

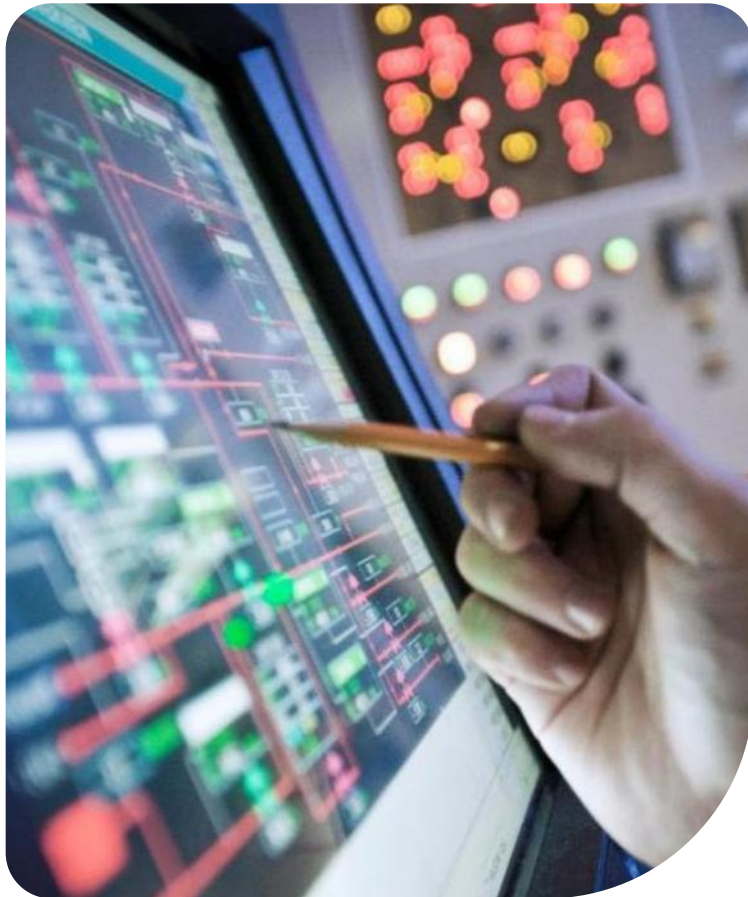


EBA Revised Default Definition Guidelines

Grant Thornton - Financial Services
July 2026

01 Introduction

Introduction



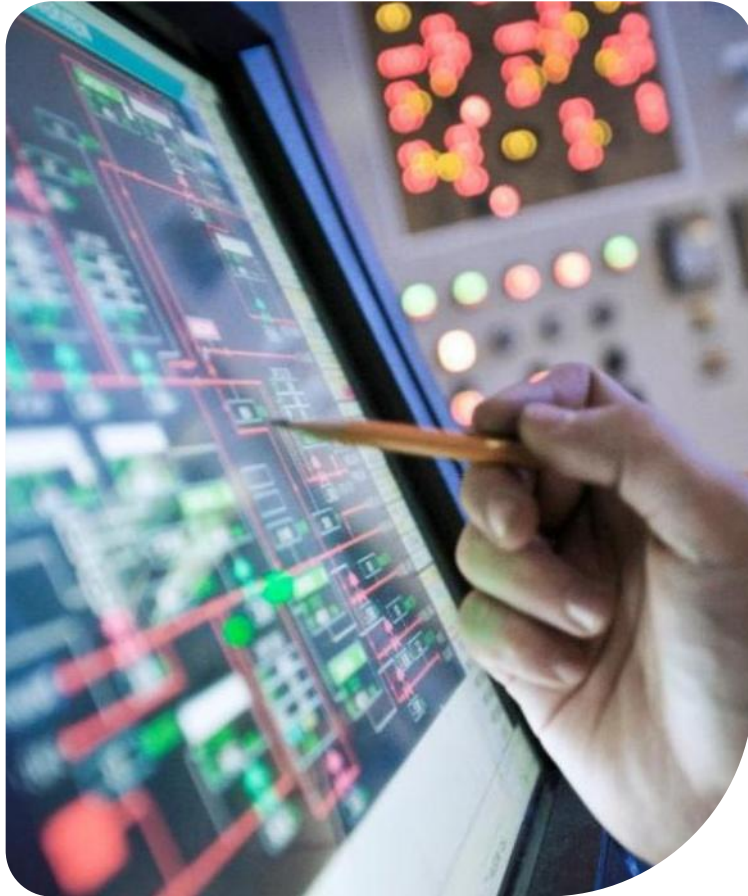
On 7 May 2026, the European Banking Authority (EBA) published the final report on amending the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013 (CRR), following the CRR3 amendments to Article 178(3)(d).

- The revised framework reinforces the EBA's broader supervisory objective of ensuring timely and harmonized recognition of borrower deterioration across EU institutions while maintaining consistency between default recognition, forbearance measures and non-performing exposure requirements.
- Despite industry feedback requesting additional flexibility, the EBA ultimately retained the existing prudential framework, concluding that the current approach already provides sufficient flexibility to support temporary liquidity pressures without weakening prudential soundness .
- The main substantive amendment introduced through the revised Guidelines relates to factoring arrangements, where the technical invoice-level past due threshold increased from 30 days to 90 days to better reflect operational characteristics and observed cure patterns associated with factoring products.

Key Regulatory Themes

- Retention of the 1% NPV threshold under Article 178(3)(d) CRR.
- Retention of the one-year probation period applicable to restructuring-related defaults .
- Increase of the invoice-level technical past due threshold from 30 days to 90 days for receivables linked to goods and services.
- Replacement of “distressed restructuring” references with references to forbearance measures resulting in diminished financial obligation.
- Removal of references to the former 180-day past-due discretion following CRR3 amendments .
- Continued assessment of indications of unlikelihood-to-pay even where the diminished financial obligation threshold is not breached .
- Updated references to the prudential treatment of nonperforming exposures under Articles 47a and 47b CRR.

Introduction



Why did the EBA retain the existing 1% NPV threshold?

The EBA concluded that:

- the existing framework already provides sufficient flexibility;
- increasing the threshold could weaken harmonization and comparability across institutions;
- a higher threshold could create inconsistencies with the existing 1% past-due materiality threshold;
- default classification impacts IRB and IFRS 9 frameworks ;
- changes to the framework would introduce operational implications, including model recalibration and validation requirements

When do the revised Guidelines apply?

The amended Guidelines apply three months after publication on the EBA website in all official EU languages.

What are competent authorities required to communicate to the EBA?

- Competent authorities are required to notify the EBA whether they comply or intend to comply with the amended Guidelines.
- Where authorities do not comply or do not intend to comply, they must provide justification for their position.

How should compliance notifications be submitted?

Notifications must be submitted using the EBA's prescribed notification template and the EBA will publish compliance notifications on its website

02 Summary

Summary (1/3)

This section outlines the key amendments introduced through the revised EBA Guidelines following the CRR3 revisions, highlighting areas where the prudential framework remained unchanged, together with targeted operational changes, supervisory clarifications and technical alignment updates relating to restructuring measures, factoring arrangements, broader unlikelihood-to-pay assessments, cure conditions and the prudential treatment of forbearance and non-performing exposures.

Topic	EBA/GL/2016/07	EBA/GL/2026/05 (new)	Change?
Debt restructuring & forbearance			
NPV threshold for default trigger	1% NPV loss threshold; breach triggers default. Set by institutions but must not exceed 1%.	Retained at 1%. Explicitly rejected proposals to raise to 2%, 5%, or introduce qualitative substitutes.	No change
Terminology: distressed restructuring	Referred to "distressed restructuring" throughout (old Art. 178(3)(d) CRR language).	Replaced throughout with "forbearance measure" and "diminished financial obligation due to a forbearance measure" per CRR3 / Art. 47b CRR.	Updated
NPV calculation methodology	NPV of cash flows before vs. after restructuring, discounted at original effective interest rate.	Identical methodology confirmed. Explicitly rejected adjustments for loan maturity, interest rate levels, or jurisdictional specificities.	No change
Viable forbearance & improved creditworthiness	No explicit guidance on whether improved creditworthiness offsets NPV loss.	Explicitly confirmed: improved creditworthiness (e.g. new collateral) does not offset NPV loss for default classification purposes.	Clarified
Qualitative UTP indicators (para. 53)	Listed indicators suggesting unlikelihood to pay when NPV is below threshold.	Indicators retained and updated in para. 53: large lump-sum at end of schedule, irregular schedule with low early payments, significant grace period, exposure subject to forbearance more than once.	Updated
Modification of repayment schedules	Included limited references regarding repayment schedule modifications arising from borrower financial difficulties.	Revised para. 55 clarified that where repayment schedule modifications arise due to borrower financial difficulties, institutions should assess whether the modification constitutes a forbearance measure and whether an indication of unlikelihood-to-pay exists.	Updated

Summary (2/3)

This section outlines the key amendments introduced through the revised EBA Guidelines following the CRR3 revisions, highlighting areas where the prudential framework remained unchanged, together with targeted operational changes, supervisory clarifications and technical alignment updates relating to restructuring measures, factoring arrangements, broader unlikelihood-to-pay assessments, cure conditions and the prudential treatment of forbearance and non-performing exposures.

Topic	EBA/GL/2016/07	EBA/GL/2026/05 (new)	Change?
Exit criteria (return to non-defaulted status)			
Minimum probation period	At least 1 year from latest of: date of forbearance measure; date of default classification; end of grace period.	Retained at 1 year. Proposal to shorten to 3–6 months (for NPV loss <5%, payment schedule changes only) was explored but rejected due to conflict with CRR Art. 47a(6)(b) on NPE reclassification.	No change
Material payment requirement (exit)	Material payment must equal amount past-due or written-off under forbearance measures.	Retained. Proposal to cap at 20% of principal outstanding was considered but not adopted due to misalignment with NPE exit rules.	No change
180-day DPD alternative			
180-day DPD alternative (para. 39(a) & 83(b))	Para. 39(a) and 83(b) referenced the option to use 180 DPD instead of 90 DPD, based on the now-removed discretion in Art. 178(1)(b) CRR.	Both paragraphs deleted. CRR3 removed the 180-day discretion at Level 1; the GL aligns accordingly. Note: para. 25 reference retained as it is not directly linked to the CRR discretion.	Deleted
Moratoria			
Legislative & private moratoria	No dedicated provisions; general framework applied (COVID-era GL/2020/02 issued separately).	Considered but not introduced. Current framework deemed sufficiently flexible; introducing exemptions would undermine harmonization and allow Member States to suspend default rules during crises.	No change

Summary (3/3)

This section outlines the key amendments introduced through the revised EBA Guidelines following the CRR3 revisions, highlighting areas where the prudential framework remained unchanged, together with targeted operational changes, supervisory clarifications and technical alignment updates relating to restructuring measures, factoring arrangements, broader unlikeliness-to-pay assessments, cure conditions and the prudential treatment of forbearance and non-performing exposures.

Topic	EBA/GL/2016/07	EBA/GL/2026/05 (new)	Change?
Past due counting & factoring			
Factoring: days past due threshold (para. 23(d))	Technical past due exception applies if no individual invoice is past due more than 30 days.	Threshold raised to 90 days at invoice level, to reflect the economic reality of purchased receivables, lengthy validation cycles, and tripartite payment flows. Cure rates of 93–100% supported the change.	Changed
Factoring: scope of exception	No explicit exclusion of debt/loan receivables from the factoring exception.	Explicitly excludes purchased receivables related to debt/credit/loan products (principal & interest payments) from para. 23(d) treatment. Exception covers goods & services invoices only.	Clarified
Factoring: payment to client (para. 31)	Existing paragraph on obligor paying the client rather than the factor.	Moved to technical past-due section and reworded: DPD counter continues only where obligor was adequately informed of the cession but paid the client anyway.	Clarified
Factoring: invoice date discrepancy (para. 32)	Paragraph 32 addressed date differences between invoice due date and transfer of payment.	Paragraph 32 deleted. Situation re-characterised as a technical past-due misclassification and absorbed into para. 31 / technical section.	Deleted
References & definitions			
NPE definition reference (para. 59(h))	Referenced EBA/ITS/2013/03 for NPE definition.	Updated to reference Art. 47a(3) CRR directly, reflecting that the NPE definition is now codified in Level 1 CRR (via NPL Backstop Regulation 2019/630).	Updated
Forborne NPE & default alignment (para. 54, 107)	Para. 54 and 107 cross-referenced older ITS definitions for forborne non-performing classification.	Updated to reference Art. 47a and 47b CRR directly. Para. 107 now requires institutions to verify regularly that all forborne non-performing exposures are classified as default.	Updated

03 Background & Rationale

Background & Rationale (1/2)

This section outlines the regulatory background and supervisory rationale underpinning the revised EBA Guidelines following the CRR3 amendments. The review focuses on the prudential treatment of restructuring measures, the assessment of diminished financial obligation through the Net Present Value (NPV) framework and the broader balance between restructuring flexibility and timely recognition of borrower deterioration, while reinforcing alignment between default recognition, forbearance measures and non-performing exposure requirements.

Background

- CRR3 replaced the previous “distressed restructuring” concept with direct references to forbearance measures under Article 47b CRR.
- The revised Article 178(7) CRR required the EBA to revise the Definition of Default guidelines, emphasizing proactive debt restructuring and sufficient flexibility for institutions.
- Recital 24 CRR3 reinforced that institutions should support viable borrowers in difficulty, without fear of triggering an unwarranted default classification.

Technical assessment of the debt restructuring framework

- The EBA retained the existing 1% NPV threshold applicable to restructuring-related defaults under Article 178(3)(d) CRR.
- The assessment of diminished financial obligation is based on the comparison between pre- and post-restructuring cash flows discounted using the original effective interest rate.
- Default classification must reflect the borrower's creditworthiness before restructuring, improvements such as additional collateral or guarantees cannot offset NPV losses.
- According to the EBA, increasing the threshold from 1% to 5% could weaken prudential consistency and create opportunities for repeated restructuring measures aimed at avoiding default classification.

Background & Rationale (2/2)

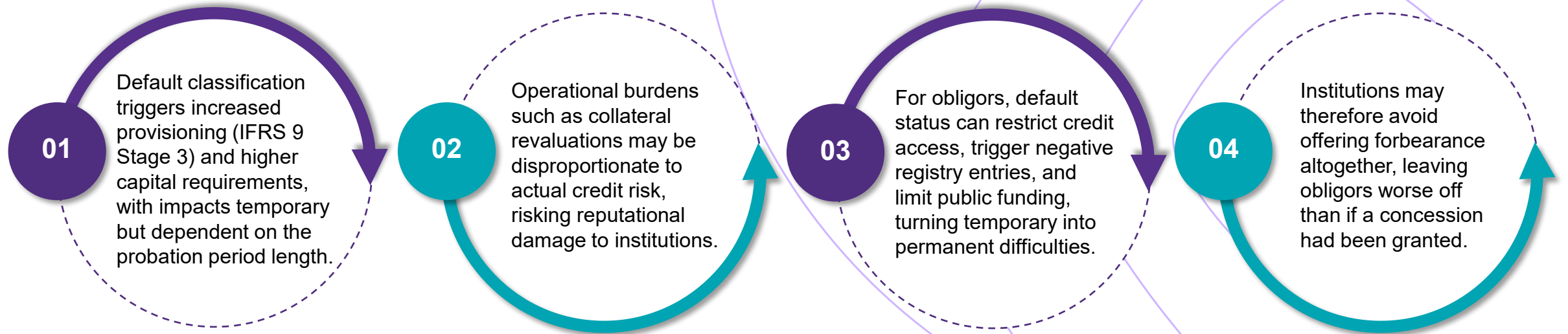
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Framework for default recognition due to debt restructuring

- Institutions continue to perform two separate assessments:
 - whether the measure qualifies as a forbearance measure under Article 47b CRR;
 - whether the restructuring results in a diminished financial obligation through the NPV framework.
- Exposures remain classified as defaulted where the resulting NPV loss exceeds the applicable threshold, which cannot exceed 1%, where below the threshold, institutions must still assess for other UTP indicators.
- The EBA is reviewing the proportionality of the 1% threshold, particularly for NPV losses between 1–5% with no nominal loss or other UTP indications.
- The existing NPV methodology, consistent with IFRS 9, remains unchanged.
- The framework for returning exposures to non-defaulted status also remains unchanged, including the one-year probation period.

Considerations to introduce more flexibility

This section outlines the EBA's assessment of whether additional flexibility within the definition of default framework was warranted following the CRR3 amendments. While the review acknowledged the broader prudential and operational implications of default classification, the EBA ultimately concluded that the existing framework already provides sufficient flexibility while preserving prudential soundness and harmonized default recognition practices.



Rationale for maintaining the existing framework

01

The framework distinguishes temporary liquidity pressures from broader borrower deterioration, with material NPV losses considered more likely to indicate deeper financial deterioration.

02

Forbearance measures generating material economic loss must trigger default recognition regardless of whether the restructuring improves the obligor's future prospects.

03

Higher NPV thresholds or exemptions would weaken harmonization, increase RWA variability, and create regulatory arbitrage opportunities through repeated minor concessions.

04

Any change would require model recalibration and new validation cycles, imposing significant transition costs.

05

Losses between 1% and 5% may still be material relative to Common Equity Tier 1 capital.

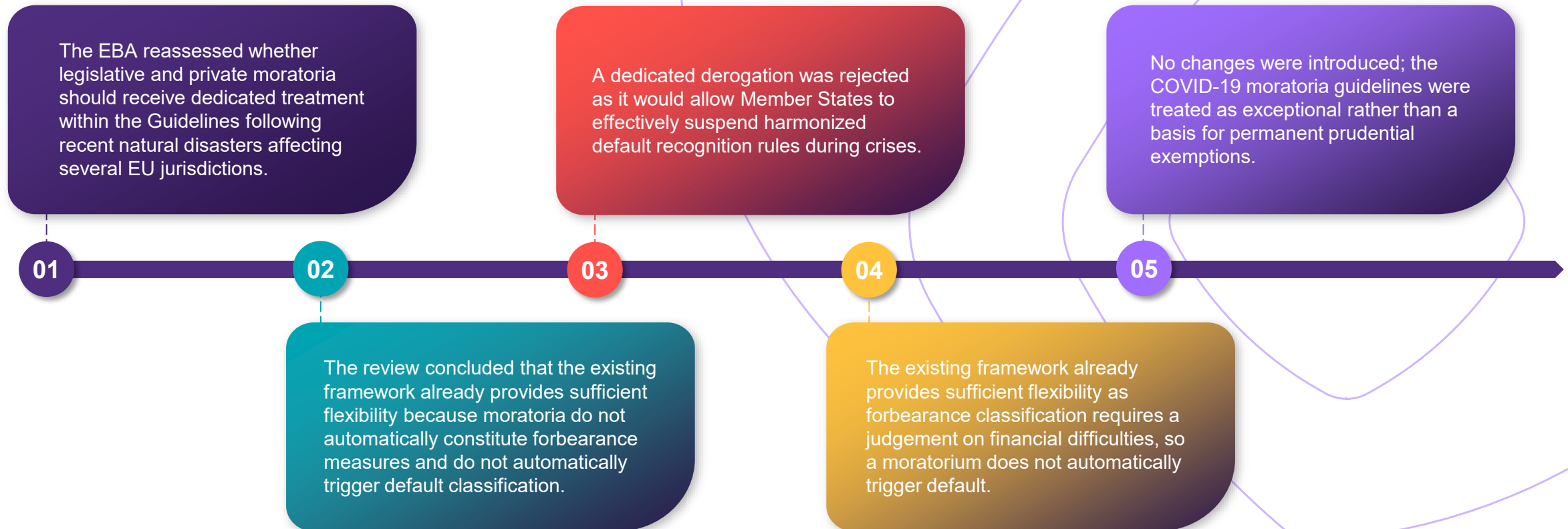
Exit Criteria



- The EBA reassessed whether the one-year probation period applicable to restructuring-related defaults remained proportionate.
- Proposals considered included shorter cure periods for restructurings involving:
 - limited diminished financial obligation (below 5% NPV loss);
 - temporary payment schedule modifications;
 - no broader contractual amendments.
- Amendments were not introduced as the proposed reduction would conflict with the one-year minimum required under Article 47a CRR for NPE reclassification, creating an inconsistency between prudential default and NPE classification.

Considerations on moratoria

This section outlines the EBA's assessment of moratoria, factoring arrangements and broader technical amendments introduced through the revised Guidelines. While the existing framework was deemed sufficiently flexible for moratoria, targeted amendments were introduced for factoring arrangements alongside technical updates on forbearance terminology, NPE references and removal of the 180-day past due discretion.



Technical past due situations for factoring

01

Factoring arrangements may create technical past due situations unrelated to genuine debtor deterioration due to invoice validation delays, disputes, undisclosed structures and limited control over payment collection.

03

Cure rates of 93–100% reinforced the view that invoice-level delays do not reflect genuine debtor distress

02

Delays on non-recourse factoring invoices may trigger broader default classification of other exposures to the same debtor

04

The EBA increased the threshold from 30 to 90 days for goods and services receivables, excluding debt/loan related receivables and leasing arrangements.

Other Updates to the Guidelines

The Guidelines were technically updated to reflect CRR3 amendments and broader developments within the prudential framework.

Main technical updates included:

- removal of references to the former 180 days past due discretion;
- replacement of “distressed restructuring” terminology with references to forbearance measures resulting in diminished financial obligation;
- updates to references to the prudential Non-Performing Exposures under Articles 47a and 47b CRR.

Requirements, Impact Assessment and Consultation Feedback

This section covers the supervisory status, reporting obligations, scope of application, implementation timeline and prudential and operational impact assessment of the revised EBA Guidelines on the definition of default under Article 178 CRR, together with the key consultation feedback and EBA final position on the revised framework.

Compliance of Reporting Obligations

Status of the Guidelines

- The Guidelines are issued under Article 16 of Regulation (EU) No 1093/2010 and competent authorities, and financial institutions must make every effort to comply.
- The Guidelines represent the EBA's view of appropriate supervisory practices and competent authorities should incorporate them into their frameworks by amending their legal framework or supervisory processes as appropriate.

Reporting Requirements

- Competent authorities are required to notify the EBA whether they comply or intend to comply with the amended Guidelines. Where authorities do not comply or do not intend to comply, they must provide justification for their position.
- Failure to notify by the deadline will result in the authority being deemed non-compliant.
- Notifications must be submitted using the EBA's prescribed notification template
- The EBA will publish compliance notifications on its website

Prudential & Operational Impact Assessment

Definition of Default Framework

Assessment focused on whether additional flexibility within the definition of default framework would support restructuring activity without weakening prudential soundness.

IFRS 9 & Capital Impact

EBA acknowledged potential impacts on IFRS 9 provisioning, capital requirements, operational burden and borrower access to funding.

IRB & Prudential Metric

The review considered impacts on IRB modelling and broader prudential metrics, including harmonization and comparability across institutions.

Public Consultation feedback

The public consultation on DoD closed on 15 October 2025 with 28 responses received from credit institutions, industry associations and other stakeholders. 5 key themes emerged:

Theme	Key issues raised
NPV Threshold Design	Creditworthiness adjustment, coherence with the 5% debt sale threshold, pro-cyclical effects of the original effective interest rate and variable rate treatment
Qualitative vs Quantitative Approach	Proposals to replace the NPV threshold with qualitative UTP criteria, use non-performing forbearance classification instead, and remove multiple forbearance measures as a default signal
Exit Criteria	Specific treatment for bullet loans and downstream effects on obligors
IFRS 9 Alignment	Interaction with IFRS 9 staging and inconsistency between regulatory default and Stage 2 classification
Operational Burden	Dual tracking systems for default and NPE, and the proposal for an additional absolute materiality floor (€100 retail / €500 non-retail)

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- We **invest the time to truly understand your business**, giving real insight and a fresh perspective to keep your moving. We are agile with shorter decision-making chains and empowered teams; so, you get the outcomes you need when speed matters.
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How can Grant Thornton support you?

As institutions assess the implications of the revised EBA Guidelines on the definition of default under Article 178 CRR, Grant Thornton can support the implementation, governance and operationalization of the revised prudential framework across credit risk, restructuring, monitoring and regulatory compliance processes.

Definition of Default & Credit Risk Frameworks

Support in reviewing and enhancing Definition of Default (DoD) frameworks, governance arrangements and monitoring processes.

Model Risk Management & Validation

Support Independent review and validation of methodologies, monitoring frameworks and model governance arrangements.

Restructuring & Forbearance Assessments

Assessment of restructuring and forbearance practices, including borrower financial deterioration and governance over restructuring measures.

Monitoring, Cure & Early Warning Frameworks

Review of cure assessment, early warning indicators and borrower monitoring processes.

Internal Audit & Regulatory Assurance

Independent reviews of credit risk governance, default recognition frameworks and regulatory compliance arrangements.

IRB, IFRS 9 & Prudential Impact Assessments

Assessment of impacts on IRB models, IFRS 9 staging and provisioning frameworks following regulatory changes.

Operational Process & Data Assessments

Review of operational processes, data governance, borrower monitoring and regulatory reporting practices.

Regulatory Governance & Policy Enhancements

Support in updating governance arrangements, policies and control environments in line with regulatory expectations.



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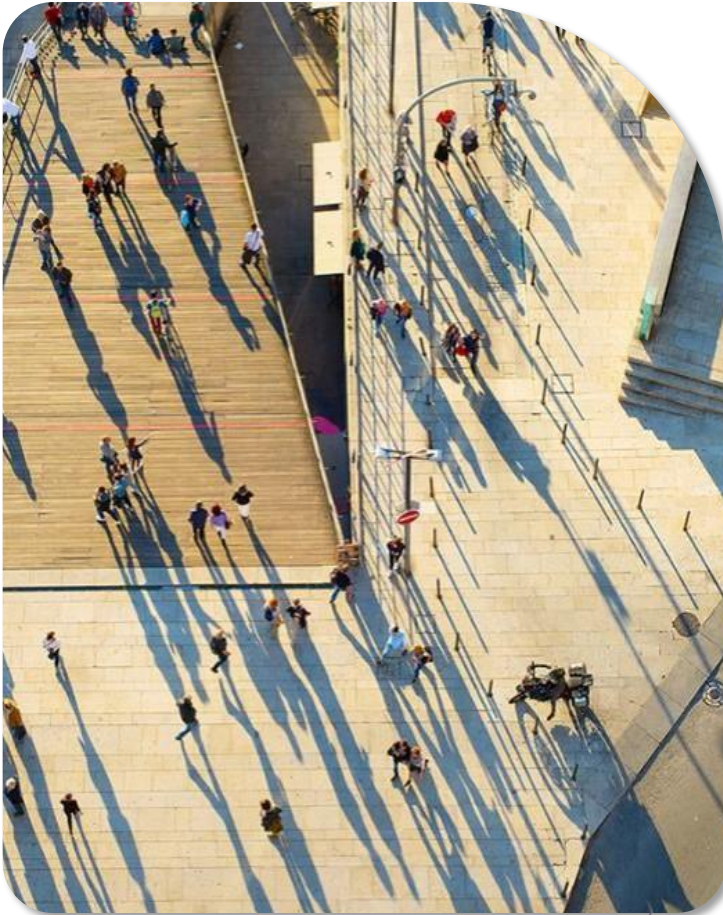
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- Portfolio Services
- Risk Services
- Operational Advisory
- Internal Audit & Compliance
- Audit & Assurance
- Tax & Outsourcing Services
- Environmental, Social and Governance (ESG)

Contact

Our team specialises in supporting institutions through every stage of the EU-wide stress test cycle, from methodology interpretation and data readiness to model validation and capital impact analysis. With dedicated quantitative risk specialists across Greece, the UK, Ireland and Spain, we help banks translate evolving EBA requirements — including the 2027 methodology and its new climate risk module — into practical, well-governed processes.

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