Regulatory Blog
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EBA’s Final RTS on Off-Balance Sheet Items and Unconditionally Cancellable Commitments: Implications for RWA calculations, Risk Management, and Reporting Processes

Under CRR 3, the European Banking Authority (EBA) was mandated to draft Regulatory Technical Standards (RTS) related to off-balance sheet items under the standardised approach for credit risk (SA-CR).

Content

Already in March 2024, the EBA had published a corresponding draft, which sparked extensive market discussion (for more details, see our blog post: **The EBA's plan to tackle off-balance sheet items: crucial EBA consultation on the allocation of off-balance sheet items and unconditionally cancellable commitments under CRR 3)**. On August 18, 2025, the EBA released the final RTS (**EBA/RTS/2025/06**) with only minor adjustments and did not deviate in substance from the March 2024 draft.

These final standards outline the criteria for institutions to classify off-balance sheet items, unless specifically detailed in Annex I of the CRR. Additionally, they define factors that could limit institutions' capacity to cancel unconditionally cancellable commitments (UCC).

The publication raises a number of questions that banks now need to address promptly, for example: Is the current allocation of off-balance sheet items to risk buckets and consequently to credit conversion factors (CCFs) accurate, or are changes required? How can processes be designed to monitor, control, and govern the limitations on the cancellation of UCCs? What data adjustments are necessary within banks' systems, such as their regulatory reporting software? And what are the implications of these changes for a bank's internal capital management?

Background

Under Article 111 of the CRR, the exposure value of an off-balance-sheet item is obtained by multiplying its nominal amount, after subtracting specific credit risk adjustments and the deductions required by Article 36(1)(m) CRR, by the applicable percentages (CCFs).

These percentages vary with the **likelihood that the institution will be required to make payments** under the off-balance-sheet commitment and thus determine the position's riskiness. Five different buckets determine the relevant CCF including **100 %, 50 %, 40 %, 20 % or 10 %**. As a result, they directly influence the calculation of risk-weighted assets and therefore the capital institutions must hold against credit risk.

The categorization of off-balance sheet items into these buckets follows a mapping detailed in Annex I of the CRR. Further Article 5 (10) and (11) of the CRR regulates a definition for the terms "commitment" and „unconditionally cancellable commitment“.

Why this matters

The final draft RTS clarify how institutions should treat off-balance sheet exposures for the standardised approach for credit risk under CRR 3. This does not only affect institutions using the standardised approach but is also important for institutions applying IRB especially for the purpose of the foundational IRB and the calculation of the Output Floor. By setting clear allocation criteria and specifying factors that could limit institutions' capacity to cancel UCCs, the RTS aim to improve consistency in risk weighting across EU banks and reduce regulatory arbitrage in the measurement of conversion risk.

Clarification on the conversion of off-balance sheet items into balance sheet equivalents

The RTS focus on differentiating items by their **conversion risk** and provides a list of examples in the preface of the guidelines. Main differentiating features include the presence of financial covenants, the conditionality of the exposure (i.e., whether a credit related event must occur before exposure arises), and the obligor's ability to draw (optionality). Institutions must apply the criteria set out in the RTS to determine which amounts should be assigned to each **bucket in Annex I**, ensuring that items carrying similar conversion risks are **treated consistently**.

Revised requirements for unconditionally cancellable commitments (UCCs)

With the introduction of the CRR3, UCCs shall no longer receive a CCF of 0% but rather a factor of 10% leading to increasing capital requirements. In light of this change, the RTS shall provide clarification on which exposures are classified as unconditionally cancellable. Therefore, the RTS outline four types of factors that may **limit an institution's realistic ability to cancel a commitment**, thereby disallowing the UCC treatment:

- deficiencies in **risk management procedures** (e.g., lack of documented cancellation triggers or governance)
- **commercial considerations** (where cancelling would be inconsistent with business practices or contractual expectations)
- **reputational risks** (material harm to the institution's standing that makes cancellation unlikely) and
- **litigation risks** (high probability of legal claims arising from cancellation).

Where such constraints exist, the item should be allocated to the appropriate bucket irrespective of its label as "unconditionally cancellable" (i.e. a CCF of 40% or 50% is to be expected in many cases).

Due to numerous responses to the consultation from March 2024 regarding the difficulty in assessing the criteria on the factors that may constrain UCCs, which highlighted the challenges in designing and implementing such a process, the EBA has taken some action. In the final draft, the EBA incorporated the proposal to require a **positive identification of these factors**, rather than placing the burden of proof on institutions to demonstrate the absence of such limiting factors. However, this does not change the fact that institutions need to have a close look at these factors both for the initial classification and potential reassessments.

Notification and reporting

The classification of off-balance sheet items not already in Annex I shall be included in the COREP reporting as set out in Implementing Regulation (EU) 2024/3117. The information is to be reported in the COREP Template C 07.00 (row 085) and includes the figures as the fully adjusted exposure values before application of the conversion factor. With that, the supervisory authorities have at least transparency about the application of this additional classification and will then probably take some action to assess the appropriateness. Hence, it can be expected that institutions need to be prepared to provide sufficient reasoning behind those decisions.

Responses to public consultation

The EBA considered feedback from the consultation and provided clarifications, including refining the concept of conditionality and introducing additional criteria to distinguish between buckets 1 and 2, and the interaction with bucket 3, maintaining a narrow approach for trade finance related items while clarifying their allocation and agreeing that items with constrained UCC criteria should be assigned to the relevant bucket without relying on cancellation assumptions. The **non-exhaustive list of examples**, which was also clarified is included to help institutions classify off-balance sheet exposures in practice.

What this means for institutions

Banks will need to review and, where necessary, **adapt their off-balance sheet classification frameworks** and documentation of **cancellation practices** and governance. Risk management, credit policy, and reporting teams should coordinate to ensure consistent application of the new criteria and timely COREP reporting of classifications. Supervisors will use the reported classifications to assess consistency and may challenge institution level allocations that appear misaligned with the RTS criteria. This all may lead to **increasing implementation costs** and **greater RWA impacts**.

Do you **have questions about the final RTS or want to hear PwC's perspective? Feel free to reach out! Our CRR 3 and credit risk experts are ready to assist you.**

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