



Mailing list Supervision/ Accounting/ Money Laundering

Brussels, 8 December 2014
BL

EBA consultation on draft regulatory technical standards on materiality threshold of credit obligation past due under Article 178 of Regulation (EU) 575/2013

Dear Madam or Sir,

The European Banking Authority (EBA) has published on 31 October 2014 a consultation on draft regulatory technical standards on materiality threshold of credit obligation past due under Article 178 of Regulation (EU) 575/2013.

According to article 178 (1) of the regulation on prudential requirements for credit institutions and investment firms (CRR) a default of an obligor shall be considered to have occurred in the context of the risk quantification inter alia if an obligor is past due more than 90 days on any *material* credit obligation to the institution (article 178 (1) (b) CRR). This period can be replaced by 180 days for exposures secured by residential property by the competent authority (except for the risk weight assigned to exposures in default in the context of the Standardised Approach pursuant to article 127 CRR).

The definition of the default of an obligor is relevant for the risk quantification in the Standardised Approach according to article 127 CRR as well as the IRB approach according to Chapter 3 (article 142 ff. CRR).

The national competent authority shall determine if a credit obligation past due is material in the sense of article 178 CRR by comparing with a predetermined and for all credit institutions applicable threshold (article 178 (2) (d) CRR). The threshold is the risk height that the national competent authority considers as reasonable in respect of national characteristics. In accordance with article 178 (6) CRR, EBA has provided in article 3 of the draft regulatory technical standard that inter alia the average exposures and expected losses for different kinds of obligors and products, as well as differing maturities and repayment schemes for diverse products shall be taken into account.

Pursuant to the draft, an excess of the absolute or relative component of the threshold or of a combination of both shall be considered a default of material credit obligations according to article 178 CRR.

The absolute component shall limit the sum of all credit obligations which are past due more than 90 days: for retail liabilities the absolute component shall be at 200 Euros and for non-retail liabilities at maximum 500 Euros. The relative component shall be the percentage of the credit obligation past due in relation to the total amount of all credit obligations of the borrower. The relative component shall be at a maximum proportion of 2 %.

In the case of retail exposures, the competent authority shall be able to foresee a separate threshold if a definition of default is applied at the level of an individual credit facility pursuant to article 178 (1) (2) CRR.

EBA expects an important impact of the partly harmonised thresholds of the RTS on the calculation of own funds requirements and the expected losses of credit institutions, and that possible changes of the IRB approach for different institutions may become necessary. For this reason EBA urges the member states to allow the credit institutions in respect of the principle of proportionality enough time for the implementation of the provisions (cf. article 4 of the draft). However, a timeframe of two years shall not be exceeded.

The regulatory technical standard shall be directly applicable and binding in the member states after entering into force by its publication in the EU official journal.

Please find enclosed for your consideration the EBA draft technical regulatory standard. We would appreciate if you would forward your answers, comments and remarks on the consultation document to the European Office by **4 January 2015**.

If you have further questions, please contact us at any time.

Yours sincerely



Andreas J. Zehnder
Managing Director

European Federation of Building Societies

Annex:

- Draft Regulatory Technical Standards on materiality threshold of credit obligation past due under Article 178 of Regulation (EU) 575/2013