

What Is a Default? One Word, Two Different Logics

Educational Series #17

Dimension	Harmonised Credit Rating Agency Default Definition (Market Practice)	Prudential Default Definition (Capital Requirements Regulation - Article 178)
Primary objective	Measure and communicate credit risk and economic reality	Ensure capital adequacy and supervisory consistency
Nature of assessment	Event-based and judgement-driven	Rule-based and standardised
Failure to pay / Days Past Due (DPD)	Default occurs after uncured non-payment beyond contractual grace period , assessed case by case	Default triggered by ≥90 days past due (DPD) on any material credit obligation (i.e., an amount exceeding €500 and 1% of total exposure for non-retail exposures)
Unlikely to pay (UTP)	Embedded in forward-looking credit judgement of the obligor's ability and willingness to pay	Independent default trigger based on the institution's assessment that the obligor is unlikely to pay , regardless of days past due
Time threshold	No fixed delinquency threshold	Explicit 90-day rule (DPD) , alternative to UTP
Bankruptcy / insolvency	Treated as a default event	Treated as a default event
Distressed restructuring	Recognised as default when creditors incur economic loss (distressed exchange)	May trigger default if restructuring results in material economic loss under NPV test (typically within UTP assessment)
Issuer-level vs instrument-level default (selective default)	Clear distinction between issue-level and issuer-level default	Primarily obligor-centric
Forward-looking judgement	Central to default assessment	Limited , except through UTP
Use cases	Risk analysis, pricing, investment decisions, benchmarking	Capital requirements, supervision, regulatory reporting

Market-based and regulatory definitions of default serve different objectives and rely on different frameworks. The UTP trigger reflects forward-looking credit judgement, while the 90 days past due rule is a regulatory construct.

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