replaced by the following:

“Article 3

Assessments for property segments or specific parts of the territory of a Member State

An authority designated in accordance with Article 124(8) or Article 164(5) of Regulation (EU) No 575/2013 may consider the factors set out in Article 1 of this Regulation, or take into account the conditions set out in Article 2 of this Regulation, for one or more property segments or one or more parts of the territory of a Member State.”.

(4) Article 4 is replaced by the following:

“Article 4

Use of other sources of data

Authorities designated in accordance with Article 124(8) or Article 164(5) of Regulation (EU) No 575/2013 that determine the loss experience in accordance with Article 1(1), point (a), of this Regulation, or that assess the appropriateness of the LGD input floor values in accordance with Article 2 of this Regulation for a property segment or a part of the territory of a Member State, may use other sources of data, including national ad-hoc reporting and credit registers relating to that segment or that part of the territory, provided that the data collected in accordance with Article 430(1), point (a), and Article 430a, of Regulation (EU) No 575/2013 are not sufficiently granular.”.

Article 2

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

5. Accompanying documents

5.1 Draft cost-benefit analysis

A. Problem identification

The EBA is mandated under Article 124(11) of the CRR3 to develop, in close cooperation with the ESRB, draft RTS to specify the types of factors to be considered by national designated authorities in assessing the appropriateness of the preferential risk weights for exposures secured by immovable property under the Standardised Approach for credit risk.

The same mandate was included under Article 124(4) of CRR2. The RTS delivered accordingly described how to compute those historical losses by means of harmonised reporting and specified the factors to be considered when assessing forward-looking elements.

B. Policy objectives

This mandate aims, such as the previous RTS, at reaching the maximum possible harmonisation as the way of achieving a level playing field, preventing regulatory arbitrage opportunities, and enhancing supervisory convergence and legal clarity.

The changes introduced in the CRR3 under Article 124 require the updating of relevant CRR3 Article references in the RTS to align with the new framework in place. The same applies for the replacement of the term ‘minimum LGD values’ by ‘LGD input floor values’ in Article 164 CRR3.

C. Baseline scenario

The baseline scenario entails maintaining the existing framework (current practice) while adjusting the regulatory reference where necessary, such as to accommodate the revised scope of application of the specifications introduced by the RTS delivered under CRR2. These specifications include, among others, the framework to compute historical losses with reference to the specific reporting requirements set out under CRR Article 430a and mirrored accordingly in COREP reporting, the loss expectation defined as the best estimate of losses, and the reference to due regard to other macroprudential measures in force that address identified systemic risks. Finally, the RTS note that factors may relate exclusively to certain property segments or specific parts of the territory of a Member State

D. Options considered

In addition to the option of applying changes driven by the updated regulation (i.e. maintaining the existing practice set out in the current framework - option 1), it was also considered the necessity of implementing targeted amendments based on practical experience with the ITS application by competent authorities (i.e. adding or removing specific elements from the existing framework based on practical experience - option 2). Competent authorities considered the current framework as robust, capable of ensuring adequate cooperation among them, without highlighting the need for major amendments. Consequently, it was determined that no amendments beyond those reflecting changes in the EU legal framework were necessary (option 1) also considering the short period over which Commission Delegated Regulation (EU) 2023/206 has been applicable.

E. Cost-Benefit Analysis

Considering the strictly formal nature of the changes proposed by the amending RTS (i.e. updating regulatory references), no additional impact is expected from the implementation of the draft RTS.

5.2 Overview of questions for consultation

Question Q1. Do you consider that the changes proposed in the revised RTS are appropriate and sufficiently clear?