

Single Rulebook Q&A

Question ID	2021_5754
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	71
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Disclose name of institution / entity	No
Type of submitter	Other
Subject matter	Treatment of cured defaulted exposures
Question	<p>For the treatment of cured defaulted exposures, a probation period of 90 days with no default triggers must apply before the exposure is moved back to a non-defaulted status. According to Article 178(1)(b) CRR default shall be considered to have occurred with regard to a particular obligor when the obligor is more than 90 days past due on any material credit obligation. However, if the material arrears fall below the thresholds, the arrears counter will reset to 0. Should the probation period of 90 days with no default triggers apply before the exposure is moved back to a non-defaulted status?</p>
Background on the question	A probation period of 90 days must be met since the day a default exposure does not meet any default criteria triggers.
Final answer	<p>Minimum conditions for reclassification of a defaulted exposure or obligor to a non-defaulted status, for the purposes of the application of Article 178(5) of Regulation (EU) 575/2013 (CRR), are specified in the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07).</p>

	<p>Except for situations referred to in paragraph 72 of said Guidelines (distressed restructuring on a defaulted exposure is subject to a probation period of at least one year - see also Q&A 4867), all conditions from paragraph 71 of such Guidelines should be satisfied for the reclassification of a defaulted exposure or obligor to a non-defaulted status.</p> <p>As no trigger of default should continue to apply during a 3-months minimum probation period in accordance with point (a) of paragraph 71 of the Guidelines, no indication of unlikeliness to pay should be met in accordance with Article 178(1)(a) CRR and no material amount should be past due in accordance with point (b) of Article 178(1) CRR during this period.</p> <p>Furthermore, as part of the assessment required by point (d) (d) of paragraph 71 of the Guidelines, point (b) of that paragraph paragraph required that the institution takes into account the behavior of the obligor during this probation period before reclassifying a defaulted exposure to non-defaulted status, and thus the institution should consider any past due amount during this period in the analysis of the behavior of the obligor.</p>
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