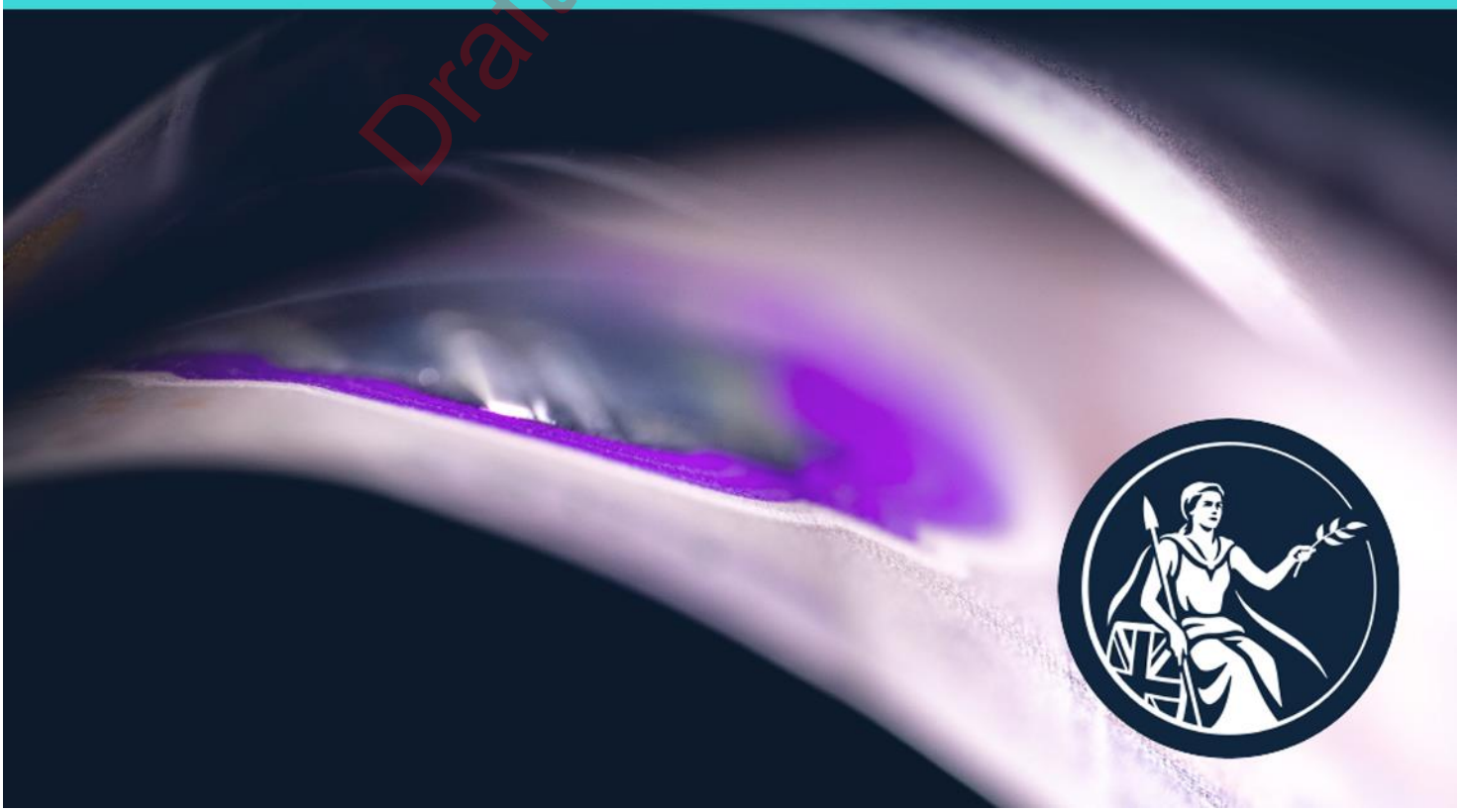
Bank of England

Prudential Regulation Authority

Appendix 14: Draft Supervisory Statement – Credit Risk Definition of Default

Supervisory Statement

November 2022



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Supervisory Statement

November 2022

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1. Introduction

[NOTE: This draft Supervisory Statement (SS) contains material from the European Banking Authority (EBA) Guidelines on the application on the definition of default under Article 178 of Regulation (EU) No 575/2013 (EBA/GL/2016/07), which was adopted by the Prudential Regulation Authority (PRA), as well as material from PRA SS11/13 – 'Internal Rating Based (IRB) approaches' and SS10/13 – 'Standardised approach'. In order to assist readers, the PRA has included a number of notes indicating where material in this draft SS were previously covered and what material from these three documents have not been included in this draft SS. These notes do not form part of the PRA's proposals and the PRA does not propose to include these notes in the final SS.]

1.1 This SS is addressed to firms that are subject to the provisions of the Capital Requirements Regulation (CRR)[1] and is relevant to firms applying the standardised approach (SA) and the internal ratings based (IRB) approach for credit risk. This SS is not addressed to firms in the Transitional Capital Regime, except to the extent those firms are applying for an IRB permission.

1.2 The definition of 'defaulted exposure' that is set out in Rule 1.2 of the Credit Risk: Standardised Approach (CRR) Part of the Prudential Regulation Authority (PRA) Rulebook refers to Article 178 of the Credit Risk: Internal Ratings Based Approach (CRR) Part of the PRA Rulebook. References to that article in this SS are therefore relevant to firms applying the SA unless otherwise stated.

Definitions

1.3 Unless otherwise specified, terms used in this SS have the same meaning as in the CRR and the relevant Part of the PRA Rulebook.

1 The onshored and amended UK version of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, referred to as the 'CRR' in this SS.

2. Past due criterion in the identification of default

Counting of days past due

2.1 For the purpose of Article 178(1)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, where any amount of principal, interest, or fee has not been paid at the date it was due, firms should recognise this as the credit obligation being past due. Where there are modifications of the schedule of credit obligations, as referred to in Article 178(2)(e) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, the firm's policies should clarify that the counting of days past due should be based on the modified schedule of payments.

2.2 Where a credit arrangement explicitly allows the obligor to change the schedule, suspend, or postpone the payments under certain conditions, and the obligor acts within the rights granted in the contract, the changed, suspended, or postponed instalments should not be considered past due, but the counting of days past due should be based on the new schedule once it is specified. Nevertheless, if the obligor changes the schedule, suspends, or postpones the payments, the firm should analyse the reasons for such a change and assess possible indications of unlikeliness to pay, in accordance with Articles 178(1) and 178(3) of the Credit Risk: Internal Ratings Based Approach (CRR) Part and Chapter 3 – Indications of unlikeliness to pay of this SS.

2.3 Where the repayment of the obligation is suspended because of a law allowing this option or other legal restrictions, the counting of days past due should also be suspended during that period. Nevertheless, in such situations, firms should analyse, where possible, the reasons for exercising the option for such a suspension and should assess the possible indications of unlikeliness to pay, in accordance with Articles 178(1) and 178(3) of the Credit Risk: Internal Ratings Based Approach (CRR) Part of the PRA Rulebook and Chapter 3 of this SS.

[Note: Material in these paragraphs was previously covered in paragraphs 16 to 19 of the EBA/GL/2016/07.]

2.4 Where the obligor changes due to an event such as a merger or acquisition of the obligor or any other similar transaction, the counting of days past due should start from the moment a different person or entity becomes obliged to pay the obligation. The counting of days past due should; however, be unaffected by a change in the obligor's name.

2.5 The calculation of the sum of all amounts past due that are related to any credit obligation of the obligor to the firm, parent undertaking, or any of its subsidiaries, and which firms are

required to calculate for the purpose of comparison with the materiality threshold set out in Articles 178(2)(d) and 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, should be performed with a frequency allowing timely identification of default. Firms should ensure that information about days past due and default is up-to-date whenever it is being used for decision-making, internal risk management, internal or external reporting, and capital requirements calculation processes. Where firms calculate days past due less often than daily, they should ensure that the date of a default arising as a result of the past due criterion is identified as the date when the past due criterion has actually been fulfilled.

2.6 The classification of the obligor to a defaulted status should not be subject to additional expert judgement. Once the obligor meets the past due criterion, all exposures to that obligor should be considered defaulted, unless either of the following conditions are met:

a) the exposures are eligible to be treated as retail exposures and the firm applies the default definition at individual credit facility level; or
b) a so-called 'technical past due situation' is considered to have occurred, in accordance with paragraph 2.7.

[Note: Material in these paragraphs was previously covered in paragraphs 20 to 22 of EBA/GL/2016/07.]

Technical past due situation

2.7 A technical past due situation should only be considered to have occurred in the following cases:

a) where a firm identifies that the defaulted status was a result of data or system error of the firm, including manual errors of standardised processes, but excluding wrong credit decisions;
b) where a firm identifies that the defaulted status was a result of the non-execution, defective or late execution of the payment transaction ordered by the obligor, or where there is evidence that the payment was unsuccessful due to the failure of the payment system;
c) where due to the nature of the transaction there is a time lag between the receipt of the payment by a firm and the allocation of that payment to the relevant account, so that the payment was made before 90 days past due and the crediting in the client's account took place after 90 days past due; or
d) in the specific case of factoring arrangements, where the purchased receivables are recorded on the balance sheet of the firm and the materiality threshold set out in Articles 178(2)(d) and 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part is breached, but none of the receivables to the obligor is past due more than 30 days.

2.8 Technical past due situations should not be considered as defaults in accordance with Article 178 of the Credit Risk: Internal Ratings Based Approach (CRR) Part. All detected errors that lead to technical past due situations should be rectified by firms in the shortest timeframe possible. In the case of firms that use the IRB approach, technical past due situations should be removed from the reference data set of defaulted exposures for the purpose of estimation of risk parameters.

[Note: Material in these paragraphs was previously covered in paragraphs 23 and 24 of EBA/GL/2016/07.]

Specific provisions applicable to factoring and purchased receivables

2.9 Where there are factoring arrangements whereby the ceded receivables are not recognised on the balance sheet of the factor, and the factor is liable directly to the client up to a certain agreed percentage, the counting of days past due should commence from when the factoring account is in debit, ie from when the advances paid for the receivables exceed the percentage agreed between the factor and the client. For the purpose of determining items of the client of a factor that are past due, firms should do both of the following:

a) compare the sum of the amount of the factoring account that is in debit and all other past due obligations of the client recorded in the balance sheet of the factor against the absolute component of the materiality threshold set out in Article 178(2)(d)(i) or 178(2)(da)(i) as relevant of the Credit Risk: Internal Ratings Based Approach (CRR) Part; and
b) compare the relationship between the sum described in point (a) and the total amount of the current value of the factoring account, ie the value of advances paid for the receivables and all other on balance sheet exposures related to the credit obligations of the client, against the relative component of the materiality threshold set out in Article 178(2)(d)(ii) or 178(2)(da)(ii) as relevant of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

2.10 Where there are factoring arrangements where the purchased receivables are recognised on the balance sheet of the factor, and the factor has exposures to the debtors of the client, the counting of days past due should commence when the payment for a single receivable becomes due. In this situation, for firms that use the IRB approach, by virtue of the fact that the ceded receivables are purchased receivables, where they meet the requirements of Article 154(5) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, or in the case of purchased corporate receivables the requirements of Article 153(6) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, the definition of default may be applied

as for retail exposures in accordance with Chapter 7 – Application of the definition of default for retail exposures of this SS.

2.11 Where the firm recognises events related to dilution risk of purchased receivables as defined in CRR Article 4(1)(53), these events should not be considered as leading to the default of the obligor. Where the amount of a receivable has been reduced as a result of events related to dilution risk such as discounts, deductions, netting, or credit notes issued by the seller, the reduced amount of the receivable should be included in the calculation of days past due.

2.12 Events recognised as related to dilution risk and hence excluded from the identification of default should be included in the calculation of capital requirements for dilution risk. Where firms recognise a significant number of events related to dilution risk, they should analyse and document the reasons for such events and assess possible indications of unlikeliness to pay, in accordance with Articles 178(1) and 178(3) of the Credit Risk: Internal Ratings Based Approach (CRR) Part and Chapter 3 of this SS.

2.13 Where the obligor has not been adequately informed about the cession of the receivable by the factor's client and the firm has evidence that the payment for the receivable has been made to the client, the firm should not consider the receivable to be past due. Where the obligor has been adequately informed about the cession of the receivable but has nevertheless made the payment to the client, the firm should continue counting the days past due according to the conditions of the receivable.

2.14 In the specific case of undisclosed factoring arrangements, where the obligors are not informed about the cession of the receivables, but the purchased receivables are recognised on the balance sheet of the factor, the counting of days past due should commence from the moment agreed with the client when the payments made by the obligors should be transferred from the client to the factor.

[Note: Material in these paragraphs was previously covered in paragraphs 27 to 32 of EBA/GL/2016/07.]

Setting the materiality threshold

2.15 Firms should identify defaults on the basis of a lower materiality threshold than those set out in Articles 178(2)(d) and 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part where this is a relevant indication of unlikeliness to pay and does not lead to an excessive number of defaults that return to non-defaulted status shortly after being recognised as defaulted, or to decreased capital requirements. In this case, firms should record in their databases the information on the trigger of default as an additional specified indication of unlikeliness to pay.

[Note: Material in this paragraph was previously covered in paragraph 34 of EBA/GL/2016/07 and paragraph 11.4A of SS11/13.]

Application of materiality thresholds to groups with cross-border entities

2.16 The materiality threshold set out in Articles 178(2)(d) and 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part applies to firms on an individual basis and, where applicable, on a consolidated basis. Overseas subsidiaries of UK firms may be subject to different applicable local materiality thresholds when calculating capital requirements at individual level. The PRA notes that firms may apply for a modification[2] to Articles 178(2)(d) and 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part in order to also apply these local thresholds in respect of overseas subsidiaries for the purpose of calculation of capital requirements at UK consolidation group level where, taking into account the local market characteristics, economic conditions, and financial risk, it would be more appropriate to apply the local thresholds than the PRA's thresholds.[3] In respect of certain jurisdictions, the PRA may make available a 'modification by consent' and, if so, would provide details of the modification on the PRA's website.

2.17 The PRA expects firms to apply for modifications as referred to in paragraph 2.16 for all jurisdictions in which the local thresholds are more appropriate, and not only those jurisdictions for which they expect the use of local thresholds to reduce capital requirements. Firms should provide supporting information about the appropriateness of local thresholds as part of their modification applications.

[Note: Material in these paragraphs was previously covered in paragraph 11.6A of SS11/13.]

3. Indications of unlikeliness to pay

Non-accrued status

3.1 For the purposes of unlikeliness to pay as referred to in Article 178(3)(a) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, firms should consider that an obligor is unlikely to pay where interest related to credit obligations is no longer recognised in the income statement of the firm due to the decrease of the credit quality of the obligation.

2 Under section 138A of the Financial Services and Markets Act 2000.

3 This also applies to a scenario where UK firms operate in other jurisdictions, such that it is a UK firm with exposures in a different jurisdiction.

[Note: Material in this paragraph was previously covered in paragraph 35 of EBA/GL/2016/07.]

Specific credit risk adjustments

3.2 For the purposes of unlikeliness to pay as referred to in Article 178(3)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, the following specific credit risk adjustments should be considered to be a result of a significant perceived decline in the credit quality of a credit obligation and hence should be treated as an indication of unlikeliness to pay:

a) losses recognised in the profit or loss account for instruments measured at fair value that represent credit risk impairment under the applicable accounting framework; and
b) losses as a result of current or past events affecting a significant individual exposure or exposures that are not individually significant that are individually or collectively assessed.

3.3 The specific credit risk adjustments that cover the losses for which historical experience, adjusted on the basis of current observable data, indicate that the loss has occurred but the firm is not yet aware which individual exposure has suffered these losses ('incurred but not reported losses'), should not be considered an indication of unlikeliness to pay of a specific obligor.

3.4 Where the firm treats an exposure as impaired, such a situation should be considered an additional indication of unlikeliness to pay and hence the obligor should be considered defaulted regardless of whether there are any specific credit risk adjustments assigned to this exposure. Where, in accordance with the applicable accounting framework in the case of incurred but not reported losses, exposures are recognised as impaired, these situations should not be treated as an indication of unlikeliness to pay.

3.5 Where the firm treats an exposure as credit-impaired under International Financial Reporting Standard 9 (IFRS 9), ie assigns it to Stage 3 as defined in IFRS 9 Financial Instruments, such exposure should be considered defaulted, except where the exposure has been considered credit-impaired due to the delay in payment and any of the following conditions are met:

a) the materiality thresholds referred to in Article 178(2)(d) or 178(2)(da) of the Credit Risk: Internal Ratings Based Approach (CRR) Part have not been breached;
b) the exposure has been recognised as a technical past due situation in accordance with paragraph 2.7; or

c) the exposure meets the conditions set out in Article 178(1B) of the Credit Risk: Internal Ratings Based Approach (CRR) Part and the firm applies the treatment set out in Article 178(1C) of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

3.6 Where the firm uses IFRS 9 and another accounting framework, it should choose whether to classify exposures as defaulted in accordance with paragraphs 3.2 to 3.4, or in accordance with paragraph 3.5. Once this choice is made, it should be applied consistently over time.

[Note: Material in these paragraphs was previously covered in paragraphs 36 to 40 of EBA/GL/2016/07.]

Sale of the credit obligation

3.7 For the purposes of the indicator of unlikeliness to pay referred to in Article 178(3)(c) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, firms should take into account both the character and materiality of the loss related to the sale of credit obligations, in accordance with the following paragraphs. Transactions of traditional securitisation with significant risk transfer and any intragroup sales of credit obligations should be considered sale of credit obligations.

3.8 Firms should analyse the reasons for the sale of credit obligations and the reasons for any losses recognised thereby. Where the reasons for the sale of credit obligations were not related to credit risk, such as where there is the need to increase the liquidity of the firm or there is a change in business strategy, and the firm does not perceive the credit quality of those obligations as declined, the economic loss related with the sale of those obligations should be considered not credit-related. In that case, the sale should not be considered an indication of default even where the loss is material, on condition of the appropriate documented justification of the treatment of the sale loss as not credit-related. Firms may, in particular, consider the loss on the sale of credit obligations as non-credit related where the assets subject to the sale are publicly traded assets and measured at fair value.

3.9 Where, however, the loss on the sale of credit obligations is related to the credit quality of the obligations themselves, in particular where the firm sells the credit obligations due to the decrease in their quality, the firm should analyse the materiality of the economic loss and, where the economic loss is material, this should be considered an indication of default.

3.10 Firms should set a threshold for the credit-related economic loss related with the sale of credit obligations to be considered material, which should be calculated according to the following formula, and should not be higher than 5%:

$$L = \frac{E - P}{E}$$

where:

L is the economic loss related with the sale of credit obligations;

E is the total outstanding amount of the obligations subject to the sale, including interest and fees; and

P is the price agreed for the sold obligations.

3.11 In order to assess the materiality of the overall economic loss related with the sale of credit obligations, firms should calculate the economic loss and compare it to the threshold referred to in paragraph 3.10. Where the economic loss is higher than this threshold, they should consider the credit obligations defaulted.

3.12 For the purpose of paragraph 3.7, the sale of credit obligations may be performed either before or after the default. In the case of firms that use the IRB approach, regardless of the moment of the sale, if the sale was related to a material credit-related economic loss, the information about the loss should be adequately recorded and stored for the purpose of the estimation of risk parameters.

3.13 If the sale of a credit obligation at a material credit-related economic loss occurred before the identification of default on that exposure, the moment of sale should be considered the moment of default. In the case of a partial sale of the total obligations of an obligor where the sale is associated with a material credit-related economic loss, all the remaining exposures to this obligor should be treated as defaulted, unless the exposures are eligible to be treated as retail exposures and the firm applies the default definition at facility level.

3.14 In the case of a sale of a portfolio of exposures, the treatment of individual credit obligations within this portfolio should be determined in accordance with the manner that the price for the portfolio was set. Where the price for the total portfolio was determined by specifying a discount on particular credit obligations, the materiality of credit-related economic loss should be assessed individually for each exposure within the portfolio. Where, however, the price was set only at the portfolio level, the materiality of credit-related economic loss may be assessed at the portfolio level, and in that case, if the threshold specified in paragraph 3.10 is breached, all credit obligations within this portfolio should be treated as defaulted at the moment of the sale.

[Note: Material in these paragraphs was previously covered in paragraphs 41 to 48 of EBA/GL/2016/07.]

Distressed restructuring

3.15 As set out in Article 178(3)(d) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, an obligor should be considered defaulted due to a distressed restructuring where the distressed restructuring is likely to result in a diminished financial obligation. Accordingly, the PRA expects that when firms consider forborne exposures, an obligor should be classified as defaulted only where the relevant forbearance measures are likely to result in a diminished financial obligation.

3.16 Firms should set a threshold for the diminished financial obligation above which a distressed restructuring is considered to be caused by material forgiveness or postponement of principal, interest, or fees. The threshold should be calculated according to the following formula, and should not be higher than 1%:

$$DO = \frac{NPV_0 - NPV_1}{NPV_0}$$

where:

DO is diminished financial obligation;

NPV_0 is the net present value of cash flows (including unpaid interest and fees) expected under contractual obligations before the changes in terms and conditions of the contract discounted using the customer's original effective interest rate; and

NPV_1 is the net present value of the cash flows expected, based on the new arrangement discounted using the customer's original effective interest rate.

3.17 For the purpose of assessing the distressed restructuring component of the unlikeliness to pay criteria as referred to in Article 178(3)(d) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, for each distressed restructuring, firms should calculate the diminished financial obligation and compare it with the threshold referred to in paragraph 3.16. Where the diminished financial obligation is higher than this threshold, the exposures should be considered defaulted.

3.18 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 distressed restructuring arrangement is higher than the net present value of expected cash flows before the changes in terms and conditions, firms should assess such exposures for other possible indications of unlikeliness to pay. Where the firm has reasonable doubts with regard to the likeliness of repayment in full of the 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 lump sum payment envisaged at the end of the repayment schedule;
b) an irregular repayment schedule where significantly lower payments are envisaged at the beginning of repayment schedule;
c) a significant grace period at the beginning of the repayment schedule; and
d) the exposures to the obligor have been subject to distressed restructuring more than once.

3.19 Where any of the modifications of the schedule of credit obligations referred to in Article 178(2)(e) of the Credit Risk: Internal Ratings Based Approach (CRR) Part are the result of financial difficulties of an obligor, firms should also assess whether a distressed restructuring has taken place and whether an indication of unlikeliness to pay has occurred.

[Note: Material in these paragraphs was previously covered in paragraphs 50 to 55 of EBA/GL/2016/07.]

3.20 The PRA expects, at a minimum, that firms should classify conversion of existing exposures to retirement interest-only (RIO) mortgages as being distressed restructuring in cases where either:

a) the exposure is in default as a result of being a past-term interest only (PTIO) mortgage; or
b) the firm has assessed that the obligor is unlikely to be able to make outstanding principal payments in respect of the exposure.

[Note: Material in this paragraph was previously covered in paragraph 5.7 of SS10/13 and paragraph 20.2 of SS11/13.]

Bankruptcy

3.21 For the purposes of assessing unlikeliness to pay as referred to in Articles 178(3)(e) and 178(3)(f) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, firms should clearly specify in their internal policies what type of arrangement is treated as an order or as a protection similar to bankruptcy, taking into account all relevant legal frameworks as well as the following typical characteristics of such protection:

a) the protection scheme encompasses all creditors or all creditors with unsecured claims;
b) the terms and conditions of the protection scheme are approved by a court or other relevant public authority;
c) the terms and conditions of the protection scheme include a temporary suspension of payments or partial redemption of debt;
d) the measures involve some sort of control over the management of the company and its assets; and

e) if the protection scheme fails, the company is likely to be liquidated.

3.22 Firms should treat all arrangements listed in Article 1(1B) of Regulation (EU) 2015/848 on insolvency proceedings (as amended by the Insolvency (Amendment) (EU Exit) Regulations 2019) as an order or as a protection similar to bankruptcy.

[Note: Material in these paragraphs was previously covered in paragraphs 56 and 57 of EBA/GL/2016/07.]

Other indications of unlikeliness to pay

3.23 Firms should specify in their internal policies and procedures other additional indications of unlikeliness to pay of an obligor, besides those specified in Article 178(3) of the Credit Risk: Internal Ratings Based Approach (CRR) Part. Those additional indications should be specified per type of exposures, as defined in Rule 1.3 of the Credit Risk: Internal Ratings Based Approach (CRR) Part, reflecting their specificities, and they should be specified for all business lines, legal entities, or geographical locations. The occurrence of an additional indication of unlikeliness to pay should either result in an automatic reclassification to defaulted exposures or trigger a case-by-case assessment and may include indications based on internal or external information.

3.24 Possible indications of unlikeliness to pay that could be considered by firms on the basis of internal information include the following:

a) a borrower's sources of recurring income are no longer available to meet the payments of instalments;
b) there are justified concerns about a borrower's future ability to generate stable and sufficient cash flows;
c) the borrower's overall leverage level has significantly increased or there are justified expectations of such changes to leverage;
d) the borrower has breached the covenants of a credit contract;
e) the firm has called any collateral including a guarantee;
f) for exposures to an individual, the default of a company fully owned by a single individual where this individual provided the firm with a personal guarantee for all obligations of the company;
g) for retail exposures where the definition of default is applied at facility level, the fact that a significant part of the total obligation of the obligor is in default; and
h) the classification of an exposure as non-performing in accordance with CRR Article 47a.

3.25 Firms should also take into account the information available in external databases, including credit registers, macroeconomic indicators, and public information sources, such as

press articles and financial analyst's reports. The indications of unlikeliness to pay that could be considered by firms on the basis of external information include the following:

a) significant delays in payments to other creditors have been recorded in the relevant credit register;
b) a crisis of the sector in which the counterparty operates combined with a weak position of the counterparty in this sector;
c) disappearance of an active market for a financial asset because of the financial difficulties of the debtor; and
d) a firm has information that a third party, in particular another firm, has filed for bankruptcy or similar protection of the obligor.

3.26 When specifying the criteria for unlikeliness to pay, firms should take into consideration the relations within groups of connected clients as defined in CRR Article 4(1)(39). In particular, firms 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. Firms using the IRB approach should ensure that such specifications are in line with the appropriate policies regarding the treatment of individual obligor clients and groups of connected clients in accordance with Article 172(1)(d) of the Credit Risk: Internal Ratings Based Approach (CRR) Part. 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, firms should assess the potential unlikeliness to pay of all other entities within this group on a case-by-case basis.

3.27 Where a financial asset was purchased or originated by a firm at a material discount, the firm should assess whether that discount reflects the deteriorated credit quality of the obligor and whether there are any indications of default in accordance with this SS. The assessment of unlikeliness to pay should refer to the total amount owed by the obligor regardless of the price that the firm has paid for the asset. This assessment may be based on the due diligence performed before the purchase of the asset or on the analysis performed for accounting purposes in order to determine whether the asset is credit-impaired.

3.28 Firms should have adequate policies and procedures to identify credit frauds. Typically, when credit fraud is identified, the exposure is already defaulted on the basis of material delays in payment. However, if the credit fraud is identified before default has been recognised, this should be treated as an additional indication of unlikeliness to pay.

[Note: Material in these paragraphs was previously covered in paragraph 58 to 63 of EBA/GL/2016/07.]

Governance processes regarding unlikeliness to pay

3.29 Firms should establish policies regarding the definition of default in order to ensure its consistent and effective application. In particular, they should have clear policies and procedures on the application of the criteria for unlikeliness to pay as laid down in Article 178(3) of the Credit Risk: Internal Ratings Based Approach (CRR) Part and all other indications of unlikeliness to pay as specified by the firm, covering all types of exposures as defined in Rule 1.3 of the Credit Risk: Internal Ratings Based Approach (CRR) Part, for all business lines, legal entities, and geographical locations.

3.30 With regard to each indication of unlikeliness to pay, firms should define the adequate methods of their identification, including the sources of information and frequency of monitoring. The sources of information should include both internal and external sources, including, in particular, relevant external databases and registers.

[Note: Material in these paragraphs was previously covered in paragraph 64 and 65 of EBA/GL/2016/07.]

4. Application of the definition of default in external data

4.1 Firms that use the IRB approach and use external data for the purpose of estimation of risk parameters in accordance with Article 178(4) of the Credit Risk: Internal Ratings Based Approach (CRR) Part should do all of the following:

a) verify whether the definition of default used in the external data is in line with Article 178 of the Credit Risk: Internal Ratings Based Approach (CRR) Part;
b) verify whether the definition of default used in external data is consistent with the definition of default as implemented by the firm for the relevant portfolio of exposures, including in particular:
    (I.) the counting and number of days past due that triggers default;
    (II.) the structure and level of any materiality thresholds for past due credit obligations;
    (III.) the definition of distressed restructuring that triggers default, the type and level of specific credit risk adjustments that triggers default; and
    (IV.) the criteria to return to non-defaulted status.
c) document sources of external data, the default definition used in external data, the performed analysis, and all identified differences.

4.2 For each difference identified in the definition of default resulting from the assessment of paragraph 4.1, firms should do both of the following:

a) assess whether the adjustment to the internal definition of default would lead to an increased or a decreased default rate or whether it is impossible to determine; and
b) either perform appropriate adjustments in the external data or be able to demonstrate that the difference is negligible in terms of the impact on all risk parameters and capital requirements.

4.3 The PRA expects that, given the differences identified in the definition of default resulting from the assessment referred to in paragraph 4.1 and taking into account the adjustments performed in accordance with paragraph 4.2(b), firms should be able to demonstrate to the PRA that broad equivalence with the internal definition of default has been achieved, including, where possible, by comparing the default rate in internal data on a relevant type of exposures with external data.

4.4 Where the assessment referred to in paragraph 4.1 identifies differences in the definition of default that the process referred to in paragraph 4.2 reveals to be non-negligible but not possible to overcome by adjustments in the external data, firms should adopt an appropriate margin of conservatism in the estimation of risk parameters as referred to in Article 179(1)(f) of the Credit Risk: Internal Ratings Based Approach (CRR) Part. In that case, firms should ensure that this additional margin of conservatism reflects the materiality of the remaining differences in the definition of default and their possible impact on all risk parameters.

[Note: Material in these paragraphs was previously covered in paragraph 66 to 70 of EBA/GL/2016/07.]

5. Return to non-defaulted status

Return to non-defaulted status for interest-only (IO) mortgages

5.1 The PRA expects that defaulted IO mortgages should only return to non-defaulted status following conversion to an RIO mortgage where the borrower has made a material payment of principal of the IO mortgage, such as is necessary to meet the lender's RIO underwriting criteria. In particular, the material payment should be sufficient to reduce the loan to value ratio (LTV) to the maximum at which the lender will offer an RIO product. The payment amount could be zero if the LTV of the RIO mortgage is less than or equal to the level at which the lender will underwrite the product.

[Note: Material in this paragraph was previously covered in paragraph 5.8 of SS11/13 and paragraph 20.3 of SS11/13.]

Monitoring of the return to non-defaulted status policy

5.2 The PRA expects that, for the purpose of applying Articles 178(5), 178(5A), 178(5B), and 178(5C) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, a firm should define clear criteria and policies regarding when the obligor can be classified back to non-defaulted status, including in particular criteria relating to both of the following:

a) when it can be considered that the improvement of the financial situation of an obligor is sufficient to allow the full and timely repayment of the credit obligation; and
b) when the repayment is actually likely to be made even where there is an improvement in the financial situation of an obligor in accordance with point (a).

5.3 Firms should monitor on a regular basis the effectiveness of their policies referred to in paragraph 5.2, and in particular monitor and analyse:

a) changes in the status of the obligors or facilities;
b) the impact of the adopted policies on cure rates; and
c) the impact of adopted policies on multiple defaults.

5.4 It is expected that the firm would have a limited number of obligors who default soon after returning to a non-defaulted status. In the case of an extensive number of multiple defaults, the firm should revise its policies with regard to the reclassification of exposures.

5.5 The analysis of changes in the status of obligors or facilities should in particular be taken into account for the purpose of specifying the periods referred to in Articles 178(5) and 178(5A) of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

[Note: Material in these paragraphs was previously covered in paragraph 75 to 78 of EBA/GL/2016/07.]

6. Consistency in the application of the definition of default

Overview

6.1 The PRA expects that a firm should adopt adequate mechanisms and procedures in order to ensure that the definition of default is implemented and used in a correct manner, and should, in particular, ensure:

a) that default of a single obligor is identified consistently across the firm with regard to all exposures to this obligor in all relevant IT systems, including in all the legal entities

within the group and in all geographical locations in accordance with paragraphs 6.2 to 6.4 or, for retail exposures where the definition of default is applied at facility level, in accordance with paragraphs 7.6 to 7.8;

b) that one of the following applies:

(I.) the same definition of default is used consistently by the firm, its parent undertaking, or any of its subsidiaries and across types of exposures; or

(II.) where different definitions of default apply either within a group or across types of exposures, the scope of application of each definition of default is clearly specified in accordance with paragraphs 6.5 to 6.7.

[Note: Material in this paragraph was previously covered in paragraph 79 of EBA/GL/2016/07.]

Consistent identification of default of a single obligor

6.2 The PRA expects that, for the purpose of paragraph 6.1(a), a firm should implement adequate procedures and mechanisms to ensure that the default of a single obligor is identified consistently across the firm with regard to all exposures to this obligor in all relevant IT systems, including in all the legal entities within the group and in all geographical locations where it is active in ways other than via a legal entity.

6.3 Where the exchange of client data among different legal entities within a firm, its parent undertaking or any of its subsidiaries is prohibited by consumer protection regulations, bank secrecy, or other legislation resulting in inconsistencies in the identification of default of an obligor, the firm should inform the PRA of these legal impediments and, if they use the IRB approach, they should also estimate the materiality of the inconsistencies in the identification of default of an obligor and their possible impact on the estimates of risk parameters.

6.4 The PRA considers that, where it would be unduly burdensome for a firm to identify the default of an obligor fully consistently across the legal entities and geographical locations referred to in paragraph 6.2 because it would require either:

a) development of a centralised database of all clients; or
b) implementation of other mechanisms or procedures to verify the status of each client at all entities within the group.

6.4a The firm need not apply such mechanisms or procedures if it can demonstrate that the effect of not meeting the expectation referred to in paragraph 6.2 is immaterial because there are either no, or a very limited number of, common clients among the relevant entities within a group and the exposure to these clients is immaterial.

[Note: Material in these paragraphs was previously covered in paragraph 80 to 82 of EBA/GL/2016/07.]

Consistent use of the definition of default across types of exposures

6.5 The PRA expects that, for the purposes of paragraph 6.1(b), a firm should use the same definition of default for a single type of exposures as defined in Rule 1.3 of the Credit Risk: Internal Ratings Based Approach (CRR) Part. The firm may use different definitions of default for different types of exposures, including for different legal entities or in respect of the firm's presence in geographical locations in ways other than via a legal entity, where this is justified by the application of significantly different internal risk management practices or by different legal requirements applying in different jurisdictions.

6.6 The PRA expects that, for the purposes of paragraph 6.1(b)(ii), and where different definitions of default are applied across types of exposures in accordance with paragraph 6.5, firms' internal procedures relating to the definition of default should ensure both of the following:

a) that the scope of application of each definition is clearly specified; and
b) that the definition of default specified for a certain type of exposure, legal entity, or geographical location is applied consistently to all exposures within the scope of application of each relevant definition of default.

6.7 The PRA expects that, if a firm is using the IRB approach and applies different definitions of default in accordance with paragraph 6.5, the use of these definitions of default should be adequately reflected in the estimation of risk parameters in those ratings systems that have a scope of application that encompasses different default definitions.

[Note: Material in these paragraphs was previously covered in paragraph 83 to 85 of EBA/GL/2016/07.]

Identification of obligors

6.8 The PRA expects that, if a firm is using the IRB approach and it allocates exposures to an obligor group substantially on the basis of membership of that group and a common group rating, the firm should consider whether members of that group should be treated as a single obligor for the purpose of the definition of default as referred to in Article 178(1) of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

6.9 The PRA does not expect a firm to treat an obligor as part of a single obligor under the preceding paragraph if the firm rated its exposures on a standalone basis or if its rating was notched. (For these purposes, a rating is notched if it takes into account individual risk factors, or otherwise reflects risk factors that are not applied on a common group basis.)

Accordingly, if a group has two members that are separately rated, the PRA does not expect that the default of one would necessarily imply the default of the other.

[Note: Material in these paragraphs was previously covered in paragraphs 11.1 and 11.2 of SS11/13.]

Credit Risk Mitigation

6.10 The PRA expects that exposures should be classed as being in default when the default triggers referred to in Article 178(1) of the Credit Risk: Internal Ratings Based Approach (CRR) Part are met, regardless of any application of a credit risk mitigation technique by the firm in accordance with Article 191A of the Credit Risk Mitigation (CRR) Part of the PRA Rulebook. In particular, the PRA expects that, where a firm is using the IRB approach and an exposure in default is guaranteed by an entity that is not in default, the guaranteed part of the exposure should nonetheless be treated by the firm as being in default for the purpose of the calculation set out in Article 159 of the Credit Risk: Internal Ratings Based Approach (CRR) Part.

[Note: Material in this paragraph was not previously covered in SS10/13, SS11/13 or adopted EBA Guidelines.]

7. Application of the definition of default for retail exposures

Level of application of the definition of default for retail exposures

7.1 As set out in Article 178(1) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, firms may apply the definition of default for retail exposures at individual credit level facility. Where a firm is using the SA, the criteria for treating exposures as retail that are set out in the definition of defaulted exposure in Rule 1.2 of the Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook apply.

7.2 The PRA expects that firms should choose the level of application of the definition of default between obligor and facility for all retail exposures in a way that reflects their internal risk management practices.

7.3 Firms may apply the definition of default at the level of an obligor for some types of retail exposures and at the level of a credit facility for others, where this is well justified by internal risk management practices (eg as result of a different business model of a subsidiary). The

PRA expects that firms should only apply different approaches where there is evidence that the number of situations where the same obligors are subject to different definitions of default at different levels of application is kept to a strict minimum.

7.4 Where firms decide to use different levels of application of the definition of default for different types of retail exposures, according to paragraph 7.3, they should ensure that the scope of application of each definition of default is clearly specified and that it is used consistently over time for different types of retail exposures. In the case of firms that use the IRB approach, risk estimates should correctly reflect the definition of default applied to each type of exposures.

7.5 Where firms use different levels of application of the default definition with regard to certain retail portfolios, the treatment of common clients across such portfolios should be specified in their internal policies and procedures. In particular, where an exposure to which the definition of default applies at obligor level fulfils either or both of the conditions of Article 178(1)(a) and Article 178(1)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, then all exposures to that obligor should be considered defaulted, including those subject to the application of the definition of default at facility level. Where an exposure subject to the application of the definition of default at facility level meets those conditions, the other exposures to the obligor should not be automatically reclassified to default status. Firms, however, may classify those other exposures as defaulted on the basis of other unlikeliness to pay considerations, as provided in paragraphs 7.6 to 7.8.

[Note: Material in these paragraphs was previously covered in paragraph 86 to 90 of EBA/GL/2016/07.]

Application of the definition of default for retail exposures at the facility level

7.6 The PRA expects that, where the definition of default has been applied at the level of an individual facility for retail exposures in accordance with the second sub-paragraph of Article 178(1) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, firms should not automatically consider different exposures to the same obligor to be defaulted at the same time. Nevertheless, firms should take into account that some indications of default are related to the condition of the obligor rather than the status of a particular exposure including, in particular, the indications of unlikeliness to pay related to the bankruptcy of the obligor as specified in Articles 178(3)(e) and 178(3)(f) of the Credit Risk: Internal Ratings Based Approach (CRR) Part. Where such indication of default occurs, firms should treat all exposures to the same obligor as defaulted regardless of the level of application of the definition of default.

7.7 Firms should also consider other indications of unlikeliness to pay and specify which indications of unlikeliness to pay reflect the overall situation of an obligor rather than that of the exposure, in line with their internal policies and procedures. Where such other indications of unlikeliness to pay occur, all exposures to the obligor should be considered defaulted regardless of the level of application of the definition of default.

7.8 The PRA considers, in addition to paragraph 7.7, that where a significant proportion of the exposures to an obligor is in default, firms may consider it unlikely that the other obligations of that obligor will be paid in full without recourse to actions such as realising security, and treat such other obligations as being in default as well.

[Note: Material in these paragraphs was previously covered in paragraph 92 to 94 of EBA/GL/2016/07.]

Application of the definition of default for retail exposures at the obligor level

7.9 The application of the definition of default for retail exposures at the obligor level implies that, where any credit obligation of the obligor meets either or both of the conditions of Article 178(1)(a) and Article 178(1)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part, then all exposures to that obligor should be considered defaulted. Firms that decide to apply the definition of default for retail exposures at the obligor level should specify detailed rules for the treatment of joint credit obligations and default contagion between exposures in their internal policies and procedures.

7.10 For the purpose of paragraph 7.9, the PRA expects that firms 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. The PRA considers that the concept of a joint credit obligation encompasses a credit obligation of an individual obligor secured by another individual or entity in the form of a guarantee or other credit protection.

7.11 Where either or both of the conditions of Article 178(1)(a) and Article 178(1)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part are met with regard to a joint credit obligation of two or more obligors, firms should treat all other joint credit obligations of the same set of obligors and all individual exposures to those obligors as being in default, unless they can justify that the recognition of default on individual exposures is not appropriate because at least one of the following criteria apply:

a) the delay in payment of a joint credit obligation results from a dispute between the individual obligors participating in the joint credit obligation that has been introduced to either a court or another formal procedure performed by a dedicated external body that results in a binding ruling in accordance with the applicable legal framework in the

relevant jurisdiction, and there is no concern about the financial situation of the individual obligors; or

b) a joint credit obligation is an immaterial part of the total obligations of an individual obligor.

7.12 The PRA expects that default of a joint credit obligation should not automatically cause the default of other joint credit obligations of individual obligors with other individuals or entities that are not involved in the credit obligation that has initially defaulted; however, firms should assess whether the default of the joint credit obligation in question constitutes an indication of unlikeliness to pay with regard to the other joint credit obligations.

7.13 The PRA expects that where either or both of the conditions of Article 178(1)(a) and Article 178(1)(b) of the Credit Risk: Internal Ratings Based Approach (CRR) Part are met with regard to the credit obligation of an individual obligor, the effect of this default should not automatically result in any joint credit obligations of that obligor being considered to be defaulted. Nevertheless, firms should assess such joint credit obligations for possible indications of unlikeliness to pay related with the default of one of the obligors. In any event, where all individual obligors of a joint credit obligation have a defaulted status, the PRA expects that the joint credit obligation should automatically also be considered defaulted.

7.14 The PRA expects firms to identify, on the basis of the analysis of relevant legal provisions in a jurisdiction, obligors that are legally fully liable for certain obligations jointly and severally with other obligors (ie being fully liable for the entire amount of those obligations), but excluding credit obligations of an individual obligor secured by another individual or entity in the form of a guarantee or other credit protection. The PRA considers that a typical example of such obligors is a married couple where, based on specific legal provisions applicable in the relevant jurisdiction, division of marital property (system of separate estates) does not apply. Firms should provide in their internal policies and procedures for the identification of such obligors.

7.15 The PRA expects that in the case of full mutual liability for all obligations, default of one such obligor should be considered an indication of potential unlikeliness to pay of the other obligor, and therefore firms should assess whether the individual and joint credit obligations of these obligors should be considered defaulted. Where one of the joint and several obligors that are legally fully liable for all obligations has a joint credit obligation with another obligor, the firm should assess whether indications of unlikeliness to pay occur also on the other joint credit obligation.

7.16 The PRA expects firms to also analyse the forms of legal entities in relevant jurisdictions and the extent of liability of the owners, partners, shareholders, or managers for the obligations of a company depending on the legal form of the entity. Where an individual is fully liable for the obligations of a company, default of that company should result in that

individual being considered defaulted as well. Where such full liability for the obligations of a company does not exist, owners, partners, or significant shareholders of a defaulted company should be assessed by the firm for possible indications of unlikeliness to pay with regard to their individual obligations.

7.17 In the specific case of an individual entrepreneur where an individual is fully liable for both private and commercial obligations with both private and commercial assets, the PRA expects that the default of any of the private or commercial obligations should cause all private and commercial obligations of such individual to be considered defaulted as well.

7.18 Where the definition of default is applied at the level of an obligor for retail exposures, the materiality thresholds set out in Articles 178(2)(d)(i) and 178(2)(da)(i) of the Credit Risk: Internal Ratings Based Approach (CRR) Part should also be applied at the level of an obligor. Firms should clearly specify in their internal policies and procedures the treatment of joint credit obligations in the application of this materiality threshold.

7.19 The PRA expects that a joint obligor, ie a specific set of individual obligors that have a joint obligation towards a firm, should be treated as a different obligor from each of the individual obligors. In the event that a delay in payment occurs on a joint credit obligation, the PRA expects that the materiality of such delay should be assessed by applying the materiality thresholds referred to in Articles 178(2)(d)(i) and 178(2)(da)(i) of the Credit Risk: Internal Ratings Based Approach (CRR) Part to all joint credit obligations granted to this specific set of obligors. For this purpose, the individual exposures to obligors participating in a joint credit obligation, or to any other subsets of such obligors, should not be taken into account. However, where the materiality threshold for a joint obligor calculated in this way is breached, all joint credit obligations of this set of obligors and all individual exposures to the obligors participating in a joint credit obligation should be considered defaulted unless any of the criteria specified in paragraph 7.11 are met.

7.20 The PRA expects that when a delay in payment occurs on an individual credit obligation, the materiality of such delay should be assessed by applying the materiality thresholds referred to in Articles 178(2)(d)(i) and 178(2)(da)(i) of the Credit Risk: Internal Ratings Based Approach (CRR) Part to all individual credit obligations of the obligor, without taking into account any joint credit obligations of that obligor with other individuals or entities. Where the materiality threshold calculated in this way is breached, all individual exposures to this obligor should be considered defaulted.

[Note: Material in these paragraphs was previously covered in paragraph 95 to 105 of EBA/GL/2016/07.]

8. Documentation, internal policies, and risk management processes

Timeliness of the identification of default

8.1 Firms should have effective processes that allow them to obtain relevant information in order to identify defaults in a timely manner, and to provide the relevant information in the shortest possible time and, where possible, in an automated manner, to the personnel that is responsible for taking credit decisions, and in particular:

a) where they apply automatic processes, such as counting of days past due, the identification of indications of default should be performed on a daily basis; and
b) where they implement manual processes, such as checking external sources and databases, analysis of watch lists, analysis of the lists of forborne exposures, and identification of specific credit risk adjustments, the information should be updated with a frequency that guarantees the timely identification of default.

8.2 Firms should verify on a regular basis that all forborne non-performing exposures are classified as default and treated as distressed restructuring. Firms should also analyse on a regular basis forborne performing exposures in order to determine whether any of them meet the criteria that indicate unlikeliness to pay as specified in Article 178(3)(d) of the Credit Risk: Internal Ratings Based Approach (CRR) Part and in paragraphs 3.15 to 3.19.

8.3 The PRA expects firms to have control mechanisms that ensure that relevant information is used in the default identification process immediately after it is obtained. All exposures to a defaulted obligor, or all relevant exposures where the definition of default is applied at facility level for retail exposures, should be marked as defaulted in all relevant IT systems without undue delay. If delays occur in the recording of the default, such delays should not lead to errors or inconsistencies in risk management, risk reporting, the capital requirements calculation, or the use of data in risk quantification. Firms should, in particular, ensure that internal and external reported figures reflect a situation where all exposures are correctly classified.

[Note: Material in these paragraphs was previously covered in paragraph 106 to 108 of EBA/GL/2016/07.]

Documentation

8.4 Firms should document their policies regarding the definition of default including all triggers for identification of default, exit criteria, and clear identification of the scope of application of the definition of default. In particular, firms should:

a) document the operationalisation of all indications of default;
b) document the operationalisation of the criteria for reclassification of a defaulted obligor to a non-defaulted status; and
c) keep an updated register of all definitions of default.

8.5 For the purpose of paragraph 8.4(a), firms should document the application of the definition of default in a detailed manner by including the operationalisation of all indications of default, including the process, sources of information, and responsibilities for the identification of particular indications of default.

8.6 For the purpose of paragraph 8.4(b), firms should document the operationalisation of the criteria for reclassification of a defaulted obligor to a non-defaulted status, including the processes, sources of information, and responsibilities assigned to relevant personnel.

8.7 For the purpose of paragraphs 8.5 and 8.6, the documentation should include a description of all automatic mechanisms and manual processes. Where qualitative indications of default or criteria for the return to non-defaulted status are applied manually, the description should be sufficiently detailed to facilitate common understanding and consistent application by all responsible personnel.

8.8 For the purposes of paragraph 8.4(c), firms should keep an updated register of all current and past versions of the definition of default from at least 1 January 2022 onwards. This register should include at least the following information:

a) the scope of application of the definition of default, if there is more than one definition of default used within the firm, the parent undertaking, or any of its subsidiaries;
b) the body approving the definition or definitions of default and date of approval for each of those definitions of default;
c) the date of implementation of each definition of default;
d) a brief description of all changes performed relative to the previous version of the definition of default; and
e) in respect of exposures for which the firm is using the IRB approach, the date of submission of the definition of default to the PRA and the date of approval by the PRA.

[Note: Material in these paragraphs was previously covered in paragraph 109 to 113 of EBA/GL/2016/07.]

Internal governance for firms using the IRB approach

8.9 Firms that use the IRB approach should adopt adequate mechanisms and procedures in order to ensure that the definition of default is implemented and used in a correct manner, and should, in particular, ensure that:

a) the definition of default and the scope of its application is approved by the management body or by a committee designated by it in accordance with Article 189(1) of the Credit Risk: Internal Ratings Based Approach (CRR) Part;
b) the definition of default is used consistently for the purpose of the capital requirements calculation and plays a meaningful role in the internal risk management processes of the firm by being used at least in the area of monitoring of exposures and in internal reporting to senior management and the management body;
c) the internal audit function or other comparable independent auditing function regularly reviews the robustness and effectiveness of the process used by the firm for the identification of default, taking into account, in particular, the timeliness of the identification of default referred to in paragraphs 8.1 to 8.3; and
d) the conclusions of the review referred to in paragraph 8.9(c), as well as the measures taken to remedy the identified weaknesses, are communicated directly by the internal audit function or other comparable independent audit function to the management body or the committee designated by it.

[Note: Material in this paragraph was previously covered in paragraph 114 of EBA/GL/2016/07.]

[Note: This SS does not include material previously covered in paragraphs 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 25, 26, 33, 49, 71, 72, 73, 74 and 91 of EBA/GL/2016/07.]

[Note: This SS does not include material previously covered in paragraphs 11.3, 11.4, 11.5 and 11.6 of SS11/13.]

[Note: See the SS on the Internal Ratings Based Approach for further detail on the location of material previously covered in SS11/13 with the exception of Chapter 11 and paragraphs 20.4 and 20.5.]

[Note: See the proposed amendments to SS10/13 for further information regarding the location of other material previously covered in that SS.