European Banking Authority

Public Hearing: Consultation on amending Guidelines on Definition of Default

EBA Prudential Regulation and Supervisory Policy

Virtual meeting, 3 September 2025

Ground rules for this virtual meeting.

Mic and video off

Please keep yourself muted and the video off while listening.

Questions/comments?

Please use the chat or raise your hand to ask for the floor.

Slides on EBA website

The presentation used today will be made available on the EBA's website after this hearing.

Contents

01

EBA Roadmap on CR mandates under CRR3

EBA Roadmap – Overview CR

Phase 1

Implement the critical elements of the SA and review targeted elements of the IRB frameworks

This group mostly covers mandates related to the SA, with the notable exception of a review of the frameworks on the definition of default and on the categorisation of model change.

Phase 2

Specify the treatment of project finance under the SA, start the review of the IRB repair programme products

The mandates mostly relate to clarification on the IRB approach, while on the SA some specifications are provided on the newly introduced specialised lending exposure class.

Phase 3

Complement the IRB repair programme

The key product will be the publication of the guidelines on CCF estimation. This phase also contains various reports assessing specific elements of the Basel III framework in the context of its EU implementation.

Phase 4 and later

Finalise the assessment of the framework

Most of the mandates relate to reports assessing specific elements of the Basel III framework in the context of its EU implementation, with the policy work confirmed to target elements of lower materiality.

Legal Basis for Guidelines

Article 178(7) mandates the EBA to revise the existing Guidelines on the Definition of Default.

EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to update the guidelines [*on the definition of default …*]. In particular, that update shall take due account of the necessity to encourage institutions to engage in proactive, preventive and meaningful debt restructuring to support obligors.

In developing those guidelines, EBA shall duly consider the need for granting a sufficient flexibility to institutions when specifying what constitutes a diminished financial obligation for the purposes of paragraph 3, point (d).

Overview of past discussions on DoD

- **2016:** published GL
- **2021:** Discussed distressed restructuring in BoS April and June meeting;
- **2022**: Received mandate* in Council CRR3 report.
- **2024:** Consulted industry proactively on potential revisions of GL
  - Organised a round table with its members and the industry in February;
  - Requested empirical evidence, contacted key associations to collect this evidence amongst their members.

*Article 178(7) CRR 3: *[EBA shall update the guidelines] <u>In particular</u>, that update shall take due account of the necessity to encourage institutions to engage in proactive, preventive and meaningful debt restructuring to support obligors. In developing those guidelines, EBA shall duly consider the need for granting a sufficient flexibility to institutions when specifying what constitutes a diminished financial obligation.*

02

Maintain the NPV threshold for forbearance measures at 1%

Key features and concerns of forbearance triggered defaults

Default identification under forbearance measures (1% NPV Loss)

- 3 criteria for default: Financial difficulties **+** Restructuring **+** Loss (1% NPV)
- Question: should certain NPV losses be carved out, based on following concerns:
  - NPV threshold breach depends on contractual features of the exposure: *one measure (e.g. postponement by 1 year) leads to different outcomes depending on (e.g.) residual maturity, effective interest rate at origination*
  - NPV threshold breach depends on level of interest rates: procyclicality of the measure?

Default retention under forbearance measure

- *Retention criteria*: 1 year probation period, with minimum repayment criteria
- *Concerns:* Affects client (e.g. no access to public funding) & bank's risk management ("use test")

Default identification is connected to capital requirements for credit losses

- A NPV loss is generally an accounting loss that impacts the P&L (depending on contractual features and economic cycle).*
- NPV threshold only applies to credit risk losses (obligor in financial difficulties to which a concession has been made).
- Credit risk losses (on observed defaults) are used to predict future unexpected losses (and set RWA for def exposures & non-def portfolio).

An NPV loss due to credit risk should be registered to correctly predict UL

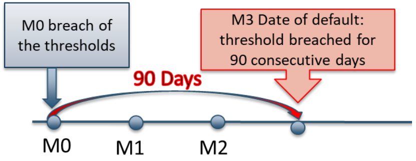
Industry is asked to provide the materiality of examples where an NPV loss > 1% does not lead to a similar accounting loss impacting P&L.

Considerations to maintain the NPV threshold at 1%

A credit risk NPV loss should be registered to correctly predict UL, and as such trigger a default

- 1% initially intended to capture rounding error
- Consistency with 1% DPD *materiality* threshold prevents arbitrage.

Example on inconsistency with 1% DPD threshold



The obligor does not repay according to schedule more than 1%

Scenario 1: No restructuring → after 90 DPD the obligor is defaulted.

Scenario 2: Restructured just before 90 DPD → with higher NPV threshold (e.g. 2%) the obligor is NOT defaulted.

Consulted options to provide flexibility for distressed restructuring*

Make exit criteria more risk sensitive

- **Option 1: Shorten the probation period for distressed restructuring (of 1 year).**
- **Option 2: Relax requirement that the obligor should repay an amount equal to the amount written-off.**

Introduce clear guidance on legislative moratoria

- **Option 3: Exempt legislative moratoria from the NPV threshold default trigger under strict conditions.**

Industry is asked how this may affect their processes in the context of potential misalignments between the definition of default and the definition of Non-performing exposures

03

Other updates to DoD GL

Other updates to DoD guidelines

Factoring

- **Increase existing exception that a single invoice must be 30 DPD, to 90 DPD**.

180 days past due

- **Remove references to discretion to use 180 DPD instead of 90 DPD.**
- **Maintain the technical past due exemption for public sector entities up to 180 DPD.**

04

Next Steps

Next steps

15 October 2025

End of Consultation Period

2025

Q4

Processing feedback on CP

2025

Q1-Q2

Finalizing the GL

Internal bodies approval

Final Publication of the GL

2026

Thank you!

Annex I

Overview of questions in CP

Q1: Do you believe the current guidelines result in some exposures under forbearance measures to be incorrectly classified as defaults, thus hindering proactive, preventive and meaningful restructurings given the detrimental effects that defaulted status has for the affected obligors? If so, please further specify the characteristics of the exposures, which you deem as being subject to an incorrect classification of default.

Q2: Do you think that relaxing the criteria for the minimum period before returning to the non-defaulted status for defaulted forborne exposures could be an appropriate measure to alleviate a higher burden on your institution and clients? How material would the difference be in your case between the amounts of forborne exposures classified as NPE and as defaulted if the minimum one-year probation period in the definition of default were reduced to three-month for certain forborne exposures (with change in NPV below 5% and no loss on the nominal amount)? Would that proposal create additional operational burden or practical impediments? Do you see support such proposal, and if so, for which reasons?

Q3: Do you see any alternatives other than those referred to in this section that the EBA should consider under Article 178(7) CRR to update the Guidelines and encourage institutions to engage in proactive, preventive and meaningful debt restructuring to support obligors?

Q4: Do you use internal definitions of default and NPE that are different from each other? Which differences are these and how material are those differences? Do you have any reasons or observed practical impediment that warrants a different definition of NPE and default? If so, please provide examples where a different definition of NPE and default is appropriate.

Q5: Would a potential lack of alignment between the default and NPE definition lead to issues in accounting in your case?

Q6: Do you agree that no specific provisions should be introduced for moratoria on the grounds of the sufficient flexibility of the revised framework? In case you think the proposed alternative treatment for legislative moratoria should be included in these guidelines, do you have any evidence of the definition of default framework being too procyclical in the context of moratoria? Do you agree with the four conditions that need to be satisfied?

Q7: Do you agree with the revised treatment of technical past due situations in relation to non-recourse factoring arrangements? And if you do not agree, what are the reasons? Do you have any comments on the clarifications of paragraphs 31 and 32 in the current GL DoD?

Q8: Do you agree with the other changes to the guidelines to reflect updates from Regulation (EU) 2024/1623?

European Banking Authority

Floor 24-27, Tour Europlaza
20 Avenue André Prothin
92400 Courbevoie, France

Tel: +33 1 86 52 70 00
E-mail: info@eba.europa.eu

https://eba.europa.eu/