

European rules on the Definition of Default

From Monday 4 November 2019, the Intesa Sanpaolo Group adopts the new European rules on the classification of counterparties not compliant with their obligations to the bank, the so-called "default", introduced by the European Banking Authority (EBA).

The guidelines, known as the "Definition of Default", establish more restrictive criteria and methods compared to those adopted until October 2019, with the aim of aligning the rules among the countries of the European Union.

Knowing the rules is essential

Main criteria to know in order to reduce the risk of being classified to a defaulted status for overdrafts or arrears of payment even of small amount

	Until October 2019	Since November 2019
Overdraft / Overdue Materiality threshold	The company is classified to a defaulted status if for over 90 consecutive days it has accrued a "significant" payment arrear (at least 5%) on the total debt owed to the bank	The new European rules introduce more restrictive materiality thresholds , exceeding which the company will be classified to a defaulted status
Compensation between the different exposures towards the bank	To avoid being classified to a defaulted status, the regulation allows the compensation of overdue amounts with the available funds on other credit lines not used by the company	The legislation no longer allows this compensation . The bank will be required to classify the company to a defaulted status even if unused funds are available on other credit lines
Return to a non-defaulted status	The return to a non-defaulted status is effective from the moment in which the client regularizes the payment arrears towards the Bank or repays the overdrawn amounts from the current account	The counterparty will remain in the defaulted status for at least 90 additional days from the moment in which the client regularizes the payment arrears towards the Bank or repays the overdrawn amounts from the current account

The materiality thresholds for overdue and overdraft exposures: what are the limits?

The bank will be required to classify the entire exposure of the company as Past Due if the unpaid amount of principal, interests and/or fees as of the date in which it was due:

 <p>lasts for more than 90 consecutive days</p>	 <p>amounts to more than 500 euros (referring in general to all exposures, such as arrears on loans, draft beyond the granted credit line or overdraft on the current account)</p>	 <p>represents more than 1% of the total exposure of the Bank towards the company</p>
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The 500 euros threshold is **reduced to 100 euros** for the **enterprises** that, identified as such by the Industry classification (Settore di Attività Economica – SAE), feature a **dimensional indicator^(*) lower than 2,5 million euros** and **exposures towards the Bank of less than 1 million euros**.

^(*) The "dimensional indicator" is represented by the turnover or total assets based on the client's balance sheet type

Finally, the new regulation obliges Banks to classify a company to a defaulted status if, in the event of restructuring of a counterparty's loan, the loss for the Bank exceeds 1% in terms of Net Present Value.

References:

- **Regulation of the European Union of 26 June 2013– n° 575 – art. 178**
 - introduces specific provisions on the default of a debtor
- **Commission delegated regulation of the European Union n. 171 of 19 October 2017**
 - defines the criteria for setting the materiality thresholds to comply with
- **Commission Recommendation (2003/361/EC) of 6 May 2003**
 - Defines micro, small and medium-sized enterprises