



MAIN NEW FEATURES INTRODUCED BY THE NEW EUROPEAN LEGISLATION ON THE DEFINITION OF DEFAULT

The new European rules on the classification of debtors in "default" (i.e. in a state of default of an obligation towards banks and financial intermediaries) establish more stringent criteria and procedures than those adopted so far by Italian intermediaries.

The provisions currently in force already provide for the automatic classification as defaulting of those customers that have significant payment arrears or overdrafts for more than 90 consecutive days on their exposures to the creditor institution (so-called "Past Due").

The new rules specify that significant arrears or overdrafts means an amount above a different absolute threshold by Regulatory¹ exposure class and represents more than 1% of the total cash exposures to the Institution.

Unlike in the past, margins still available on unused credit lines cannot be used to offset any outstanding defaults and avoid classification as defaulting.

It should be noted that, as provided for by current regulations, the classification of a customer as defaulting, even in relation to a single loan, entails the default of all his/her exposures to the Institution.²

Therefore, it is essential to comply punctually with the contractual payment deadlines and not to exceed the credit limits granted even for small amounts, in order to avoid the Institution being obliged to classify the customer as defaulting and to take action to recover its debt, as required by European supervisory regulations.

¹ The absolute materiality thresholds are applied according to the customer's regulatory exposure class: Non Retail (€ 500) and Retail (€ 100)

² The automatic classification as defaulting of the customer/debtor transferred shall take place in the event that unpaid invoices with a maturity of more than 90 days in the residual amount transferred to Ifitalia S.p.A. above the regulatory materiality thresholds (€ 500/€ 100 and 1%) or overdrafts for more than 90 consecutive days above the regulatory materiality thresholds (€ 500/€ 100 and 1%) are present.



FAQ - Guidelines on the application of the default definition

I. In addition to the criterion of arrears/ overdrafts, in what other situations can the debtor's default be declared?

Although the customer/debtor assigned has no significant arrears for a period greater than or equal to 90 days, he/she may be classified as defaulting if the Institution considers it unlikely that its credit will be recovered without recourse to the enforcement of any security. The new regulation has tightened the rules for the evaluation of such default events.

II. Should a customer with arrears/ overdrafts of more than 90 days for an amount below the materiality threshold be classified as defaulting?

If there is no other evaluation regarding the likelihood that the customer will fail to meet his/her obligations, the latter does not necessarily need to be classified as defaulting. For the automatic default classification, the amount in arrears/ overdrafts for more than 90 consecutive days must exceed the materiality thresholds established by European regulations.

III. Do any arrears/ overdrafts on a single exposure result in the automatic default of all the customer's outstanding exposures to the same bank?

Yes, if the arrears/ overdrafts remain continuously for 90 days and the materiality thresholds are exceeded.

IV. How are the days in arrears calculated?

In the case of "debtor" customers, the days of arrears are calculated from the 90th day on which the amounts due for capital, interest and commissions have not been paid and their amount has exceeded the materiality thresholds established by the regulator. If the payments defined in the credit agreement have been suspended and the due dates have been modified after a specific formalised agreement with the Institution, the calculation of the days in arrears follows the new repayment schedule.

In the case of "transferring" customers, the days in arrears are calculated starting from the day on which an overdraft occurs, i.e. the exposure to the customer is greater than the total amount



of receivables transferred with recourse and the amount of this overdraft exceeds the materiality thresholds established by the regulator. If this condition persists for 90 days, the customer is automatically reclassified in Past Due.

V. *Is offsetting of overdue amounts against other credit lines not used by the debtor allowed?*

The European Supervisory Authority has expressly excluded this possibility. Therefore, unlike in the past, the Institution is required to classify the customer as defaulting even if the customer still has credit lines available that could be used to offset outstanding non-compliances and avoid default.

VI. *In the event of delayed collection of payment, should the bank still consider the customer as defaulting?*

There are technical arrears situations for which the customer will not be considered in default:

1. Malfunction of the payment system;
2. Delayed execution of a customer order;
3. Errors in the bank's processes leading to late or incorrect crediting of the payment made.
- 4.

VII. *What happens if the customer is in financial difficulty and asks to renegotiate the debt?*

If renegotiation of the debt due to the customer's financial difficulties leads to a loss of more than 1%, the Institution is obliged to classify the customer as defaulting.

VIII. *How does the customer get out of the state of default?*

According to the new regulations, once all signs of insolvency have been resolved, to get out of default, at least three months (*probation period*) must elapse during which the customer must regularly honour his/her debts.

IX. *Do the new default rules only apply to banks or also to other financial intermediaries?*

The new default rules apply not only to banks but also to all non-bank financial intermediaries, which provide financing in any form (e.g. leasing and factoring companies).



Glossary

New Past Due criterion	Entry into the Past Due status occurs for all positions past due/overrunning for a period greater than or equal to 90 days AFTER both materiality thresholds (absolute and relative) have been exceeded
Probation Period	A trial period of at least three months is established for the exit from the default of Past Due positions. The period ends when the customer: <ol style="list-style-type: none"> Returns to the Past Due status; Ends the 90 consecutive days without exceeding both (absolute and relative) thresholds and has no other indication of insolvency or bad debts in the system. In this case, the customer returns to the in bonis status.

Customer classification in DEFAULT: what changes with the new rules

CRITERION	CURRENT DEFINITION OF DEFAULT	NEW DEFINITION OF DEFAULT
Due Date used	<ul style="list-style-type: none"> • Issuer date • Conventional due date • Due date extension 	<ul style="list-style-type: none"> • Due Date Extension (including moratoriums) • Invoice Due Date
Absolute Thresholds	NA	<ul style="list-style-type: none"> • Retail: 100€ • Non Retail: 500€
Relative Threshold	5%	1%
Relative Threshold	Over 90 days	Over or equal to 90 days
Past Due exclusion events	<ul style="list-style-type: none"> • Dispute Events • Curative Payment for Public Administrations 	Dispute Events
Return in bonis	Automatic for all counterparties upon expiry of the Past Due conditions	Can be activated when Past Due conditions have expired and the 3-month probation period has elapsed



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