Single Rulebook Q&A

Question ID	Date of publication
2024_7108	30/09/2024
2021_6045	11/02/2022
2021_5754	17/12/2021
2020_5380	30/07/2021
2020_5357	01/10/2021
2019_4666	09/10/2020
2018_4431	07/08/2020

Question ID	2024_7108
Status	Rejected question
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	28
Type of submitter	Law firm
Date of submission	14/06/2024
Published as Rejected Q&A	30/09/2024
Subject matter	Counting of days past due in factoring arrangements.
Question	As for non-recourse factoring, is it correct to start the counting of days past due based on the payment schedule defined or implied in the contractual terms with the client (i.e., the party from which the factor purchases the receivables)?
Background on the	

question	The question is raised as the same has become particularly relevant for a number of financial institutions operating in the factoring sector, whereby an incorrect initiation of the counting of past due may lead to a misclassification of the relevant exposures which, in turn, could cause an overly burdensome effect for financial institutions in terms of prudential capital requirements (also in instances which are not characterized by actual or potential credit risk deterioration). There are several events which may cause the misalignment between the actual payment timing and the stipulated invoice payment terms, resulting in the extension of the duration for which the purchased receivables remain on the factor's balance sheets beyond the formal expiry of the relevant invoices. Such discrepancy mainly arises from: (i) the inherent commercial relationships between suppliers and their customers, potentially characterized by a disparity in bargaining power between the parties, (ii) the internal administrative processes implemented by debtors in order to precondition invoice payments to the prior verification of the supply of goods or services, (iii) the dunning, clearing and invoice reconciliation processes employed by the factor. However, these events do not inherently signify a deterioration of the actual risk profile of a debtor or a default scenario, and in certain instances (such as point (iii) above) they are not even directly attributable to the debtor itself. With regard to non-recourse factoring (where the purchased receivables are recognized on the balance sheet of the factor in accordance with the applicable accounting principles, and the factor assumes exposures to the debtors of the client) it is crucial to note the following: • The contract is exclusively between the financial institution and its client (*i.e.*, the assignor of the receivables), and not with the debtor (*i.e.* the party generally making the actual repayment of the receivables to the factor), who remains a non-contractual party to the financial institution. In addition, in undisclosed factoring arrangements (as outlined in par. 32 of EBA/GL/2016/07), the debtor may not even be informed of the assignment of the receivables; • The contract between the factor and the client must explicitly or implicitly reflect and determine specific payment timings in order to allow the transfer of substantially all risks and benefits of ownership, thus enabling the derecognition of the credit obligation from the client’s balance sheet (*i.e.*, non-recourse condition according to IFRS 9, par. 3.2.6). These contractual timings are crucial to the factor to: (i) determine the pricing of the financial transaction, (ii) verify the compliance of the relevant financial transaction with the usury law thresholds from time to time applicable and (iii) record the financial instrument for accounting purposes;

- The contractual payment timings referred to in the previous point are therefore part and parcel of the factoring contract and its credit exposure. Their practical implementation, however, could reflect particular conditions deriving from commercial practices in place between clients and debtors.

Employing the contractual payment timing derived, even implicitly, from the contract with the client as the basis for calculating days past due ensures:

- Full compliance with CRR3 (art. 5(b)(4)), defining credit obligation as "*any obligation arising from a credit contract, including principal, accrued interest and fees, owed by an obligor*", thus establishing a direct link between the credit contract (in place between the factor and the client/assignor) and the assigned credit obligation;

- Enhanced identification of default and risk scenarios, preventing the misclassification of counterparties with high creditworthiness (for example highly rated companies, public administration entities);

- Consistency with the broader risk management framework, as the contractual payment timings reflect realistic repayment expectations and are used by the factor to calculate other regulatory indicators (*e.g.*, Liquidity Coverage Ratio, Net Stable Funding Ratio, Interest Rate Risk in Banking Book limits);

- No conflicts with the formal payment terms derived from the credit contract between the financial institution and the client, in contrast to the debtor who does not have a contractual relationship with the financial institution;

- A more harmonized definition of default across factoring and other financial instruments characterized by credit obligation due dates which are generally based on what is contractually agreed with the client. This could lead to regulatory and interpretative simplification without the need for further exemptions or specific provisions for factoring;

- Prevention of arbitrage by financial institutions in defining contractual payment terms and in accurately identifying defaults, as extensive long payment terms could lead to: (i) possible breaches of usury limits, (ii) unattractive pricing for clients and (iii) delayed profit distribution through amortized cost accounting.

	Furthermore, initiating the counting of days past due based on contractual terms included in or implied by the contract agreed with the factor's client would not appear to incentivize late payments by the debtor, as those are bound by Directive 2011/7/EU, encouraging prompt payment practices by both enterprises and public authorities. In this regard, the role of financial institutions specialized in non-recourse factoring is also to ensure more effective collection processes compared to those of their clients.
Rationale for rejection	This question has been rejected because the issue it deals with is already explained or addressed in Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07). For further information on the purpose of this tool and on how to submit questions, please see 'Additional background and guidance for asking questions'.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2024_7108

Question ID	2021_6045
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	3
Subparagraph	d
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	49-55
Type of submitter	Credit institution
Date of submission	21/06/2021
Published as final Q&A	11/02/2022
Subject matter	Calculation of NPV loss in case of (internal) refinancing
Question	Which NPV loss should be taken in order to calculate the NPV loss if the 1% threshold is breached and the forborne loan contract should be placed in default?
Background on the question	A client contacts the institution for a loan restructuring of his retail mortgage loan as his repayment capacity has declined. This restructuring is

	granted via a (internal) refinancing of the mortgage loan with a prolongment of the duration and at current market interest rate (which is in line with the interest rates granted under normal circumstances and taking into account the prolonged duration of the loan). The new interest rate of the refinanced loan contract is hereby lower than the interest rate of the original loan contract, but this is due to the market evolution of the interest rate levels. In the current interest rate environment, a forbearance granted via a refinancing of the loan contract at current interest rates gives rise to a NPV loss. However the majority of this NPV loss is related to the new interest rate pricing of the loan. In the granting of this refinancing, normal acceptance and loan pricing procedures are followed. For the calculation of the NPV loss for the 1% threshold, two options are possible: A/ calculate the total NPV loss (= for the new market interest rate and the prolongment) B/ calculate the NPV loss for the concession only (= in this case the prolongment of the duration).
Final answer	According to paragraph 51 of EBA/GL/2016/07 for the purposes of calculating the diminished financial obligation (DO) the parameter NPV1 is to be determined as “the net present value of the cash flows expected based on the new arrangement discounted using the customer’s original effective interest rate”. This rule does not differentiate by the reasons why the net present value of the expected cash flows under the new arrangement may be lower. Therefore, in the specific case of distressed restructuring as set out in paragraph 49 of EBA/GL/2016/07 the institution must determine whether “material forgiveness or postponement of principal, interest or fees” (paragraph 51 ibid) has occurred based on the expected cash flows under the new arrangement, irrespective of whether these cash flows relate to general market rates that are lower than the corresponding market rates underlying the contractual obligations before the changes in terms and conditions of the contract, or not.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6045

Question ID	2021_5754
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)

Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	71
Type of submitter	Other
Date of submission	22/02/2021
Published as final Q&A	17/12/2021
Subject matter	Treatment of cured defaulted exposures
Question	For the treatment of cured defaulted exposures, a probation period of 90 days with no default triggers must apply before the exposure is moved back to a non-defaulted status. According to Article 178(1)(b CRR) default shall be considered to have occurred with regard to a particular obligor when the obligor is more than 90 days past due on any material credit obligation. However, if the material arrears fall below the thresholds, the arrears counter will reset to 0. Should the probation period of 90 days with no default triggers apply before the exposure is moved back to a non-defaulted status?
Background on the question	A probation period of 90 days must be met since the day a default exposure does not meet any default criteria triggers.
Final answer	Minimum conditions for reclassification of a defaulted exposure or obligor to a non-defaulted status, for the purposes of the application of Article 178(5) of Regulation (EU) 575/2013 (CRR), are specified in the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07). Except for situations referred to in paragraph 72 of said Guidelines (distressed restructuring on a defaulted exposure is subject to a probation period of at least one year – see also Q&A 4867), all conditions from paragraph 71 of such Guidelines should be satisfied for the reclassification of a defaulted exposure or obligor to a non-defaulted status.

	As no trigger of default should continue to apply during a 3-months minimum probation period in accordance with point (a) of paragraph 71 of the Guidelines, no indication of unlikeliness to pay should be met in accordance with Article 178(1)(a) CRR and no material amount should be past due in accordance with point (b) of Article 178(1) CRR during this period. Furthermore, as part of the assessment required by point (d) (d) of paragraph 71 of the Guidelines, point (b) of that paragraph paragraph required that the institution takes into account the behavior of the obligor during this probation period before reclassifying a defaulted exposure to non-defaulted status, and thus the institution should consider any past due amount during this period in the analysis of the behavior of the obligor.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_5754

Question ID	2020_5380
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	paragraph 104
Type of submitter	Credit institution
Date of submission	21/07/2020
Published as final Q&A	30/07/2021
Subject matter	Obligor level
Question	When applying the default at obligor level for retail, should a credit institution always consider a specific set of individual obligors that have a joint obligation towards an institution as a different obligor (the unit of default takes into consideration the JCO)? Or is this to be applied only for the materiality threshold?

Background on the question	Paragraph 104 of EBA/GL/2016/07 (Guidelines on the application of the definition of default under Article 178 CRR) stipulates: "A joint obligor, i.e. a specific set of individual obligors that have a joint obligation towards an institution, should be treated as a different obligor from each of the individual obligors." It is unclear whether - when we apply the default at obligor level for retail - we should always consider specific set of individual obligors that have a joint obligation towards an institution as a different obligor (the unit of default takes into consideration the JCO) or whether this is to be applied only for the materiality threshold. It can be argued that this is stipulated in the Background and rationale (paparaph 2.7.3, page 14) : "for the purpose of application of the materiality threshold a joint obligor, i.e. a specific set of individual obligors that commit to a joint exposure, should be treated as a different, separate obligor". This is to understand if the level of application of the default in case of joint credit obligation. For example, if we have Mister A and Miss B that are sharing a credit obligation and that have also credit alones, it is unclear if we have to consider 3 units: Mister A, Miss B and the couple, or only 2 units: Mister A and Miss B. More specifically, we believe there is a need to define the notion of obligor; and also to precise the context of the paragraph 104. In particular, the bankruptcy trigger (paragraph 56 of the Guidelines) is identified at the Legal person level and does not take into consideration this notion of separate set of obligors. Then, if the rules describes in paragraph 104 apply to everything, it is unclear how to handle the default at Legal person level. When considering paragraph 97, in case of JCO and only one Legal Person is in bankruptcy, if the other Legal Person has no difficulties, there would be no reason to identify it in default. Additionally, according to Article 1(4) of Commission Delegated Regulation (EU) No 1152/2014 it can be argued that the obligor is “the natural or legal person, who is the institution’s counterparty to a general credit exposure or the issuer of a financial instrument not included in the trading book or the counterparty to a non-trading book exposure”, but there is no explicit definition either in CRR or from the EBA. It should be noted that, it is not an issue to apply the materiality threshold for the default at the Legal Person level (all the Legal person that owned a group of obligation breaching the threshold should be considered and that will be consistent with the end of the paragraph 104). The application of the paragraph 104 to everything could be also inconsistent with paragraph 96, according to which “Institutions should

	consider a joint credit obligation as an exposure to two or more obligors that are equally responsible for the repayment of the credit obligation" in the sense that if the bank has only shared account on Legal Person A and Legal Person B (that happens on Retail- Person individuals), then only one obligor will be considered and not "two or more". So we will get Join Credit obligation linked to one "obligor".
Final answer	The first sentence of paragraph 104 of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07) states: "A joint obligor, i.e. a specific set of individual obligors that have a joint obligation towards an institution, should be treated as a different obligor from each of the individual obligors." This sentence is not limited to materiality of credit obligations past due for Article 178(1)(b) CRR and the materiality threshold according to Article 178(2)(d) CRR, thus this sentence also applies to unlikeness to pay according to Article 178(1)(a) CRR. That the specific treatment of joint obligors is not limited to the materiality threshold but also applies for unlikeliness to pay is already made clear by paragraph 97 of EBA/GL/2016/07, which requires extending the default classification of individual exposures to the joint obligors not only arising from the material past due criterion according to point (b) but explicitly also from the unlikeliness-to-pay criterion according to point (a) of Article 178(1) CRR. Paragraph 99 of said Guidelines additionally clarifies that where the conditions of points (a) or (b) or both of Article 178(1) CRR are met with regard to the credit obligation of an individual obligor, the contagious effect of this default should not automatically spread to any joint credit obligations of that obligor but nevertheless, institutions should assess such joint credit obligations for possible indications of unlikeliness to pay related with the default of one of the obligors.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5380

Question ID	2020_5357
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	134
Paragraph	7
Subparagraph	

COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	178
Type of submitter	Consultancy firm
Date of submission	07/07/2020
Published as final Q&A	01/10/2021
Subject matter	Leasing - Contagion du défaut aux paiements minimaux - Default contagion for minimum payments
Question	En méthode standard, dans le cadre de contrat de crédit-bail mobilier (leasing véhicule), si plus de trois mois de loyers sont impayés, le déclassement "en défaut" doit-il s'appliquer à ces seuls loyers échus impayés ou une contagion du défaut doit-elle impérativement s'appliquer à l'ensemble des loyers prévisionnels non encore échus (paiements minimaux prévus au contrat de crédit-bail : cf. article 134-7 CRR) ? Under the standardised method, in the context of equipment leasing (vehicle lease), if more than three months of the lease are unpaid, must the default definition be applied to these due and unpaid payments of the lease only, or is it essential that a default contagion be applied to all projected lease payments which are not yet due (minimum payments provided for in the lease: see Article 134(7) CRR?
Background on the question	Exemple : Loyer mensuel = 100 € Loyers totaux sur la durée du crédit-bail : 100 € x 48 mois = 4800 € (paiements minimaux prévus au début du contrat} Paiements des loyers effectués pendant 8 mois = 800 € Loyers restant dû après 8 mois : 4000 € Loyers impayés pendant 4 mois = 400 € => en défaut Loyers non échus mais prévus au contrat (paiements minimaux restant dus) = 3600 € => sont-ils à déclasser en défaut, par contagion ? Ou sont-ils à conserver en encours sains car non échus ? Dans le reporting COREP, le montant total de l'exposition en défaut doit-elle être de 400 € (car ce montant correspond à plus de 3 loyers mensuels échus impayés) ou de 4000€ (ensemble des paiements minimaux échus et non échus). BACKGROUND : -Leasing mobilier (crédit-bail) -Calcul de l'exigence de fonds propres en méthode standard -Risque de crédit -Reporting "COREP"

	-Déclassement en défaut -Contagion du défaut aux paiements minimaux (au sens de l'article 134-7 du CRR) Example: Monthly lease payment = EUR 100 Total payments for the duration of the lease: EUR 100 x 48 months = EUR 4 800 (minimum payments expected from the start of the lease} Lease payments made over 8 months = EUR 800 Lease payments still due after 8 months: EUR 4 000 Unpaid lease payments for 4 months = EUR 400 => in default Lease payments not due but expected under the lease (minimum remaining payments due) = EUR 3 600 => are they defined in default, by contagion? Or are they to be kept as performing assets as they have not fallen due yet? In COREP reporting, should the total amount of the exposure in default be EUR 400 (as this amount corresponds to more than 3 due and unpaid monthly lease payments) or EUR 4 000 (the total minimum payments due and not yet due). BACKGROUND : - Equipment leasing - Calculation of the requirement for own funds in the standard method - Credit risk - 'COREP' reporting - Defined as 'in default' - Default contagion to minimum payments (within the meaning of Article 134(7) CRR)
Final answer	Conformément à l'article 178, paragraphe 1, point b), du règlement (UE) nº 575/2013 («CRR»), «il est réputé y avoir défaut d'un débiteur particulier», notamment lorsque « l'arriéré du débiteur sur une obligation de crédit significative envers l'établissement, son entreprise mère ou l'une de ses filiales est supérieur à 90 jours.» À moins que l'établissement n'applique la définition du défaut au niveau d'une facilité de crédit, telle que prévue au deuxième alinéa du même article et au paragraphe relatif aux expositions respectives, il s'ensuit qu'en cas de défaut du débiteur au sens de l'article 178, paragraphe 1, point b), du CRR, toutes les expositions à l'égard de ce débiteur sont classées en situation de défaut. Si la définition du défaut est appliquée au niveau d'une facilité de crédit en application de l'article 134, paragraphe 7, du CRR, à savoir «[l]a valeur exposée au risque des crédits-bails correspond aux paiements minimaux

	actualisés qu'ils génèrent», indépendamment du fait que certains paiements ne sont pas encore dus, l'exposition liée à un contrat de crédit-bail en arriéré de paiement important depuis plus de trois mois, ou présentant tous signes d'une probable absence de paiement, est classée comme en défaut. In accordance with Article 178(1)(b) of Regulation (EU) No. 575/2013 ("CRR"), "a default shall be considered to have occurred with regard to a particular obligor when", in particular, "the obligor is more than 90 days past due on any material credit obligation to the institution, the parent undertaking or any of its subsidiaries." Unless the institution applies the definition of default at the level of an individual credit facility, as provided for by the second subparagraph of the same Article and paragraph to the respective exposures, it follows that in case of a default of the obligor in accordance with Article 178(1)(b) CRR all exposures towards that particular obligor shall be classified in default status. In case the definition of default is applied at the level of an individual credit facility as in accordance with Article 134(7) CRR, "the exposure value for leases shall be the discounted minimum lease payments", irrespective of some lease payments being still not due, the exposure related to a given lease contract with any material payments past due for more than three months, or any other indication of unlikeliness to pay, is classified as in default.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5357

Question ID	2019_4666
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	123
Paragraph	
Subparagraph	
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR

Article/Paragraph	No applicable
Type of submitter	Credit institution
Date of submission	11/04/2019
Published as final Q&A	09/10/2020
Subject matter	Absolute materiality threshold for Retail based on the new RTS
Question	How to apply Article 123(c) CRR to set the absolute component of the materiality threshold in the case of transition of exposures to or from Retail.
Background on the question	The question is on the application of Definition of Default and in particular on the threshold used for DoD for retail exposures. Article 1(4) of RTS 2018/171 on the materiality threshold for credit obligations past due under Article 178 of Regulation (EU) No 575/2013 (CRR) references Article 123 CRR for the definition of retail or institutions that apply the Standardised Approach and, hence, the 100 EUR vs 500 EUR minimum amount (i.e. absolute component). Article 123 CRR lists a number of conditions that must be met in order for an exposure to be classified as Retail. Given that according to paragraph (c) the classification depends on the total exposure to a group of connected clients, it is not clear how this should be applied to set the absolute component of the materiality threshold in the case of transition of exposures to or from Retail, as defined in Article 123. There are cases when it is unclear how to apply the materiality threshold for all exposures, at any point in time, in accordance with the classification of an obligor as retail or as corporate, in particular when the exposures are to a group of connected clients. For example: 1: an exposure of 500,000 Euro to a natural person, classified as retail on a standalone basis, but part of a group of connected clients with an overall exposure of over 1 million; 2: a similar case to example 1, but where the retail client's exposure is 20,000 Euro and the client has 200 Euro past due, which is 1% and above 100 EUR; 3: a similar type of client as above with an exposure of 30,000 Euros fully

	secured by a mortgage 4: a group of connected clients with a total exposure of 1.5 million Euros, of which 700,000 fully and completely secured on residential property collateral. One of the clients in this group has an exposure of 20,000 EUR. It is unclear whether this exposure would qualify as retail, as the unsecured part is below 1 million. Also, it is unclear what would happen if the collateral becomes ineligible.
Final answer	For all past-due exposures, at any point in time, the materiality threshold should be applied in accordance with the current classification of an obligor as retail or as non-retail. Where a client is part of a group of connected clients, the total amount owed for the purpose of classification as retail under Article 123(c) of Regulation (EU) No 575/2013 as amended by Regulation (EU) 2019/876 (CRR2) is calculated at the level of the group of connected clients . Conversely, the materiality threshold for the purpose of the default definition under Articles 127 and 178 CRR is assessed separately at the level of each individual obligor or, where applicable, separately at the level of each individual credit facility of such obligors. Moreover, pursuant to paragraph 61 of the EBA Guidelines 2016/07 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, when specifying the criteria for unlikeliness to pay, institutions should take into consideration the relations within the groups of connected clients as defined in Article 4(1)(39) CRR2. In particular, institutions should specify in their internal policies when the default of one obligor within the group of connected clients has a contagious effect on other entities within this group. Such specifications should be in line with the appropriate policies for the assignment of exposures to individual obligor to an obligor grade and to groups of connected clients in accordance with Article 172(1)(d) CRR2 and with EBA Guidelines 2017/15 on connected clients. Where such criteria have not been specified for a non-standard situation, in the case of default of an obligor that is part of a group of connected clients, institutions should assess the potential unlikeliness to pay of all other entities within this group on a case-by-case basis. In addition, as clarified in paragraph 86 and following of the EBA Guidelines 2016/07 on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013, institutions that use the Standardised Approach may apply the definition of default at the level of an individual

	credit facility. Institutions that use the Standardised Approach may apply this treatment for all exposures that meet the criteria specified in Article 123 CCR2, even where some of those exposures have been assigned to a different exposure class for the purpose of assigning a risk weight, such as exposures secured by mortgages on immovable property. The level of application of the definition of default should then be consistently used for all retail exposures, unless other approach is well justified by internal risk management practices (as clarified in paragraph 88 of the EBA Guidelines 2016/07). On how to calculate the total amount owed to the institution by an obligor and parent undertakings and its subsidiaries under Article 123(c) CRR2 in order to determine whether an exposure can be classified as Retail under the Standardised Approach, see also Q&A 4012.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
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Question ID	2018_4431
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Credit risk
Article	178
Paragraph	1
Subparagraph	b
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	EBA/GL/2016/07 - Guidelines on the application of the definition of default under Article 178 CRR
Article/Paragraph	95, 96, 97, 98, 99, 103, 104, 105
Type of submitter	Credit institution
Date of submission	21/12/2018
Published as final Q&A	07/08/2020
Subject matter	Treatment of joint credit obligations
Question	Do the requirements established in the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 regarding joint credit obligations, and in particular the requirements 95, 96, 97, 98, 99, 103, 104 and 105, relate or affect exclusively to retail exposures? In that case, could the treatment of joint credit obligations in which the

	obligors are classified as Non – Retail differ from the treatment of joint credit obligations in which the obligors are classified as Retail? In addition, and, as per this purpose, what should be the treatment of joint credit obligations shared by retail and non-retail obligors?
Background on the question	Chapter 9 of the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 sets the specific requirements regarding the treatment of joint credit obligations where an institution decides to apply the definition of default at the obligor level for retail exposures. Nevertheless, these Guidelines don't include any specific requirements regarding the treatment of joint credit obligations for non-retail exposures. In this context, the treatment of joint credit obligations for non-retail exposures, or even when the joint credit obligation is shared among retail obligor(s) and non-retail obligor(s), does not seem to be specifically defined.
Final answer	Paragraphs 95 and following of the EBA guidelines on the definition of default only prescribe the treatment institutions should apply to a joint credit obligation classified as retail exposure. Therefore it should be up to institutions to specify the treatment of joint credit obligations other than retail and for default contagion between exposures in their internal policies and procedures, as part of the 'other indications of unlikeliness to pay', as mentioned in section 5 of the EBA guidelines on the definition of default. In particular, where one or all entities involved in the joint obligation is/are not classified as retail exposures, the treatment provided for in chapter 9 of the aforementioned GLs should be applied for the retail entities and may also be applied for the non-retail entities.
Answer prepared by	Answer prepared by the EBA.
Note to Q&A	
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2018_4431