Pills

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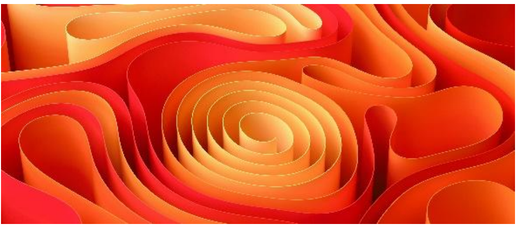

TOPICS:

Credit risk

SOURCE

European Banking Authority

The EBA Consults on Draft Amended Guidelines on the Application of the Definition of Default Under the Capital Requirements Regulation

- The **EBA's Consultation Paper** proposes amendments to the Guidelines on the application of the **definition of default (DoD)** under Article 178 of the CRR, with updates mandated by CRR3. While primarily addressing **debt restructuring**, the amendments also consider moratoria, factoring arrangements, and various technical adjustments. The **consultation is open until 15 October 2025**.
- A key focus is the **Net Present Value (NPV) threshold** for debt restructuring. The EBA proposes **maintaining the 1% threshold**, citing that the current framework offers sufficient flexibility. The calculation method aligns with accounting standards (IFRS 9) and permits structuring that avoids losses, thus preventing erroneous default classifications. Raising the threshold to 5%, while potentially alleviating burdens on institutions and borrowers, would introduce inconsistencies, increase model validation costs, and create arbitrage opportunities, particularly with existing 1% thresholds for past-due criteria.
- The paper also explores but ultimately **rejects shortening the probation period** (currently one year) for reclassifying defaulted forborne exposures.
- While a reduced period could ease the burden on institutions and borrowers, it risks widening the gap between the definitions of default and non-performing exposures (NPE), undermining harmonisation efforts.
- Regarding **moratoria**, the EBA refrains from formalising exceptions, despite recent climate-related moratoria. The existing framework is considered sufficiently flexible, as moratoria do not necessarily imply borrower financial difficulty or a diminished obligation. However, an alternative approach is considered, wherein legislative moratoria could avoid triggering forbearance classification under strict conditions.
- For **factoring arrangements**, the EBA proposes extending the technical past due threshold from 30 to 90 days at the invoice level. This reflects operational realities and reduces inappropriate default classifications, especially where factoring involves purchased receivables with complex administrative dynamics.