

Chapter 4

Credit risk

4.5 Internal ratings based approach: definition of default

Identification of obligors

4.5.1 **G** The *FCA* expects that if a *firm* ordinarily assigns *exposures* in the corporate, *institution* or central government and central bank *exposure* classes to a member of a *group*, substantially on the basis of membership of that *group* and a common group rating, and the *firm* does so in the case of a particular obligor group, the *firm* should consider whether members of that *group* should be treated as a single obligor for the purpose of the definition of default in article 178(1) of the *EU CRR*.

4.5.2 **G** The *FCA* would not expect a *firm* to treat an obligor as part of a single obligor under **IFPRU 4.5.1 G** if the *firm* rates its *exposures* on a standalone basis or if its rating is 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 which are separately rated, the *FCA* will not expect that the default of one will necessarily imply the default of the other.

Days past due

4.5.3 **G** Under article 178(1)(b) of the *EU CRR*, the *FCA* is empowered to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential or SME commercial real estate in the retail exposure class, as well as *exposures* to public sector entities (PSEs).

4.5.4 **G** The *FCA* would expect to replace 90 days with 180 days in the days past due component of the definition of default for *exposures* secured by residential real estate in the retail *exposure* class, and/or for *exposures* to PSEs, where this was requested by the *firm*. Where this occurred, it would be specified in the *firm*'s IRB permission.

Unlikelihood to pay in distressed restructuring

4.5.5 **G** The *FCA* expects that a credit obligation be considered as a distressed restructuring if an independent third party, with expertise in the relevant area, would not be prepared to provide financing on substantially the same terms and conditions (see article 178(2)(d) of the *EU CRR*).

Returning to performing status

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To be satisfied that a *firm* complies with the documentation requirements in article 175(3) of the *EU CRR*, the *FCA* expects a *firm* should have a clear and documented policy for determining whether an exposure that has been in default should subsequently be returned to performing status (see article 175(3) of the *EU CRR*).