



**Single
Rulebook
Q&A**

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	180
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2017/16 - Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures
Article/Paragraph	73
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Disclose name of institution / entity	No
Type of submitter	Other
Subject matter	Obligations stemming from "non-credit products"
Question	To what extent do fees stemming from "non-credit products" fall under the notion of para 73 (a) of the EBA Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures?
Background on the question	It is unclear whether so called "non-credit products" have to be excluded from the calculation of the one-year default rate referred to in point (78) of Article 4(1) of Regulation (EU) No 575/2013, as described in the Guidelines on PD estimation, LGD estimation and treatment of defaulted exposures. In

	<p>particular, it is unclear whether fees, which are stemming from non-credit products - such as a current account without overdraft - would fall in the scope of paragraph 73(a) of the Guidelines, according to which “the denominator consists of the number of non-defaulted obligors with any credit obligation observed at the beginning of the one-year observation period” and in this context a credit obligation refers to “any on balance sheet item, including any amount of principal, interest and fees”. In the Background and rationale of said Guidelines, the term “non-credit products” is used on page 22. Unfortunately, there is no further explanation of the term “non-credit-products” in this context/document.</p>
EBA answer	<p>Although the term “non-credit products” is not defined in the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures, in the Background and Rationale they are referred to as products which themselves do not constitute credit exposures. However, obligations under such products that are not yet settled do constitute credit exposures and therefore qualify as credit obligations. This is consistent with the definition of the one-year default rate in paragraph (73) where the denominator consists of the number of non-defaulted obligors with any “credit obligation” observed at the beginning of the one-year observation period.</p> <p>As an example, current accounts (without overdraft) are non-credit products from the institution’s perspective because they do not constitute a credit risk exposure for the institution. However, any fees requested by the institution for such current accounts do constitute a credit risk exposure for the institution as long as they are not yet paid by the customer, and therefore constitute a credit obligation for the customer, though stemming from a non-credit product.</p> <p>For the purpose of the default rate calculation and in order to avoid biases in the PD quantification, institutions are to evaluate to establish a separate calibration segment within the rating system to accommodate information related to obligors whose obligations stem solely from non-credit products in line with the policy set out in the EBA/GL/2017/16.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2018_4301</p>