



Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 37 banks operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on EBA/CP/2015/15 **GUIDELINES ON THE APPLICATION OF THE DEFINITION OF DEFAULT UNDER ARTICLE 178 OF REGULATION (EU) 575/2013.**

We would like to point out the implementation costs that are hardly mentioned in the GL text. In respect of the proposed changes in terms of counting the days past due in conjunction with setting single threshold, we would like to draw your attention to the impacts which may be far-reaching and hence should be reflected in the cost-benefit analysis and carefully considered. The current practice of many banks is to commence with counting of days past due since the beginning, i.e. when the counterparty has failed to make a payment when contractually payable. This practice is more prudent and encourages banks to respond sooner to client's financial difficulties. Moreover, it is compliant with IFRS 7 definition of past due. Consequently, one counting of past due days system may serve different purposes: IRB modelling, NPL reporting, accounting and contractual purposes.

If a new regulatory requirement on past due days counting is introduced differently (e.g. counting past due days only after reaching the materiality threshold) it may not represent the replacement of the existing system by a new one, however, a new system will have to be created and both systems must run in parallel.

Two aspects must be distinguished as far as impacts are concerned. The quantitative impact of such a change may be small or even negligible. Let us underline that the concerns that stricter default definition results (through higher PD estimates but lower LGD) in the decrease of RWA of the AIRB institutions or that technical default definition must be changed may not be well founded. We can rather expect a minor improvement (i.e. a small relaxation of capital requirements) if the past due days are counted only after the threshold is breached. Nevertheless, the implementation costs (e.g. the change of internal definition of default, changes in internal IT systems and changes in models based on default definition like PD, LGD) are anticipated to be huge and the execution of the change may take quite a long time. Moreover, the change in default definition is also relevant for STA institutions. These costs are not in the focus in the QIS on the definition of default.

Further, we propose to change the proposal for counting of days past due using the LIFO method. It is apparent that this rule would cause significant increase of default rates compensated by significant increase of cure rates. In other words, compared to the FIFO

method, application of LIFO leads to recognition default event for many clients, many of which would be cured.

From the perspective of financial position of the bank the impact would not be material (since PD would be compensated by LGD), but our concern is that this rule causes unnecessary hard impact from the perspective of the client. Affected client group are debtors, who are lazy payers rather than bad debtors. This group demonstrates both ability and willingness to repay amounts past due. However, for many of them default event according to Art. 178 (1) (b) of the CRR would be newly recognized, with all negative consequences this brings to the client (record in the credit registry).

We propose to change the proposal for counting of days past due using the LIFO method. Based on calculations we have indicated during the QIS, that it is apparent this rule would cause significant increase of default rates compensated by significant increase of cure rates. In other words, compared to the FIFO method, application of LIFO leads to recognition default event for many clients, many of which would be cured.

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We hope that our response to the Consultation Paper is sufficiently clear and our views are helpful.