

Guidelines compliance table

EBA/GL/2017/16

20 November 2017; Date of application – 1 January 2021 (Updated 10 July 2018)

Guidelines on PD, LGD estimation and treatment defaulted exposures

The following competent authorities* comply or intend to comply with the EBA's Guidelines on PD, LGD estimation and treatment defaulted exposures:

Member State	Competent authority	Complies or intends to comply	Comments	
BE	Belgium	National Bank of Belgium	Intends to comply**	By 01.01.2021.
BG	Bulgaria	Българска народна банка (Bulgarian National Bank)	Intends to comply**	By 01.01.2021.
CZ	Czech Republic	Czech National Bank	Intends to comply**	By 01.01.2021.
DK	Denmark	Finanstilsynet	Intends to comply**	By 01.01.2021.
DE	Germany	Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Intends to comply**	By 01.01.2021.
EE	Estonia	Finantsinspektsioon	Yes	As at 20.06.2018, notification date.
IE	Ireland	Central Bank of Ireland	Intends to comply**	By 01.01.2021.

		Competent authority	Complies or intends to comply	Comments
EL	Greece	Bank of Greece	Intends to comply**	By 01.01.2021.
HR	Croatia	Hrvatska narodna banka (Croatian National Bank)	Intends to comply**	By 01.01.2021.
ES	Spain	Banco de España	Intends to comply**	By 01.01.2021.
FR	France	Autorité de Contrôle Prudentiel et de Résolution	Yes	As at 05.06.2018, notification date. Please note that the Autorité de contrôle prudentiel et de résolution (ACPR) published on 05 June 2018 on its official register a notification declaring its compliance with the Guidelines on PD estimation, LGD estimation and the treatment of defaulted exposures (EBA/GL/2017/16).
IT	Italy	Bank of Italy	Intends to comply**	By 01.01.2021. The Bank of Italy informs the EBA that it intends to comply with the Guidelines by 1 January 2021, making a reservation to partially comply with paragraphs 135 (treatment of the artificial cash flow) and 153 (treatment of incomplete recovery processes) of the Guidelines for the reasons outlined below.***
CY	Cyprus	Central Bank of Cyprus	Not applicable	The Guidelines do not apply in my jurisdiction since no institution in Cyprus apply the IRB approach.
LV	Latvia	Financial and Capital Market Commission	Not applicable	The Guidelines do not apply in my jurisdiction. In Latvia, LSI banks use the standardised approach to calculate capital requirements for credit risk; therefore there are no market participants to whom these guidelines are applicable at the moment. Taking into account proportionality and workload required for implementing the guidelines - we are planning to take necessary steps to ensure compliance with the guidelines as soon as the bank notifies us about its intention to use the IRB

		Competent authority	Complies or intends to comply	Comments
				approach. The guidelines will be followed as an example of best practice in a daily supervision process.
LT	Lithuania	Bank of Lithuania	Intends to comply**	By 01.01.2021.
LU	Luxembourg	Commission de Surveillance du Secteur Financier (CSSF)	Intends to comply**	By 01.01.2021.
HU	Hungary	Central Bank of Hungary	Intends to comply**	By 01.01.2021.
MT	Malta	Malta Financial Services Authority (MFSA)	Intends to comply**	By such time as the necessary legislative or regulatory proceedings have been completed.
NL	Netherlands	De Nederlandsche Bank	Intends to comply**	By 01.01.2021.
AT	Austria	Austrian Financial Market Authority	Intends to comply**	By 01.01.2021.
PL	Poland	Komisja Nadzoru Finansowego	Yes	As at 20.06.2018, notification date.
PT	Portugal	Banco de Portugal	Intends to comply**	By date of application 01.01.2021.
RO	Romania	National Bank of Romania	Intends to comply**	By date of notification (25.06.2018)
SI	Slovenia	Banka Slovenije	Intends to comply**	By 01.01.2021.
SK	Slovakia	Národná banka Slovenska	Intends to comply**	By 01.01.2021.
FI	Finland	Finanssivalvonta (FIN-FSA)	Intends to comply**	By 01.01.2021.
SE	Sweden	Finansinspektionen	Yes	As at 15.06.2018, notification date.
UK	United Kingdom	Prudential Regulation Authority	Intends to comply**	By 01.01.2021.
		Financial Conduct Authority	Yes	As at 17.04.2018, notification date.

		Competent authority	Complies or intends to comply	Comments
EU Institutions – Agencies				
ECB	ECB	ECB	Intends to comply**	By 01.01.2021.
EEA – EFTA State				
IS	Iceland	Fjármálaeftirlitið (The Financial Supervisory Authority, Iceland)	Intends to comply**	By 01.02.2021.
LI	Liechtenstein	Financial Market Authority Liechtenstein (FMA)	No response	No notification of compliance was received by the EBA within the two-month time limit.
NO	Norway	The Financial Supervisory Authority of Norway	Yes	As at 22.06.2018, notification date.
European Territories under Article 355(3) TFEU				
UK	United Kingdom	Gibraltar Financial Services Commission	Yes	As at 21.06.2018, notification date.

*The EEA States other than the Member States of the European Union are not currently required to notify their compliance with the EBA's Guidelines. This table is based on information provided from those EEA States on a voluntary basis.

** Please note that, in the interest of transparency, if a competent authority continues to intend to comply after the application date, it will be considered "non-compliant" unless (A) the Guidelines relate to a type of institution or instruments which do not currently exist in the jurisdiction concerned; or (B) legislative or regulatory proceedings have been initiated to bring any national measures necessary to comply with the Guidelines in force in the jurisdiction concerned.

*** **Bank of Italy adds:**

"1. Paragraph 135 of the Guidelines deals with exposures that return to non-defaulted status ("cured exposures") and specifies that the outstanding amount of such exposures at the "cure date" should be treated as an "artificial cash flow" and discounted back to the default date. In our opinion this approach leads, in some circumstances, to an inappropriate recognition of economic losses (unduly increasing the LGDs) even when the debtor pays in full the amounts due at the cure date, for two drivers.

Firstly, in case of amortizing loans, the financial cost that banks pay when the exposure enters into the default status is due to installments that are in arrears. Discounting back - from the cure date to the default date - the outstanding amount can bias the LGD upwards and unduly penalize the banks. Secondly, paragraph 135 requires discounting the artificial cash flow by using the same discount rate as for other - i.e. not cured - defaulted exposures. Therefore, even if obligors are usually obliged by contract to pay an additional interest when installments are in arrears (late fees), these fees do not necessarily compensate the discounting effect,

in particular by applying the standardized discount rate provided for by the Guidelines. The interplay between these two drivers will be further assessed in the context of the national implementation of the Guidelines. Bearing this in mind, we make a reservation to partially comply with paragraph 135 as there are circumstances in which the application of this paragraph lead to overestimation of losses.

2. Paragraph 153 of the Guidelines concerns the treatment of incomplete recovery processes. In line the general rule prescribed in Level 1 text (cf Art. 181, Regulation 575/2013), it requires that all defaults observed during the historical observation period are used within the data sources for LGD estimation. We, however, deem some reasoned guidance is needed as its strict application could lead to a bias in the long-run average LGD calculation when recently observed defaults are used: if applied to defaults with a limited time-in-default (e.g. default observed 1 week before the calibration) this rule could imply that institutions perform their LGD estimation excessively relying on estimated recovery. This would, in turn, increase model risk and hinder resilience and reliance on /RB models.

Bearing this in mind, we make a reservation to partially comply with paragraph 153 as there might be well-justified cases where observed defaults with incomplete recovery processes might not carry relevant information for LGD estimation. We take this chance to draw your attention on an additional issue relating to paragraph 101 and 153 of the Guidelines.

Paragraph 101 deals with the treatment of multiple defaults and requires a minimum 9-months 'observation' period ("independence period") for the LGD. The same independence period is not required for other risk parameters such as the PD: this could lead to a bias in the calculation of the expected losses as far as the number of defaults is not fully consistent across all risk parameters. In addition, in our view it is not clear how this paragraph of the Guidelines is to be interpreted in conjunction with the draft RTS on the Assessment Methodology (which is expected to be approved by the European Commission in the coming months) according to which defaults must be treated consistently (article 52, let. d). In this respect, we deem necessary to provide clarification on this matter in order to ensure a consistent treatment of multiple defaults across all risk parameters."

Notes

Article 16(3) of the EBA's Regulations requires national competent authorities to inform us whether they comply or intend to comply with each Guideline or recommendation we issue. If a competent authority does not comply or does not intend to comply it must inform us of the reasons. We decide on a case by case basis whether to publish reasons.

The EBA endeavour to ensure the accuracy of this document, however, the information is provided by the competent authorities and, as such, the EBA cannot accept responsibility for its contents or any reliance placed on it.

For further information on the current position of any competent authority, please contact that competent authority. Contact details can be obtained from the EBA's website www.eba.europa.eu.