European Banking Authority

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Final Report

Guidelines

on amending Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013

European Banking Authority

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1. Executive Summary

Under Article 178(7) of Regulation (EU) No 575/2013 (CRR), as amended by Regulation (EU) 2024/1623 (CRR3), the European Banking Authority is mandated to review the Definition of Default guidelines (GL) which were drafted by the EBA based on the mandate in Article 178(7) CRR. While the mandate explicitly mentions the treatment of debt restructuring, other parts of the framework have also been assessed.

NPV threshold for debt restructuring: the GL maintain the 1% threshold for the net present value (NPV) loss in debt restructuring, based on the following arguments:

- The current framework is already sufficiently flexible and risk sensitive. It is in particular noted that the scope of application of the fixed threshold is limited to obligors experiencing or likely to experience financial difficulties. In addition, the calculation rules of the NPV loss are aligned with accounting principles, and allow institutions to perform restructuring in a way that does not lead to a loss (e.g. extension of maturity). Therefore, the current framework does not lead to wrong default identifications.

- Amending the framework would hinder the effort made following the great financial crisis to reduce the level of non-performing loans. Increasing the thresh-old would create inconsistencies and potential arbitrage opportunities in the framework as the thresholds on past due amounts are also set at 1%. With that, a sound default identification process is key as the default classification impacts both prudential (IRB) and potentially accounting (IFRS 9) credit risk models, and hence the capitalisation and potentially provisioning of the entire portfolio. Therefore, an increase in the threshold would severely impede the robustness of the framework.

- Any change in the definition of default framework also implies operational costs, as well as a new development and new validation cycle for at least prudential models.

Probation period: The possibility to shorten the probation period from 1 year to e.g. 3 months for certain forborne exposures has been considered. The guidelines text does however not incorporate this change, as it is noted that such change would imply a widening of the gap between the definition of non-performing exposures and the definition of default.

Legislative Moratoria: The possibility to introduce specific criteria for the recognition of moratoria has been considered, both for legislative moratoria and private initiatives, but not introduced in the GL. Similar arguments as the ones provided for the non-increase in the NPV threshold for debt restructuring are used: the framework is already sufficiently flexible to ensure no default misclassification, and recent events observed in the EU are the manifestation of climate risks that should be appropriately measured and capitalised.

Factoring Arrangements: The guidelines increase the exceptional treatment of days past due at invoice level from 30 to 90 for factoring arrangements to better reflect the economic reality of purchased receivables.

Other update in the guidelines: the application of CRR3 entails some technical updates to the GL, such as the removal of the reference to the previous 180 day past due discretion in point (b) of Article 178(1) CRR or the reference to distressed restructuring.

Next steps

The GL will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from [3 months after the date of publication on the EBA’s website of the guidelines in all EU official languas].

2. Background and rationale

Background

1. Article 178(3)(d) CRR was revised by CRR3 replacing the notion of 'distressed restructuring' by a direct reference to the forbearance measure, as defined in Article 47b CRR.[1] Article 178(3)(d) CRR, as amended by CRR3, states that *"elements to be taken as indications of unlikeliness to pay shall include the following (…) (d) the institution consents to a forbearance measure as referred to in Article 47b of the credit obligation where that measure is likely to result in a diminished financial obligation due to the material forgiveness, or postponement, of principal, interest or, where relevant, fees;"*

2. Under Article 178(7) CRR, as amended by CRR3, the EBA is mandated to review the Definition of Default guidelines (EBA/GL/2016/07, hereinafter 'GL DoD'), which were drafted by the EBA based on the mandate in Article 178(7) CRR.[2] The updated mandate now asks that *"EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to update the guidelines referred to in the first subparagraph of this paragraph. 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)..".*

3. Recital 24 CRR3 states that *"institutions should play a key role in contributing to the recovery from the COVID-19 pandemic also by extending proactive debt restructuring measures towards worthy debtors facing or about to face difficulties in meeting their financial commitments. In that regard, institutions should not be discouraged from extending meaningful concessions to obligors where deemed appropriate as a result of a potential and unwarranted classification of counterparties as being in default where such concessions might restore the likelihood of those obligors paying the remainder of their debt obligations. When developing guidelines on the definition of default of an obligor or credit facility, EBA should duly consider the need for providing adequate flexibility to institutions."*

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[1] Article 178(3)(d) CRR previously stipulated the following indication of a UTP indication: *"the institution consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees. This includes, in the case of equity exposures assessed under a PD/LGD Approach, distressed restructuring of the equity itself;"*.

[2] Article 178(7) CRR before the amendment introduced by CRR3: Article 178(7) CRR. *"EBA shall issue guidelines on the application of this Article."*

Framework for default recognition due to debt restructuring

4. The current GL DoD contain a chapter on 'distressed restructuring', providing guidance on when to classify an exposure that is subject to such a debt restructuring as defaulted. However, CRR3 clarifies that there is an indication of unlikeliness to pay (UTP) for an exposure when the institution consents to a forbearance measure as referred to in Article 47b CRR, where that measure is likely to result in a diminished financial obligation. As such, the amended GL DoD need to define when a default has occurred in situations where forbearance measures have been granted by an institution to its obligors. A potential default classification therefore depends on an assessment to be performed by institutions that includes two aspects.

5. First, institutions should assess whether the measure constitutes a forbearance measure. According to Article 47b CRR, a forbearance measure is a concession by an institution towards an obligor that is experiencing or is likely to experience difficulties in meeting its financial commitments ('financial difficulties'). Therefore, institutions should first assess whether the obligor is or will likely be in financial difficulties, and secondly, whether the concession would not have been granted had the obligor not experienced financial difficulties.[3] While a measure may imply a concession by the institution when granted to the obligor in financial difficulties, in case this concession is not granted because of those financial difficulties (but e.g., due to commercial reasons), the concession does not necessarily constitute a forbearance measure. Therefore, while the second (quantitative) criteria mentioned below are mechanistic, the first (qualitative) assessment provides already a great deal of flexibility to prevent default misclassification.

6. Second, institutions should assess whether a forbearance measure is likely to result in a diminished financial obligation. In that context, the GL DoD already provide guidance on how to determine whether the concession entails a diminished financial obligation. As such, the assessment is based on a comparison between the net present value (NPV) of expected cash flows before the changes in the terms and conditions of the contract and the NPV of expected cash flows based on the new arrangement, both discounted using the effective interest rate of the original contract:

    a. If the difference between the NPV of cash flows before and after restructuring arrangements exceeds a certain threshold the exposure should be classified as defaulted. The threshold should be set by institutions but should not exceed 1 %.

    b. Where this difference is below the specified threshold, institutions should still assess such exposures for possible other indications of unlikeliness to pay.

[3] Article 47b CRR: *"A concession may entail a loss for the lender and shall refer to either of the following actions:*
(a) a modification of the terms and conditions of a debt obligation, where such modification would not have been granted had the obligor not experienced difficulties in meeting its financial commitments;
(b) a total or partial refinancing of a debt obligation, where such refinancing would not have been granted had the obligor not experienced difficulties in meeting its financial commitments."

7. This NPV mechanism was introduced in the GL DoD to align with the accounting framework, where the calculation of an impairment loss involved a comparison between the loan's carrying amount and the future cash flows discounted with the effective interest rate. The maximum threshold of 1% for specifying a material forgiveness, or postponement, of principal, interest or, where relevant, fees was set to exclude from a default classification mainly those situations where the change in the net present value (NPV) of the contract results from technical discounting aspects and rounding of the amounts.

8. Under IFRS9, which was introduced after the publication of the GL DoD, this alignment is generally still applicable. When an institution modifies a financial asset which does not result in a derecognition, under IFRS9 the institution shall recognise a gain or loss by comparing the gross carrying amount of the financial asset before and after the modification, where the gross carrying amount of the financial asset shall be calculated as the NPV of the cash flows discounted at the financial asset's original effective interest rate.

9. The GL DoD also specify the criteria for reclassifying exposures to a non-defaulted status. In relation to exposures that defaulted due to debt restructuring with a diminished financial obligation, the current GL DoD specify that a one-year probation period and additional conditions should apply before such exposures can return to a non-defaulted status. The probation period is defined as at least one year from the latest of: i) the moment of extending the restructuring measures, ii) the moment when the exposure was classified as defaulted or iii) the end of any grace period included in the restructuring arrangements. Additionally, this period should not be shorter than the period during which a material payment has been made by the obligor, which is expected to be a total amount equal to the amount that was past-due (if there were past-due amounts) or that has been written-off (if there were no past-due amounts) under the forbearance measures.

10. Within the context of debt restructuring, the following components of the GL DoD have therefore been assessed:

    a. The criteria to enter into the defaulted status, i.e. the mechanism to determine whether a diminished financial obligation has resulted from the forbearance measure. One of the elements considered in the update of these guidelines is the appropriateness and proportionality of the application of the 1% threshold in relation to the materiality of the NPV loss described above. The question of proportionality is mostly related to concessions that imply an NPV loss above 1% but below 5%, but where there is no loss on the nominal amount and where no other indications of UTP apply.

    b. The criteria to return to a non-defaulted status after an exposure has been classified as defaulted due to an unlikeliness to pay indication based on a diminished financial obligation that resulted from a forbearance measure.

Technical assessment of debt restructuring framework

No default misclassification with the current 1% NPV threshold

11. A *"diminished financial obligation due to the material forgiveness, or postponement, of principal, interest or, where relevant, fees"* is accurately captured by the NPV difference; this NPV difference measures the economic loss stemming from concessions provided by the institution due to the financial difficulties of the obligor, which in the general case should also be reported under IFRS9 as an accounting loss. With that, this loss depends on loan characteristics such as interest rates and maturities as well. Therefore, to preserve consistency and comparability of the criterion, the NPV threshold should not depend on contractual features. In particular, the fact that the loss (and the NPV calculation outcomes) depends on the characteristics of the loans (maturity and interest rates) is not an unintended consequence. Making the tolerable NPV loss dependent on the effective interest rate would produce an uneven level playing field across jurisdictions and across customers with different risk profiles, where for some exposures, there would be an NPV loss larger than 1%. Conceding to a payment holiday (e.g., for 3-12 months) implies a significant NPV loss for higher interest rates. For an exposure with an annual interest rate of 4%, an interest holiday of 12 months typically equates to an approximate 4% NPV loss. For exposures with interest rates higher than 5%, a 12-month interest holiday would imply an NPV loss higher than 5%.

12. Article 178(3)(d) CRR stipulates that the default classification must reflect the creditworthiness of the client before the restructuring, such that economic losses due to forbearance measures require default recognition regardless of whether this improves the obligor's financial health (and future expected losses are limited). Restructurings improving creditworthiness (e.g., inclusions of additional collaterals or guarantees) should not offset the NPV loss. Forbearance measures should primarily be granted with the aim of providing a restructured repayment schedule that is considered very likely to be viable by the institution. However, the viable nature of the forbearance measure should not prevent the default recognition of the remaining exposure.

13. Concessions causing material NPV losses therefore represent genuine defaults. Even if cure rates later prove high, the incurred loss should be registered and subsequently taken into account in institutions' IRB models. Those obligors for which the current set of NPV neutral measures would not imply a viable solution, i.e., those that cannot compensate (after an initial period of liquidity shortage) for the loss in NPV stemming from the forbearance measure, are likely to be in more structural and serious financial difficulties. As such, material concessions exceeding the 1% threshold should still trigger default classification.

14. In conclusion, the 1% threshold does not lead to misclassifications of defaults such that changes to the threshold are not warranted. All exposures classified as defaulted under the GL DoD 1% NPV threshold are considered to be 'true' defaults by nature, as evidenced by the losses that have been incurred, and therefore further risks are likely to materialize as the obligors are

unlikely to pay in full their credit obligations. Amending the threshold would lead to the non- or too late recognition of economically defaulted exposures.

An increase in the NPV threshold would create inconsistencies with other parts of the default identification framework

15. An increase in the NPV threshold (to e.g., 5 %) used to determine whether a forbearance measure implies a diminished financial obligation may be incompatible with other parts of the definition of default.

16. The intention of the 1 % NPV threshold was to capture mainly those situations where the change in the net present value of the contract results from technical discounting aspects, rounding amounts, and where the diminished obligation by forgiveness, or postponement of principal, interest or, where relevant fees, should consequently not be considered material. It could be argued that this conflicts with CRR3's goal of encouraging meaningful restructuring, such that the focus should be on what is a *'material'* forgiveness.[4] However, since the development of this NPV threshold, the concept of materiality in the context of default recognition has also further developed. In particular, the CDR on the threshold for assessing the materiality of past due credit obligations was published and sets this materiality threshold at 1%.[5] Determining the materiality threshold at 1% has been subject to a thorough impact analysis.[6]

17. An increase to 5 % would thus create inconsistencies with the implementation of the materiality threshold for credit obligations past due, which is in most jurisdictions set at 1 %. An increase to 5 % creates possible ways to postpone the material past due default indicator by postponing payments for a sustained period.

Considerations to introduce more flexibility in the framework

18. The mandate asks for a broader assessment than only a technical assessment of potential default misclassification. Here, the main argument is that the 1% NPV threshold may be seen as limiting too severely restructuring measures and may harm recovery prospects for obligors in temporary financial difficulties but that are not unlikely to pay their credit obligations. The

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[4] See Article 178(3)(d) CRR. Although the word *material* is not introduced with the CRR3 amendments, it could be argued that the CRR3 mandate still requires EBA to consider what is material, rather than focussing on preventing excluding default registration due to minor technical effects.

[5] Competent authorities shall ensure that the threshold consists of an absolute and a relative component whereby:

a) the absolute component of the threshold is set as a limit to the sum of all past due amounts related to the credit obligations of the borrower towards the institution, the parent undertaking or any of its subsidiaries ('credit obligation past due'), and that such a limit is, , in the case of retail exposures, lower than or equal to 100 EUR or the equivalent of that in the relevant national currency or, in the case of exposures other than retail exposures, lower than or equal to 500 EUR or the equivalent of that in the relevant national currency;

b) the relative component of the threshold is set as a ratio, expressed as a percentage, of the credit obligation past due as referred to in point (a), versus the total amount of all on-balance sheet exposures to the obligor excluding equity exposures, and that such a percentage is equal to 1%, unless such a level does not reflect a level of risk that the competent authority considers to be reasonable in accordance with Article 4(3);

[6] By EBA in the Final Report Draft Regulatory Technical Standards on the materiality threshold, and by ECB in their cost and benefit analysis when determining for Regulation (EU) 2018/1845 that this relative threshold of 1% reflects a reasonable level of risk.

considerations below take as the starting point the situation where an obligor is in financial difficulties and a concession has been granted to this obligor which constitutes a forbearance measure, and where no other indications of UTP are present.

19. A first consideration is that the impact on the institution's profit and loss account and capital ratios might be disproportionate to the increase in risk related to the materiality of the NPV change in the contract (less than e.g. 5%). This impact relates to several elements. By placing the obligor in financial difficulties with the restructured debt in default, there is an effect on the profit and loss account in terms of the level of provisioning. In addition, capital ratios are impacted via the risk-weighted exposure amounts (RWEA) for the obligor itself, and for the rest of the portfolio (only IRB institutions). Institutions may therefore be incentivised to liquidate non-performing exposures (NPE) or sell NPE on the secondary market.

Impact on profit and loss account

20. Classifying an obligor in financial difficulties to default is likely to impact the provisioning of the related exposure. Under IFRS9, a rebuttable assumption is that the exposure would already have experienced a significant increase in credit risk (SICR) and be classified in Stage 2 based on the forbearance measure. Provisioning for the exposure would likely increase if the obligor were classified as defaulted, as this classification would likely translate to a transfer of the exposure to the IFRS9 Stage 3, triggering a corresponding decrease in the profit and loss account of the institution. This is likely to affect the parameters used in the determination of expected lifetime credit losses.

Impact on the risk-weighted exposure amount associated with the defaulted exposure

21. The risk weighted exposure amount (RWEA) related to the obligor may increase depending on the exposure class and whether the institution uses the Internal Ratings Based (IRB) Approach or the Standardised Approach (SA).

    a. Under the SA, Article 127 CRR groups the unsecured parts of defaulted exposures as a specific exposure class. Within this exposure class the risk weight is assigned according to the ratio between the unsecured part of the exposure value and the specific credit risk adjustments (SCRA) and the amounts deducted in accordance with point (m) Article 36(1) CRR. If the SCRA and the deducted amounts together are equal to or greater than 20% of the unsecured part of the exposure value, then the assigned risk weight is 100%. The assigned risk weight is 150% if the SCRA and deductions are less than 20% of the unsecured part of the exposure value. As these are the highest levels of risk weights used in most of the other exposure classes under the SA, it is reasonable to expect an increase in the risk-weight of an obligor as a result of a default classification.

    b. Under the IRB-Approach without the use of own estimates of LGDs and IRB-CCFs (F-IRB Approach), the risk weight of defaulted exposures is zero. However, the calculation of expected loss is based on a PD that is equal to 100%; therefore, the

expected loss is much higher than if the exposure was not classified as defaulted (and a PD for non-defaulted obligors or exposures smaller than 100% would be applied). The stricter the default definition, the higher the expected loss. If the expected loss amount is not fully covered by the credit risk adjustments and other value adjustments and deductions related to the exposure as referred to in Article 159(1) CRR then the difference between the expected loss amount and those adjustments and deductions is deducted from own funds.

c. Under the IRB Approach with the use of own estimates of LGDs and IRB-CCFs (A-IRB Approach), the impact on capital requirements is complex. The risk weight for defaulted exposures is not zero but calculated on the basis of expected loss best estimate (ELBE) and LGD in-default estimates and should represent the unexpected loss within the recovery process. It is not explicit whether the risk weight calculated in this way is higher or lower than the risk weight for non-defaulted exposures. However, the same effect on expected losses applies as for the F-IRB Approach.

22. Both under the SA and IRB Approach, this effect on RWEA is temporary, and is largely negated as soon as the exposure returns to a non-defaulted status. As such, the materiality of the RWEA impact also depends on the criteria to be met in order to return to a non-defaulted status.

Impact on the risk-weighted exposure amount associated with the non-defaulted portfolio

23. The default classification of the obligor likely also impacts the RWEA related to the portfolio to which the exposure of the obligor in financial difficulties is assigned (only for IRB portfolios as the weighted risk weight for the portfolio of non-defaulted obligors under SA would not change based on the default classification of other obligors in the portfolio, and with a certain delay).

    a. Under the F-IRB Approach, a stricter default definition results in a higher default rate, leading to higher PD estimates and higher risk weights for non-defaulted exposures – as the LGD is fixed.

    b. Under the A-IRB Approach, a stricter definition of default results in higher PD estimates. In the case of LGD, however, the impact would most likely be the reverse, because a stricter definition of default might result in more defaults that would be cured within a short period of time or with a smaller loss. This effect would decrease LGD estimates and thereby the risk weights for non-defaulted exposures. The overall magnitude of the RWEA impact of defaulted obligors on the non-defaulted portfolio is therefore difficult to estimate under the A-IRB Approach.

Operational costs and reputational effects

24. Next to a capital cost, institutions might suffer from additional operational costs and reputational effects due to the classification of an obligor as defaulted. The default classification might trigger some risk management measures from the institution that may not match the level

of risk of the obligor. Actions, in particular those described in the EBA Guidelines on management of non-performing and forborne exposures (EBA/GL/2018/06), might be required as well. For example, depending on the type of exposure, collateral that is subject to individual valuations and revaluations on a regular basis may need to be updated at the time when the exposure is classified as defaulted. Next to the operational burden on the institution, such risk management measures, if considered disproportionate by the obligor, might cause reputational damage on the institution. An institution may therefore want to refrain from providing forbearance measures to the obligor, even if there are viability concerns in relation to the original payment schedule.

25. Another consideration, which interacts with the previous point, is that the impact on the obligor due to the default classification because of the NPV threshold breach may be disproportionate to the forbearance measure received.

26. Institutions may not be incentivised to provide viable forbearance measures to the obligor due to higher capital or operational costs, such that there is a chance that the obligor's financial situation worsens. In case the institution decides not to grant the forbearance measure (due to capital and operational costs for the institution), there might be a higher chance that the obligor in financial difficulties defaults on the original payment schedule, being worse off than if the obligor had received the forbearance measure.

27. In the case the forbearance measure is granted, there might be implications for the obligor if this measure triggers a default classification. The obligor might be subject to some of the institution's risk management costs (such as collateral revaluation) related to the default classification. Additional credit granting by the institution providing the forbearance measure may also be automatically restricted due to the default status (e.g. the tightening of revolving working capital). Furthermore, the default classification might translate into a negative notation in a public credit registry, with the consequence that the obligor loses access to viable private funding solutions for a sustained period. In some jurisdictions, a default status may also impose restrictions on available public funding schemes (e.g. public guarantees, legislative moratoria). As such, with a lack of available funding, temporary financial difficulties might translate into more permanent solvency issues.

Rationale for maintaining the framework despite call for introducing flexibility

The default identification framework already incorporates flexibility when specifying what constitutes financial difficulties, a concession and a diminished financial obligation

28. The above considerations are relevant only in the context where an obligor is in financial difficulties and a concession has been made to this obligor, which constitutes a forbearance measure, and where no other indications of UTP are present. Any potential additional flexibility to be incorporated into the guidelines on the treatment of a diminished financial obligation and the NPV threshold should therefore be considered in relation to the flexibility already integrated

into the framework, especially with regards to the concepts of financial difficulties and concessions.

29. First, the CRR framework already allows for flexibility in determining when an obligor is experiencing or is likely to experience difficulties in meeting its financial commitments. Article 47b(4) stipulates the difficulties experienced by an obligor in meeting its financial commitments shall be assessed at obligor level, and Article 47b(3) provides indicators where a forbearance measure may have been adopted.

30. Second, any concession made by the institution for other reasons than these financial difficulties, e.g. due to commercial or reputational reasons, does not constitute a forbearance measure.

31. Finally, institutions can already provide leeway to an obligor that is in temporary financial difficulties without triggering a concession and a diminished financial obligation. This includes:

    a. A temporary payment holiday could be granted if the unpaid amounts are paid back in full within three months (such that no effective restructuring has taken place).

    b. A grace period (limited in time), either where the obligor pays only the interest payments and pauses the principal payments, or where additional payments are made (e.g. via a slightly higher interest rate after the temporary grace period) to compensate the NPV loss for the institution, and no other UTP indications apply confirming that the financial difficulties are temporary and there are no viability concerns vis-à-vis the eventual repayment of the credit obligation in full (i.e., including the principal payments).

    c. Provide restructurings with a limited loss (NPV loss below 1 %), i.e., a grace period of principal and interest during a limited period of time, or a measure where the obligor does not have to (or is not allowed to) pay compounded interest.

32. The restructuring solutions described above would most likely be viable for obligors in temporary financial difficulties, also because a combination of these solutions is possible (for instance, a full grace period can be provided for a limited period of time to cope with a severe liquidity issue, followed by a grace period only on the repayment of the principal). Those obligors for which the NPV neutral measures would not imply a viable solution, i.e., those that cannot compensate (after an initial period of liquidity shortage) for the loss in NPV stemming from the forbearance measure, are likely to be in more structural financial difficulties.[7] It is noted that granted forbearance measures in general are expected to be viable payment solutions for obligors, such that the viability of a forbearance measure itself should not be the sole reason for not classifying an obligor to default.

[7] Based on figures received by the EBA, the incidence of obligors with temporary financial difficulties that default solely due to the diminished financial obligation (i.e. no other UTP indications apply to the exposure) is understood to be low.

33. Therefore, an UTP indication and default treatment for obligors with structural financial difficulties with an NPV loss above 1 % is overall deemed to be proportional. The default identification framework already provides sufficient flexibility to institutions when specifying what constitutes a diminished financial obligation, such that they can engage in proactive, preventive and meaningful debt restructuring to support obligors. An increase of the NPV threshold from 1 % to 5 % is deemed not appropriate for providing additional flexibility to institutions to find viable forbearance measures.

Relaxing the 1% NPV threshold would undermine or delay default recognition which is key for institutions to engage in preventative debt restructuring.

34. The mandate on the GL on DoD is closely related to the core objectives of the prudential framework: by accurately imposing higher capital requirements on riskier exposures, the framework ensures that banks remain adequately capitalised such that they can provide proactive, preventive, and meaningful debt restructuring aimed at supporting obligors.

35. Any relief that is provided to an obligor necessarily comes at the expense of a loss for the institutions. A meaningful relief, which would involve a material reduction of the credit obligation, necessarily goes hand in hand with a material loss for institutions. The NPV threshold was therefore set at 1% to capture any real loss, to ensure that preventative measures are provided based on risk considerations without being influenced by prudential default recognition. The current framework, with the 1% threshold, ensures that banks clearly determine whether the obligor's difficulties are temporary (liquidity issues), allowing restructurings with an NPV loss below 1%, or structural (solvency issues), requiring more comprehensive restructuring. Obligors in need of measures beyond 1% NPV are likely to be in structural financial difficulties and should be considered 'true' defaults.

36. Raising the 1% NPV threshold could lead to institutions choosing measures that are less aligned with maintaining obligor solvency. Raising the threshold could encourage banks to grant multiple minor concessions below the new limit to avoid default recognition, which would fail to restore the obligor's financial health. As such, any weakening of this framework would fundamentally conflict with the mandate's primary purpose.

37. To recall, on 11 July 2017, the EU Council formulated an action plan to help reduce stocks of non-performing loans (NPLs) and to prevent their future emergence.[8] They noted that the financial crisis and ensuing recessions, exacerbated by inadequate loan origination practices, left banks in some Member States with high ratios of non-performing loans (NPLs). They further warned that the negative effects of high NPL ratios can pose risks of cross-border spillovers in terms of the overall economy and financial system of the EU and alter market perceptions of the European banking sector, especially within the Banking Union. More in detail, the following arguments still hold for timely default (and NPE) recognition.

[8] Council conclusions on Action plan to tackle non-performing loans in Europe.

a. NPEs pose a risk for the viability of institutions, in particular institutions with high-NPL ratios: late recognition of defaults carries obvious micro-prudential risks at an idiosyncratic institution level. Here it needs to be stressed that several EU institutions asked for flexibility in particular for lending to non-EU obligors, implying EU retail deposits would be at risk to promote lending overseas. This appears to be going directly against the spirit of the mandate from EU legislators.

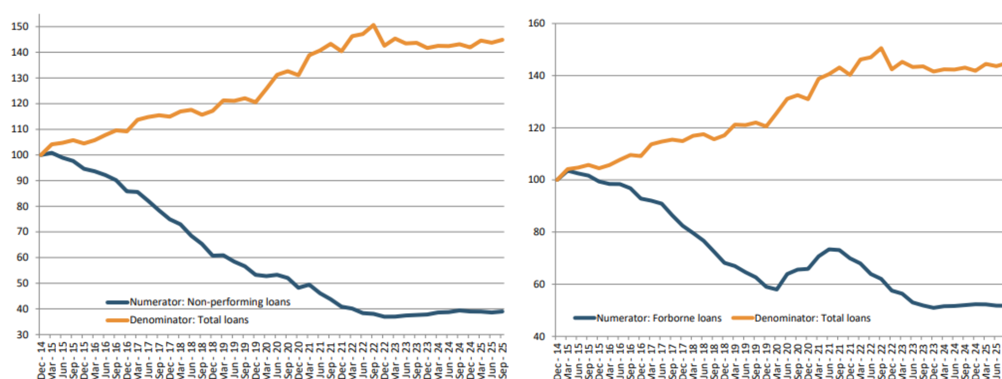
b. NPEs are a drag on institution profitability due to administrative and funding costs.

c. NPEs lock up capital to back unproductive assets, thus weighing down on monetary policy transmission and on the financing of the economy, dampening economic growth in the EU area. Especially in economic downturns, institutions with a larger share of NPEs are less likely to absorb shocks. Both interbank lending and lending to healthy clients with temporary difficulties may suffer from this.

d. Bad lending practices furthermore undermines trust in EU institutions. Investors may refrain from allocating sufficient capital also in otherwise thriving economic cycles. EU institutions, also those not in need of this flexibility, could be affected.

38. Relaxing the threshold to support restructuring now would still undermine financial stability, as all reasons mentioned above would still be valid, even with the EU banking system's improved resilience. With that, the steps taken to harmonize regulation at the EU level and supervisory scrutiny have shown to reduce NPE levels (see Figure 1 below) while facilitating improving economic conditions, which justifies keeping the current framework. In particular for exposures to non-financial corporates (NFC) and households, the amount of NPE subject to forbearance measures as a ratio of the stock of NPE is also subject to a downward trend. At the end of 2024, approximately one third of the exposures to households and NFCs classified as NPE were subject to some forbearance measures.[9]

Figure 1: Decreasing trends in NPE (left) and forborne (right) loans (Dec 2014 =100).



Source: EBA dashboard Q3 2025

[9] Based on data extracted from the regulatory reporting (Finrep templates F.18 and F.19 and Corep templates C.01, C.02 and C.47).

39. It was also argued that more flexibility should be introduced *now* to deal with the aftermath of the COVID19 crisis. However, the EBA considers that introducing flexibility now, approximately five years after the pandemic, would be ill-timed. Loans requiring more flexibility at this stage still due to economic adversity caused by the COVID19 crisis are deemed to not suffer from temporary financial difficulties. These loans would most likely be in structural financial difficulties where default recognition is key.

Introducing additional flexibility implies a severe weakening of the harmonisation of the definition of default, which was a key pillar of the EBA IRB repair program.

40. Besides weakening default recognition, the proposals described above would also introduce additional supervisory complexity, and weaken the accuracy, reliability and comparability of default and NPE ratios across institutions. Introducing exemptions from the forbearance status and the unlikely-to-pay default criteria under Article 178(3)(d) CRR would undermine the harmonized definition of default, which aims to reduce RWA variability as set out in the 2016 EBA guidelines. In particular for legislative moratoria, such a derogation would allow Member States to suspend the harmonized default rules during crises.

41. Furthermore, any change to the DoD may introduce too high transition costs for the added flexibility (as models would have to be recalibrated as currently they are not representative of such a new default definition that would be applied in the application portfolio).

42. Finally, credit institutions are highly leveraged entities, with regulatory leverage ratios typically around 5 %. Hence a loss between 1 % and 5 % on a significant portion of the portfolio can amount to a material loss in comparison to the absolute Common Equity Tier 1 capital from an institution.

43. In conclusion, increasing the 1 % NPV threshold is not deemed sufficient to provide flexible restructuring solutions to obligors in structural financial difficulties, and would create inconsistencies and potential arbitrage possibilities in the framework. The threshold should therefore be maintained at 1% and the amending guidelines propose no change in this regard.

Exit criteria not changed due to the interaction with CRR Article 47b

44. Many of the issues described above in relation to the current framework, e.g. higher capital requirements and obligors losing access to funding, relate largely to the obligor being in default, rather than to the default classification event itself. As such, shortening the period in which the obligor is in default, in particular the probation period, would alleviate the impact on both institutions and obligors, allowing for more risk sensitive and flexible debt restructuring.

45. Two changes were therefore considered to be made to the criteria for a return to non-defaulted status for defaults that are triggered because the institution consents to a forbearance measure of the credit obligation as referred to in Article 47b of the CRR where that measure is likely to result in a diminished financial obligation.

a. First, the probation period is shortened from one year to a period between three to six months for those debt restructurings where the diminished financial obligation, following the NPV calculation methodology described in the GL DoD, is below 5%, and changes relate solely to the schedule of payments, namely by suspending, postponing or reducing the payments of principal amounts, interest or of full instalments, for a predefined limited period of time; no other terms and conditions of the loans, such as the interest rate, should be changed, unless such change only serves for compensation to avoid losses which an institution otherwise would have due to the delayed payment schedule under the measure, which would allow the impact on the net present value to be minimised (in other words, there should be no loss in terms of the nominal amount of agreed payments under the original credit contract);.

b. Second, the required material payment should in total be equal to the amount that has been written-off (if there were no past-due amounts) under the forbearance measures, capped at 20% of the principal outstanding amount of the exposure prior to the forbearance measure.

46. These changes to the current GL DoD could potentially enable institutions to extend to obligors meaningful concessions which might restore the likelihood of those obligors paying the remainder of their credit obligations, without classifying obligors as being in default for a disproportional period.

47. However, a change in minimum conditions for reclassification to a non-defaulted status proposed in these amending guidelines for some defaulted exposures subject to a forbearance measure resulting in a diminished financial obligation (from the current minimum one-year probation period to a minimum three-month period) would contradict a similar existing requirement for the definition of non-performing exposures (NPE) as defined in Article 47a CRR. According to Article 47a(6)(b) CRR, to reclassify a NPE subject to a forbearance measure, at least one year shall have passed since the date on which the forbearance measure was granted and the date on which the exposure was classified as NPE, whichever is later.

Considerations on moratoria

48. In the context of natural disasters that affected some EU countries in the last quarter of 2024, legislative and non-legislative moratoria ('general payment moratoria') on loan repayments were introduced in several jurisdictions. Since dedicated guidelines on moratoria were issued by the EBA to deal with the COVID-19 crisis[10] (EBA/GL/2020/02 – the GLs on moratoria), the review of the GL DoD could have been an opportunity to include an explicit treatment of general payment moratoria, to prevent having to issue dedicated guidelines whenever a crisis occurs in an EU jurisdiction. While in the context of COVID-19 crisis these moratoria were seen as

[10] The GLs on moratoria were applicable until 31 March 2021.

exceptional, the issue was considered from a more "business as usual" perspective, for example related to the materialisation of climate risk that is likely to occur on a more regular basis.

49. The key issue for the application of the definition of default to exposures within the scope of a general payment moratorium is whether the application of a general payment moratorium would not in itself lead to a classification of an exposure as forbearance under the definition as defined in Article 47b CRR.

50. Introducing a dedicated derogation from the forbearance status and therefore to the forbearance unlikely-to-pay default criteria under Article 178(3)(d) CRR for general payment moratoria or only for legislative moratoria would depart from the objective of harmonisation of the definition of the default to reduce RWA variability that lies at the root of the development of the EBA guidelines on the definition of default in 2016. Under this revised treatment, a Member State could for instance issue a legislative moratorium in case of any crisis affecting its territory allowing the institutions from the jurisdiction to no longer apply the harmonised definition of default prescribed in the guidelines (temporarily).

51. In addition, the current framework already allows for flexibility since the NPV test should only be performed for forborne exposures, and the definition of forbearance involves judgement as regards the assessment of whether the obligor is experiencing or is likely to experience difficulties in meeting its financial commitment.

52. Furthermore, in case an exposure is classified as being subject to a forbearance measure, the NPV test prescribed in paragraph 51 of the GL DoD is to be performed to assess if the forbearance measure results in a diminished financial obligation – an UTP criterion triggering the default in case the NPV loss is higher than 1%. The flexibility in the current framework ensures that the application of a moratorium does not automatically result in a classification of such exposure as defaulted. Therefore, no change is introduced in relation to moratoria.

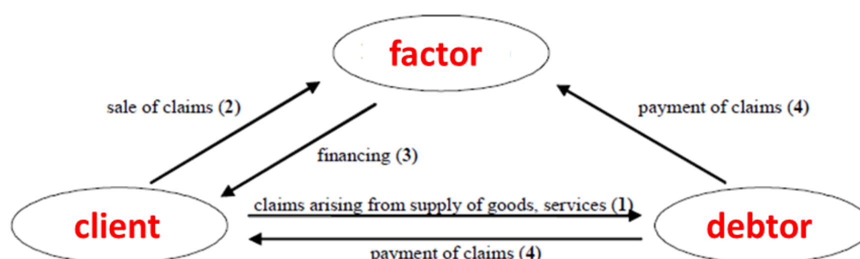
Technical past due situations for factoring

53. While the updated mandate for the GL on DoD explicitly mentions the treatment of debt restructuring, other parts of the framework could be assessed, in particular the application to factoring.

54. The factoring business, which is a particular form of purchased receivables business, involves three different parties, as described in the CEBS guidelines 10 (GL 10).[11] To exemplify the picture below, one may think of the ‘client’ as some business-to-business service provider (e.g. a caterer), the debtor as a corporate using the catering services and the factor as a credit institution offering immediate liquidity to the client against a share of the receivables (i.e. payables from the debtor to the client).

[11] Guidelines on the implementation, validation and assessment of AMA and IRB Approaches.

Figure 2: Description of factoring tripartite agreement



55. Two types of factoring can be distinguished, which are both subject to a specific (but different) preferential treatment according to the GL DoD:

    a. factoring where the institution has full recourse to the client: In the case of a default of the debtor, the bank can ultimately claim the money from the client. This case is to be treated by the factor as an exposure toward the client, with the receivables treated as collateral;[12]

    b. factoring where the institution has no recourse to the client: In this case, the institution is directly exposed to the debtor / obligor / buyer, without the possibility of recourse to the client (except in cases of dispute regarding goods and/or services supplied) and these transactions are typically unsecured.

56. A second distinction relates to whether the obligor is classified in the CRR as *retail* (e.g. a private individual or small SME) or non-retail (e.g. a big corporate, or a public sector entity).

    a. For retail obligors, a default may be assessed either at facility level or at obligor level.[13] In the case of purchased receivables, this means that the default can be triggered at the invoice level;

    b. For non-retail obligors, a default may generally only be assessed at obligor level.[14] However, Article 153(6) CRR opens the possibility for institutions using the A-IRB Approach to use "*the risk quantification standards for retail exposures as set out in Section 6*" also for their purchased corporate receivables.[15] This article hence allows a default assessment at facility level (under strict conditions).[16]

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[12] See Article 151(2) CRR.
[13] Article 178(1), subparagraph 2 CRR.
[14] Article 178(1), subparagraph 1 CRR.
[15] For purchased corporate receivables that comply in addition with the conditions set out in Article 154(5) CRR, and where it would be unduly burdensome for an institution to use the risk quantification standards for corporate exposures as set out in Section 6 for these receivables, the risk quantification standards for retail exposures as set out in Section 6 may be used.
[16] To qualify for this treatment purchased corporate receivables must comply with the conditions set out in Article 154(5) CRR, and the use of the regular risk quantification standards for corporate exposures as set out in Section 6 for these receivables must be overly burdensome.

57. In relation to non-recourse factoring, the EBA understands that institutions with big corporate-loan portfolios are hesitant to provide factoring facilities to clients (often SMEs) who wish to sell the receivables of a company for immediate liquidity, where this company is also a non-retail obligor of the institution (i.e., the institution has a direct exposure to this company). A typical example would be the one where an SME (client) has sold the receivables of a large company (debtor / obligor) to the institution (factor). The credit risk and therefore the definition of default is assessed toward this large company. Furthermore, if the credit institution also has other direct exposures to the debtor (on which the debtor is timely paying according to the payment schedule), these direct exposures would also have to be placed in default if the large company is consistently paying late on the factoring receivables.

58. The current 'days past due' (DPD) counting convention applicable under Article 178(1)(b) CRR has limited impact on 'regular' products, while it does not reflect the economic reality of purchased receivables where repayments are made invoice by invoice. The combination of the following elements is the source of non-credit risk related past due amounts in case of non-recourse factoring.

    a. The DPD counter may keep increasing due to a consecutive overlap in non-payments of these invoices. If there is a high number of receivables, the DPD counter keeps on increasing with payment delays on each invoice.

    b. There are observed lengthy administrative processes with a natural long validation lifecycle of the receivables on invoices.

    c. A factoring institution may not have control over the payment receivable, where the claims due are between the debtor and the client. The debtor might not know its receivable has been sold to a factoring institution, as contracts and corresponding invoices are established between client and debtor and the servicing of the receivables may be performed by the client unless a default of the debtor of a receivable occurs. It is likely that any interaction between factor and debtor may only start when the invoice is past due. Pursuing the debtor to request payment of past due amounts ('dunning') may even be performed by the client and not by the factor. Moreover, delays in payment may arise in relation to disputes on services provided by the client.

59. The GL DoD already foresee a specific treatment for purchase receivables because of the specificities of this type of product. Paragraph 23(d) includes an exception to the general 90DPD treatment, explaining that '*a technical past due situation should only be considered to have occurred […] in the specific case of factoring arrangements where the purchased receivables are recorded on the balance sheet of the institution and the materiality threshold set by the competent authority in accordance with point (d) of Article 178(2) of Regulation (EU) No 575/2013 is breached but none of the receivables to the obligor is past due more than 30 days.*'

60. The DPD criteria and the materiality threshold should not have a function to go beyond the identification of obligors that are not paying or are unlikely to pay their credit obligations due. Stricter criteria on past due may not have the effect of reducing past-due payments but rather of institutions denying credit to businesses (often SMEs).

61. However, the current exception in paragraph 23(d) of the GL DoD does not sufficiently consider the specificities of the factoring product and its natural delays in the payment process, such that the current default definition produces incorrect default classifications. Corporates in several jurisdictions have at least one invoice on which they pay later than 30 days after the due date, whilst being rated at investment grade. Furthermore, the cure rate in non-recourse factoring, i.e. the rate of obligors returning from a default to a non-default status or from default to full repayment, ranges from 93% to 100% with an average of 98%, measured across several EU jurisdictions over a period between 2021 and 2023.

62. For the reasons referred to in the previous paragraphs, it is therefore proposed to amend in these guidelines the existing specific treatment for factoring in paragraph 23(d) by increasing the number of days referred to in that treatment from 30 days past due to 90 days past due on the level of an individual invoice.

63. An important additional clarification also made is that for the purpose of paragraph 23(d), factoring is understood to be related to the financing and insuring of invoices related to goods and services. Specifically, purchased receivables related to debt/credit/loan products, i.e. where those receivables relate to principal and interest payments, should be excluded from the treatment described in paragraph 23(d), as the reasons provided in paragraph 58 above do not apply.

64. Two other updates are also introduced that clarify the current interpretation of the application of the requirements with respect to factoring and purchased receivables arrangements.

    a. The first sentence of paragraph 31 is moved to the technical past due section, relating to the situation where the obligor has not been adequately informed about the cession of the receivable by the factor's client, given that the situation described is a technical misclassification of default.

    b. Paragraph 32 is also considered to describe a situation where a technical past due misclassification could have occurred. It is now clarified that this situation describes a difference in date regarding the invoice due date and the date the payments are transferred from the client to the factor.

65. It was also considered to extend the exception for factoring to leasing arrangements. However, whereas the factor operates within a tripartite agreement between factor, client and obligor as described in Figure 2 above, there is a direct contractual relationship between the leasing institution and the lessee. As such, the dunning process is under full control of the leasing institution such that late payments should be addressed (pre-emptively) by the leasing institution in order to prevent default classifications.

Other updates to the Guidelines

66. The GL DoD have also been updated to reflect CRR3 amendments in relation to the default definition. Primarily, references to the use of a 180 DPD counting instead of a 90 DPD counting on the basis of the discretion formerly provided in Article 178(1)(b) CRR have been removed as this discretion has been removed in the CRR with the CRR3 implementation as well.

    a. Paragraph 39(a) of the GL on DoD has been deleted.

    b. Paragraph 59(h) of the GL on DoD has been amended to refer directly to the classification of an exposure as non-performing in accordance with Article 47a(3) of Regulation (EU) No 575/2013.

    c. Paragraph 83(b) of the GL DoD is deleted.

67. However, the reference in paragraph 25 of the GL on DoD has not been removed. This is because, while the use of 180 days was inspired by the previous discretion in CRR, it is not directly connected to it.

68. In addition, the reference in the GL DoD to the notion of ‘distressed restructuring’ has been replaced by referring to ‘diminished financial obligation due to a forbearance measure’ since Article 178(3)(d) CRR was revised by CRR3 replacing the notion of ‘distressed restructuring’ by a direct reference to the forbearance measure, as defined in Article 47b CRR.

69. Finally, the reference to the definition of NPE has been updated (from EBA/ITS/2013/03 to the CRR). In particular, Paragraph 59(h) of the GL DoD has been amended as already described above. To recall, the definition of NPE was originally introduced by the EBA for reporting purposes in EBA/ITS/2013/03. At that time, the GL DoD had not yet been developed by the EBA and the definition of default for credit risk was only defined in Article 178 CRR, leading to some variability in the definition of default applied in practice by institutions and controlled by competent authorities. The objective of the definition of NPE in the EBA/ITS/2013/03 and adopted as Commission Implementing Regulation (EU) No 680/2014 was therefore to provide a more harmonised definition of non-performing exposures than the existing concept of default. However, Regulation (EU) 2019/630 (NPL Backstop Regulation) introduced in Article 47a CRR a definition of NPE building on the definition existing for reporting in Implementing Regulation (EU) No 680/2014. This definition has not been amended ever since so that it is still the definition applicable according to the CRR. The definition encompasses both the i) NPE triggers and ii) the conditions for returning to a non-NPE status.

3. Guidelines

European Banking Authority

EBA/GL/2026/05

7 May 2026

Guidelines

amending Guidelines EBA/GL/2016/07 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010[17]. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set the EBA view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4 point (2) (i-ii-iii-iv-v-vi-vii) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. According to Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise with reasons for non-compliance, by [dd.mm.yyyy]. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website with the reference 'EBA/GL/2026/05'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to EBA.

4. Notifications will be published on the EBA website, in line with Article 16(3) of Regulation (EU) No 1093/2010.

[17] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC, (OJ L 331, 15.12.2010, p.12).

2. Addresses

5. These guidelines are addressed to competent authorities as defined in Article 4 point (2)(i-ii-iii-iv-v-vi-vii) of Regulation (EU) No 1093/2010 and to financial institutions as defined in Article 4 point (1) of Regulation (EU) No 1093/2010.

3. Implementation

Date of application

6. These guidelines apply from [3 months after the date of publication on the EBA's website of the guidelines in all EU official languages].

4. Amendments

7. Guidelines EBA/GL/2016/07 are amended as follows:

8. Point (d) in paragraph 23 is replaced by the following:

   ‘(d) in the specific case of factoring arrangements where the purchased receivables are recorded on the balance sheet of the institution and where one of the following conditions is met:

      (i). the materiality threshold set by the competent authority in accordance with point (d) of Article 178(2) of Regulation (EU) No 575/2013 is breached but none of the receivables to the obligor is past due more than 90 days;

      (ii). the obligor has not been adequately informed about the cession of the receivable by the factor’s client, and the institution has evidence that the obligor has paid the receivable to the client before it was past due more than 90 days;

      (iii). in the case of undisclosed factoring arrangements, the institution has evidence that the obligor has paid the receivable to the client before it was past due more than 90 days.

9. Paragraph 31 is replaced by the following:

   ’31. Where the obligor has been adequately informed about the cession of the receivable but has nevertheless made the payment to the client, the institution should continue counting the days past due according to the conditions of the receivable.’

10. Paragraph 32 is deleted.

11. Point a in paragraph 39 is deleted.

12. The title after paragraph 48 is replaced by the following:

    ‘Diminished financial obligation due to a forbearance measure’

13. Paragraph 49 is deleted.

14. Paragraph 50 is deleted.

15. Paragraph 52 is replaced by the following:

    ’52. For the purposes of unlikeliness to pay as referred to in point (d) of Article 178(3) of Regulation (EU) No 575/2013, for each forbearance measure, institutions should calculate the diminished financial obligation and compare it with the threshold referred to in paragraph 51.

Where the diminished financial obligation is higher than this threshold, the exposures should be considered defaulted.'

16. Paragraph 53 is replaced by the following:

'53. If however the diminished financial obligation is below the specified threshold, and in particular when the net present value of expected cash flows based on the forbearance measure arrangement is higher than the net present value of expected cash flows before the changes in terms and conditions, institutions should assess such exposures for other possible indications of unlikeliness to pay. Where the institution has reasonable doubts with regard to the likeliness of repayment in full of the credit obligation according to the new arrangement in a timely manner, the obligor should be considered defaulted. The indicators that may suggest unlikeliness to pay include the following:

(a) a large lumpsum payment envisaged at the end of the repayment schedule;

(b) an irregular repayment schedule where significantly lower payments are envisaged at the beginning of the repayment schedule;

(c) a significant grace period at the beginning of the repayment schedule;

(d) the exposures to the obligor have been subject to a forbearance measure more than once.'

17. Paragraph 54 is replaced by the following:

'54. All exposures classified as forborne non-performing in accordance with Article 47a and 47b of Regulation (EU) No 575/2013 should be classified as defaulted.'

18. Paragraph 55 is replaced by the following:

'55. Where any of the modifications of the schedule of credit obligations referred to in point (e) of Article 178(2) of Regulation (EU) No 575/2013 is the result of financial difficulties of an obligor, institutions should also assess whether a forbearance measure has been consented and whether an indication of unlikeliness to pay has occurred.'

19. Point (h) in paragraph 59 is replaced by the following:

'(h) The classification of an exposure as non-performing in accordance with Article 47a(3) points (b) to (e) of Regulation (EU) No 575/2013.'

20. Paragraph 72 is replaced by the following:

'72. For the purposes of the application of Article 178(5) of Regulation (EU) 575/2013, and where an exposure has been considered as defaulted in accordance with point (d) of Article 178(3) of Regulation (EU) No 575/2013, regardless of whether the forbearance measure was granted

before or after the identification of default, institutions should consider that no trigger of default continues to apply to a previously defaulted exposure, where at least 1 year has passed from the latest between one of the following events:

(a) the moment of extending the forbearance measure;

(b) the moment when the exposure has been classified as defaulted;

(c) the end of the grace period included in the forbearance arrangements.'

21. Paragraph 73(f) is replaced by the following:

'(f) the conditions referred to in points (a) to (e) should be met also with regard to new exposures to the obligor, in particular where the previous defaulted exposures to this obligor that were subject to a forbearance measure were sold or written off.'

22. Point (b) in paragraph 83 is deleted.

23. Paragraph 107 is replaced by the following:

'107. Institutions should verify on a regular basis that all forborne non-performing exposures are classified as default. Institutions should also analyse on a regular basis the forborne performing exposures in order to determine whether any of them fulfils the indication of unlikeliness to pay as specified in Article 178(3)(d) Regulation (EU) No 575/2013 and in paragraphs 51 to 55.

4. Accompanying documents

4.1. Impact assessment

The impact assessment of the policy choices put forward in this final report has been qualitatively described in the background and rationale.

4.2. Feedback on the public consultation and on the opinion of the BSG

The EBA publicly consulted on the draft proposal contained in this paper.

The consultation period lasted for three months and ended on 15 October 2025. 28 responses were received, of which 19 were published on the EBA website.

This final report presents a summary of the key points and other comments arising from the consultation, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary. The background and rationale of this final report includes a summary of the key points and EBA's corresponding considerations.

In many cases several industry bodies made similar comments or the same body repeated its comments in the response to different questions. In such cases, the comments, and EBA analysis are included in the section of this paper where EBA considers them most appropriate.

Changes to the draft Guidelines have been incorporated as a result of the responses received during the public consultation.

Summary of responses to the consultation and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Responses to questions in Consultation Paper EBA/CP/2025/09			
Question 1: 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.			
Measurement of 'NPV difference'	Some respondents suggest that the NPV criterion may not consistently support the appropriate classification of the obligor as defaulted because the impact of the NPV threshold varies depending on characteristics of the loan itself. Two main examples are provided. First, it is suggested that longer loan maturities amplify the impact of concessions on Net Present Value (NPV). For example, a one-year payment delay or interest rate reduction affects the NPV of a 10-year loan more than a 2-year loan, even if the economic concession is identical. It is suggested that this mechanical effect is driven by the time value of money rather than any increased credit risk. Some	The EBA is mandated to define what constitutes a diminished financial obligation due to the material forgiveness, or postponement, of principal, interest or, where relevant, fees. The EBA understands that this diminished financial obligation due to the material forgiveness, or postponement, of principal, interest or, where relevant, fees should be expressed in terms of the actual accounting loss due to the concession made. The NPV threshold is measured against the 'NPV difference' between (i) the net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the	No change

experts argue that the NPV threshold should therefore be calibrated to account for maturity.

Second, loans originated during high-interest-rate periods face more easily trigger the NPV threshold, as concessions on such loans result in larger reductions in expected cash flows even when economically similar to those made in low-rate environments. It is suggested that the NPV test should account for shifts in market rates between origination and restructuring to improve its accuracy and risk sensitivity. It is stressed that this issue is particularly relevant in emerging markets, where high nominal rates may not reflect proportionally higher credit risk. Additionally, some respondents mentioned that using the effective interest rate at origination as a benchmark may have pro-cyclical effects, discouraging loan restructuring during downturns when interest rates are typically lower.

Some respondents prefer to maintain the current NPV threshold, arguing that its sensitivity to factors like loan maturity and interest rate levels reflects its intended purpose: identifying material economic loss to the bank. These respondents suggest that concessions on long-term or high-interest loans naturally result in greater NPV reductions, which accurately signal increased risk or inadequate compensation. Adjusting the threshold for loan characteristics or macroeconomic context would undermine consistency, comparability, and the objectivity of the test,

changes in terms and conditions of the contract discounted using the customer's original effective interest rate; and (ii) the net present value of the cash flows expected based on the new arrangement discounted using the customer's original effective interest rate.

This 'NPV difference' measures appropriately this accounting loss due to the concession made. Several respondents have confirmed this in their feedback. Also from an economic perspective, this 'NPV difference is conceptually sound. A concession on a loan with a longer maturity has a greater economic impact than one on a short-term loan. Similarly, payment holidays related to higher interest rates, or larger absolute decreases of the interest rate (e.g., going from an original interest rate of 6% to a re-negotiated rate of 4%, compared to going from an original interest rate of 5% to a new rate of 4%) translate into larger losses (in expected cash flows).

Therefore, the dynamics of loan characteristics affecting the loss calculation should be captured in the definition of a diminished financial obligation. Making the NPV threshold itself dependent on these loan characteristics would compromise the consistency, comparability, and objectivity of the

	potentially enabling regulatory arbitrage and weakening prudential standards. These respondents emphasize that the NPV test is a vital tool for ensuring banks recognize losses, maintain adequate capital, and avoid practices like "evergreening," especially during downturns. Rather than relaxing the threshold, they advocate for strong capitalization to support responsible restructuring.	test. This could lead to incorrect outcomes, such as failing to register a default even when a concession results in a material accounting loss. It is concluded that no change is proposed to the measurement of the loss against which the threshold is compared, and that the threshold should not be made dependent on loan characteristics.	
Correcting the threshold for a reduced expected loss of the remaining exposure	Some respondents argue that restructurings (like converting overdrafts into secured loans) often enhance financial sustainability by lowering the probability of default and loss given default and can significantly improve the repayment capacity and reduce credit risk. As such, although this restructuring may breach the 1% NPV threshold, it is suggested that this should not be interpreted as a deterioration in credit quality. Instead, such, and the NPV reduction should be viewed in the broader context of improved creditworthiness. Here, some members suggest making the definition of the diminished financial obligation dependent on the viability of the forbearance measure. However, other respondents emphasize that restructuring a loan that enhance the financial sustainability of a loan does not eliminate the need to recognize an economic loss if the NPV test is breached. A lower interest rate, even if justified by new collateral, still represents a concession that reduces	The EBA understands that forbearance measures are provided to obligors in financial difficulties in order to support the obligor to go back to a sustainable financial situation. However, although it is understood that such measures (due to the improved financial situation of the obligor) may reduce the expected loss on the remainder of the credit obligation, this should not compensate, for the purpose of identifying the default, the actual economic loss resulting from the restructuring itself. For example, a significant principal forgiveness may lead to a small remaining exposure that leads to a viable payment plan for the obligor, but the loss incurred because of this principal forgiveness should still trigger a default.	No change

the bank's financial claim. If the NPV falls below the threshold, it may indicate that the concession exceeds what the improved collateral justifies, pointing to financial distress. These members stress that the NPV test objectively captures such impairment events, while improvements in credit quality should be reflected through internal risk models over time—not by avoiding default classification. They argue that consistent application of the test ensures timely recognition of losses and supports sound prudential regulation.

The EBA therefore maintains that the definition of the diminished financial obligation should not depend on whether a restructuring improves the obligor's financial health. Similarly, the diminished financial obligation should also not depend on whether a forbearance measure is viable.

This is emphasized in the EBA Guidelines on management of non-performing and forborne exposures, which states that forbearance arrangements should be put into place only where the credit institution is satisfied that the borrower can afford to make the repayments. The guidelines stress that any forbearance measures should be granted only when they aim to restore sustainable repayment by the borrower and are thus in the borrower's interests. In other words, only viable forbearance measures should be granted to obligors. For this reason, credit institutions should therefore distinguish between viable forbearance measures contributing to reducing the borrower's exposure and non-viable forbearance measures. It would therefore be inconsistent if the default classification is not triggered for viable forbearance measures, as it is the EBA's expectation this should be the case for all forbearance measures granted

		(at least at the moment of granting the forbearance measure).	
Interaction with IFRS9 framework	Some respondents caution against over-aligning the prudential and accounting frameworks, noting their distinct purposes, scopes, and methodologies. IFRS 9 aims to present a true and fair view via forward-looking expected credit losses (staged, point-in-time PDs, individual/collective estimates), while the prudential regime safeguards financial stability through capital, liquidity, and supervisory discipline (default under CRR Art. 178, through-the-cycle PDs, parameter floors). They stress there is no regulatory obligation to harmonise Default, NPE, and IFRS 9 Stage 3, and that many banks align voluntarily for efficiency. Consequently, prudential default classification neither determines nor delays accounting losses, which remain governed independently by IFRS 9; the 1% NPV (DFO) threshold should not be construed as influencing impairment recognition. These respondents also find references in the CP to accounting alignment conceptually unclear, since changes to prudential thresholds would not alter IFRS 9 loss recognition. On that basis, they argue that prudential rules may reference accounting concepts without binding them: examples cited include that IFRS 9 does not apply a 1% threshold and that increasing or removing the prudential threshold would not affect accounting NPV calculations or	On the one hand, the EBA understands that in practice, provisioning models and staging practices of individual institutions may depend on either regulatory IRB models, the regulatory definition of default, or both. On the other hand, other institutions may apply different modelling and staging practices to determine their provisioning levels. In any case, these Guidelines on the Definition of Default do not intend to align or bind the provisioning framework to the regulatory framework. However, in determining an objective measure of the material forgiveness, or postponement, of principal, interest or, where relevant, fees, that is relevant for defining what constitutes a diminished financial obligation, the EBA deemed it appropriate to use the ‘difference in NPV’ and align this concept to the accounting definition of a loss stemming from a modification on a credit contract. To note, the threshold of 1% is indeed not taken from the provisioning framework, but is a purely regulatory backstop criteria to assess unlikeliness to pay to allow for the harmonized and timely recognition of a regulatory default. It is not suggested that this 1%	Paragraphs related to IFRS9 reflect more clearly these considerations

provisioning. They conclude that timely provisioning is enforced by IFRS 9 regardless of prudential changes, and that divergences (e.g., cures, materiality thresholds) are legitimate given the frameworks' different objectives and parameterization (PIT vs TTC PDs, differing LGDs and horizons).

Other respondents state that the regimes as operationally intertwined: IFRS 9 requires judgment, while the prudential definition of default provides a clear backstop that deters evergreening and triggers timely oversight. In their view, weakening the 1% DFO threshold risks letting materially impaired loans avoid default classification and capital charges, creating arbitrage incentives, model risk, and conflicting signals for management and supervisors. They support alignment to curb incentives to structure concessions below prudential triggers and to keep capital allocation consistent with economic substance. Given the macro-financial environment and the emphasis on forward-looking provisioning and resilience, they see the 1% DFO as a sensitive, early-warning trigger essential to maintaining robust capital buffers and preventing systemic undercapitalization.

Other respondents argue that the 1% threshold creates an unwarranted inconsistency between the regulatory and the accounting framework: exposures may be defaulted for

threshold should be applied to determine an accounting loss or impairment.

	prudential purposes while remaining Stage 2 (not impaired) under the accounting framework.		
Improved asset quality call for more flexibility	Some respondents argue that the regulatory and supervisory landscape has evolved significantly since the introduction of the 1% NPV threshold in the 2016 EBA Guidelines. They point to major developments in credit risk management, enhanced supervisory oversight, and harmonized practices across the Eurozone, supported by guidelines on loan origination and the management of non-performing and forborne exposures. These respondents argue that these changes have strengthened the EU banking system's resilience and improved its ability to manage distressed debt; the NPL reduction in the last decade, the wide range of prudential measures implemented and the enhancement and harmonisation of supervisory monitoring, have put the EU banking system in a safer environment. Given this progress, these respondents believe the trade-off between regulatory prudence and its impact on the real economy should be reassessed. They argue that the current framework may be overly cautious and could hinder meaningful restructuring efforts. With reduced NPL levels and more robust monitoring tools in place, they suggest that the system is now better equipped to allow for greater flexibility in applying the NPV threshold, without compromising financial stability.	The EBA agrees that the EU banking system has become significantly more resilient due to sustained regulatory and supervisory efforts, particularly in managing distressed debt. While sound loan origination and management of non-performing and forborne loans have played a key role, the harmonization of definitions for non-performing exposures (NPE) and default (DoD) has been fundamental. These developments have created a more transparent and robust framework for assessing credit risk across the EU; the harmonization of definitions has enabled consistent and timely recognition of problem loans across institutions, facilitating comparability of NPE and default ratios, improving investor confidence, and enhancing supervisory effectiveness. Removing or relaxing the 1% threshold simply because NPL levels have declined is deemed counterproductive; low NPL levels would suggest the framework is not too strict, when also its effectiveness is evidenced by improved asset quality. Weakening default recognition criteria because of current favorable economic conditions would also be procyclical, undermining the financial	No change

		stability achieved and risking delayed loss recognition in future downturns. Moreover, the introduction of advanced monitoring tools since the DoD Guidelines should allow for earlier detection of borrower distress, enabling banks to intervene with softer restructuring measures that could have minimal impact on NPV and remain within the threshold.	
There is no flexibility in forbearance measures for obligors in financial difficulties	Under Article 178(7) CRR3, the EBA is mandated to promote proactive and flexible debt restructuring to support borrowers, encouraging institutions to extend meaningful concessions to distressed but viable borrowers. Some respondents further emphasize this mandate in Article 178(7) of CRR3, arguing that the flexibility in the CP does not fully align with CRR3's intent. They argue that there is very little flexibility to grant concessions to a borrower in financial difficulty, and as such argue that the current framework is too rigid and potentially counterproductive to economic recovery, especially in light of broader EU legislative efforts to promote responsible lending and restructuring. Some respondents suggest that an automatic default classification discourages restructuring that could help borrowers through temporary difficulties and improve repayment prospects for the bank. They argue that this	Paragraph 38 of the consultation paper on amending the Definition of Default Guidelines already describes the leeway institutions can already provide to an obligor that is in temporary financial difficulties without triggering a concession and/or a diminished financial obligation. This includes: • a temporary payment holiday could be granted if the unpaid amounts are paid back in full within three months (such that no effective restructuring has taken place). • a grace period (limited in time), either where the obligor pays only the interest payments and pause the principal payments, or where additional payments are made (e.g. via a slightly higher interest	No change

should be possible while avoiding default consequences; such default consequences include higher credit costs for the obligor, the restriction of access to credit (because institutions must manage exposures based on the client's non-performing status), or affecting its connected clients through contagion effects. It is argued that a default classification might weaken an obligor's recovery perspectives.

rate after the temporary grace period) to compensate the NPV loss for the institution, and no other UTP indications apply confirming that the financial difficulties are temporary and there are no viability concerns vis-à-vis the eventual repayment of the credit obligation in full (i.e., including the principal payments).

- providing restructurings with a limited loss (NPV loss below 1 %), i.e., a grace period of principal and interest during a limited period of time, or a measure where the obligor does not have to (or is not allowed to) pay compounded interest.

Paragraph 39 of the consultation paper then explains that the restructuring solutions described above would most likely be viable for obligors in temporary financial difficulties, also because a combination of these solutions is possible (for instance, a full grace period can be provided for a limited period of time to cope with a severe liquidity issue, followed by a grace period only on the repayment of the principal).

Those obligors for which the NPV neutral measures would not imply a viable solution, i.e., those that cannot compensate (after an initial period of

liquidity shortage) for the loss in NPV stemming from the forbearance measure, are likely to be in more structural and serious financial difficulties. A meaningful and viable forbearance measure for such obligors likely implies a significant concession from the institution to the obligor, implying a diminished financial obligation (i.e., a material forgiveness or postponement of principal and interest as measured by an NPV loss larger than 1%). Although these obligors should therefore be classified as default, this accurate default recognition in no way prevents an institution from engaging in proactive, preventive and meaningful debt restructuring to support these obligors.

The EBA notes that deteriorating credit quality and a regulatory default classification generally entails additional capital and operational implications for institutions, including closer monitoring of affected obligors. While the EBA Guidelines on loan origination and monitoring encourage pricing practices that reflect credit quality, this should not be interpreted as a prescriptive requirement for higher rates or restricted access to funding for obligors experiencing credit deterioration, as the intention of the guidelines is not to preclude forbearance measures.

Misclassification of default	Some respondents argue that misclassifications of defaults occur frequently in periods following high interest rates. Applying forbearance measures is a standard practice to preserve the obligor's financial solvency and promote an improved payment behavior.	Forbearance measures involving material forgiveness of principal, interest or fees, create real losses for the institution granting the concession. These losses must be reflected not only in accounting but also in unexpected loss calculations under the regulatory framework. Under CRR's credit risk rules for IRB banks, such losses should inform risk parameter estimates. Since these losses are recorded only after a default event, such forbearance measures must be classified as defaulted. By definition, concessions causing significant NPV reductions are not misclassifications, even if cure rates later prove high.	No change
Incentives to sell rather than restructure	Some respondents highlight a perceived inconsistency between the 1% NPV threshold for forbearance and the 5% loss threshold for sales of credit obligations, both of which can trigger default classification. They argue this disparity may incentivize banks to sell loans rather than restructure them, reducing support for distressed borrowers and potentially shifting risk to less regulated non-bank entities. Such outcomes could undermine the CRR3 objective of promoting preventive restructuring and discourage banks from offering forbearance.	The feedback table to the current Guidelines on the Definition of Default stated that distressed restructuring (under CRR3 updated to forbearance measure) should lead to recognition of default whenever it leads to diminished financial obligation caused by material forgiveness, or postponement, of principal, interest or, where relevant fees. As the term distressed restructuring already implies that an obligor is facing substantial financial difficulties, the main purpose of the specified threshold is to avoid the recognition of default due to some	No change

	Other respondents argue that there is no inconsistency between the 1% NPV threshold for forbearance and the 5% loss threshold for debt sales, as each serves a distinct purpose. These respondents suggest that the 1% threshold is a forward-looking early warning tool to detect emerging borrower distress, while the 5% threshold confirms a realized loss through market transactions. They do not agree that institutions are incentivized to sell a loan and materialize a larger loss (e.g., of 4.9%) just to avoid a default classification due to a restructuring with a small NPV loss (e.g., of 1.1%), and emphasize that the rules should support sustainable restructurings while maintaining the accurate classification of asset quality.	technicalities (e.g., rounding errors) related to the calculation of NPV. The 5% threshold has a different economic rationale, related to the uncertainty related to whether the loss can be clearly attributed to credit risk, or whether the sale of credit obligations results in a loss due to non-credit-risk-related reasons such as the need to increase the liquidity of the institution or changes in business strategy. As such, a more lenient threshold was applied. There is no justification for using the same level of threshold to determine whether the forbearance measure results in a diminished financial obligation, as this test is performed solely in the case the obligor is in financial difficulties and the institution has consented to a forbearance measure (i.e., a materialization of credit risk).	
Materiality of forgiveness or postponement	Some respondents note that the 1% threshold was designed to exclude minor technical effects and allow restructurings without triggering default. However, they argue this intent does not align with CRR3's goal of encouraging meaningful debt restructuring, pointing also to that a diminished financial obligation should constitute of a material forgiveness, or postponement, of principal, interest or, where relevant, fees.	The EBA acknowledges that the NPV threshold was initially set at a level higher than zero to exclude minor rounding and calculation effects to allow restructurings without triggering default. At that time, this was already in relation to the CRR provision specifying that a default should be recognized when the institution "*consents to a distressed restructuring of the credit obligation*	No change

where this is likely to result in a diminished financial obligation caused by the material forgiveness, or postponement, of principal, interest or, where relevant fees." Although the concept of distressed restructuring has in the CRR3 update been formalized into *"a forbearance measure as referred to in Article 47b of the credit obligation"*, the reference to the "*material forgiveness, or postponement, of principal, interest or, where relevant fees*" has not changed.

Furthermore, since the development of these Guidelines on the Definition of Default, the concept of materiality in the context of default recognition has also further developed. In particular, the Commission Delegated Regulation (EU) 2018/171 specifies the threshold for assessing the materiality of past due credit obligations in order to determine whether these credit obligations should be recognized as defaulted.

The relative component of this threshold is expressed as a percentage reflecting the amount of the credit obligation past due in relation to the total amount of all on-balance sheet exposures to that obligor of the institution, the parent undertaking of that institution or any of its subsidiaries, excluding equity exposures. For

institutions applying the definition of default laid down in points (a) and (b) of the first subparagraph of Article 178(1) of Regulation (EU) No 575/2013 for retail exposures at the level of an individual credit facility, this threshold shall apply at the level of the individual credit facility granted to the obligor by the credit institution, the parent undertaking or any of its subsidiaries.

The CDR (EU) 2018/171 stipulates that this relative threshold shall be set at 1 % whenever that percentage reflects a level of risk that is perceived as reasonable, which is explained to be the case when that threshold neither leads to the recognition of an excessive number of defaults that are due to other circumstances than financial difficulties of an obligor nor to significant delays in the recognition of defaults that are due to financial difficulties of an obligor.

Determining the materiality threshold at 1% has been subject to a thorough impact analysis, both at the EBA level in the publication of the Final Report Draft Regulatory Technical Standards on the materiality threshold, as well as by the European Central Bank in their cost and benefit analysis when determining for Regulation (EU) 2018/1845 relating to significant institutions and Guideline (EU)

		2020/978 relating to less significant institutions that this relative threshold of 1% reflects a reasonable level of risk. The CRR3 did not contain a mandate for the EBA to revise the materiality threshold.	
Inconsistency between NPV threshold and materiality threshold for past due credit obligations	Some respondents noted that the application of the NPV threshold can lead to inconsistencies in default recognition when compared to the materiality threshold applied to past due credit obligations. They note that some obligors may have already incurred over 1% NPV deterioration in specific situations but are not classified as in default, while other obligors may be flagged as defaulted solely due to a forbearance measure that translates into an NPV deterioration of the same size. According to some respondents, the choice of the 1% threshold does not appear to be supported by robust modelling or analytical evidence. These respondents suggest that any potential misalignment with the materiality threshold applied to past due credit obligations should be evaluated, considering the differences in calculation methodology.	When comparing the denominator used in the NPV threshold, i.e., the net present value of a the credit obligation measured at the original effective interest rate, and the denominator used in the materiality threshold to determine past due credit obligations, i.e., the total amount of all on-balance sheet exposures related to an obligor or credit facility, the EBA acknowledges that the two denominators are not fully aligned. However, it is considered that these differences are not material enough to adjust either threshold, as this would imply a significant transition cost in terms of DoD implementation by institutions, potential model recalibrations due to very minor updates to the default database, and a subsequent supervisory assessment. Furthermore, it is also not expected that aligning this would allow for more flexibility in debt restructuring.	No change

Question 2: 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 months 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 support such a proposal, and if so, for which reasons?			
Regulatory consistency and stability	Some respondents stress that the proposed measure on exit criteria introduces regulatory inconsistency. With that, some respondents also mention that alignment between default and NPE definitions is a supervisory expectation that is being enforced. Therefore, to avoid misalignment between default and NPE definitions, it is suggested that any changes should be reflected holistically in prudential regulation, including amendments to the Level 1 text of the CRR. Some respondents also mention specifically that a distinction in the two probation periods should be avoided. Other respondents noted that the definition of default was significantly revised only a few years ago, requiring institutions to adjust days-past-due thresholds, exit criteria, and IRBA models, followed by extensive supervisory reviews. The proposed amendments would again impose major implementation efforts. As such, these respondents warn against changing the default criteria to match NPE, citing concerns that it could interfere with internal risk models and regulatory capital calculations.	The EBA acknowledges these concerns and will therefore not introduce changes to the exit criteria for defaulted exposures at this stage.	No change
Operational burden	Some respondents suggest that the proposals introduce significant operational, risk management, and reporting challenges. In particular, the proposed reduction to the	The EBA acknowledges these concerns and will therefore not make a distinction in the probation	No change

	probation period for net present value changes below 5% would lead to significant additional procedural/technical burdens. These respondents suggest that proposals should be designed to deliver reasonable benefits relative to their costs, for example by ensuring that the scope of application is sufficiently material to justify the operational burden.	period for defaulted exposures to return to a non-defaulted status based on NPV calculations.	
Question 3: 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?			
NPV threshold - increase the level of the NPV threshold	if the EBA retains the quantitative criterion under its mandate, some respondents propose a substantial revision of the threshold (e.g., to 2% or 5%). This would give banks flexibility to distinguish cases where temporary borrower difficulties can be resolved with limited-loss forbearance from cases reflecting genuine financial deterioration that warrant default classification.	Based on the considerations provided under question 1, the EBA does not consider it prudent to increase the threshold from 1% to a higher level.	No change
NPV threshold – introduce exemptions for the NPV test based on jurisdictional specificities	Some respondents stated that legal regulations in certain countries can limit the possibilities for loan modifications, which in turn can affect the possibility to minimize the 'NPV difference'. For example, jurisdictions may have restrictions on compound interest or laws that cap interest rates when a loan is restructured. Next to that, jurisdictions may impose payment holidays, such that these modifications should not be included in the NPV test. These respondents suggest that	Compromising the harmonization of default recognition to accommodate jurisdictional or sectoral specificities is not warranted. Allowing such exemptions based on local legal frameworks or ad hoc governmental interventions would undermine the Single Rulebook, distort the level playing field, and prevent consistent risk classification across Member States. To ensure financial stability, capital	No change

	the NPV test should be sensitive to these jurisdictional differences. Some respondents suggest to exempt jurisdictions outside of the EU to ensure the level playing field is achieved for those banks operating in third countries vis a vis their local peers without being subject to European regulation restrictions. Some respondents suggest that exemptions should be considered in situations where entire sectors or production chains face temporary distress. Other respondents argue that the NPV test should reflect the actual economic loss to the bank, regardless of jurisdictional restrictions. They emphasize that governmental measures, such as interest caps or payment holidays, often arise in response to systemic credit deterioration, meaning NPV breaches triggered by such laws are valid indicators of increased risk. Recognizing these losses strengthens financial resilience, especially during crises.	requirements for defaulted exposures must be applied uniformly throughout the EU. In particular, the effect of compounding interest is considered to be small in the context of debt restructuring and grace periods. Furthermore, external events that are not related to the obligor, such as (ad-hoc) measures imposed by law (e.g., interest caps), should not exempt a default identification stemming from a diminished financial obligation where an institution has consented to a forbearance measure. The related uncertainty is a part of the risk that has to be taken into account by the institutions when estimating credit risk and calculating capital requirements. Capital requirements should in particular be sufficient to absorb losses stemming from events that affect both clients and institutions. Therefore, these situations related to country risk have to be included in the estimation of risk parameters.	
NPV threshold – use qualitative criteria instead of the 1% NPV threshold	Some respondents propose that a more qualitative approach to assessing diminished financial obligations is adopted, either as a full substitute for the current NPV threshold or as a means to introduce greater flexibility. This approach would allow institutions to consider broader risk-sensitive factors - such as borrower viability, payment capacity, and the economic substance of concessions - rather than relying	While a more qualitative approach to assessing diminished financial obligations may offer increased flexibility, it risks undermining the consistency and comparability of credit risk assessments across institutions. The current framework, which includes a clear 1% NPV threshold, ensures a harmonized and objective standard for identifying default.	No change

	solely on a quantitative metric. They argue that this flexibility would better align with the objective of supporting preventive restructuring while maintaining robust credit risk management.	Introducing broader, judgment-based criteria could lead to divergence in default identification, making supervisory oversight more complex and potentially weakening the reliability and comparability of default and NPE ratios across institutions. Furthermore, forbearance measures leading to an actual accounting losses larger than 1% should be registered as a default. Forbearance measures involving material forgiveness of principal, interest or fees, create real losses for the institution granting the concession. These losses must be reflected not only in accounting but also in unexpected loss calculations under the regulatory framework.	
NPV threshold - use non-performing forborne criteria instead of NPV threshold	Some respondents propose that forbearance measures should not automatically trigger default classification through the delta NPV rule. They argue that removing the threshold would align the prudential definition of default with the NPE definition under CRR3 by leveraging on the EBA's non-performing forbearance classification guidance in the EBA Guidelines on management of non-performing and forborne exposures, which already incorporates risk-sensitive assessments of concessions, borrower viability, and payment capacity. This alignment would ensure consistency within the regulatory framework, support preventive restructuring, and simplify operations.	EBA's Guidelines on management of non-performing and forborne exposures set out requirements relating to processes for recognising NPEs and FBEs, as well as a forbearance-granting process with a focus on the viability of forbearance measures. Credit institutions are expected to monitor the efficiency and effectiveness of forbearance measures and have in place policies and processes to assess borrowers' financial difficulties and identify NPEs. These guidelines specify that when determining if forborne exposures (FBEs)	No change

Other respondents argue that the non performing forbearance classification typically occurs after a loan is already defaulted or severely impaired, whereas the prudential default definition and its 1% DFO threshold serve as an early, objective capital trigger. Eliminating this threshold and relying solely on the NPE/forbearance framework could allow materially impaired loans to avoid timely default classification and associated capital charges, creating a loophole that contradicts post-crisis lessons on early loss recognition. These respondents stress that an objective trigger like the 1% DFO is essential for forward-looking provisioning and systemic risk mitigation, as highlighted in the Joint Committee Report.

should be classified as non-performing, institutions should assess whether:

Payment plans are inadequate, evidenced by repeated failures, frequent changes to avoid breaches, or reliance on unrealistic assumptions about borrower repayment capacity or macroeconomic conditions.

Contract terms significantly delay regular repayments, such as grace periods exceeding two years, hindering proper classification.

De-recognized amounts exceed accumulated credit risk losses for non-performing exposures with similar risk profiles.

These guidelines do not establish objective “unlikeliness to pay” criteria. Specifically, they provide no guidance on what constitutes a diminished financial obligation indicating that an obligor is unlikely to pay, as this falls under the mandate of the Definition of Default (DoD) Guidelines. Consequently, they cannot be relied upon for an appropriate determination of unlikeliness to pay. The EBA considers it vital to maintain a threshold that allows for the objective,

		timely and accurate classification of default, which is harmonized across institutions and jurisdictions.	
NPV threshold – introduce an additional absolute threshold	Some members propose to introduce an additional materiality floor for NPV differences of EUR 100 for retail obligors and EUR 500 for non-retail obligors. They also suggest implementing grace periods to avoid misclassifying economically viable exposures as defaulted, particularly for small exposures.	EBA considered introducing an additional absolute threshold as it would increase consistency with the past due materiality threshold. However it was considered that this would likely introduce a disproportionate transition cost for the added flexibility. Models would have to be recalibrated as currently they are not representative of such a new default definition that would be applied in the application portfolio. As such, no additional absolute threshold is introduced.	No change
NPV threshold - Clarify treatment for variable interest rates	Some respondents suggest to clarify the treatment of variable or 'floating' interest loans. It is proposed to clarify that for the NPV threshold calculation, the applicable effective interest rate immediately before the forbearance measure should be used, adjusted for prior interest-related concessions (rather than the effective interest rate at origination), or allow nominal rates as an alternative.	It is specified (also in the feedback table) of the current DoD Guidelines that the NPV should be calculated with the use of the original effective interest rate as a discounting factor in order to align the rule with accounting practices. Therefore, any approximation of such rate or treatment of variable rates that is used for accounting purposes should also be used in the calculation of NPV for the purpose of default identification.	No change
Exit criteria – clarify	Some respondents suggested that any revision for exit criteria in relation to a material repayment would need to be useful for bullet loans to corporate obligors.	Based on the industry feedback not to change the DoD guidance in relation to the exit criteria without aligning such a change for non performing	No change

treatment for bullet loans		exposures in the CRR, the EBA understands the proposed change should not be further pursued at this stage.	
Exit criteria – qualitative assessment for a return to performing status	Some respondents suggested that the probation period should not depend solely on the size of losses but should rather relate to a qualitative assessment of the overall likelihood of the borrower returning to a viable and sustainable repayment status. Other respondents suggest that such a qualitative assessment could be framed by several qualitative criteria that need to be met to have a shorter probation period. For example, it is suggested to differentiate by the type of restructuring; "minor" modifications (like capitalizing a small arrear) might warrant only a 3-month period, whereas "major" restructurings (new loan accounts, significant concessions) would still require 12 months.	Based on the industry feedback not to change the DoD guidance in relation to the exit criteria without aligning such a change for non performing exposures in the CRR, the EBA understands the proposed change should not be further pursued at this stage.	No change
Exit criteria – Removal of material payment criteria	Some respondents suggest removing Article 73(a) arguing that this condition can delay curing for years when large write-offs occur, even if the counterparty's credit risk is low. They argue that this requirement is redundant given other conditions: Article 72(c) mandates at least one year of regular payments after any grace period; Article 73(b) requires payments according to schedule during that year; and Article 73(c) requires no past dues at curing. It is suggested that these ensure sufficient repayment and stability. Therefore, curing should focus on the counterparty's actual credit risk	Based on the industry feedback not to change the DoD guidance in relation to the exit criteria without aligning such a change for non performing exposures in the CRR, the EBA understands the proposed change should not be further pursued at this stage.	No change

	rather than past write-offs, as restructurings can significantly reduce risk.		
Other - remove qualitative UTP criteria	Some respondents propose to exclude forbearance measures involving postponed instalments or extended maturity from default assessment under the "diminished financial obligation" trigger, provided no other concessions altering future cash flows are granted. Some respondents suggested to remove the expectation that the granting of multiple forbearance measures may indicate a default.	This is deemed detrimental to the timely and accurate recognition of default, as it would allow indefinite postponements of principal and interest, effectively circumventing the past due criterion. Where the institution has reasonable doubts with regard to the likeliness of repayment of the obligation according to the new arrangement in full in a timely manner, the obligor should be considered defaulted. The indicators that may suggest that this is the case include a large balloon payment, a significantly higher repayment burden envisaged at the end of the repayment schedule and a significant grace period, as well as a situation where the exposure has been restructured multiple times. In particular, multiple forbearance measures are likely to indicate that the obligor is unlikely to pay its credit obligation in full without the institution having to resort to liquidate any collateral.	No change
Other - aligning the default classification	Some respondents suggest aligning the default classification due to forbearance measures leading to a diminished financial obligation with accounting principles.	The accounting framework and regulatory framework serve different purposes. Capital requirements are set to ensure that institutions remain solvent and resilient during periods of stress and require institutions to hold capital buffers to	No change

to accounting principles		absorb unexpected losses, protecting depositors and maintaining financial stability. There is therefore a clear need for conservatism in the calculation of capital requirements. The accounting framework aims to present a true and fair view of institutions' financial position and performance by ensuring that financial statements accurately reflect economic reality, emphasize clarity and comparability, such that stakeholders like investors and auditors can make informed decisions.	
Question 4: 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 de fault? If so, please provide examples where a different definition of NPE and default is appropriate.			
Current overall alignment between DoD and NPE	Most respondents indicated they do not fundamentally diverge in their internal treatment of "default" and "non-performing exposure" (NPE). Banks often choose to keep these definitions aligned for simplicity in operations and reporting. Some explicitly stated they have "no distinction in the definition of default and NPE" within their institution. A few respondents noted specific cases where definitions might differ: for example, retail credit portfolios where, for modeling purposes, an institution defines default at the facility level (individual loan) while NPE status might be considered at the obligor level.	The EBA acknowledges these concerns and will therefore not introduce changes to the exit criteria for defaulted exposures at this stage.	No change

	The prevailing view is that introducing additional divergent requirements is not desirable. The overall sentiment is that banks strive for consistency where practical, but value flexibility to treat cases differently if needed. With that, the respondents suggest that if any alignment or change is to be made, it should be done by bringing the NPE definition closer to the default definition and not the other way around.		
Burden of having two definitions	Some respondents generally report that having different definitions for regulatory default is manageable, but it does introduce extra work. Several note that if default and NPE definitions lack alignment, they must maintain dual tracking systems, one for regulatory default status and one for NPE disclosures, which means additional operational complexity and IT effort. For instance, an exposure could be "cured" from default after meeting the probation criteria, but still counted as an NPE in financial reports until a later date; banks then have to flag and explain that discrepancy. While this is feasible, it requires careful reconciliation and can be resource intensive. Some respondents warned that any misalignment between what is considered defaulted in risk management and what is considered non-performing in financial statements can distort the risk profile presented. They argue it's confusing to investors and stakeholders if a loan is marked as "defaulted" for capital purposes but not shown as credit-impaired on the balance sheet, or vice versa. Thus, a few industry voices lean towards aligning	The EBA acknowledges this and will not introduce changes to the exit criteria for defaulted exposures at this stage.	No change

	these where possible to create a consistent view on asset quality.		
Question 5: Would a potential lack of alignment between the default and NPE definition lead to issues in accounting in your case?			
Consistency with accounting	Some respondents mention that they manage accounting (specifically Stage 3 under IFRS 9) separately. Other respondents mention that they have aligned accounting and regulatory classifications for simplicity. It is also pointed out that there is no regulatory requirement to fully align default, NPE, and accounting Stage 3 – and that some divergence is acknowledged as appropriate by supervisors. For instance, some institutions may have a less strict definition of technical defaults for their Stage 3 impairments (if the institution expects no credit loss). Also for the other way around, some institutions may choose to classify an exposure as Stage 3 (impaired) based on forward-looking judgement even if it hasn't met the default criteria, or conversely.	The EBA acknowledges this and will not introduce changes at this stage in this regard.	No change
Question 6: 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?			
Introduce guidance for legislative and	Some respondents believe that during systemic crises, broad legislative or regulatory relief measures may trigger NPV threshold breaches without reflecting individual borrower	Under the current framework, CRR Article 47b(1), legislative moratoria should be considered as forbearance when they result in a concession by an	No change

private Moratoria	distress. They argue such cases should be treated separately from standard assessments of diminished financial obligation, as the relief is not borrower-specific. As such, these respondents suggest that general forbearance measures introduced during emergencies should be excluded from the delta NPV assessment. These measures are often implemented quickly, making case-by-case evaluations impractical. Automatically classifying all beneficiaries as defaulted would be overly punitive and harm economic recovery (borrowers may even apply for relief even without immediate need to preserve liquidity, which can reduce overall credit risk). These respondents suggest extending such an exemption for legislative moratoria to private initiatives meeting similar criteria. They observe that in some cases, banks implemented or joined voluntary, industry-wide payment deferral schemes (often encouraged by authorities) which were not enshrined in law. Other members caution against blanket exemptions during crises, warning they could be misused for non-systemic events and undermine risk transparency. They support the EBA's applying the standard default recognition guidance to legislative moratoria, which balances flexibility with the need to assess credit risk. Excluding large portfolios from default classification during crises could compromise the quality of risk data when it is most needed.	institution towards an obligor that is experiencing or is likely to experience difficulties in meeting its financial commitments, and where such modification/refinancing would not have been granted had the obligor not experienced difficulties in meeting its financial commitments. Introducing a derogation from the forbearance status and the unlikely-to-pay default criteria under Article 178(3)(d) CRR for general or legislative moratoria would undermine the harmonized definition of default, which aims to reduce RWA variability as set out in the 2016 EBA guidelines. Such a derogation would allow Member States to suspend the harmonized default rules during crises, creating inconsistency. The current framework already provides flexibility. The NPV test applies only to forborne exposures, and forbearance classification involves judgment on whether the obligor faces financial difficulties. If an exposure is deemed forborne, the NPV test (paragraph 51 of the GL DoD) determines whether the measure results in a diminished financial obligation, triggering default only if the NPV loss exceeds 1%. This ensures that applying a moratorium does not automatically lead to default classification.

	Some respondents suggest not introducing additional guidance on moratoria as they believe that the guidelines already allow for the use of moratoria without triggering default classification. Many respondents suggested to refine the conditions allowing for the default exemption in relation to moratoria. In particular, they suggest that the definition of the public support measures could be clarified and not limited to fiscal measures adopted by central governments. Some respondents suggest expanding what kinds of relief qualify. Some moratoria might include a temporary interest rate cap or reduction whereas the first criteria limits the moratoria to payment schedule changes.		
Question 7: 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?			
30 to 90 DPD	Most respondents welcome the revised treatment of technical past-due situations for non-recourse factoring, which now allows a 90-day window instead of 30 days and also strongly support the EBA's decision to keep paragraphs 25 and 26 unchanged, regarding the 180-day related to public-sector exposures.	The EBA acknowledges support for the changes.	No change

Technical clarifications on factoring	Most respondents supported the changes proposed to paragraphs 31 and 32, reflecting technical days past due exemptions under paragraph 23. Some respondents requested additional clarification for the following cases. ▪ In disclosed factoring, where the customer should pay directly the factor, and the customer of the client has successfully contested the cession of the receivable from the client to the factor under the applicable legal framework, such that the non-recourse nature of the purchased receivable no longer holds, leaving the factor having to pursue the client as obligor rather than the customer of the client for any monies due. ▪ In disclosed factoring, where the customer should pay directly the factor, and the customer of the client unsuccessfully contested the cession of the receivable from the client to the factor under the applicable legal framework, such that this customer should be the obligor and pay directly the factor but nevertheless continues paying the client rather than the factor. ▪ In undisclosed factoring, where the customer pays the client and the client pays the factor (where the	Under the Internal Ratings Based Approach, CRR Article 184, paragraph 2 states that “institutions shall have procedures to ensure that ownership over the receivables and cash receipts is protected against bankruptcy stays or legal challenges that could materially delay the lender's ability to liquidate or assign the receivables or retain control over cash receipts.” Furthermore, paragraph 3 and 4, contains provisions that require institutions to monitor risks associated with the seller. Paragraph 5 stipulates that the institution shall have clear and effective policies and procedures governing the control of purchased receivables. These GL on the definition of default are focussed on the criteria for entering and exiting default for obligors. Legal disputes that contest the tripartite structure of factoring and contest the non-recourse nature of the factoring arrangement such that the receivable may no longer be recognized on the balance sheet of the institution should be assessed on a case by case basis.	Paragraph 23 is slightly amended.

debtor is not informed of the assignment and the client is the servicer of the receivables), and:

- where contractual arrangements between the client and the factor allow the client to delay, for an extended period, the transfer of payment from the client to the factor after the invoice due date or after the customer (obligor) has paid the client. The respondent argued that the factor has no visibility over the debtor's payment behaviour, making the days-past-due count dependent on the debtor's payment timing infeasible. Furthermore, there are arrangements between client and factor such that the exposure should be recognised against the client (and not the obligor).

- Where there are no such arrangements as mentioned under the point above between the client and the factor, but where nonetheless the client breaches the servicer arrangement and delays the transfer of payment from the client to the factor after the invoice due date or after the customer (obligor) has paid the client.

Where the assignment is legally effective and enforceable, but the customer (obligor) denies or refuses to pay the factor, institutions should continue counting the days past due in relation to the customer (obligor), in line with the original payment schedule of the receivable. From a risk-based standpoint, such behaviour represents a failure to perform under a legally binding obligation and thus constitutes evidence of increased credit risk. Ignoring the agreed payment schedule in these circumstances could undermine the timely and consistent identification of credit deterioration.

Furthermore, institutions should assess whether arrangements between client and factor that allow the client to delay transferring to the factor the payment made by the customer to the client still allow for the recognition of purchased receivables on the balance sheet of the institution.

Technical past due situations should primarily relate to cases where the delay stems from administrative delays related to the transfer of a payment from the client to the factor. However, where the obligor (customer of the client) pays the invoice in full and on time, but the client fails to transfer the corresponding funds to the factor within the 90-day period due to late payment on the client side, this

		should not imply the default of the obligor, as he has properly fulfilled its payment obligation and the factor has no possibility to contact the obligor (who is not informed of the assignment). In practice, the risk that materialises is that of the client as intermediary, such that the prudential default should not be attributed to the underlying obligor.	
Leasing Business Specificities	Some respondents argue that the current simplifications and exceptions in the EBA Guidelines on the Definition of Default do not sufficiently reflect the specific operational features of the leasing business within supervised groups. As a result, lessees with good to medium credit quality are often classified as defaulted under Article 178(1)(b) CRR and as non-performing under Article 47a(3)(a) CRR, which they consider a misclassification in terms of risk profile. The respondents explain that payment delays are frequent and operationally justified in the leasing sector (for example, due to invoice validation processes, disputes on damages or final settlement amounts, or administrative delays in payment authorisations) rather than stemming from financial difficulties. Consequently, the “> 90 days past due” criterion is viewed as inappropriate for identifying true credit deterioration in leasing. They also highlight competitive disadvantages for regulated leasing companies within banking groups vis-à-vis	The EBA acknowledges the concerns raised regarding the specific operational characteristics of leasing activities, in particular that payment delays may result from administrative or contractual processes (such as invoice verification, disputes over damages, or settlement of residual values) rather than from the lessee’s financial distress. The EBA also notes the respondent’s observation that the application of the 90-days-past-due criterion may, in some cases, lead to an over-recognition of defaults within leasing portfolios of institutions belonging to supervised groups. However, the EBA considers that these elements do not warrant amendments to the Guidelines. Regarding amendment to paragraph 19(b) the EBA considers that the current formulation already provides sufficient clarity and flexibility. The provision explicitly allows institutions not to suspend the counting of days past due where a	No change

unregulated or Pillar II-only leasing entities, as CRR-based default recognition inflates NPE and default ratios, increasing capital requirements. To address these issues, the respondent proposes amendments to the Guidelines in paragraph 19(b), clarifying that in leasing, a dispute or complaint regarding the leased asset or final payment amount should suspend default classification until resolved; and to add a new provision under paragraph 23, introducing a specific 60-day tolerance for leasing exposures breaching the materiality threshold but not yet more than 60 days past due.	formal complaint has been raised regarding the leased object, and the merit of that complaint has been confirmed by an independent internal audit, validation, or comparable function. This ensures that only substantiated contractual disputes and not mere commercial disagreements or delays may temporarily justify the suspension of default classification. As for a new provision under paragraph 23, as indicated in paragraph 59 of the consultation paper, it was also considered to extend the exception provided for factoring to leasing arrangements. Yet, whereas the factor operates within a tripartite agreement between factor, client and obligor, there exists a direct contractual relationship between the leasing institution and the lessee. The dunning and collection process is therefore fully under the control of the leasing institution, which is expected to manage and prevent undue payment delays proactively. Accordingly, the EBA concludes that the current framework remains appropriate and no modification of paragraph 19(b) or introduction of a specific leasing exemption is proposed.

Operational Leasing	Some respondents focus on operational leasing, drawing a parallel with the EBA's reasoning on factoring, they note that both products involve invoice-based payment structures and overlapping instalments, where the days-past-due counter can increase due to sequential late payments, even if no single invoice is overdue by more than 90 days. They therefore request that operational leasing be included under the same specific treatment as factoring, arguing that stricter arrears criteria do not reduce credit risk but instead discourage institutions from offering such financing.	Also for operational leasing, there is the distinction with factoring as already explained in the background and rationale of the consultation paper; whereas the factor operates within a tripartite agreement between factor, client and obligor, there is a direct contractual relationship between the leasing institution and the lessee. As such, the dunning process is under full control of the leasing institution such that late payments should be addressed (pre-emptively) by the leasing institution in order to prevent default classification.	No change
Question 8: Do you agree with the other changes to the guidelines to reflect updates from Regulation (EU) 2024/1623?			
NPV threshold only applied to forbearance measures	Some respondents suggest to clarify in paragraph 52 that the NPV test for forbearance measures only needs to be performed when the restructuring itself is the reason for potential default. In practice, if a loan is already in default due to 90-days past-due or other UTP indicators, calculating the NPV loss of a concession doesn't change its status – it's redundant. They welcome clarifying language that if an exposure is defaulted for another reason (or conversely, if the concession is clearly immaterial), the NPV test can be skipped. This would save operational burden.	For exposures that defaulted already due to another default trigger (e.g. 90DPD) and currently in the 3 month probation period is subject to a distressed restructuring to restore the viability of the loan agreement, and for non-defaulted exposures subject to a distressed restructuring and at least one other default criteria is triggered at the same time, the following is relevant: specifically in the IRB context, the data requirements for LGD estimation set in para 109(c) of EBA/GL/2017/16 require that the RDS should contain i) all default triggers that have occurred, including both past due events and unlikeliness to pay events, even after the	No change

		identification of default, and ii) in the case of exposures subject to distressed restructuring the amount by which the financial obligation has diminished calculated in accordance with par. 51 of the EBA/GL/2016/07. Furthermore, for the purpose of exit criteria in order to determine whether a 3 month or 12 month probation period applies, paragraph 72 of the current DoD GL state that … where distressed restructuring according to paragraph 49 of these guidelines applies to a defaulted exposure, regardless of whether such restructuring was carried out before or after the identification of default, institutions should consider that no trigger of default continues to apply to a previously defaulted exposure, where at least 1 year has passed from the latest between one of the following events: (a) the moment of extending the restructuring measures; (b) the moment when the exposure has been classified as defaulted; (c) the end of the grace period included in the restructuring arrangements. As such, it is considered to explain these two points in the feedback table.	
Clarify at which level the	It is suggested to clarify at what level to calculate the diminished financial obligation, i.e., at the facility, obligor or even contract level.	The NPV calculations are performed at the same level at which the default definition is applied, i.e., at the obligor level, or where institutions apply for	No change

NPV threshold is applied		retail exposures the definition of default at the level of the individual facility, at the facility level.	
Materiality of overdue amounts in returning to non-default status	It is suggested to clarify in the DoD GL that immaterial overdue amounts should not prevent the return to non-default, in order to address the issue of tiny technical arrears blocking cure (e.g. disallowing cure if any amount, even €1, is past due). These respondents argue that these suggestions aim to ensure the default framework remains practical and doesn't trap exposures in default longer than necessary when risk has essentially been mitigated.	The EBA will not introduce changes to the exit criteria for defaulted exposures at this stage, given the concerns expressed on implementation burden.	No change
Technical past due during probation period	Some stakeholders suggested to introduce in the DoD Guidelines the guidance on EBA's Q&A 2022_6527 guidance about when to reset the probation period for re-defaults. It is therefore suggested that if a forborne defaulted loan in probation goes 30 days past due again due to reasons not related to financial difficulty (e.g. a technical delay), banks aren't obliged to reset the cure period to day 0. These stakeholders believe incorporating this nuance will avoid unnecessarily prolonging default statuses due to minor hiccups during the cure year. They argue this is consistent with Article 47a CRR, which already implies such exposures remain NPE if >30 days past due but doesn't automatically require a fresh default unless there's borrower financial distress.	According to paragraph 54 of the guidelines on the definition of default, exposures classified as forborne non-performing should be classified as default. Article 47a(3)(c) of the CRR requires an exposure that has been forborne non-performing to be considered as non-performing still in the case it becomes more than 30 days past due during the probation period. As such, there is a rebuttable presumption that the probation period referred to in paragraph 72 of the guidelines on the definition of default should be reset as soon as the exposure becomes more than 30 days past due, unless this delayed payment is of a technical past due nature not related to financial difficulties of the obligor.	No change

Additional reason for technical past due	Some respondents suggested to introduce as a technical past due exemption that debtors disputing their credit obligations should not be automatically classified as defaulted unless there are clear signs of credit deterioration. This avoids unnecessary capital and provisioning impacts and improves the chances of repayment agreements and effective recovery.	Although disputes are not included in the definition of a technical past due situation a specific treatment of disputes has already been specified in paragraph 19 of the Guidelines, prior to this amending Guidelines. In order to ensure consistent application of the definition of default and to avoid excessively broad application of the specific treatment, the possibility of suspending the counting of days past due was limited to those disputes that were introduced to a court or another formal procedure performed by a dedicated external body that results in a binding ruling (such as arbitration).	No change
Changes to the materiality threshold for past due credit obligations	Some respondents suggest raising the absolute materiality thresholds in the default definition for material past due credit obligations. For example, the threshold for the sum of past-due amounts on non-retail exposures could be increased so that small overshoots don't perpetuate a default status.	This would require a change to the RTS on material past due credit obligations which is not within the scope of the DoD GL. As explained above, the threshold has been subject to an impact assessment, and the EBA does not see reason at this stage to change the threshold. With that, transition costs of changing the DoD would likely be high.	No change
NPE provisioning calendar	Some respondents suggest that when an exposure is under NPE or default probation (cure period) and no longer under financial distress, it should not simultaneously count as non-performing for the purposes of the NPE provisioning	This would require a level 1 change which is not within the scope of the GL DoD. It is noted that the NPE backstop is understood that capital deductions only occur after an NPE period of 2 years. As such,	No change

	backstop calendar. The current framework, they point out, can trigger an automatic write-down via the NPE backstop just as a borrower is recovering. By suspending the default/NPE status during the probation period, these respondents argue, regulators would remove a major capital cost that might discourage debt restructuring.	the probation period for restructured cases is not penalizing except for obligors that are not timely returning to a sustainable financial situation in which payments are made according to the revised payment schedule. It seems prudent to maintain the backstop for these cases.	
Impact on model changes	Finally, several respondents noted that changes to the DoD guidelines would likely entail substantial operational work, and it is critical that simplifications under the revised RTS on materiality of IRBA model changes take effect before implementing new default guidelines.	The process for (material) model changes are reassessed by the EBA in the context of the review of the RTS.	No change
Flexibility in concessions granted	One respondent noted that in relation to paragraph 19 of the consultation paper, which states that *"institutions should first assess whether the obligor is or will likely be in financial difficulties, and secondly, whether the concession is given by the institution due to these financial difficulties. While a measure may imply a concession by the institution when granted to the obligor in financial difficulties, such concession may not relate to those financial difficulties."* that supervisors only exceptionally interpret such concessions as unrelated to financial difficulties and generally require that these exposures be classified as forbearance.	The EBA acknowledges that these may be exceptional cases which have to be determined by the institution and which may be subject to a supervisory assessment.	No change

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(…)