EBA/GL/2017/15

14/11/2017

Final Report

Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013

Contents

1. Executive summary

These guidelines replace the 'Guidelines on the implementation of the revised large exposures regime' issued by the Committee of European Banking Supervisors (CEBS) on 11 December 2009.[1]

The guidelines focus exclusively on the issue of connected clients as defined in Article 4(1)(39) of Regulation (EU) No 575/2013[2] and apply to all areas of that Regulation where the concept of connected clients is used, i.e. the large exposures regime, the categorisation of clients in the retail exposure class for the purposes of credit risk (Articles 123(c) and 147(5)(a)(ii)), the development and application of rating systems (Article 172(1)(d)), the specification of items requiring stable funding for reporting purposes (Article 428(1)(g)(ii)) and the SME supporting factor (Article 501(2)(c)). The guidelines also apply to EBA technical standards and EBA guidelines that refer to 'groups of connected clients', as defined in Article 4(1)(39) of Regulation (EU) No 575/2013, namely in the case of liquidity reporting.

The guidelines cover the two types of interconnection that, in accordance with the definition of connected clients, lead to two or more clients being regarded as a single risk, i.e. control relationships and economic dependencies.

Regarding the assessment of interconnections based on control, the guidelines clarify the concept of 'single risk' and confirm that the burden of proof is on institutions to demonstrate that, despite the existence of a control relationship, the clients, by way of *exception*, do not constitute a single risk.

The guidelines also clarify that institutions should make use of their clients' consolidated financial statements when assessing the existence of control. For clients to which the EU accounting rules do not apply (e.g. natural persons, central governments, and clients that prepare consolidated financial statements in accordance with the accounting rules of a third country), the guidelines provide a non-exhaustive list of criteria and indicators of control. This list is divided into two different sets: the first set consists of criteria that always constitute a control relationship among clients (e.g. holding the majority of the shareholders' or members' voting rights in another entity); the second set includes examples of indicators that should be considered by institutions in their assessment, as any of these indicators might constitute a control relationship among clients (e.g. power to decide on the strategy or direct the activities of an entity).

[1] The 2009 CEBS 'Guidelines on the implementation of the revised large exposures regime' covered two aspects: the definition of connected clients and the treatment of transactions with exposures to underlying assets. These guidelines can be found here: https://www.eba.europa.eu/documents/10180/37070/Guidelines-on-Large-exposures_connected-clients-and-schemes.pdf. Regulation (EC) No 1187/2014 has replaced Part II of the 2009 CEBS Guidelines regarding the treatment of transactions with exposures to underlying assets: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2014.324.01.0001.01.ENG.

[2] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 321, 30.11.2013, p. 6).

The guidelines clarify the use of an alternative approach, introduced by the last subparagraph of Article 4(1)(39) of Regulation (EU) No 575/2013, for the assessment of the existence of groups of connected clients of entities directly controlled by or directly interconnected with central governments (or regional or local governments to which Article 115(2) of that Regulation applies).

Regarding the assessment of interconnections based on economic dependencies, the guidelines confirm the requirement to consider two or more clients a single risk when funding or repayment difficulties of one client are likely to affect (an)other client(s). Nevertheless, the guidelines make clear that if institutions are able to demonstrate that the financial difficulties or failure of a client would not lead to funding or repayment difficulties for another client, these clients do not need to be considered a single risk (e.g. where the client can easily find a replacement for the other client). The guidelines also present a non-exhaustive list of situations that should be considered by institutions when assessing economic dependencies. The guidance regarding common sources of funding requires that institutions consider situations where funding problems of one client are likely to spread to another on account of a one-way or two-way dependency on the same funding source (e.g. use of one funding entity that cannot be easily replaced or reliance on commitments from one source).

The guidelines also provide guidance on the assessment of situations where control and economic dependency are interlinked and can therefore lead to the existence of one group of connected clients as opposed to two separate groups of connected clients. The overarching indicator is the existence of a 'single risk' between two or more clients ('domino effect'), regardless of the type of connection the single risk is based on. The chain of contagion leading to possible default of all entities concerned is therefore the relevant factor for the grouping.

The final section of the guidelines sets out the control and management procedures for identifying connected clients. It is in the interest of an institution to identify all possible connections among its clients to have a clear understanding of the risks it is exposed to. The guidelines expect institutions to identify all control relationships and also to take reasonable steps and use readily available information to investigate and identify economic dependencies among their clients. The guidelines also acknowledge the inherent difficulty of identifying all economic dependencies and require that institutions take a proportionate approach and strengthen the investigation of economic dependencies in all cases where the sum of all exposures to one individual client exceeds 5% of Tier 1 capital.

The present guidelines are consistent with the Standards on the supervisory framework for measuring and controlling large exposures issued by the Basel Committee on Banking Supervision in April 2014.[3] They are, however, more detailed and also include aspects that are not considered in the Basel standards (e.g. an alternative approach for exposures to central governments, the relation between interconnectedness through control and economic dependency).

[3] http://www.bis.org/publ/bcbs283.htm

Next steps

The guidelines will be translated into the official EU languages and published on the EBA website. The deadline for competent authorities to report whether they comply with the guidelines will be two months after the publication of the translations. The guidelines will apply from 1 January 2019.

2. Background and rationale

2.1 General background

2.1.1 Legal framework and relation to other parts of the EU rulebook

1. These guidelines revise and replace the 'Guidelines on the implementation of the revised large exposures regime' issued by CEBS on 11 December 2009.

2. These guidelines focus exclusively on the issue of connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013 and apply to all areas of that Regulation where the concept of connected clients is used, i.e. the large exposures regime (Part Four of that Regulation), the categorisation of clients in the retail exposure class for the purposes of credit risk (Article 123(c) and Article 147(5)(a)(ii)), the development and application of rating systems (Article 172(1)(d)) and the SME supporting factor (Article 501(2)(c)). The guidelines also apply to EBA technical standards and EBA guidelines that refer to 'groups of connected clients' as defined in Article 4(1)(39) of Regulation (EU) No 575/2013, namely in the area of liquidity reporting, where this concept is used in the specification of items requiring stable funding that must be reported to the competent authorities (Article 428(1)(g)(ii) of that Regulation), and in the reporting of concentration of funding by counterparty and concentration of counterbalancing capacity by issuer/counterpart.[4] Additionally, the guidelines take into account developments in the areas of shadow banking and large exposures at EU and international levels.[5]

3. The objective of the definition of 'connected clients' in Regulation (EU) No 575/2013 is to identify clients so closely linked by idiosyncratic risk factors that it is prudent to treat them as a single risk. Idiosyncratic risk represents the effect of risks that are specific to individual clients. Idiosyncratic risk arises where, in a bilateral interrelationship, financial problems of one entity are transferred via this interrelationship to another entity that otherwise would not be concerned. Consequently, the purpose of these guidelines is to clarify and operationalise the concept of interconnection, in particular when control issues or economic dependency should lead to the grouping of clients because they constitute a single risk in accordance with Article 4(1)(39) of Regulation (EU) No 575/2013.

4. These guidelines cover both types of interconnection considered in the definition of connected clients in Article 4(1)(39) of Regulation (EU) No 575/2013:

[4] Respectively, templates C 67.00 and C 71.00 of Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting, which is available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.060.01.0005.01.ENG&toc=OJ:L:2016:060:TOC.

[5] It is possible that the guidelines will need to be updated in the near future to take into account other regulatory developments at the Union and international levels (e.g. the ongoing review of Regulation (EU) No 575/2013).

i) the clients are directly or indirectly interconnected by a control relationship as defined in Article 4(1)(37) of the same Regulation;

ii) the clients are interconnected by some form of economic dependency as set out in Article 4(1)(39)(b), for instance:

- direct economic dependencies such as supply chain links or dependence on large customers; or
- a common main source of funding in the form of credit support, potential funding or direct, indirect or reciprocal financial assistance.

5. Geographical and sectorial concentration risks fall outside the scope of these guidelines and are addressed by other means, such as the risk management rules on concentration risk under Pillar 2. A geographical or sectorial risk can be defined as a dependency linked to an external factor (e.g. a certain product market or a specific region) that affects all entities active in the sector or region in the same manner. Institutions that only operate in a well-defined geographical area, or in an area dominated by one specific industry (sector), are not more affected in their conduct of business by the connected clients' rule than other institutions.

2.2 Rationale for the guidelines

2.2.1 Control

6. The reasoning behind the current guidelines is that where a control relationship exists the controlling person/entity has legally enforceable rights that establish a strong form of financial dependency on the controlling person/entity by the controlled entity. In case of financial problems of the controlling person/entity, it is highly likely that the controlling person/entity could make use of its rights to extract capital and/or liquidity from the controlled entity, thereby weakening the financial position of the latter. Financial problems could be transferred to the controlled entity, with the result that both the controlling person/entity and the controlled entity would experience financial problems ('domino effect'). From the perspective of prudential risk stemming from exposures to clients, it is therefore appropriate to attach the strong assumption of a single risk to a relationship of control between different clients.

7. The definition of 'control' in Article 4(1)(37) of Regulation (EU) No 575/2013 points to the accounting definition of the relationship between a parent undertaking and a subsidiary, as defined in the new Accounting Directive 2013/34/EU[6] or the accounting standards to which an institution is subject under Regulation (EC) No 1606/2002,[7] or a similar relationship between any natural or legal person and an undertaking. Therefore, where the new Accounting Directive 2013/34/EU is applicable, it has an impact on the way institutions assess control relationships for the purposes of grouping connected clients.

[6] Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC.

[7] Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards.

8. Article 22(1) and (2) of Directive 2013/34/EU sets out several options and national discretions for Member States as regards the transposition of such provisions, thus leaving the definition of 'group' for the purpose of consolidation of accounts to the Member States. Consequently, the definition of 'control' for the purpose of forming groups of connected clients will also depend on the national transposition of these options and national discretions. The present guidelines regarding the 'control' criterion respect the national transpositions of Directive 2013/34/EU, which may potentially lead to different grouping requirements depending on where institutions' clients are required to prepare their consolidated financial statements.

9. These guidelines clarify that institutions should make use of their clients' consolidated financial statements[8] when assessing connections based on control. For clients to which the EU accounting rules do not apply (e.g. natural persons, central governments and clients that prepare consolidated accounts in accordance with the accounting rules of a third country), the guidelines provide a non-exhaustive list of criteria and indicators of control. This list is divided into two different sets: the first set consists of criteria that always constitute a control relationship among clients; the second set includes examples of indicators that should be considered by institutions in their assessment, as any of these indicators might constitute a control relationship among clients.

10. In addition, the guidelines clarify the concept of 'single risk' and also that the burden of proof is on the institution to demonstrate that, despite the existence of a control relationship among clients, those clients, by way of *exception*, do not constitute a single risk.

11. Finally, it is noted that the assessment of control relationships is only the first step in the assessment of the connections among clients, before assessing any potential economic dependency.

2.2.2 Alternative approach for exposures to central governments

12. The principles and criteria for forming a group of connected clients are the same, irrespective of whether the head of the group is a central government or not. Therefore, in general, institutions have to assess the existence of a group of connected clients for the central government itself and treat the whole set consisting of the central government and all of the natural or legal persons directly or indirectly controlled by it in accordance with point (a) of Article 4(1)(39) of Regulation (EU) No 575/2013, or interconnected with it in accordance with point (b) of that same Article, as one single group of connected clients.

13. However, the last subparagraph of Article 4(1)(39) of Regulation (EU) No 575/2013 permits institutions to make use of a different approach in assessing the existence of a group of connected clients separately for each of the persons directly controlled by or directly interconnected with the central government ('alternative approach'). The term 'may' makes it clear that using this alternative approach is not mandatory but left to institutions' discretion.

[8] Prepared in accordance with Directive 2013/34/EU or Regulation (EC) No 1606/2002.

14. These guidelines clarify that, usually, entities such as government departments, ministries and other governmental authorities, which are not separate legal entities and do not take up loans in their own name but which altogether constitute the central government, should be regarded as one single entity, i.e. the central government. Thus, these entities are not eligible for a separate assessment of the existence of a group of connected clients.[9]

15. Where a central government has direct control over or is directly interconnected with more than one natural or legal person, the specification 'including the central government' for the alternative approach should be understood as always requiring the inclusion of the central government in each of the groups of connected clients identified separately for the natural or legal persons directly controlled by or directly interconnected with the central government.

16. Additionally, institutions may also partially apply the alternative approach, i.e. only for some of the natural or legal persons directly controlled by or directly interconnected with the central government.

17. The alternative approach permits a separate assessment only for 'natural or legal persons' directly controlled by or directly interconnected with the central government. Furthermore, this alternative approach is not possible for further substructures, i.e. for natural or legal persons solely indirectly controlled by or indirectly interconnected with the central government. Instead, such entities are to be included in the group of connected clients for the entity directly controlled by or directly interconnected with the central government.

18. Nonetheless, applying the alternative approach for exposures to central governments and entities directly controlled by or interconnected with them does not allow connections on the level below the central government to be disregarded. Economic dependencies among such entities need to be reflected in separate groups of connected clients (not including the central government). The alternative approach looks only at the relationship between the central government and entities directly connected to it. The idiosyncratic risk that might arise in the relationship *among* such entities needs to be assessed separately.

19. Section 5 of the guidelines also applies to regional governments or local authorities to which Article 115(2) of Regulation (EU) No 575/2013 applies.

[9] Refer to

2.2.3 Establishing connectedness based on economic dependency

20.Even if the issue of control of one client over another does not apply, institutions are obliged to assess whether there exists a relationship of economic dependency among clients. If it is likely that the financial problems of one client would cause difficulties for the other(s) in terms of full and timely repayment of liabilities, there exists an idiosyncratic risk that needs to be addressed by considering the clients to be connected. An economic dependency among clients may be mutual or only one way.

21.Dependency might arise in the context of business interconnections (e.g. supply chain links, dependence on large customers or counterparty exposures, financial dependency) that are not linked to sectorial or geographical risks, and it suggests that the clients involved are exposed to the same idiosyncratic risk factor. If this idiosyncratic risk materialises, one or both obligors are likely to experience repayment difficulties. Consequently, interconnections among entities (or persons) due to bilateral business relationships may lead to contagion risk that is independent of sectorial or geographical risks. The fact that the existence of common idiosyncratic risk factors may lead to contagion risk for otherwise independent clients is at the core of the concept of economic interconnection.

22.The rationale for the definition of economic interconnection in Article 4(1)(39)(b) is to identify channels of contagion stemming from economic dependencies that a client cannot overcome without experiencing repayment difficulties. However, even if a client is dependent on another client through, for instance, a business relationship, it could still be possible for the client to easily find a replacement for this business partner (in case of its default), or to compensate for such a loss by other means, for example through reduction of costs or concentration on other sectors. This might cause practical problems, such as lower margins, but if an institution is able to demonstrate that it would not lead to repayment difficulties, there is no requirement to consider such clients as interconnected.

23.It should be noted that a common source of funding due solely to geographical location does not, in itself, lead to a requirement to connect clients. Small and medium-sized entities will, in many cases, not have the capacity or commercial incentive to use institutions other than their local bank, and, in addition, for most of them the personal relationship with their banker is the key to better financial services. This fact does not in itself justify these clients being regarded as interconnected, even though they have a common source of funding (i.e. the reporting institution itself). Such funding dependencies differ from the funding dependencies described in these guidelines because the common source of funding is the result of the geographical location and can normally be replaced.

24.Clients that depend on their existing source of funding simply because they are not creditworthy do not belong in this category. In the same way, being clients of the same institution does not in itself create a requirement to group the clients if the institution providing funding can be easily replaced. Institutions are not required to collect information about whether their clients share an external common source of funding; however, institutions do need to take into account available information in this regard.

25. Although these guidelines apply to exposures to shadow banking entities[10] in the same way that they apply to exposures to other clients, the institution should pay particular attention when assessing connections among shadow banking entities. The EBA 'Guidelines on limits on exposures to shadow banking entities' define prudential expectations regarding groups of shadow banking entities. In this context, institutions should give due consideration to the fact that elements of control among these shadow banking entities will most likely consist not of equity ties but rather of a different type of relationship, i.e. situations of de facto control or relationships characterised by contractual obligations, implicit support or potential reputational risk (e.g. sponsorship or even branding).[11]

2.2.4 Relation between interconnectedness through control and interconnectedness through economic dependency

26. The concepts of control and economic dependency are two different kinds of interconnection to be assessed separately. However, there are situations where the two types of dependencies are interlinked and could therefore exist within one group of connected clients in such a way that all relevant clients constitute a single risk. The wording in point (b) of Article 4(1)(39) of Regulation (EU) No 575/2013, 'between whom there is no relationship of control', does not lead to two mutually exclusive grouping requirements. It should rather be understood as meaning that the control relationship is a grouping requirement due to a very strong form of dependency (control as legal dependency) and thus is a subcategory of the wider form of economic dependency. The overarching indicator is the same in both cases, i.e. a single risk between two or more clients ('domino effect'), regardless of the type of connection the single risk is based on. The chain of contagion leading to possible default of all entities concerned is the relevant factor for the grouping and needs to be assessed in each individual case.

27. Downstream contagion should be assumed when an entity is economically dependent on another client and is itself the head of a 'control group', i.e. a group of connected clients formed on account of the existence of a control relationship in accordance with Article 4(1)(39)(a) of Regulation (EU) No 575/2013. If the other client is part of a group of connected clients, the control group of the economically dependent entity should then be included in the group of connected clients to which the economic dependency relationship exists. The reason for this is that, to overcome its own pending payment difficulties, the economically dependent entity will

[10] As defined in the EBA 'Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013': https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking.

[11] In March 2017, the Basel Committee published a second consultative document on identification and measurement of step-in risk, which proposes a conceptual framework that could form the basis of an approach for identifying, assessing and addressing step-in risk potentially embedded in banks' relationships with shadow banking entities in particular. It focuses on the identification of unconsolidated entities to which a bank may nevertheless provide financial support, in order to protect itself from any adverse reputational risk stemming from its connection to these entities.

most likely withdraw resources from controlled entities, thus extending the risk of contagion downstream.

28. On the other hand, upstream contagion of entities that control the economically dependent entity should be assumed only when the controlling entity is also economically dependent on the entity that constitutes the economic link between the two controlling groups.

2.2.5 Control and management procedures for identifying connected clients

29. Having information about connected clients is essential to an institution's understanding of the risks it is exposed to and also to limiting the impact of unforeseen events. In this regard, institutions should have in place a robust process for investigating and identifying connections among clients. To this end, institutions should take reasonable steps to collect and use all relevant information; this includes publicly available information, information beyond the institutions' clients and also 'soft information' that typically exists at the level of individual loan officers and relationship managers.

30. On the basis of the available information, institutions should be able to identify all control relationships and economic dependencies among their clients, regardless of the size of their exposures. The guidelines acknowledge, however, the inherent difficulty of identifying economic dependencies among clients and state that institutions should strengthen their investigations in all cases where the sum of all exposures to one individual client exceeds 5% of Tier 1 capital.

31. It is important to note that institutions should also collect information on all entities forming a 'chain of contagion' to be able to correctly identify groups of connected clients. However, if there are interconnections among entities with which the institution has no business relation (and thus has not collected any information with regard to possible interconnections), the correct identification of a group of connected clients might not be possible. Naturally, if an institution becomes aware of such interconnections via entities outside its clientele (e.g. through press statements), it needs to incorporate this information into its grouping practice.

32. It will rarely be possible to implement automated procedures for identifying economic interconnections; therefore, case-by-case analysis and judgement should be used. As the determination of economic interconnection is dependent on the one hand on the information available to or gathered by the institution and on the other hand on economic judgement, it is possible that different institutions will arrive at different results when analysing the same entities. Supervisors should be aware of this issue and, depending on the specific case, may accept or challenge such differences.

3. Guidelines

EBA/GL/2017/15

14/11/2017

Guidelines

on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013

1. Compliance and reporting obligations

Status of these guidelines

1. This document contains guidelines issued pursuant to Article 16 of Regulation (EU) No 1093/2010.[12] In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities and financial institutions must make every effort to comply with the guidelines.

2. Guidelines set out the EBA's view of appropriate supervisory practices within the European System of Financial Supervision or of how Union law should be applied in a particular area. Competent authorities as defined in Article 4(2) of Regulation (EU) No 1093/2010 to whom guidelines apply should comply by incorporating them into their practices as appropriate (e.g. by amending their legal framework or their supervisory processes), including where guidelines are directed primarily at institutions.

Reporting requirements

3. In accordance with Article 16(3) of Regulation (EU) No 1093/2010, competent authorities must notify the EBA as to whether they comply or intend to comply with these guidelines, or otherwise give reasons for non-compliance, by ([dd.mm.yyyy]).

4. In the absence of any notification by this deadline, competent authorities will be considered by the EBA to be non-compliant. Notifications should be sent by submitting the form available on the EBA website to compliance@eba.europa.eu with the reference 'EBA/GL/201x/xx'. Notifications should be submitted by persons with appropriate authority to report compliance on behalf of their competent authorities. Any change in the status of compliance must also be reported to the EBA.

5. Notifications will be published on the EBA website, in line with Article 16(3).

[12] Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12. 2010, p. 12).

2. Subject matter, scope and definitions

Subject matter and scope of application

6. These guidelines specify the approach institutions, as defined under point (3) of Article 4(1) of Regulation (EU) No 575/2013, should take when applying the requirement to group two or more clients into a 'group of connected clients' because they constitute a single risk in accordance with Article 4(1)(39) of that Regulation.

Addressees

7. These guidelines are addressed to competent authorities as defined in point (i) of Article 4(2) of Regulation (EU) No 1093/2010 and to financial institutions as defined in Article 4(1) of Regulation No 1093/2010.

Definitions

8. Unless otherwise specified, terms used and defined in Regulation (EU) No 575/2013 and Directive 2013/36/EU have the same meaning in these guidelines.

3. Implementation

Date of application

9. These guidelines apply from 1 January 2019.

Repeal

10. The CEBS 'Guidelines on the implementation of the revised large exposures regime', of 11 December 2009, are repealed with effect from 1 January 2019.

4. Groups of connected clients based on control

11. When applying Article 4(1)(39)(a) of Regulation (EU) No 575/2013, institutions are required to assume that two or more clients constitute a single risk when there is a control relationship between them.

12. In exceptional cases, where institutions are able to demonstrate that no single risk exists despite the existence of a control relationship among clients, institutions should document the relevant circumstances that justify this case in a detailed and comprehensible manner. For example, in specific cases where a special purpose entity that is controlled by another client (e.g. an originator) is fully ring-fenced and bankruptcy remote – so that there is no possible channel of contagion, and hence no single risk, between the special purpose entity and the controlling entity – it may be possible to demonstrate that no single risk exists (see scenario C 1 in the annex).

13. Institutions should apply the concept of control as defined in Article 4(1)(37) of Regulation (EU) No 575/2013 as follows:

    a) In relation to clients that prepare their consolidated financial statements in conformity with the national rules transposing Directive 2013/34/EU,[13] institutions should rely on the control relationship between a parent undertaking and its subsidiaries within the meaning of Article 22(1) and (2) of Directive 2013/34/EU. For this purpose, institutions should group clients accordingly on the basis of their clients' consolidated financial statements. To this end, references to Directive 2013/34/EU should be understood as references to the national rules that transposed Directive 2013/34/EU in the Member State where the institutions' clients are required to prepare their consolidated financial statements.

    b) In relation to clients that prepare their consolidated financial statements in conformity with the international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002, institutions should rely on the control relationship between a parent undertaking and its subsidiaries within the meaning of those accounting standards. For this purpose, institutions should group clients accordingly on the basis of their clients' consolidated financial statements.

    c) In relation to clients to which point (a) or point (b) of this paragraph do not apply (e.g. natural persons, central governments, and clients that prepare consolidated financial statements in accordance with the accounting rules of a third country), institutions should

[13] Article 22(1) and (2) of Directive 2013/34/EU has replaced the content of Article 1 of Directive 83/349/EEC, referred to in Article 4(1)(37) of Regulation (EU) No 575/2013. In accordance with Article 52 of Directive 2013/34/EU, references to the repealed directive must be construed as references to Directive 2013/34/EU and must be read in accordance with the correlation table in its Annex VII.

deem to be control relationships those between any natural or legal person and an undertaking that are similar to the parent undertaking/subsidiary relationships mentioned in points (a) and (b) of this paragraph.

When conducting this assessment, institutions should deem any of the following criteria to constitute a control relationship:

i. holding the majority of the shareholders' or members' voting rights in another entity;

ii. right or ability to appoint or remove a majority of the members of the administrative, management or supervisory body of another entity;

iii. right or ability to exercise a dominant influence over another entity pursuant to a contract, or provisions in memoranda or articles of association.

Other possible indicators of control that institutions should consider in their assessment include the following:

iv. power to decide on the strategy or direct the activities of an entity;

v. power to decide on crucial transactions, such as the transfer of profit or loss;

vi. right or ability to coordinate the management of an entity with that of other entities in pursuit of a common objective (e.g. where the same natural persons are involved in the management or board of two or more entities);

vii. holding more than 50% of the shares of capital of another entity.

14. Given that the decisive factor for the assessment of the existence of a control relationship is the accounting criteria or indicators of control set out in paragraph 13(a), (b) and (c), institutions should group two or more clients on account of a relationship of control, as described in this section, even where these clients are not included in the same consolidated financial statements because exemptions apply to them under the relevant accounting rules, for example under Article 23 of Directive 2013/34/EU.

15. Institutions should group two or more clients into a group of connected clients on account of a relationship of control among these clients regardless of whether or not the exposures to these clients are exempted from the application of the large exposures limit under Article 400(1) and (2) of Regulation (EU) No 575/2013 or in accordance with exemptions under national rules implementing Article 493(3) of that Regulation.

5. Alternative approach for exposures to central governments

16. In line with the definition of 'group of connected clients' under the last subparagraph of Article 4(1)(39) of Regulation (EU) No 575/2013, institutions may assess the existence of a group of connected clients separately for each of the persons directly controlled by or directly interconnected with the central government ('alternative approach').[14]

17. The same provision allows for a partial application of the alternative approach, assessing separately the natural or legal persons directly controlled by or directly interconnected with the central government (see scenario CG 1 in the annex).

18. The provision also makes clear that:

   a) The central government is included in each of the groups of connected clients identified separately for the natural or legal persons directly controlled by or directly interconnected with the central government (see scenario CG 2 in the annex).

   b) Each group of connected clients under point (a) includes also persons controlled by or interconnected with the person who is directly controlled by or directly interconnected with the central government (see scenario CG 3 in the annex).

19. Where the entities directly controlled by or directly interconnected with the central government are economically dependent on each other, they should form separate groups of connected clients (excluding the central government), in addition to the groups of connected clients formed in accordance with the alternative approach (see scenario CG 4 in the annex).

20. In line with the last sentence of the last subparagraph of Article 4(1)(39) of Regulation (EU) No 575/2013, this section of the guidelines is also applicable to regional governments or local authorities to which Article 115(2) of that Regulation applies, and natural or legal persons directly controlled by or interconnected with these regional governments or local authorities.

[14] In accordance with Article 400(1)(a) of Regulation (EU) No 575/2013, asset items constituting claims on central governments, which unsecured would be assigned a 0% risk weight under the standardised approach, are exempted from the application of Article 395(1) (limits to large exposures) of the same regulation.

6. Establishing interconnectedness based on economic dependency

21. When assessing interconnectedness among their clients based on economic dependency, in accordance with Article 4(1)(39)(b) of Regulation (EU) No 575/2013, institutions should take into account the specific circumstances of each case, in particular whether the financial difficulties or the failure of a client would lead to funding or repayment difficulties for another client (see scenarios E 1, E 2, E 3 and E 4 in the annex).

22. Where an institution is able to demonstrate that the financial difficulties or the failure of a client would not lead to funding or repayment difficulties for another client, these clients do not need to be considered a single risk. In addition, two clients do not need to be considered a single risk if a client is economically dependent on another client in a limited way, meaning that the client can easily find a replacement for the other client.

23. Institutions should consider, in particular, the following situations when assessing economic dependency:

   a) Where a client has fully or partly guaranteed the exposure of another client and the exposure is so significant for the guarantor that the guarantor is likely to experience financial problems if a claim occurs.[15]

   b) Where a client is liable in accordance with his or her legal status as a member in an entity, for example a general partner in a limited partnership, and the exposure is so significant for the client that the client is likely to experience financial problems if a claim against the entity occurs.

   c) Where a significant part of a client's gross receipts or gross expenditures (on an annual basis) is derived from transactions with another client (e.g. the owner of a residential/commercial property the tenant of which pays a significant part of the rent) that cannot be easily replaced.

   d) Where a significant part of a client's production/output is sold to another client of the institution, and the production/output cannot be easily sold to other customers.

   e) Where the expected source of funds to repay the loans of two or more clients is the same and none of the clients has another independent source of income from which the loan may be serviced and fully repaid.

[15] This situation refers to guarantees that do not comply with the eligibility requirements provided for in Part Three, Title II, Chapter IV (Credit Risk Mitigation) of Regulation (EU) No 575/2013 and, consequently, in relation to which the substitution approach (referred to in Article 403 of that Regulation) cannot be used for prudential purposes.

f) Other situations where clients are legally or contractually jointly liable for obligations to the institution (e.g. a debtor and his or her co-borrower, or a debtor and his or her spouse/partner).

g) Where a significant part of the receivables or liabilities of a client is to another client.

h) Where clients have common owners, shareholders or managers. For example, horizontal groups where an undertaking is related to one or more other undertakings because they all have the same shareholder structure without a single controlling shareholder or because they are managed on a unified basis. This management may be pursuant to a contract concluded between the undertakings, or to provisions in the memoranda or articles of association of those undertakings, or if the administrative management or supervisory bodies of the undertaking and of one or more other undertakings consist for the major part of the same persons.

24. Institutions should also consider the non-exhaustive list of situations in paragraph 23 when assessing connections among shadow banking entities.[16] Institutions should give due consideration to the fact that relationships between entities falling under the definition of shadow banking entities will most likely consist not of equity ties but rather of a different type of relationship, i.e. situations of de facto control or relationships characterised by contractual obligations, implicit support or potential reputational risk (e.g. sponsorship or even branding).

25. Where an institution's client is economically dependent on more than one client, which are not dependent on each other, the institution should include the latter clients in separate groups of connected clients (together with the dependent client).

26. Institutions should form a group of connected clients where two or more of their clients are economically dependent on an entity, even if this entity is not a client of the institution.

27. Institutions should group two or more clients into a group of connected clients on account of economic dependency among these clients regardless of whether or not the exposures to these clients are exempted from the application of the large exposures limit under Article 400(1) and (2) of Regulation (EU) No 575/2013 or in accordance with exemptions under national rules implementing Article 493(3) of that Regulation.

Economic dependency through a main source of funding

28. Institutions should consider situations where the funding problems of one client are likely to spread to another on account of a one-way or two-way dependency on the same funding source. This does not include cases where clients get funding from the same market (e.g. the market for commercial paper) or where clients' dependency on their existing source of funding is caused by

[16] As defined in the EBA guidelines on limits on exposures to shadow banking entities that carry out banking activities outside a regulated framework under Article 395(2) of Regulation (EU) No 575/2013: https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-limits-on-exposures-to-shadow-banking

the clients' deteriorating creditworthiness, such that they cannot easily replace that source of funding.

29. Institutions should consider cases where the common source of funding depended on is provided by the institution itself, its financial group or its connected parties (see scenarios E 5 and E 6 in the annex)[17]. Being clients of the same institution does not in itself create a requirement to group the clients if the institution providing funding can be easily replaced.

30. Institutions should also assess any contagion or idiosyncratic risk that could emerge from the following situations:

   a) use of one funding entity (e.g. the same bank or conduit that cannot be easily replaced);

   b) use of similar structures;

   c) reliance on commitments from one source (e.g. guarantees, credit support in structured transactions or non-committed liquidity facilities), taking into account its solvency, especially where there are maturity mismatches between the maturity of underlying assets and the frequency of the refinancing needs.

[17] Recital 54 to Regulation (EU) No 575/2013 sets out that 'In determining the existence of a group of connected clients and thus exposures constituting a single risk, it is also important to take into account risks arising from a common source of significant funding provided by the institution itself, its financial group or its connected parties.'

7. Relation between interconnectedness through control and interconnectedness through economic dependency

31. Institutions should first identify which clients are connected via control in accordance with Article 4(1)(39)(a) of Regulation (EU) No 575/2013 ('control group') and which clients are connected via economic dependency in accordance with Article 4(1)(39)(b) of the same Regulation. Subsequently, institutions should assess whether the identified groups of connected clients need to be (partially) connected themselves (e.g. whether groups of clients connected on account of economic dependency need to be grouped together with a control group).

32. In their assessment, institutions should consider each case separately, i.e. identify the possible chain of contagion ('domino effect') based on the individual circumstances (see scenarios C/E 1 and C/E 2 in the annex).

33. Where clients that are part of different control groups are interconnected via economic dependency, all entities for which a chain of contagion exists need to be grouped into one group of connected clients. Downstream contagion should always be assumed when a client is economically dependent and is itself the head of a control group (see scenario C/E 3 in the annex). Upstream contagion of clients that control an economically dependent entity should be assumed only when this controlling client is also economically dependent on the entity that constitutes the economic link between the two controlling groups (see scenario C/E 4 in the annex).

8. Control and management procedures for identifying connected clients

34. Institutions should have a thorough knowledge of their clients and their clients' relationships. Institutions should also ensure that their staff understand and apply these guidelines.

35. Identification of possible connections among clients should be an integral part of an institution's credit granting and surveillance process. The management body and senior management should ensure that adequate processes for the identification of connections among clients are documented and implemented.

36. Institutions should identify all control relationships among their clients and document as appropriate. Institutions should also investigate, and document as appropriate, any potential economic dependencies among their clients. Institutions should take reasonable steps and use readily available information to identify these connections. If, for example, an institution becomes aware that clients have been considered interconnected by another institution (e.g. because of the existence of a public register), it should take into account that information.

37. The efforts that institutions put into the investigation of economic dependencies among their clients should be proportionate to the size of the exposures. Therefore, institutions should strengthen their investigations, by extensive research of any type of 'soft information' as well as information that goes beyond the institutions' clients, in all cases where the sum of all exposures to one individual client exceeds 5% of Tier 1 capital.[18]

38. To assess grouping requirements based on a combination of control and economic dependency relationships, institutions should collect information on all entities forming a chain of contagion. Institutions might not be able to identify all clients that constitute a single risk if there are interconnections that stem from entities that are not in a business relationship with the institution and are therefore unknown to the institution (see scenario Mm 1 in the annex). However, if an institution becomes aware of interconnections via entities outside its clientele, it should use this information when assessing connections.

39. Control and management procedures for identifying connected clients should be subject to periodic review to ensure their appropriateness. Institutions should also monitor changes to interconnections, at least in the context of their periodic loan reviews and when a substantial increase to a loan is planned.

[18] The threshold refers to the institution's Tier 1 capital for the purposes of applying these guidelines on an individual basis. The threshold refers to the Tier 1 capital of the group of the institution for the purposes of applying these guidelines on a subconsolidated or consolidated basis.

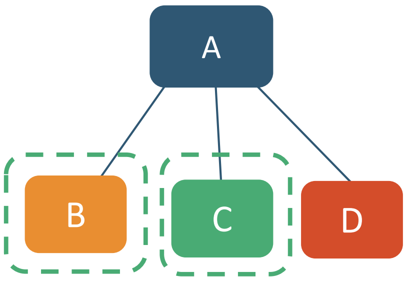
Annex: Illustrations

The scenarios included in this annex illustrate the application of the guidelines to groups of connected clients falling under the definition in Article 4(1)(39) of Regulation (EU) No 575/2013, from the perspective of the reporting institution.

Groups of connected clients based on control

Scenario C 1: Exceptional case (no single risk exists despite the existence of control)

The reporting institution has exposures to all entities shown below (A, B, C and D). Entity A has control over entities B, C and D. The subsidiaries B, C and D are special purpose entities/ special purpose vehicles (SPEs/SPVs).



To assess if there is no single risk, despite the existence of a control relationship, the reporting institution should assess at least all of the following elements in relation to each of the SPEs/SPVs (entities B, C and D in this scenario):

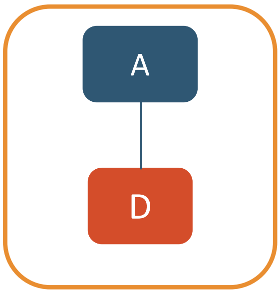
i) The absence of economic interdependence or any other factors that could be indicative of a material positive correlation between the credit quality of the parent undertaking A and the credit quality of the SPE/SPV (B, C or D). Among other factors, potential reliance on parent undertaking A for funding sources and some of the criteria preventing the deconsolidation of the SPE/SPV or the derecognition of securitised assets under the applicable accounting rules have to be assessed as potential signs of material positive correlation.

ii) The specific nature of the SPE/SPV, especially its bankruptcy remoteness (based on Article 300(1) of Regulation (EU) No 575/2013) – in the sense that effective arrangements exist that ensure that the assets of the SPE/SPV will not be available to the creditors of parent undertaking A in the event of its insolvency – and if the debt securities issued by the SPE/SPV normally reference assets that are third parties' liabilities.

iii) The structural enhancement in a securitisation, and the delinkage of the obligations of the SPE/SPV from those of parent undertaking A, such as the existence of provisions, in the transactions documentation, ensuring servicing and operational continuity.

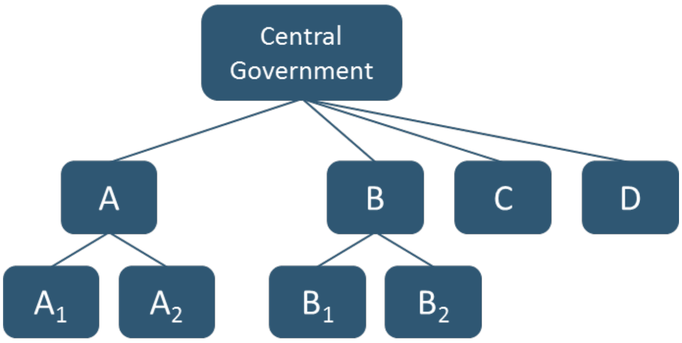
iv) The compliance with the provisions under Article 248 of Regulation (EU) No 575/2013 regarding arm's length conditions.

Having assessed all of these elements, the reporting institution could conclude that, for example, subsidiaries B and C do not constitute a single risk with parent undertaking A. As a result, the reporting institution needs to consider a group of connected clients composed only of clients A and D. The institution should document these assessments and their findings in a comprehensive way.



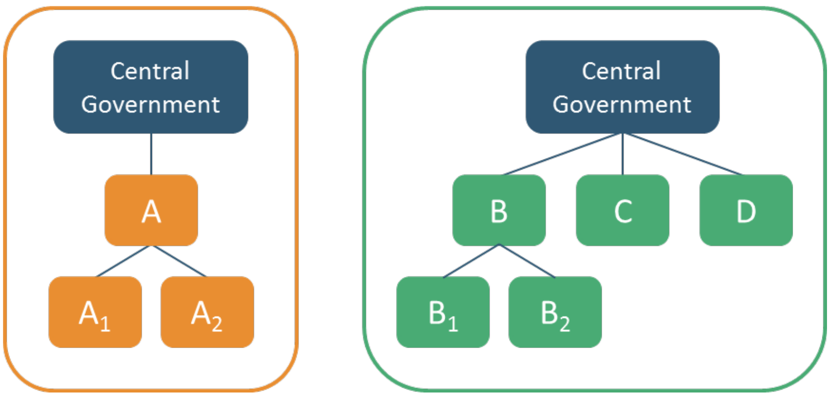
Alternative approach for exposures to central governments

To illustrate the possible scenarios, the following general scenario is used: the central government directly controls four legal persons (A, B, C and D). Entities A and B themselves have direct control over two subsidiaries each (A_1/A_2, B_1/B_2). The reporting institution has exposures to the central government and all of the entities shown.

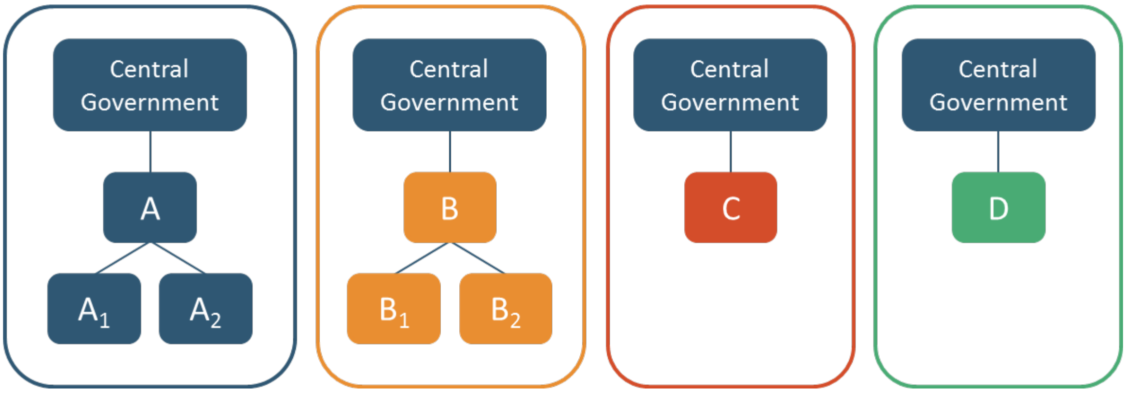


Scenario CG 1: Alternative approach – partial use

The reporting institution could carve out only one group ('central government/A/all controlled or dependent entities of A') and keep the general treatment for the rest ('central government/B, C and D/all controlled or dependent entities of B'):

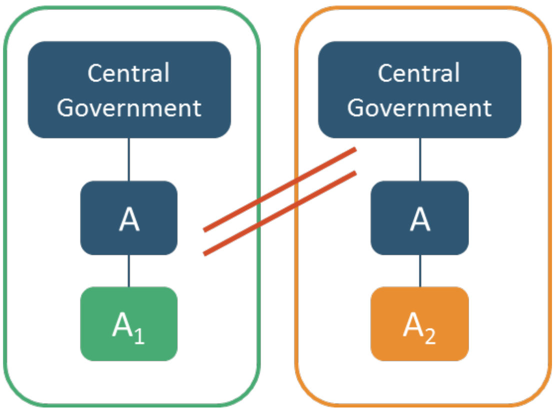


<u>Scenario CG 2</u>: Alternative approach – used for all directly dependent entities



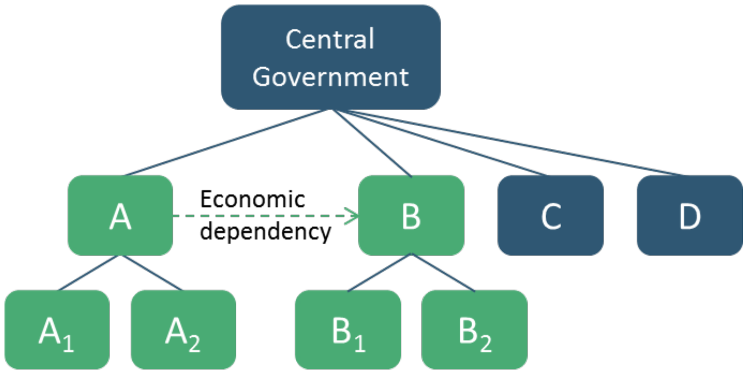
<u>Scenario CG 3</u>: Alternative approach – applicable on 'first/second level', not below

In the scenarios CG1 and CG2, entities A, B, C and D constitute the 'second level', i.e. the level directly below the central government ('first level'). Here, a carve-out from the overall group of connected clients is possible. However, entities A_1, A_2, B_1 and B_2 are only indirectly connected to the central government. A carve-out on their level is <u>not possible</u> (e.g. both A_1 and A_2 need to be included in the group 'central government/A'):

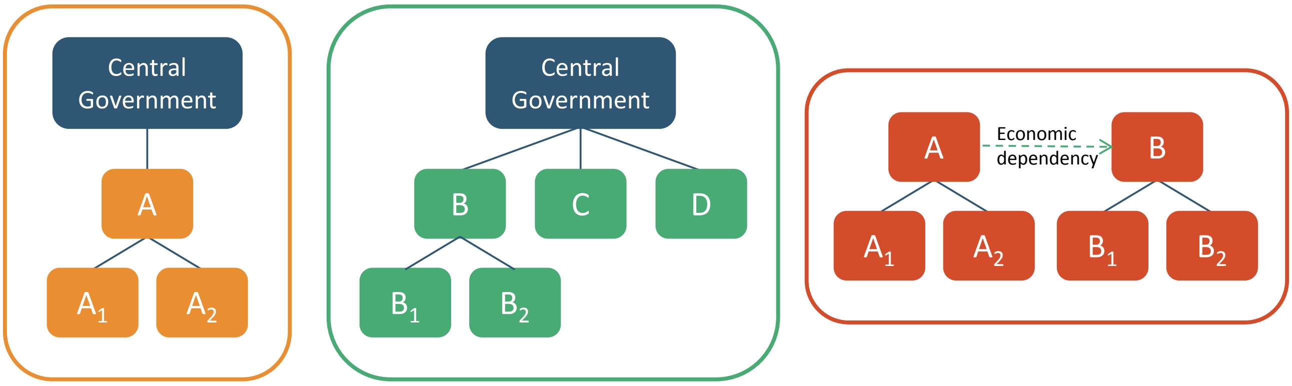


<u>Scenario CG 4</u>: 'Horizontal connections' on the 'second level'

In a variation on the general scenario above, entities A and B are economically dependent (payment difficulties for B would be contagious to A):



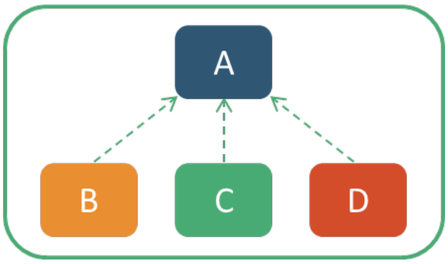
Assuming that the reporting institution uses the alternative approach only in part, as described in scenario CG 1 above, the following groups of connected clients need to be considered:



Establishing interconnectedness based on economic dependency

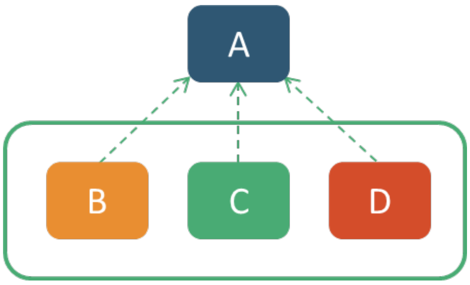
<u>Scenario E1</u>: Main case

The reporting institution has exposures to all entities shown below (A, B, C and D). B, C and D rely economically on A. Hence the underlying risk factor for the institution is in all cases A. The institution has to form one comprehensive group of connected clients, not three individual ones. It is irrelevant that there is no dependency among B, C and D.



<u>Scenario E 2</u>: Variation on main case (no direct exposure to source of risk)

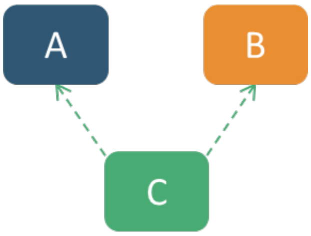
There is a grouping requirement even if the reporting institution does not have a direct exposure to A but is aware of the economic dependency of each client (B, C and D) on A. If possible payment difficulties for A are contagious to B, C and D, they will all experience payment difficulties if A gets into financial trouble. Therefore, they need to be treated as a single risk.



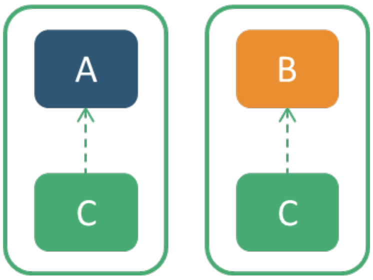
As in scenario E 1, it does not matter that there is no dependency among B, C and D. A causes the grouping requirement, although it is not a client itself and thus is not part of the group of connected clients.

<u>Scenario E 3</u>: Overlapping groups of connected clients

If an entity is economically dependent on two (or more) other entities (note that the payment difficulties of one of the other entities (A or B) might be sufficient to result in C being in difficulty),



it has to be included in the groups of connected clients of both (all such) entities:



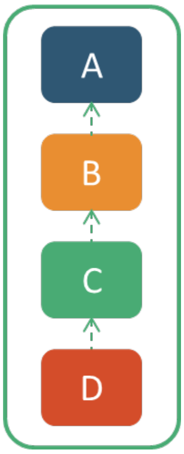
The argument that the exposure to C will be double-counted is not valid because the exposure to C is considered a single risk in two separate groups.

The large exposure limit applies separately (i.e. the limit applies once to exposures to group A/C and once to exposures to group B/C).

As there is no dependency between A and B, no comprehensive group (A + B + C) needs to be formed.

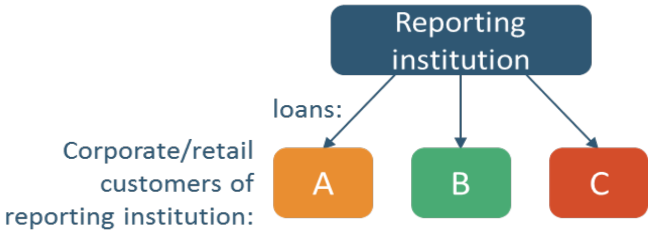
<u>Scenario E 4</u>: Chain of dependency

In the case of a 'chain of dependency', all entities that are economically dependent (even if the dependency is only one way) need to be treated as one single risk. It would not be appropriate to form three individual groups (A + B, B + C, C + D).



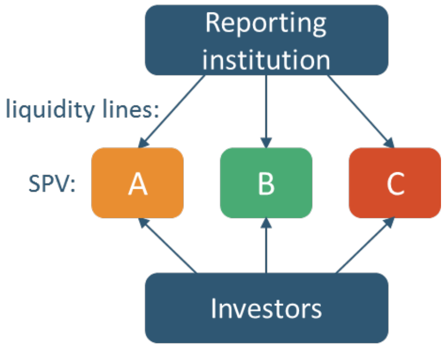
<u>Scenario E 5</u>: Reporting institution as source of funding (no grouping requirement)

In the following scenario, the reporting institution is the sole provider of funds for three customers. It is not an 'external funding source' that connects the three clients and it is a funding source that can normally be replaced.

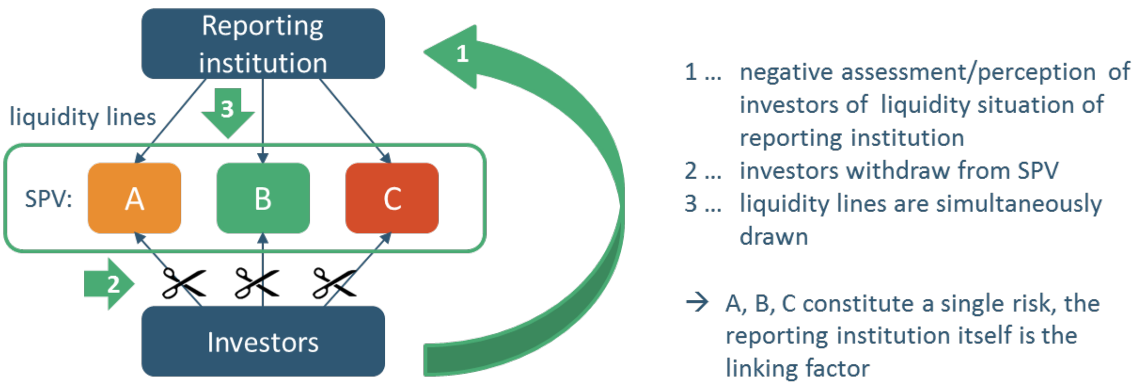


Scenario E 6: Reporting institution as source of funding (grouping requirement)

In the following scenario, the reporting institution is the liquidity provider of three SPVs or conduits (similar structures):



In such a case, the reporting institution itself can constitute the source of risk (the underlying risk factor) as recognised in recital 54 to Regulation (EU) No 575/2013:[19]



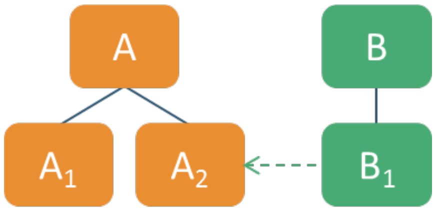
In the scenario above, it does not make a difference whether the liquidity lines are directly to the SPV or to underlying assets within the SPV; what matters is the fact that liquidity lines are likely to be drawn on simultaneously. Diversification and quality of the assets are also not considerations in this scenario, nor is the reliance on investors in the same sector (e.g. investors in the ABCP market), as the single risk is created by the use of similar structures and the reliance on commitments from one source (i.e. the reporting institution as the originator and sponsor of the SPVs).

[19] Recital 54 to Regulation (EU) No 575/2013 reads: 'In determining the existence of a group of connected clients and thus exposures constituting a single risk, it is also important to take into account risks arising from a common source of significant funding provided by the institution itself, its financial group or its connected parties.'

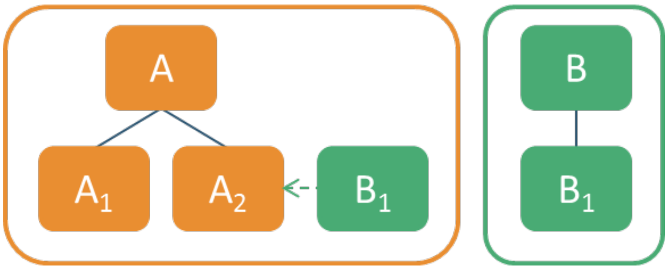
Relation between interconnectedness through control and interconnectedness through economic dependency

<u>Scenario C/E 1</u>: Combined occurrence of control and economic dependency (one-way dependency)

In the following scenario, the reporting institution has exposures to all entities shown in the diagram below. A controls A_1 and A_2, B controls B_1. Furthermore, B_1 is economically dependent on A_2 (one-way dependency):



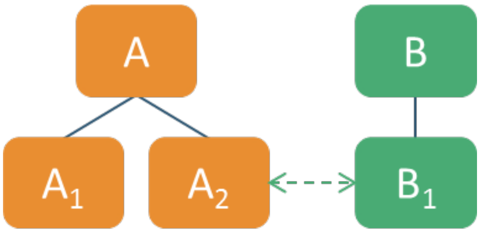
<u>Grouping requirement</u>: In this scenario, the reporting institution should come to the conclusion that B_1 is in any case to be included in the group of connected clients of A (the group thus consisting of A, A_1, A_2 and B_1) as well as of B (the group thus consisting of B and B_1):



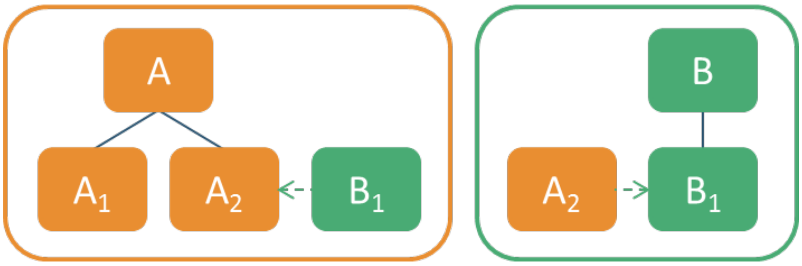
In case of financial problems for A, A_2 and ultimately B_1 will also experience financial difficulties on account of their legal (A_2) and economic (B_1) dependency respectively. The forming of three different groups ($A + A_1 + A_2$, $A_2 + B_1$, $B + B_1$) would not be sufficient to capture the risk stemming from A, because B_1, although dependent on A_2 and thus on A itself, would be carved out of the single risk of group A.

Scenario C/E 2: Combined occurrence of control and economic dependency (two-way dependency)

In this scenario, the economic dependency of A_2 and B_1 is not only one way but mutual:

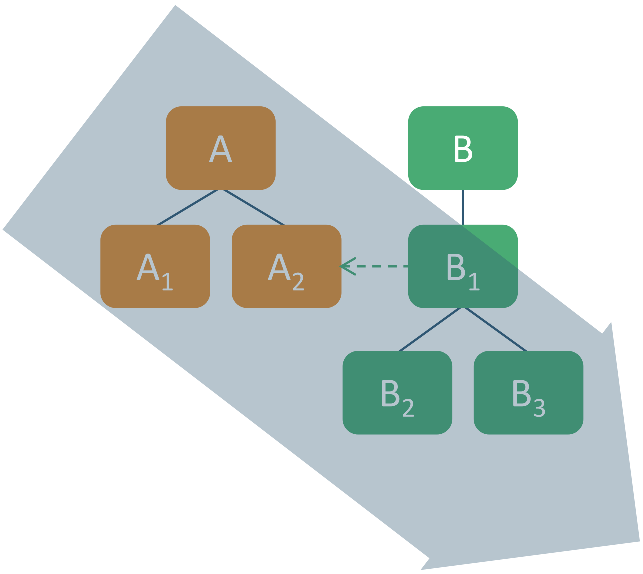


Grouping requirement: A_2 would need to be included additionally in group B, and B_1 would need to be included additionally in group A:

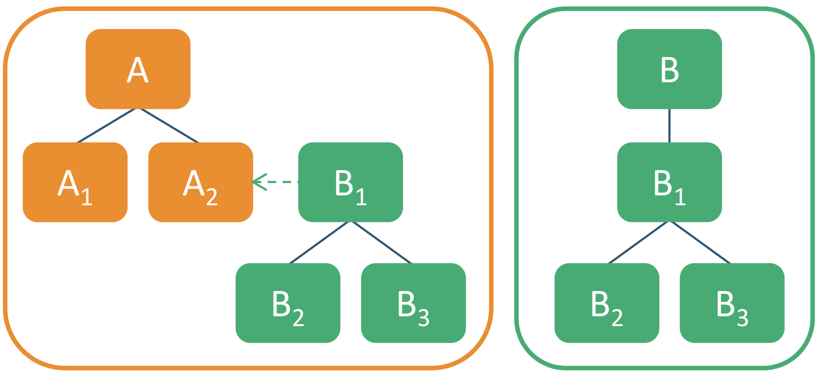


Scenario C/E 3: Downstream contagion

In a variation on scenario C/E 1 above, B_1 also controls two entities (B_2 and B_3). In this case, the financial difficulties of A will pass through A_2 and B_1 down to the two subsidiaries of B_1 ('downstream contagion').

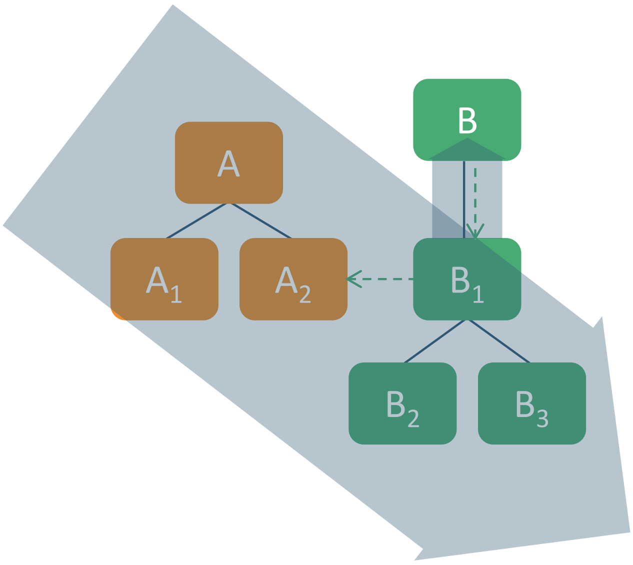


Grouping requirement:

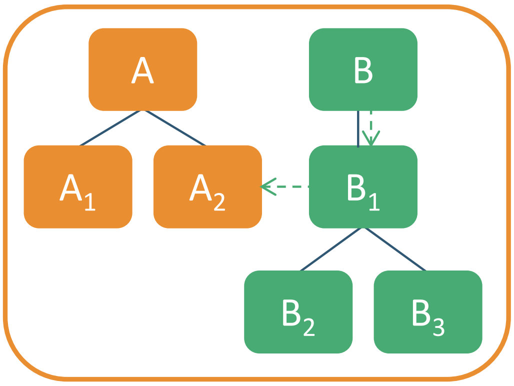


Scenario C/E 4: Upstream contagion

The control relationship between B and B_1 does not automatically lead to including B in the group of connected clients of A, as financial problems for A are not likely to result in financial difficulties for B. However, the controlling entity B needs to be included in the group of A if B_1 forms such an important part of group B that B is economically dependent on B_1. In this case, the financial difficulties of A will proceed not only downwards but also upwards to B, causing payment difficulties for B (i.e. all entities now form a single risk).



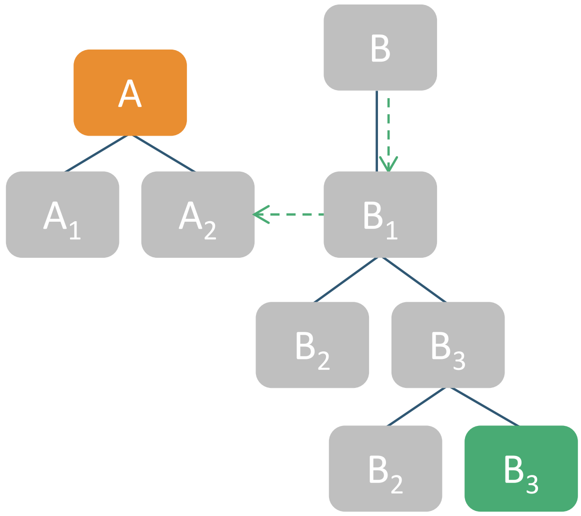
Grouping requirement:



Control and management procedures for identifying connected clients

<u>Scenario Mm 1</u>: Limits to the identification of a chain of contagion

Further developing the scenario above (C/E 4), the reporting institution has exposures only to entity A and entity B_3. In such a case, it is recognised that it might not be possible for the reporting institution to become aware of the chain of contagion and the group of connected clients might not be correctly formed.



4. Accompanying documents

4.1 Cost-benefit analysis/impact assessment

These guidelines aim to update the CEBS 'Guidelines on the implementation of the revised large exposures regime' (December 2009), which provide guidance on the creation of 'groups of connected clients' in line with Article 4(1)(39) of Regulation (EU) No 575/2013.

Article 16(2) of the EBA Regulation (Regulation (EU) No 1093/2010 of the European Parliament and of the Council) provides that any guidelines developed by the EBA should be accompanied by an analysis looking at 'the potential related costs and benefits'. This analysis should provide the reader with an overview of findings regarding the baseline scenario, the problem identified, the options identified to remove the problem and the potential impact of these options.

This section presents a cost-benefit analysis of the provisions included in the guidelines set out in this paper. Given the nature of the study, the analysis is high level and qualitative in nature.

A. Problem identification

The core problems that the current guidelines aim to address are the outdated framework on the treatment of connected clients and the lack of harmonised practices across jurisdictions.

Since the introduction of the CEBS guidelines, several aspects of those guidelines have been progressively replaced by other pieces of regulation, leaving only one part still valid. This part relates to the issue of connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013.

There is currently a lack of consistency with Regulation (EU) No 575/2013, other relevant European Commission regulations and EBA guidelines, and the current guidelines do not effectively account for developments in the areas of shadow banking and large exposures at EU and international level.

B. Policy objectives

The objective of the guidelines is to clarify, operationalise and harmonise the application of the concept of 'group of connected clients' across Regulation (EU) No 575/2013, in particular when control issues or economic dependency should lead to the grouping of clients because they constitute a single risk in accordance with Article 4(1)(39) of the same Regulation.

The concept of 'group of connected clients' is particularly relevant for the large exposures regime. This regime constitutes a backstop designed to limit the impact of the failure of a client or a group of connected clients on an institution; therefore, the identification of clients so closely linked by idiosyncratic risk factors that they constitute a single risk is of key importance. Idiosyncratic risk represents the effect of risks that are specific to individual clients. Idiosyncratic risk arises where, in a bilateral interrelationship, financial problems of one entity are transferred via this interrelationship to another entity that otherwise would not be concerned.

As a result of the public consultation, and in line with the objective of the guidelines set out above, the scope of the guidelines has been extended to all areas of Regulation (EU) No 575/2013 where the concept of connected clients is used, i.e. the large exposures regime (Part Four of that Regulation), the categorisation of clients in the retail exposure class for the purposes of credit risk (Article 123(c) and Article 147(5)(a)(ii)), the development and application of rating systems (Article 172(1)(d)), and the SME supporting factor (Article 501(2)(c)). The guidelines also apply to EBA technical standards and to EBA guidelines that refer to 'groups of connected clients' as defined in Article 4(1)(39) of Regulation (EU) No 575/2013, namely in the area of liquidity reporting, where this concept is used in the specification of items requiring stable funding that must be reported to the competent authorities (Article 428(1)(g)(ii) of that Regulation), and in the reporting of concentration of funding by counterparty and concentration of counterbalancing capacity by issuer/counterpart.[20]

C. Baseline scenario

The starting points for the review were the current Articles 4(1)(37) and (39) of Regulation (EU) No 575/2013 and the 2009 CEBS guidelines. This analysis assumes that the current practices in the Member States are in line with the provisions of the 2009 CEBS guidelines.

D. Assessment of options considered

Option 1: Keep Part I of the 2009 CEBS guidelines

Option 2: Review and update the 2009 CEBS guidelines

Option 2 was the preferred option on account of the following arguments:

- Under option 1, the shortcomings of the current framework (e.g. outdated guidance on some aspects, inconsistencies with other regulatory practices and lack of consistent treatment of connected clients across Member States) would continue.

- The new Accounting Directive 2013/34/EU replaced Directive 83/349/EC, mentioned in Article 4(1)(37) of Regulation (EU) No 575/2013, which had led to a need to update the guidelines.

- Changes to Article 4(1)(39) of Regulation (EU) No 575/2013, i.e. the introduction of the last subparagraph of that Article, which provided an alternative approach for the assessment of

[20] Respectively, templates C 67.00 and C 71.00 of the Commission Implementing Regulation (EU) 2016/313 of 1 March 2016 amending Implementing Regulation (EU) No 680/2014 with regard to additional monitoring metrics for liquidity reporting, which is available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.060.01.0005.01.ENG&toc=OJ:L:2016:060:TOC.

the existence of groups of connected clients of entities directly controlled by or directly interconnected with the central government (or regional or local governments to which Article 115(2) of Regulation (EU) No 575/2013 applies), had led to a need to update the guidelines.

- Other European Commission regulations overlap with parts of the 2009 CEBS guidelines.
- Experience of the application of the 2009 CEBS guidelines had led to the identification of certain aspects of the guidelines that needed to be revised or clarified.

Under option 2, the main changes from the 2009 CEBS guidelines are the following:

- Regarding the assessment of connections based on control, the guidelines clarify that institutions should make use of their clients' consolidated financial statements. This follows from a reading of Article 4(1)(37) of Regulation (EU) No 575/2013.

  This clarification should alleviate the burden of identifying relations of control but will require that institutions have access to and make use of their clients' consolidated financial statements. Regarding the assessment of the existence of control relationships in the case of subsidiaries excluded from the consolidated financial statements by way of exemption, most respondents do not expect that this will lead to additional costs.

- The guidelines clarify that only in *exceptional* cases does the existence of a control relationship not lead to 'single risk'. It is unlikely that there are a significant number of current cases where the existence of a control relationship does not lead to a 'single risk'. This assumption was not refuted by respondents, who did not perceive this clarification as entailing a material cost for institutions. However, respondents highlighted particular cases that would constitute an exception. The guidelines do not preclude the recognition of such cases; it depends on the specific circumstances in each situation, which need to be assessed and demonstrated by institutions on a case-by-case basis.

- New guidance regarding the use of the alternative approach introduced by the last subparagraph of Article 4(1)(39) of Regulation (EU) No 575/2013 has been included. This provides guidelines for the assessment of the existence of groups of connected clients of entities directly controlled by or directly interconnected with the central government (or regional or local governments to which Article 115(2) of Regulation (EU) No 575/2013 applies). The guidelines only clarify how this preferential treatment works in cases where institutions wish to apply it.

- Regarding the assessment of economic dependency, the present guidelines recognise that it is sufficient when financial difficulties or the failure of a client would lead to 'repayment difficulties' for another client for those clients to form a group of connected clients, which is aligned with the wording of Article 4(1)(39)(b) of Regulation (EU) No 575/2013. Respondents disagreed with this change but did not provide evidence to suggest that there would be a disproportionate cost associated with this rewording. An addition to the guidelines to make clear that, if institutions are able to demonstrate that financial difficulties or the failure of a client would not lead to funding or repayment difficulties for another client, these clients do not constitute a single risk and do not need to be considered interconnected should address to some extent the concerns expressed.

- The guidelines also clarify situations where control and economic dependencies are interlinked and can therefore lead to the existence of one group of connected clients as opposed to two separate groups of connected clients. The 2009 CEBS guidelines did not explicitly state that interconnections between control groups and economically dependent entities needed to be established, especially when there was a downstream chain of contagion. The wording was more open and led to different interpretations and particularly the misconception that the non-grouping of controlled and economically dependent entities was the rule and grouping the exception. Respondents disagreed with this proposal but did not provide evidence to suggest that there would be a disproportionate cost associated with it. The EBA notes that the key criterion that emerges from the definition of group of connected clients in Article 4(1)(39) of Regulation (EU) No 575/2013 is precisely the existence of a single risk and the need for institutions to assess possible chains of contagion.

E. Cost-benefit analysis

The abovementioned changes to the current framework are expected to generate additional operational cost for the institutions (and the competent authorities). These costs are associated with (i) institutions having to be able to demonstrate that cases are exceptional, for example where control does not lead to a single risk or with regard to subsidiaries that are excluded from the consolidation; (ii) the preferential treatment of central government connected clients; (iii) the identification of connected clients on the basis of repayment difficulties; and (iv) the identification of situations where control and economic dependencies are interlinked.

According to respondents, institutions would need to carry out additional analyses and reporting, and in some cases increase their staff and IT capacity. During the consultation stage in the preparation of the current guidelines, stakeholders mentioned that, while the identification of exceptional cases would have a negligible cost impact in general, the costs of identifying exceptional cases when the entities are not subject to accounting consolidation might be higher. The costs associated with the latter would depend on the extent to which the investigation went beyond the official documentation. While some stakeholders expected the associated costs to be negligible, others argued that such investigation would generate costs due to the need to increase IT capacity, for example to build a centralised database. Furthermore, two respondents stated that reasonable efforts would be made to capture control relations excluded from consolidated requirements and that investigation beyond the normal course of business to identify such relationships was not expected.

In terms of the identification of repayment difficulties, the stakeholders also expect high costs related to detailed further analyses, an increase in manual routines, reliance on external data providers and reporting.

Regarding the work relating to preferential treatment of central government connected clients and regarding the identification of situations where control and economic dependency are interlinked, the stakeholders did not provide explicit cost-related arguments regarding the implementation of the relevant provisions of the guidelines.

Given the information available to the EBA and the (qualitative) responses to the consultation, the EBA expects the benefits of the guidelines in terms of providing a clear framework for the identification of clients that constitute a single risk and should therefore be connected, risk assessment (identification of contagion risk, backstop to the building up of exposures to clients that constitute a single risk) and responding to the new challenges of the banking sector to exceed the possible additional compliance costs associated with the revised guidelines.

4.2 Feedback on the public consultation

The EBA publicly consulted on a draft proposal of the guidelines contained in this document.

The first Consultation Paper included a proposal on the draft guidelines and restricted their application to the large exposures regime (Part Four of Regulation (EU) No 575/2013, the Capital Requirements Regulation – CRR). This consultation period lasted for three months and ended on 26 October 2016. Twenty-three responses were received, of which eighteen were published on the EBA website.[21]

However, the concept of 'group of connected clients' is also used in other areas of the CRR, i.e. the categorisation of clients in the retail exposure class for the purposes of credit risk (Article 123(c) and Article 147(5)(a)(ii)), the development and application of rating systems (Article 172(1)(d)), the specification of items requiring stable funding for the purposes of reporting (Article 428(1)(g)(ii)) and the application of the SME supporting factor (Article 501(2)(c)), as well as in EBA technical standards and EBA guidelines that refer to 'groups of connected clients'.

Given that the CRR specifies a definition of 'group of connected clients' in Article 4(1)(39), which is applied consistently throughout that Regulation, the draft guidelines should likewise apply consistently where that Regulation, EBA technical standards or EBA guidelines make reference to that definition.

Therefore, the EBA has consulted on the possible extension of the scope of the draft guidelines to the remaining aspects of the CRR, EBA technical standards and EBA guidelines where the concept of 'group of connected clients' is relevant. The consultation period lasted for one month and ended on 26 June 2017. Ten responses were received, of which nine were published on the EBA website.[22]

This subsection presents a summary of the key points and other comments arising from the two consultations, the analysis and discussion triggered by these comments and the actions taken to address them if deemed necessary.

In many cases, several industry bodies made similar comments or the same body repeated its comments in response to different questions. In such cases, the comments and the EBA's analysis are included in the section where the EBA considers them most appropriate.

Changes to the draft guidelines have been incorporated as a result of the responses received during the public consultation as further detailed in the feedback table below.

[21] The non-confidential responses were published at https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-connected-clients.

[22] The non-confidential responses were published at https://www.eba.europa.eu/regulation-and-policy/large-exposures/guidelines-on-connected-clients.

Summary of key issues

There was a general concern regarding the concept of 'repayment difficulties' – considered by many respondents to be, to some extent, vague – the use of which might make it more difficult for institutions to identify and delimit to what extent economic dependencies would lead to contagion chains. In respondents' view, 'repayment difficulties' should be linked to the intention of the Basel Committee to capture only connections that threaten default. Therefore, they suggested maintaining the former reference to 'substantial, existence-threatening repayment difficulties'.

The relationship between the concepts of 'economic dependency' and 'control' was not entirely clear. Many respondents believed that interconnectedness through control differs fundamentally from interconnectedness through economic dependency and they were opposed to such an approach, which in their view would go beyond the requirements of Article 4(1)(39) of the CRR.

Several respondents challenged the parts of the draft guidelines that require the forming of groups of connected clients involving different SPVs that had been sponsored or originated by the same reporting institution, in view of the economic dependency determined by the latter acting as a common source of funding for these SPVs. In some of these respondents' views, the proposed treatment (i) contradicts the fundamental principles for the determination of groups of connected clients, because the institution itself is not to constitute the linking factor, as it may disregard its own insolvency; (ii) unduly adds sectorial concentration risk to the scope of the large exposures regime; (iii) does not consider the 'limited recourse' features of securitisation transactions; (iv) is not consistent with other EU measures (e.g. the look-through approach for securitisation transactions); and (v) might have negative consequences for real economy financing, thus contradicting the principles at the basis of the Capital Market Union.

Although many of the respondents agreed that the list of indicators of economic dependency are reasonable indicators, they argued that it should be made clear that institutions are not required to assess the existence of each situation for each exposure, and that these indicators should not automatically lead to the conclusion that a grouping must be made. The latter point was also made with regard to the list of control indicators.

Several respondents commented on the 2% (of eligible capital) threshold for investigating potential economic dependencies more intensively. Concern was expressed that the proposed threshold of 2% was unnecessarily restrictive. It was proposed that the threshold should be in line with the 5% (of Tier 1 capital) threshold under the Basel framework for large exposures.

Generally, respondents appreciated the EBA's effort to harmonise and simplify the concept of groups of connected clients across the CRR. Nevertheless, all respondents expressed disagreement or at least concerns regarding the EBA's proposal to extend the scope of the draft guidelines on connected clients. In their responses to the consultation questions, the great majority of respondents reiterated concerns highlighted in the first consultation – in relation to the economic dependency criterion in particular – which in their view would be exacerbated by the extension of the scope of the draft guidelines beyond large exposures. In addition, most comments seem to relate to the CRR and were not specific to the application of the guidelines on connected clients. Respondents seem to ignore that the concept of connected clients as defined in Article 4(1)(39) of the CRR requires an assessment of relationships of control and economic dependencies.

Although the Consultation Paper asked for specific feedback regarding the possible impact of the application of the guidelines on connected clients to the identified provisions of the CRR and liquidity reporting, none of the responses included concrete evidence or data on the impact of the application of the guidelines on institutions’ practices or capital requirements.

Summary of responses to the consultations and the EBA's analysis

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Consultation Paper EBA/CP/2016/09 on Guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013			
General comments			
Review of the guidelines	Some respondents are of the opinion that the current rules on groups of connected clients ensure that the concentration risk resulting from a close legal or economic connection between borrowers is captured and limited. Therefore, they do not see the urgency of the current review of the guidelines, in particular given that there is no clear mandate in the CRR and bearing in mind the ongoing revision of the European large exposures regime. In addition, one respondent sees no added value in issuing the revised guidelines but, rather, expects the framework to become more complex. According to another respondent, an amendment to Article 4(1)(39) of the CRR would be required.	Changes to the CRR, and EBA technical standards and guidelines, in particular in the area of large exposures, have led to inconsistencies and overlaps with the 2009 CEBS guidelines on large exposures. Therefore, the EBA has decided to review the 2009 CEBS guidelines, focusing exclusively on the issue of connected clients under Article 4(1)(39) of the CRR. The EBA is mindful of the ongoing review of the CRR. However, it is not currently expected that this review will fundamentally change the concept of 'group of connected clients' and, therefore, the substance of the present guidelines.	No amendments.
Extended scope of application	For some respondents, it is not clear how the institutions are expected to handle the grouping of connected clients in cases not related to large exposures. It would not be feasible to have different	The guidelines should contribute to the harmonisation of institutions' practices and the consistent application of the concept of 'group	Amendments to section 2, 'Subject matter, scope and definitions',

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	approaches and definitions, which could lead to the creation of different groups of connected clients depending on the different purposes of the definitions in Article 4(1)(39) of the CRR.[23] As a group of connected clients (GCC) is a firmly established concept in overall risk management processes, all GCC members are treated in the same portfolio of the various business and risk management units. In the spirit of consistency, several respondents would welcome a review of the scope of the guidelines (as well as of paragraphs 5 and 11 of the draft guidelines) to extend their application beyond the large exposures framework.	of connected clients' across the CRR. Therefore, the EBA agrees with these respondents that the application of the guidelines should not be restricted to the large exposures framework and has extended their scope to other areas of the CRR, and of EBA technical standards or EBA guidelines, where the concept of 'groups of connected clients' is relevant. Apart from large exposures, this concept is also used when categorising clients in the retail exposure class for the purposes of credit risk (Article 123(c) and Article 147(5)(a)(ii) of the CRR), in the development and application of rating systems (Article 172(1)(d) of the CRR), in the specification of items requiring stable funding for reporting purposes (Article 428(1)(g)(ii)) and in the application of the SME supporting factor (Article 501(2)(c) of the CRR), as well as in EBA technical standards and EBA guidelines that refer to 'groups of connected clients', in particular in the area of liquidity reporting.	paragraph 6; section 4, 'Groups of connected clients based on control', paragraph 11; and section 6, 'Establishing interconnectedness based on economic dependency', paragraph 21.
Transitional	A broader application of the economic dependency criteria will	The application date of the guidelines has been	Amendments to

[23] Part Four of the CRR (large exposures), Article 123 and Article 147 of the CRR for defining the retail segment (standardised and IRB approaches), Article 172(1)(d) of the CRR for rating process and Article 501 of the CRR for SME supporting factor.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
period	involve substantial changes to banks' procedures and IT systems and will lead to the identification of more cases of connected clients. Therefore, the majority of the respondents request a long enough transitional period for implementing the revised guidelines and for evaluating every single counterparty on the differences between the old and new guidelines. The requirements related to control and management procedures are very extensive and will entail not only high costs for institutions regarding implementation, administration and monitoring but also a certain amount of time. Some of the respondents propose a grandfathering period of at least 18 months from the date of publication of the final supervisory requirements. In this context, one respondent recommends a new wording for paragraph 35, since the difficulty of investigating economic dependencies does not seem to be recognised.	set for 1 January 2019. This should allow sufficient time for institutions and competent authorities to prepare for their full application.	section 3, 'Implementation', paragraphs 9 and 10.
Responses to questions in Consultation Paper EBA/CP/2016/09			
Question 1	*[7 out of 23 respondents were silent on this question.]*[24]		
Are you aware of any situations where the existence of a control relationship among clients	Two respondents pre-emptively highlight that in most cases a control relationship in effect triggers 'single risk' and determines that – should financial distress occur – the controlling entity will intervene to support the troubled subsidiary and vice versa. According to all the respondents, however, at least one situation	Respondents did not refute that, in the great majority of cases, two or more clients constitute a single risk where there is a control relationship among them. The EBA recognises in the guidelines	Amendments to section 4, 'Groups of connected clients based on control' (addition to paragraph 12); addition of

[24] Two respondents did not directly answer Question 1. However, in their general comments on the guidelines they raised issues related to Question 1.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
does not lead to a 'single risk'?	exists where the control relationship among clients does not translate into direct risk and does not lead to a 'single risk'. Broadly, these cases refer both to the legal/contractual arrangements and to the specific features of the financial instruments or vehicles linking two or more clients. One respondent notes that in jurisdictions that have adopted banking structural reforms, the formal control relationship between a parent company and its trading subsidiary should not lead to a 'single risk' in view of legal provisions segregating the two entities and requiring individual capital and liquidity requirements. Similarly, according to a few other respondents, situations in which a controlling entity has officially stated its intention of not exercising its formal control rights should not constitute a 'single risk' from a counterparty credit risk management perspective. Furthermore, some respondents highlight that control relationships based on contractual conditions or clauses – or in situations where the controlled entity is not bound by instructions as laid down by law or in its articles of association – do not necessarily have an impact on the spread of financial difficulties and do not necessarily imply the existence of a 'single risk'. Two respondents also emphasise that a 'single risk' should not be considered in circumstances where majority voting rights are balanced by comprehensive protection rights for minority shareholders (e.g. in many joint venture agreements, it is stipulated that all important matters require the prior consent of both the	(paragraph 12) that there are exceptional cases where a control relationship among clients does not lead to a single risk. This depends on the specific circumstances of each situation, which need to be assessed by institutions on a case-by-case basis. The example raised by several respondents regarding SPVs might be one such exceptional case, if it can be demonstrated by institutions that a channel of contagion between the SPV and the originator does not exist because the SPV's assets are sufficiently ring-fenced from originators. A new scenario, C 1, has been included in the annex to the guidelines to illustrate such exceptional cases. In accordance with the guidelines, institutions are responsible for demonstrating to competent authorities, and documenting appropriately, that in a specific case a control relationship among clients does not lead to the existence of a single risk and, therefore, to a grouping requirement on the basis of control. The EBA notes that, even in these cases, institutions need to consider any possible economic dependencies among those clients. The EBA notes that the present guidelines apply in parallel with Commission Delegated	scenario C 1 to the annex to the guidelines.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	majority and the minority of shareholders). Two respondents highlight that, in private equity funds, private equity firms – which usually control individual portfolio companies, exercise influence on their management and make investment decisions – are not liable for their portfolio companies and the portfolio companies are not liable for each other. In these respondents' view, the legal control relationship between a private equity firm and the individual portfolio companies does not result in a 'single risk' that would justify grouping them. Five respondents point to the case of SPVs involved in certain securitisation operations. Although International Financial Reporting Standard (IFRS) 10 requires the inclusion of SPVs in the originator's consolidated financial statements – implying the constitution of a group of connected clients between the originator and the SPV – in these respondents' view no single idiosyncratic risk exists in cases of securitisations with an insolvency-remote set-up and further features of high-quality securitisations warranting that there is no channel of contagion between the SPV and the originator. The majority of respondents also highlight that bankruptcy remoteness – which is typical of many SPVs – guarantees ring-fenced vehicles/structures whose assets are isolated from any originators or creditors, even when accounting rules imply the recognition of a controlling relationship. This is typically the case for SPV structures established for undertaking business activities such as project financing, where bankruptcy remoteness, together with the non-	Regulation (EU) No 1187/2014 of 2 October 2014 (as regards regulatory technical standards for determining the overall exposure to a client or a group of connected clients in respect of transactions with underlying assets), as the rules on groups of connected clients also apply to the transactions' underlying assets and the transactions themselves.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	recourse financing, ensures that the other entities would not be impacted in case of default. In respect of transactions with underlying assets, two respondents emphasise that banks already look through the underlying assets or aggregate unidentified clients into the hypothetical 'unknown client'. In their view, the control relationship criterion appears to be irrelevant, as funds do not follow a 'single point of entry' model in which the resources of a controlling entity are deployed to its subsidiaries.		
Question 2 What is the likely impact of the clarification of having an exceptional case when the existence of a control relationship does not lead to a 'single risk'? Please provide an estimation of the associated quantitative costs.	*[13 out of 23 respondents were silent on this question.]* In the view of three respondents, the impact of the clarification is positive, as it permits more accurate counterparty credit risk underwriting and steering by not mixing cash flows that should not be related. Three other respondents estimate that the impact would, overall, be non-existent or low, as they do not expect that further information/analyses will be required in addition to the documents already used for risk management purposes. Otherwise, in their view, the impact will be relevant. Two respondents note that the impact will depend on the level of documentation required to demonstrate to the supervisor the inexistence of a 'single risk', highlighting that requiring detailed	The EBA notes that, in general, respondents did not perceive the clarification in the guidelines – i.e. that a situation where a control relationship among clients does not result in a single risk is the exception rather than the rule – would have a material impact for institutions. Respondents also did not provide evidence on possible additional costs, although a few of them raised concerns regarding the specific case of SPVs and the level of detail of the documentation required to demonstrate these exceptional cases. The EBA notes that the analysis of exceptional cases needs to be done by institutions on a case-by-case basis. The level	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	information would have significant cost implications. Two other respondents highlight that managing disaggregation by exception – with particular reference to the treatment of conduits, SPVs, joint ventures, etc. – should not affect the costs further if the rules allowing exceptions are principle- and analyst judgment-based. Two respondents highlight that the impact depends on the number of SPVs that have to be consolidated under IFRS. Constituting groups of connected clients between originators and SPVs could result in the relevant exposure becoming critical under large exposure thresholds and limits, and could severely hamper the funding of the originators by means of securitisation.	of detail of the documentation could take into account, for example, the materiality of the exposure but should in any case be sufficient to demonstrate to the competent authority that the existence of a control relationship in that particular situation does not lead to a single risk (see also the EBA's analysis regarding Question 1).	
Question 3 Do you see a need for further clarification of the accounting provisions which are relevant for large exposures purposes? If yes, please point out the exact indicator of control according to the	*[11 out of 23 respondents were silent on this question.]* The majority of respondents to this question do not see the need for further clarification of the accounting provisions relevant for large exposures purposes. Four respondents consider questionable the references to IFRS 11 (joint arrangements) and IFRS 12 (disclosure of interests in other entities) and suggest deleting these references from the guidelines. In their view, 'joint control' does not constitute control within the meaning of Article 4(1)(37) of the CRR and is therefore unsuitable as an indicator of control. Moreover, joint control would not constitute a single risk either, as joint arrangements do not allow common asset	The EBA has considered the feedback received and has refrained from further elaborating on the accounting provisions relevant for the creation of groups of connected clients. The EBA notes that the references to IFRS 11 (joint arrangements) and IFRS 12 (disclosure of interests in other entities) were included in an explanatory box for consultation purposes only. In any case, the EBA agrees with the arguments raised by respondents and has not included such	Amendments to section 4, 'Groups of connected clients based on control', paragraph 13(c).

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Directive 2013/34/EU or Regulation (EC) No 1606/2002 which should be clarified with respect to the large exposures regime.	transfers in favour of the common entity and to the detriment of the joint undertaking. For these respondents, the same applies to the reference to IFRS 12. In their view, a stake in an entity without a consolidated structure does not fulfil the conditions for control under Article 4(1)(37) of the CRR and does not entail a single risk because, as mentioned above, no asset transfers in favour of investors of the structured entity are allowed. In addition, they highlighted that the formation of a group of connected clients would not be practicable, as the exact counterparties covered by IFRS 12 are not named in the annual financial statements and are covered by banking secrecy rules. Two respondents suggest clarifying that paragraph 13(c) of the draft guidelines applies solely to clients not covered under paragraphs 13(a) and (b) (natural persons, central governments, and clients that prepare consolidated financial statements in accordance with the accounting rules of a third country). One respondent argues that, when a client prepares its financial statements in accordance with other accounting standards, such as United States Generally Accepted Accounting Practices (US GAAP), banks would be required to assess that client's voting rights, director rights, contractual rights and share ownership levels with respect to other entities, although the financial consolidation standards of US GAAP are broadly comparable with, and in some instances more	references in the guidelines. As requested by respondents, it is clarified in the guidelines that paragraph 13(c) applies only to clients to which points (a) or (b) of that same paragraph do not apply. Regarding the comment on the need to recognise the financial consolidation standards of US GAAP in the guidelines, the EBA notes that the definition of 'control' set out in Article 4(1)(37) of the CRR refers only to Article 22(1) and (2) of Directive 2013/34/EU[25] and Regulation (EC) No 1606/2002. Therefore, clients that prepare their financial statements in accordance with other accounting standards, including US GAAP, fall under paragraph 13(c) of the guidelines. In practice, the assessment of clients that prepare their financial statements in accordance with other accounting standards could be facilitated if institutions were to conduct an assessment of those accounting standards and conclude that they define a control relationship in a way that is equivalent to	

[25] Article 22(1) and (2) of Directive 2013/34/EU has replaced the content of Article 1 of Directive 83/349/EEC, referred to in Article 4(1)(37) of Regulation (EU) No 575/2013. In accordance with Article 52 of Directive 2013/34/EU, references to the repealed directive must be construed as references to Directive 2013/34/EU and must be read in accordance with the correlation table in its Annex VII.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	conservative than, the consolidation standards of IFRS. Therefore, US GAAP would require consolidation in most, if not all, circumstances where IFRS would require consolidation. This would put non-European clients at a disadvantage when seeking to access services from European banks. Therefore, the guidelines should recognise the financial consolidation standards of US GAAP.	Article 22(1) and (2) of Directive 2013/34/EU or Regulation (EC) No 1606/2002 and that leads to similar results.	
Question 4 Are there any other indicators of control in the case of a similar relationship which are useful to add to this list of indicators?	*[9 out of 23 respondents were silent on this question.]* A significant number of respondents explicitly mention that they do not see any need for additional indicators of control. One respondent suggested adding the following indicator: 'control stakes over several firms owned by one single entity but registered under a trustee or other entities acting on behalf of the same counterpart, without the latter being formally involved'. Another respondent proposes extending the indicator under paragraph 13(c)(iv) and linking it with the indicators based on economic dependency: 'natural person having the right to coordinate the management of the entity, but is, at the same time, economically dependent on the entity, especially if he/she does not have another source of income'. Three respondents request that the guidelines clarify that the indicators specified in paragraph 13(c) are a list of features that may indicate a control relationship. In their understanding, the indicators do not automatically lead to the existence of a control relationship. In fact, it should be made clear in the guidelines that each individual case has to be viewed separately. In addition, for two respondents,	The EBA has considered the feedback received and has refrained from adding other indicators of control to the list in paragraph 13(c) of the guidelines. This list aims to include the most common situations, as it can never be an exhaustive list. As requested by respondents, the hierarchy of the indicators of control included in the list in paragraph 13(c) has been clarified. Therefore, this list has been divided into two different sets: the first set (points (i) to (iii)) consists of criteria that <u>always</u> constitute a control relationship among clients; the second set (points (iv) to (vii)) includes examples of indicators that <u>might</u> constitute a control relationship and which should be considered by institutions when conducting their assessments.	Amendments to section 4, 'Groups of connected clients based on control', paragraph 13(c).

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	the list of indicators is not sufficiently clear in terms of relations between the situations described, i.e. the ranking of criteria. The guidelines should clarify how to deal with cases where more than one criterion is fulfilled by different natural or legal persons.[26] Several respondents raise concerns about the following indicators of control, in particular if considered in isolation: 'blocking minority' (in itself it does not demonstrate control as such; even under IFRS 10 control is always understood in the sense of an active action and not as blocking or refraining); 'management duties' (it can demonstrate control only in special cases where additional indicators are verified); 'right or ability to coordinate the management of an entity with that of other entities' (it is not clear which cases are intended to be captured by this indicator or if horizontal groups are intended to be captured, given that Article 4(1)(37) of the CRR does not refer to Article 22(7)(b) of Directive 2013/34/EU); and 'holding more than 50% of the shares of capital of another entity' (in itself, this situation leads to control only if it is accompanied by a similar majority of voting rights or by other rights ensuring a dominant influence).	To address respondents' comments regarding specific indicators of control, the EBA has deleted from the list in paragraph 13(c) references to 'blocking minority' and 'management duties', which are not strong indicators of control when assessed in isolation. The indicators on the 'majority of shares of capital' and on the 'right or ability to coordinate the management of an entity with that of other entities' have been kept, as they are part of institutions' current practices, as verified by the EBA in an informal stock-take, which took place in Q1 2016.[27] The EBA notes that horizontal groups are dealt with in section 6 of the guidelines on the assessment of economic dependencies.	
Question 5	*[14 out of 23 respondents were silent on this question.]*		

[26] For example the situation where for the same legal entity one counterparty holds the majority of the voting rights and a different counterparty holds the majority of the shares of capital stock. According to the understanding of the respondents, the majority of voting rights should be a decisive criterion for the control relationship.

[27] A sample of institutions from AT, BE, DE, ES, FR, IE, IT, LU, PL, PT, SI and the UK shared their current practices regarding the creation of groups of connected clients on the basis of control.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
What would be the cost of the assessment of the existence of control relationships in the case of subsidiaries exempted from accounting consolidation? Please provide an estimation of quantitative costs. In your experience, how significant are these cases?	For four of the respondents, this assessment is not a significant issue. They do not estimate any significant additional costs, as their internal procedures for identifying individual customers for grouping purposes already require such an assessment. For four other respondents, the assessment is not a significant problem, as the required information can be retrieved from official documentation.[28] However, some of the respondents also point out that additional costs may arise in countries where centralised databases are not available. In addition, two respondents expect that the overall cost of assessment would increase materially on account of the overall approach for the assessment. In addition, one respondent raises the concern that the necessary efforts for this assessment will be high and will not be outweighed by the benefits in most cases. Especially with regard to IFRS, there are a lot of cases where companies are exempted from consolidation because they are not material for the assessment of the financial situation of the group. Two respondents request that the guidelines explicitly recognise that reasonable efforts should be made to capture control relationships excluded from consolidation requirements and that investigation beyond the normal course of business to identify such relationships is not expected. Additionally, one respondent suggests abstaining from	The EBA notes that most respondents do not expect that the assessment of the existence of control relationships in the case of subsidiaries exempted from accounting consolidation would lead to additional costs. In addition, respondents did not provide evidence to suggest that there would be a disproportionate cost arising from identifying and considering control relationships in the case of subsidiaries exempted from accounting consolidation. Therefore this requirement has been kept in the guidelines, although it has been redrafted to provide further clarity.	Amendments to section 4, 'Groups of connected clients based on control', paragraph 14.

[28] For example financial statements, public registries.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	further investigation in the case of companies that are not included in consolidation if there is no clear indication of control, such as the majority of voting rights, and if the exposure to such a company is not material for the institution.		
Question 6 Is the guidance provided in section 5, 'Alternative approach for exposures to central governments' clear? If not, please provide concrete suggestions.	*[12 out of 23 respondents were silent on this question.]* For the great majority of respondents to this question, the guidance provided is largely clear. However, four of the respondents request more guidance on specific aspects regarding exposures to central governments. Two of them consider that the guidance is clear as long as there are no regulatory conditions in order to apply the alternative approach and as long as the actual exemption for exposures to central governments is maintained pursuant to Article 400(1) of the CRR. In the case of withdrawal of the exemption, the approach should be modified, since it would make the reporting unduly burdensome and redundant. One respondent states that the guidance in section 5 is clear only if read together with the examples provided in section 3.2.2 of the Consultation Paper. A few respondents request more guidance on a number of very specific situations. Two respondents highlight that the structures determine multiple counting of risk positions to both central governments and controlled entities, since they can be included in different groups of connected clients. Double counting (as a result of entities being included in different groups of connected clients) is not desirable, since it heavily impacts on a bank's operations, affecting supervisory reporting	The EBA notes that although the guidance is clear for most respondents, there seems to be a degree of confusion regarding the scope of the guidelines in particular and the treatment of exposures to central governments in general. In accordance with Article 400(1)(a) of the CRR, exposures to central governments, which unsecured would be assigned a 0% risk weight under the standardised approach, are exempted from the application of the limits to large exposures. Under Article 394 of the CRR, institutions are required to report information about every large exposure, including large exposures exempted from the limits. The guidelines do not focus on the provisions mentioned above; rather, they provide further detail on the application of the last subparagraph of Article 4(1)(39) of the CRR,	Amendments to section 5, 'Alternative approach for exposures to central governments', to provide greater clarity.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	procedures as well as credit risk management practices. One respondent is concerned about the potential impact that such an alternative approach would have on banks' sovereign exposures amounts. Another respondent argues that the statement in the 2009 CEBS guidelines on exposures to central government (paragraph 37)[29] is still relevant. The inclusion of exposures to central governments in groups of connected clients is unwarranted from a risk management perspective, as is recognised by the exemption of exposures to central governments from large exposure limits under Article 400(1) of the CRR, and would make the reporting unduly burdensome.	which was introduced after the 2009 CEBS guidelines had been issued. That provision permits institutions to make use of a more beneficial approach and form separate groups of connected clients for each of the persons directly controlled by or directly interconnected with the central government (or regional governments or local authorities to which Article 115(2) of the CRR applies, but not public sector entities). The use of this alternative approach is left to institutions' discretion (i.e. institutions might still choose to constitute only one group of connected clients with the central government and all the persons directly controlled by or directly interconnected with it). If not dealt with in the guidelines, specific questions regarding the application of this approach could be posted using the Q&A tool on the EBA's website.[30]	

[29] '[T]he risk connected with the exposure to one entity is normally not related to the risk of the exposures to other entities. In addition, the failure of one entity, which is a separate legal person, does not necessarily impose a duty on the owner to invest more capital. If the owner still decides to do so, it is assumed that this ultimately could be financed by raising revenues.'

[30] https://www.eba.europa.eu/single-rule-book-qa

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Question 7	*[12 out of 23 respondents were silent on this question.]*		
What is the likely impact of considering that clients are connected as soon as the failure of a client would lead to 'repayment difficulties' for another client? Please provide an estimation of any associated quantitative costs.	There is a general concern regarding the concept of 'repayment difficulties', which almost all respondents to this question consider, to some extent, vague. This would make it more difficult for institutions to identify and delimit to what extent economic dependencies would lead to contagion effect chains. In their understanding, 'repayment difficulties' do not equate to 'default' and 'single risk' does not equate to 'the same probability of default'. In their view, 'repayment difficulties' should be linked to the intention of the Basel Committee to capture only connections that threaten default. Paragraph 27 of the Basel large exposures framework makes it clear that if a counterpart can 'overcome financial difficulties ... by finding alternative business partners or funding sources within an appropriate time period, the bank does not need to combine these counterparties to form a group of connected counterparties'. According to the respondents, the unintended consequences that the guidelines would have are a higher workload in the form of a more detailed analysis increasing manual routines, with loan officers forced to take on additional external data providers, and consequently introducing a more judgemental factor (more subjectivity); a disproportional increase of the scope of aggregation without a commensurate improvement in identifying true contagion risks; greater volatility in the composition of groups, with effects in terms of operating costs and impact on the quality of credit risk management practices; the creation of artificial groupings; a high possibility of	The EBA notes that the use of the expression of 'repayment difficulties' in the guidelines reflects accurately the wording used in Article 4(1)(39)(b) to define the requirement to group clients on the basis of economic dependencies. In addition, respondents did not provide evidence to suggest that there would be a disproportionate cost associated with this rewording. In any case, the EBA agrees that clarification of the concept of 'repayment difficulties' is required. Therefore, a sentence has been added to section 6 of the guidelines to make clear that, if institutions are able to demonstrate that financial difficulties or the failure of a client would not lead to funding or repayment difficulties for another client, these clients do not constitute a single risk and do not need to be considered interconnected. This is the case even if a client is economically dependent on another client in a limited way and can easily find a replacement for the other client. This addition is aligned with the Basel standards.	Amendments to section 6, 'Establishing interconnectedness based on economic dependency', paragraph 22.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	different interpretations across the EU; and, finally, the creation of new uncertainty, because there would still be the question of how serious the financial difficulties were. Therefore, most of the respondents ask EBA to maintain the former reference to 'substantial, existence-threatening repayment difficulties'. Alternatively, some others recommend, at least, defining 'repayment difficulties' as a situation where default of the counterparty is highly probable, or changing the wording to one that references the degree of 'difficulty' required by linking to the risk of an event of default. Alternative wording suggested: 'Material repayment difficulties, caused by direct economic and cash transmission links, which would make default highly probable'. On the other hand, some respondents point out that when repayment difficulties are assessed, the materiality of the impact on the level of credit risk for the bank as a result of the repayment problem should be taken into consideration.		
Question 8 Are the situations described in the list in paragraph 23 as constituting	*[9 out of 23 respondents were silent on this question.]* Most of the respondents to this question agree that the situations described in the guidelines are reasonable indicators of potential economic dependency. However, it should be made clear in the guidelines that institutions are not required to assess each situation	The EBA agrees with respondents that the situations listed in paragraph 23 of the guidelines should not automatically lead to a conclusion that there is an economic	Amendments to section 6, 'Establishing interconnectedness

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
economic dependency clear? If not, provide concrete suggestions. In particular, do you have any comments regarding the introduction of the threshold of 'at least 50%' in points (c), (d), (f) and (g)?	for each possible connection, and that the existence of one situation should not automatically lead to the conclusion that a grouping must be made (most of the criteria listed in paragraph 23 of the guidelines may indicate economic dependency but do not conclusively prove its existence). These respondents believe this automatic approach contradicts the objective of the assessment, which is precisely to adopt a risk-based approach. A systematic process would produce misleading results; it would result in significant IT investment costs and would not consider the dynamic aspect of economic dependencies. The expert judgement of the bank, based on credit experience and knowledge of its customers, should necessarily play a role in the decision about the existence of interconnectedness through economic dependency. Two of the respondents think that the list provided in paragraph 23 of the draft guidelines is detailed and seems quite exhaustive, but that it would be very difficult to identify and prove these dependencies. Some respondents highlight that it is important that the conditions actually are believed to lead to default or non-payment issues. For many of the criteria such a condition is described as a prerequisite ('... so significant for the ... is likely to default or experience financial difficulties ...'). They believe that also for criteria (c) (income/expense), (d) (production), (f) (assets/liabilities), (h) (customer base), (i) (ownership structure) and (j) (relations to co-borrowers), such conditions should be included. The proposal should make clear that the principle of aggregation to be followed in the event of the triggers listed in points (a) to (k) is that 'direct	dependency relationship. Nevertheless, the situations listed in the guidelines are examples of situations where economic dependency is likely to happen and should be considered by institutions when assessing each case. Institutions should take into account the particular circumstances of each case to assess whether the fulfilment of one or more of the listed situations would lead to a relationship of economic dependency among clients and, therefore, a grouping requirement. Regarding the proposal to include a quantitative threshold of 'at least 50%' in some of the situations to facilitate assessment, the EBA has noted the feedback from most respondents and removed this reference. It is recognised that the interpretation of 'a significant part' will depend on the specific situation and might involve different percentages. The EBA has also considered the feedback provided regarding the specific situations listed in paragraph 23 of the guidelines and has removed points (g), (h), redrafted (j) and (k) and made drafting amendments to other points. Regarding the requirement in paragraph 26 of	based on economic dependency', paragraph 23.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	cash/economic/risk transmission is likely between entities which would make default of the dependent party highly probable'. Two of the respondents consider that economic interdependencies should be established, in any case, considering the materiality of the impact on the levels of credit risk for the bank due to the repayment difficulties of the connected counterparty. Furthermore, they consider that other aspects should also be taken into account, such as the stability of the interconnection. The bank could deem that the clients should be regarded as connected only after the link had continued for a predefined period of time. This would help in reducing volatility in the composition of the groups of connected clients. Two of the respondents believe that further detail is needed to cover situations relating to infrastructure/project financing, trade finance SPVs, leasing, CRE Propco's (individual asset-holding SPVs), conduits, and assets that may be 100% linked to a single supplier/off-taker but where their failure would not lead to transmission of default across the group on account of the nature of the asset and/or existence of a market for its expedient sale/conversion to cash, or the inclusion of appropriate market norm clauses in legal arrangements, allowing the off-taker/supplier to be replaced in case of failure to meet obligations. Exclusively for the factoring industry, it is pointed out that the impact on capital requirements could also be disruptive, because trade receivables portfolios are, by nature, subject to a higher	the guidelines to form a group of connected clients where these clients are economically dependent on an entity, even if this entity is not a client of the institution, the EBA notes that the objective is to group clients that constitute a single risk and that institutions should use all the available information to meet this objective (see also section 8 of the guidelines, 'Control and management procedures for identifying connected clients').	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	concentration than other assets. It would also negatively impact the offer of reverse factoring and, in general, supply chain finance solutions, where a supply chain leader (usually a large corporate with high creditworthiness) acts as promoter of the financing facilities for its suppliers (usually SMEs). Moreover, the practical implementation of automatic thresholds would be substantially impossible. The IT systems of factoring companies are not designed to identify such indicators or to provide for automatic inclusion in the group of connected clients. This respondent expresses concerns about any widening of the perimeter of the ‘economic dependency’ principle, as it would negatively affect SMEs, thus making lending to SMEs more capital intensive and expensive. Regarding the proposal to include a quantitative threshold of 50% in some situations, more than half of the respondents to this question express concern that the 50% should not be a mandatory threshold triggering the existence of such a connection, but rather a warning, prompting the bank to further analyse its clients. Room for interpretation should be allowed in individual cases. The introduction of a threshold might provide a better understanding of what is meant by ‘significant part’, but there would need to be a clear understanding that this was not the only criteria. The proposal would require quite detailed documentation from the client. On the other hand, it is pointed out that it will not be feasible to assess the threshold of ‘at least 50%’ with reference to particular customers operating in less transparent markets where this information is deemed to be confidential. In such cases, it is possible		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	to check whether the situations described in paragraph 23 of the draft guidelines exist only if the information is publicly available. The cost of research on economic dependency relations would be disproportionate. Consequently, some respondents strongly recommend deleting any reference to quantitative thresholds in points (c), (d), (f) and (g) of the list of situations, leaving to the institution the duty to set a proper measure of relevance, taking into account the specific circumstances of each case. In addition, respondents have the following comments regarding the specific situations mentioned in the guidelines: • (b): Where, however, liability is accompanied by a majority of shares or voting rights or where several persons are liable for an undertaking and each of these persons can conclude material, binding contracts for the undertaking with third parties, it would be assumed that this is primarily a case of control. Moreover, the situation is already covered by the phrase ‘or is liable by other means’ in paragraph 23, point (a). • (c): Additional clarification is required that no dependency on a tenant exists where a replacement can be found in the marketplace. Replaceability is expressly mentioned with regard to a single client (paragraph 23, point (d)) and a small joint group of clients (paragraph 23, point (h)). • (c) and (d): Are incompatible with the activities of specialised		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	financial services providers where consumer credit, asset finance and lease agreements are distributed through manufacturers of and dealers in business equipment, vehicles and consumer goods. The respondent believes these criteria could seriously compromise point of sale activities. • (e): Should be amended to include the requirement that no alternative source of income is available at short notice either. The following wording was suggested: 'When the expected source of repayment for each loan granted by the institution to two or more clients is the same and neither client has another source of income from which the loan may be fully repaid and is not able to substitute the current source of income easily'. • (e): Could be read as meaning that such a common source of income can be a geographical region or a sector. Therefore, it would be beneficial if the guidelines, in the introduction to section 6, indicated that risk concentration for sectorial or geographical reasons would not give rise to a requirement for grouping. • (e): If two or more natural persons are working for the same employer, does this connection qualify as 'the expected source of repayment' for their individual loans (the respondent is not referring to co-borrowers) being the same (as they receive their salary from the same legal person)? • (g): Further details are requested of which cases are to be		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	covered. • (h): Could lead to whole regions or sectors being considered a single risk. It is clear from the CRR that these risks fall outside the scope of the large exposures regime, as recognised in the Consultation Paper. Therefore, point (h) should be removed from the list or replaced with a version that clearly defines what is meant by 'a very small number of customers'. • (i): Should specify a materiality level at which the common shareholding becomes relevant for the purpose of establishing economic dependency. • (i): A 'horizontal group' exists where several mutually independent undertakings are managed on a unified basis. If personnel links alone really constituted economic dependency, Article 22(7)(b) of Directive 2013/34/EU would not have left it to Member States to decide whether to require undertakings to prepare consolidated financial statements. The respondent therefore requests the deletion of the wording in question, particularly in the light of what the EBA might have in mind regarding the indicator of control under paragraph 13(c)(iv) of the draft guidelines. • (j): Appears in any case not to be a sufficiently precise indication of a situation that necessarily describes economic dependency, as this, among other things, will depend on the relative importance of the loan the parties are co-borrowers in		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	compared with their overall economic and financial situations. Proposed amendment: '(j) … if the loan is significant for both'. Regarding paragraph 26 of the draft guidelines, respondents indicate that in the process of identifying economic dependencies it will rarely be possible to implement automated procedures. The process is operationally complex and very burdensome, in particular in cases of 'non-clients', which will also increase cost implications. There is a significant risk of imperfect linkages where non-clients are concerned, too. The process will also have an impact on customers, who will be required to provide institutions with considerably more information, which is not commensurate with the purpose of the large exposures regime. Therefore, respondents suggest a wording that clearly recommends (rather than mandates) including non-client information that is publicly available, or if that is not possible, information that a firm can reasonably obtain directly from their customers or from the core credit process.		
Question 9 Are you aware of any other situations that should be added to the list of situations that constitute economic	*[14 out of 23 respondents were silent on this question.]* Some respondents emphasise that paragraph 24 of the guidelines makes clear that the list of indicators in paragraph 23 is non-exhaustive. They argue that not all conceivable cases can be captured and that economic dependency always depends on the specific circumstances of each case. They agree with paragraph 22 in section 6 of the draft EBA guidelines, where it is stated that, when assessing the existence of a group of connected clients based on economic	The EBA agrees with respondents that the list of situations that might constitute economic dependency cannot be exhaustive and has refrained from adding additional situations. Regarding the possibility of including in the list in paragraph 23 of the guidelines situations where	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
dependency? The EBA is considering whether additional cases should be added to the list of situations that constitute economic dependency. For example, situations where institutions have exposures to a number of unrelated counterparties, but which are all guaranteed by the same guarantor, even if the individual exposures are not significant enough for the guarantor to be likely to default or experience	dependency, the specific circumstances of each case should always be taken into account. Regarding the possibility of including in the list exposures guaranteed by the same guarantor, almost all the respondents to this question think that this is quite an exceptional case and they strongly oppose the possible grouping of independent clients with the guarantor. These respondents present the following arguments: • The likelihood of simultaneous claims under guarantees to unrelated counterparties seems to be fairly low. The risk of contagion is extremely low, as the debtors are independent. • The financial difficulties of the guarantor would not entail financial difficulties for unrelated clients, unless an economic dependency existed between the guarantor and the clients. The risk of the guarantor running into financial difficulties would arise only if multiple or even all guaranteed debtors were to default simultaneously and the individual exposures were significant for the guarantor. • The connection goes beyond the more prudent 'repayment difficulties' guidelines. The scenarios should remain focused on first-order impacts of direct and material dependencies. Article 403 of the CRR makes it clear that institutions are entitled to ignore the existence of guarantees for the calculation of large	institutions have exposures to a number of unrelated counterparties, but that are all guaranteed by the same guarantor, the EBA notes that the European Commission's proposal to amend the CRR[32] addresses this concern by making the substitution approach mandatory. The Commission proposes an amendment to Article 403(1) of the CRR to make it mandatory for institutions to consider the exposure to the guarantor in cases where the exposure is guaranteed by a third party or secured by collateral issued by a third party. This proposal aligns the treatment of guarantees and collateral in the capital requirements framework with the large exposures regime and addresses concerns regarding regulatory arbitrage.	

[32] The proposal is available at http://ec.europa.eu/finance/bank/regcapital/crr-crd-review/index_en.htm.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
financial difficulties if a claim occurs.[31] In relation to the situation described above, would you treat these exposures as connected? Please explain.	exposures. If the mere existence of a guarantor created a connection, the guidelines would then overrule the Level 1 text. • Such a treatment would lead to a disadvantageous treatment of smaller Member States, where the availability of guarantors is limited and therefore a group of connected clients would be created more easily than in larger countries. Furthermore, it would be difficult for institutions to obtain the relevant information and monitor these cases.		
Question 10 Is the guidance in section 7, 'Relation between interconnectedness through control and interconnectedness through economic dependency', clear? If not, please provide concrete suggestions.	*[12 out of 23 respondents were silent on this question.]* The relationship between the concepts of 'economic dependency' and 'control' is not entirely clear. More than half of respondents to this question believe that the obligation of institutions to interlink control and economic dependency in a group of connected clients is not justified, neither for economic nor for legal reasons. Interconnectedness through control differs fundamentally from interconnectedness through economic dependency. They oppose such an approach, which in their view would go beyond the requirements of Article 4(1)(39)(b) of the CRR. Furthermore, if the EBA is to maintain its proposal on the relation between interconnectedness through control and interconnectedness through economic dependency, it should be made clear how the two	The EBA does not agree with some of the respondents that the wording of the CRR prevents the formation of groups of connected clients on the basis of both the control and the economic dependency criteria. The definition in Article 4(1)(39) of the CRR refers to 'any' of the situations in points (a) or (b) of that Article. Accordingly, the EBA considers that any situation arising under Article 4(1)(39) could encompass elements of both point (a) and point (b). The EBA notes that the key criterion that emerges from the definition of 'group of connected clients' in Article 4(1)(39) of the CRR is precisely the	No amendments.

[31] This situation refers to cases where the substitution approach referred to in Article 403 of Regulation (EU) No 575/2013 is not used.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
What is the likely impact of this guidance? Please provide an estimation of the associated quantitative costs.	criteria – control and economic dependency – are to be separated and applied if both occur in parallel but in different directions. Further guidance has been requested on a number of specific situations. Some other respondents think that the concept is clear although its application is not straightforward, as the assessment of economic dependency is often not clear-cut because of the high degree of subjectivity and the lack of relevant and definitive information; this has the consequence of 'volatile' reporting of groups' exposures in the large exposures' framework due to changes in groups' perimeters. One respondent suggests an approach whereby first interconnectedness through control is established and thereafter economic dependency is assessed only for those entities not already covered by control, instead of carrying out all-encompassing economic dependency verification for all entities; this approach would limit duplication of efforts and costs. Another respondent thinks that the combination of interconnectedness through control and interconnectedness through economic dependency would lead to very large groups of connected clients, which is not intended by the legislator. Two respondents believe that the relation between interconnectedness through control and interconnectedness through economic dependency will be difficult to assess, as the approach requires several different steps that have to be taken.	existence of a single risk and the need for institutions to assess possible chains of contagion. The EBA considers that to interpret Article 4(1)(39) in the narrower manner sought by some respondents could thus give rise to prudential absurdities, i.e. overly (and artificially) narrow groups of connected clients. The EBA clarifies, however, that grouping requirements will not apply from wherever the chain of contagion stops and that clients no longer constitute a single risk from that point onwards. Regarding the argument on double counting, the EBA notes that it is normal for the same client to be included in different groups of connected clients if it constitutes a single risk with other clients that are part of different groups of connected clients.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	Only one respondent considers this section clear. A few respondents raise the question of multiple counting of risk positions to clients that should be included in different groups of connected clients, which would lead to double counting in banking records aimed at supervisory reporting, affecting the monitoring of banks' exposures to clients for risk management purposes. Consequences could also arise with respect to the identification of the actual parent company for the purpose of the attribution of the credit rating to the client. One respondent argues that the extent to which this would lead to restrictions on lending cannot be fully assessed at the moment. This depends to a large extent on further decisions at European level on the implementation of the Basel large exposures framework, particularly on if the definition of 'eligible capital' is to be tightened further and the extent to which existing exemptions and reduced requirements are addressed in future.		
Other comments			
Common source of funding	Two respondents pre-emptively highlight that since there have been no changes in the 'economic dependency through a main source of funding' section of the guidelines, no change should be required of institutions with regard to the way in which they comply with the	Even though the EBA agrees that an institution may disregard its own insolvency, it considers the link to conduits sponsored by the institution as a single risk not in a 'gone concern' scenario but in a scenario where the institution is still a	Amendments to section 6, 'Establishing interconnectedness based on economic

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	guidelines. Several respondents challenge the parts of the draft guidelines related to the common source of funding as a factor for economic dependency (in particular in relation to SPVs in CRR-compliant ABCP programmes) and suggest the deletion of example E6 and the amendment/deletion of paragraphs 27 to 29. In the view of some of these respondents, the proposed treatment (i) contradicts the fundamental principles for the determination of groups of connected clients, because the bank itself is not to constitute the linking factor, as it may disregard its own insolvency; (ii) unduly adds sectorial concentration risk to the scope of large exposures regime; (iii) does not consider the ‘limited recourse’ features of securitisation transactions; (iv) is not consistent with other EU measures and objectives (e.g. the look-through principle for securitisation transactions); and (v) might have negative consequences for real economy financing. One of the respondents, in particular, highlights that all three SPVs of scenario E 6 have, as predominant sources of funding, the ABCP issuance to investors and, only as a fallback, the liquidity facilities granted by the sponsor bank. As, from the perspective of the sponsor bank, only the funding via the ABCP market matters, in the respondents’ view the decision to connect the SPVs could be based only on the sectorial concentration risk related to the ABCP market. Sectorial concentration risk, however, cannot represent, by itself, an economic dependency within the meaning of Article 4(1)(39)(b) of the	going concern but experiencing financial difficulties. This links to recital 54 to the CRR, which states that in determining the existence of a group of connected clients and thus exposures constituting a single risk, it is also important to take into account risks arising from a common source of funding provided by the institution itself, its financial group or its connected parties. Scenario E 6 does not address the systemic failure of ABCP conduits, which is why the guidelines do not require the connection of all exposures to all ABCP conduits; rather, it addresses the reliance that investors in those structures place on the financial strength of the sponsor. This does not capture any increased risk in the ABCP market as a whole but only the increased risk to conduits that are sponsored by a given institution that might be experiencing financial difficulties. Furthermore, scenario E 6 does not capture securitisations where investors have no or limited recourse to the sponsoring institution but, rather, structures where an investor’s first recourse is the ability of the structure to fund itself via external investors and, failing that, the sponsoring institution .	dependency’, paragraphs 28 to 30.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	CRR. On the contrary, these respondents highlight that, for a third bank investing in any ABCP relying on the sponsor bank's support (rather than the quality of the underlying assets acquired by the SPV), the facility of the sponsor institution may matter and the investing bank may come to the decision of connecting SPVs based on the latter factor. It is also noted by a few respondents that the factors listed in paragraph 29 seem to be ambiguous and unclear. They wonder in particular whether the use of the same investment advisor or the use of similar structures or underlying assets have in effect anything to do with a common source of funding. It is also highlighted that the proposed approach might significantly limit the ability of European sponsor banks to promote real economy financing and would be inconsistent with the aim of other EU institutions to promote real economy financing in Europe through high-quality securitisation, thus contradicting other legislative initiatives such as the Capital Market Union. In the light of the above, one respondent suggests deleting paragraphs 28 and 29 and including criteria envisaging that a dependency is supposed to exist when (i) the underlying assets are not appropriately segregated; and (ii) there is just one single and not rapidly replaceable source of funding. The respondent finally suggests clarifying that, from the perspective of a reporting bank, only dependency on an external funding source should be taken into consideration.	When assessing structures with underlying assets, institutions have to consider the risks of the structure, the underlying assets or both. The EBA considers scenario E 6 to capture a risk at the structure level. Grouping conduits that are reliant on funding from the same source addresses a liquidity risk at the level of the structure that could lead to or exacerbate financial difficulties for the sponsoring institution. This is particularly relevant in situations where there is a mismatch between the maturity of the notes and the maturity of the underlying assets. If a sponsoring institution is experiencing liquidity or financial problems and, because of the short-term nature of commercial paper, investors withdraw from conduits that are sponsored by that institution, the institution is at risk of funding all liquidity obligations to conduits in a short space of time, when the institution is already experiencing financial difficulties. This risk could manifest regardless of the performance of the underlying assets. The EBA considers that respondents did not provide adequate evidence to suggest that this treatment might have negative consequences on the real economy.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
		The EBA has considered the feedback regarding the situations listed in paragraph 30 of the guidelines and has removed point (b) on the use of the same investment advisor and point (e) on the use of similar underlying assets.	
Control and management procedures	The emphasis on taking reasonable steps to extract information regarding clients is not reflected in the guidelines. For example, 'intensive investigation' does not make clear that institutions are likely to be limited in their information bases for different groups (and particularly non-clients), and 'all available information' can be read as meaning that information that is available outside of the core credit process must be obtained without regard to cost or value. In addition, the requirement in paragraph 34 of background and rationale subsection 3.2.5 of the Consultation Paper to collect and evaluate 'soft information' that typically exists only at the level of individual loan officers and relationship managers is likely to lead to virtually impracticable data collection. With regard to the requirement to obtain information, it should therefore be made clear that an investigation of economic dependency based on the institution's existing knowledge is generally sufficient and that the phrase 'all available information' in paragraph 36 should be interpreted in this sense. Furthermore, it is not clear to institutions how far collection of information must go beyond their own clients to	The identification of connections among clients is essential for the correct creation of groups of connected clients. In the specific case of the large exposures regime, this is one of its key features and it ensures that the regime effectively acts as a backstop to the building up of exposures to clients that constitute a single risk. Therefore, it is in the interest of institutions to identify these connections as accurately as possible. The EBA expects institutions to be able to identify all control relationships among their clients by relying on the consolidated financial statements of their clients or, when that is not applicable, on the objective criteria and indicators set out in the guidelines. The EBA recognises, however, that it might be challenging to identify all the economic	Amendments to section 8, 'Control and management procedures for identifying connected clients', paragraphs 36 and 37.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	satisfy the requirements of the guidelines. One respondent proposes that an investigation starting with the institution's clients and going as far as the next level is adequate. This practice is in line with the requirement in paragraph 59 of the 2009 CEBS guidelines and should be continued. Interconnections are likely to change faster than the reporting frequency and it is possible that different institutions will arrive at different results when analysing the same entities. An alternate wording is suggested: 'or gathered on a reasonable efforts basis by the reporting institution'. The wording 'best efforts' has cost implications, as it suggests that a materiality threshold for investigation cannot be applied; the intention should be for the processes to be commensurate with the business. There are often client relationships that are based on 'classical' lending but which are established through the purchase of a security issued by the client or recognised by way of a look-through, for example. In these cases, the required information would have to be obtained separately, which imposes a considerable burden on institutions. Any extension of this requirement would be problematic and, given experiences of identifying groups of connected clients, also unnecessary. Institutions will require quite granular information, which may not be obtainable, as it is likely that customers may refuse to provide commercially sensitive inside information, as they are not direct clients. It may also lead to unwillingness of institutions' direct	dependencies among clients, and it has therefore kept the materiality threshold above which institutions are expected to strengthen their investigation of economic connections. The EBA has considered the feedback from institutions regarding the level of the threshold and agrees that it should be aligned with the Basel standards and applied to all cases where the sum of all exposures to one individual client exceeds 5% of Tier 1 capital.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	customers to disclose further commercially sensitive information, as the process might become overly intrusive. Information on suppliers or other counterparts that are dependent on a large corporate is often not made public, which makes the identification process operationally complex. It should suffice to have auditable principles or policies for monitoring economic interdependencies, instead of requiring banks to monitor and report exposures that may not even be material. Some respondents are concerned that the proposed threshold of 2% of eligible capital is not aligned with the Basel threshold of 5% of Tier 1 capital. They argue that the 2% trigger is too restrictive and harms the level playing field between European banks and banks from other jurisdictions, in addition to potentially leading to the establishment of non-significant groups of connected clients. Such an important change should be implemented not through EBA guidelines but, rather, through a revision of the Level 1 regulation. Moreover, the EBA guidelines provide no rationale to support the decision to lower the threshold to 2%. Finally, respondents ask for clarification of whether the threshold is intended to be applied at group or single counterparty level.		
Cost-benefit analysis	One respondent regrets that the guidelines fail to acknowledge in the 'Draft cost-benefit analysis' section that the proposed rules may have a relatively great impact on institutions of a more local nature that	The EBA regrets that respondents to the consultation have not provided data or concrete evidence on the additional costs of the	No amendments.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	may face greater costs to adjust their business in such a strategic manner. A broader application of the relevant criteria would involve a significant operational effort by banks, and without any obvious benefits in terms of the quality of the assessment. Consequently, the EBA is asked to perform a cost analysis because the application of the proposed criteria may require costly IT changes/evolution.	guidelines to particular types of institutions.	
Examples and diagrams	Some respondents point out that the implementation of examples E 2, E 3 and E 6 (pages 17 and 18) and C/E 1-3 (pages 19-22) will be very difficult and that connections between, for example, different retailers and wholesalers or supply chains in different business sectors will hardly be identifiable. Furthermore, clarification would be appreciated of whether paragraph 36 (page 23) refers also to the example provided in E 2 (page 14). A few respondents consider the diagrams included in the Consultation Paper helpful, and they suggest including them in the final guidelines.	The scenarios only illustrate examples of situations where the connections between clients would lead to the creation of groups of connected clients. The scenarios have now been included in the annex to the guidelines.	The scenarios and diagrams have been included in the annex to the guidelines.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
Consultation Paper EBA/CP/2017/07 on the scope of the draft guidelines on connected clients under Article 4(1)(39) of Regulation (EU) No 575/2013			
Responses to questions in Consultation Paper EBA/CP/2017/07			
Question 1	*[2 out of 10 respondents were silent on this question.]*		
Do you agree with this approach? Please explain how the application of the draft guidelines with the above amended scope would possibly affect current practices. Please specify what overall impact the extended scope would have. If relevant, please differentiate between the impact of considering	Although generally appreciative of the EBA's efforts to harmonise and simplify the concept of groups of connected clients across the CRR, all respondents express disagreement and/or concerns regarding the EBA's proposals. Some respondents highlight that the large exposures framework and the capital framework have different objectives and that therefore the principles for the recognition of exposures should also be different. One respondent further argues that, in accordance with the aim of controlling single points of failure due to acute idiosyncratic risks, the large exposures regime takes a more conservative view regarding the grouping of clients (e.g. the inclusion of the same client in different groups of connected clients to produce a worst-case scenario). The Pillar 1 capital framework takes into account specific features relevant to each exposure class. Another respondent supports this view and adds that, even if the concept of 'connected clients' is relevant for liquidity, solvency and large exposures frameworks, its definition must be simple and different for the various risks. This respondent also	The EBA notes the concerns expressed by respondents but regrets that respondents were unable to provide evidence or any quantitative data on the potential impact of the proposal to apply the guidelines on connected clients to other areas of the CRR and EBA technical standards and guidelines where the concept of 'group of connected clients', as defined in Article 4(1)(39) of the CRR, is used. The EBA notes that most comments seem to be aimed at the CRR and are not specific to the application of the guidelines on connected clients. The guidelines are consistent with the CRR definition of 'group of connected clients' and aim to harmonise institutions' practices by providing practical guidance regarding the application of the concept of interconnection, in particular when control issues or economic	Amendments in response to the first consultation are relevant, namely to section 6, 'Establishing interconnectedness based on economic dependency', paragraph 22, and to section 8, 'Control and management procedures for identifying connected clients', paragraphs 36 and 37.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
connected clients due to control or connected clients due to economic dependencies.	argues that the regulatory purposes need to be distinguished, especially in the case of European SMEs, for which the supporting factor was designed 'to allow credit institutions to increase lending to SMEs following the crisis, and to alleviate regulatory changes that were expected to have a disproportionate impact on SME lending'. A few respondents note that the proposed definition of connected clients is quite complex and raises significant concerns. One of these respondents states that the proposed assessment of connections between clients must be changed if the scope of the guidelines is to be extended. Another respondent does not see the added value of combining exposures of connected clients in other areas besides large exposures, where it does indeed act as a backstop to single risk concentrations. Most respondents disagree, in particular, with the application of the criterion of economic dependency to the grouping of clients for purposes other than large exposures. A few add that groups of connected clients would be even bigger if the scope of the guidelines were extended; this would also lead to more volatility in the composition of the groups of connected clients. Furthermore, the broader application of the economic dependency criteria would increase the operational effort required of banks, as the number of groups of connected clients might increase substantially. One of these respondents states that, in several cases, the grouping of suppliers and clients belonging to the same industrial sectors would lead to the reassessment of the limits.	dependency should lead to the grouping of clients because they constitute a single risk in accordance with Article 4(1)(39) of the CRR. Furthermore, the EBA recalls that the definition of 'group of connected clients' in Article 4(1)(39) of the CRR requires the assessment of both relationships of control and economic dependencies. Given that references to 'group of connected clients' exist in other parts of the CRR, in addition to in the large exposures framework, i.e. Articles 123(c), 147(5)(a)(ii), 172(1)(d), 428(1)(g)(ii) and 501(2)(c), institutions are already required to apply this concept and make the necessary assessments of control relationships and economic dependencies also for the purposes of applying these CRR provisions. The fact that the large exposures framework focuses on maximum losses and the capital requirements framework on average losses does not justify a differentiated approach to the concept of 'single risk' and thus to the definition of 'group of connected clients'. In fact, the large exposures framework relies on several concepts defined for the purposes of the calculation of capital requirements for credit risk. The two	

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	Another respondent stresses that the draft guidelines significantly depart from the Basel definition, where neither common source of funding nor economic dependency (between supplier and customer) oblige a counterparty to support another in a situation where an ownership relationship between these entities does not exist. In this respondent's view, frequency of changes in economic dependencies would add significant volatility to Pillar 1 capital requirements, and they ask that the EBA stick to a single and non-prescriptive definition of 'connected clients' limited to the ownership connection between two or more legal entities. Other respondents reiterate their feedback on the previous consultation, stressing that control differs fundamentally from interconnectedness through economic dependency and that these factors should not be linked in a prescriptive and mechanical way. A few respondents highlight that assessing connections on the basis of economic dependency could lead to one or more of the following unintended consequences if extended to Pillar 1 and Pillar 2 requirements: (i) volatility due to changing perimeters as connections change; (ii) high variability as banks reach different conclusions on the basis of their judgement; (iii) increased variability in risk-weighted assets (RWAs) between internal ratings-based (IRB) approach and standardised approach (SA) banks, given that external credit assessment institutions (ECAIs) do not consider connected clients in the same way; (iv) RWA growth, as economic dependency will result in retail exposures being inflated by non-retail exposures and in certain cases these exposures will be moved outside the retail	frameworks are complementary and have the ultimate aim of preventing institutions' failures. Regarding the relation between control and economic dependency, please refer to the EBA's analysis regarding Question 10 of EBA/CP/2016/09. Regarding comments on the consequences of extending the assessment of economic dependency to Pillar 1 and Pillar 2 requirements, the EBA notes that its proposal is to apply the guidelines on connected clients to the CRR provisions only where reference is made to 'group of connected clients', as previously mentioned. The EBA confirms that there is no proposal to extend the application of the guidelines to Pillar 2 requirements. Furthermore, the EBA notes that connections through economic dependency tend to be quite stable and that if there are changes they are usually driven by changes in the client's business; the application of the guidelines should lead to greater harmonisation in the identification of connected clients across institutions. The EBA agrees that the application of the concept of connected clients as defined in Article 4(1)(39) of	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	classification and attract a 100% risk weighting; (v) SME exposures will be inflated and in some cases these exposures will no longer be eligible for the SME supporting factor; and (vi) credit concentration risk will increase as entities are captured multiple times across different groups of connected clients, double counting a risk that is already a part of the risk-based capital framework. One respondent notes that interconnectedness through control is already applied by some institutions to their retail clients. However, the assessment of economic dependency for credit risk purposes is carried out in a broader way, including the assessment of the merit of credit before providing funding. A material economic dependency might affect the probability of default of a client by means of non-financial input into the scorecards and expert judgement. Furthermore, this concept covers the interconnectedness of clients outside the institution's clientele. Within the retail market, small businesses are more likely to depend on one larger supplier or customer (e.g. franchise chains, transport enterprises or farmers). On the basis of the criteria provided, these franchise chains might be seen as a single risk, causing enormous problems in terms of flows of funds. Given the relatively small exposures per retail or SME client, this should rather be understood as pointing to a well-diversified risk profile and therefore reducing idiosyncratic risk. A few respondents note that the consequences of the extension of the scope of the draft guidelines may be exacerbated by the proposed change in the requirement to form a group of connected clients when failure of a client would lead to 'repayment difficulties' from the	the CRR implies the assessment of economic dependency, which might lead to certain clients not being eligible for inclusion in the retail exposure class or certain SMEs not being eligible for the SME supporting factor. This might lead to less harmonised exposure classes or the ineligibility of certain clients for preferential treatment, simply because they are connected to other non-retail clients; however, the EBA notes that these effects would result from the application of the CRR and not from the application of the guidelines. Regarding specific comments on potential dependencies of small retail clients on one larger supplier or customer (e.g. franchise chains, transport enterprises or farmers), the EBA notes that two clients do not need to be considered a single risk if a client is economically dependent on another client in a limited way, meaning that the client can easily find a replacement for the other client (see paragraph 22 of the guidelines). In addition, the EBA notes that geographical and sectorial concentrations are outside the scope of the guidelines (see paragraph 5 of the 'Background and rationale' section). Regarding the change of the wording to	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	2009 CEBS Guideline specification of 'substantial, existence-threatening repayment difficulties'. Two respondents reiterate their feedback on the initial consultation and do not support tying economic dependency to the existence of general financial difficulties irrespective of their duration and how serious their consequences are for the lending institution. Two respondents note that the operational burden of investigating dependencies in the retail and SME populations and the capital impact of these proposed changes are likely to disproportionately affect banks with a smaller capital base. The increased retail exposure arising from aggregation with connected clients would probably be insignificant to banks with a large capital base but more meaningful for smaller institutions, which would be required to intensively investigate these exposures where a 2% of capital base threshold and the size criteria for retail and SME treatments overlapped. A few respondents stress that the materiality threshold for intensive investigation of potential economic dependencies should be aligned with Basel, i.e. 5% of Tier 1 capital. There is a recommendation that this threshold be included in the Level 1 text in the context of the CRR review. One of these respondents adds that this threshold is undermined by the extension of the scope of the guidelines, as identifying economic dependencies would require a bottom-up approach to inform the exposure measure and associated risk weights. One respondent notes that it is unclear if the materiality threshold is	'repayment difficulties', please refer to the EBA's analysis regarding Question 7 of EBA/CP/2016/09. Regarding comments on the materiality threshold for intensive investigation of economic dependency and comments on the operational complexity of the assessment of connections, please refer to the EBA's analysis on 'Other comments – Control and management procedures' regarding EBA/CP/2016/09. Moreover, the EBA clarifies that, in accordance with paragraphs 36 and 37 of the guidelines, institutions are expected to take an approach that is proportional to the volume of their exposures when investigating economic dependencies. This means that institutions are expected to take reasonable steps and use <u>readily available</u> information to identify economic dependencies. The type of necessary information should in any case be captured in an institution's normal credit process. Only for material exposures, i.e. where the sum of all exposures to one individual client exceeds 5% of Tier 1 capital, are institutions expected to strengthen their investigation of economic dependency, by extensive research of any type of	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	expected to operate at both solo and consolidated levels. If it applies at both, all institutions will be faced with the burden of having different capital calculations, or indeed asset class assignments, for the same obligor at each level. It would be incoherent to have different views of the capital requirement reported for the same economic risk within the same organisation. It would also lead to differences in Pillar 3 reporting, which might confuse users of these statements. Half of the respondents reiterate their feedback on the previous consultation and highlight that the process for identifying connected clients is operationally complex, in particular in the cases of the economic dependency criterion and of entities that are not an institution's clients. A few respondents note that additional information, potentially client confidential information, would need to be retrieved directly from the clients in order to assess the existence of an economic link under the new definition. Some of them add that clients would need to accept that they were considered part of an economic group when their overall risk profile was being assessed, despite their having no control over parts of that economic group. Smaller customers of smaller institutions would face increased costs of borrowing and other services as institutions sought recompense for the higher capital requirement that would result. Other respondents add that public information is generally not available for retail clients and, therefore, institutions would be	'soft information' as well as information that goes beyond the institution's clients. In practice, this guidance will provide significant relief with regard to the burden of investigating connections for retail clients (to which institutions typically have non-material exposures). This guidance also limits the impact of the application of the concept of 'group of connected clients' and therefore of the guidelines to a (arguably small) number of cases in which the combined exposures of retail and connected non-retail clients are expected to be material. The EBA also reminds respondents that natural persons are clearly mentioned in Article 4(1)(39) of the CRR and cannot be excluded via the EBA guidelines. As clarified in Section 8 of the guidelines, 'Control and management procedures for identifying connected clients', the threshold refers to the institution's Tier 1 capital for the purposes of applying these guidelines on an individual basis; and it refers to the Tier 1 capital of the group of the institution for the purposes of applying these guidelines on a subconsolidated or consolidated basis. If the connections are identified at the solo level, they should also be considered at the	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	required to undertake a thorough and costly analysis of these clients. In this context, the EBA should clarify what is meant by 'reasonable steps' to acquire information (paragraph 34 of the draft guidelines in the first Consultation Paper). Two respondents comment specifically on paragraphs 35 and 36 of the draft guidelines (Consultation Paper EBA/CP/2016/09), saying that, if these requirements were applied to the retail class, it would also affect natural persons where such a standard annual review process was not part of the current approved SA or IRB approach process. The establishment of a regular annual review requirement for all retail exposures would lead to a massive increase in human and system resources. With regard to paragraph 37, these respondents note that a case-by-case analysis and judgement cannot be applied to the retail class; other reasonable and balanced solutions for retail customers are needed where the use of relevant internal and external automated register data and internal algorithms to automatically establish groups of connected clients would be accepted. Half of the respondents highlight that significant investments would be needed to update institutions' processes and procedures for retrieving, storing and keeping up to date this information. One respondent argues that the application of the concept of a 'group of connected clients' as defined in the large exposures framework to the credit risk framework has to be subject to a legal endorsement process and impact assessment. In addition, all the areas in the CRR to which the EBA intends to apply its definition of connected clients need	subconsolidated and consolidated levels.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	to be fully identified and the institutions consulted for the full three months. A few other respondents also recommend that the EBA conduct a thorough assessment of the economic impact of its proposals.		
Question 2	*[2 out of 10 respondents were silent on this question.]*		
Please explain how the application of the draft guidelines on connected clients would possibly change current practices regarding the categorisation of retail exposures? What is the likely impact of applying the draft guidelines on connected clients to the categorisation of clients in the retail exposure class	Two respondents found this section of the consultation unclear (while the heading refers to the general retail exposure class, the text refers only to Articles 123(c) and 145(5)(a)(ii)) and ask that its scope be clarified. Two respondents are of the opinion that a generalised application to retail exposures is difficult, as there are significant barriers (legal, operational and systems-related) to effective implementation. Two other respondents state that the application of the connected client framework to large corporates raises several concerns and has to be assessed on a case-by-case basis; applying the same framework to retail clients is even less appropriate. Although its application to retail clients is required by the CRR, the concept of connected clients as defined by the draft EBA guidelines makes sense for entities but less so for natural persons. A few respondents note that there is a lack of publicly available data for retail clients. One of these respondents adds that the banking model is more likely to be transactional or product led rather than	The EBA's proposal is to apply the guidelines only to the CRR provisions where the concept of 'group of connected clients' is used, as clearly stated in the Consultation Paper (and the guidelines). Regarding comments on the requirement to consider economic dependencies for the purposes of the categorisation of retail exposures, on the difficulties of investigating economic dependency for retail clients and on the lack of available data, please refer to the EBA's analysis on Question 1 of EBA/CP/2017/07. Regarding the comment on double counting, i.e. the possibility that the same client would be included in more than one group of connected clients, the EBA notes that this is indeed one of the possible effects of applying the concept of	Amendments in response to the first consultation are relevant, namely to section 6, 'Establishing interconnectedness based on economic dependency', paragraph 22, and to section 8, 'Control and management procedures for identifying connected clients', paragraphs 36 and 37.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
(Article 123(c) and Article 147(5)(a)(ii) of the CRR)? If there is an impact, please provide concrete examples and both qualitative and quantitative information, specifying whether the impact is related to the standardised approach or the IRB approach for credit risk.	relationship based. It is very likely that institutions will be forced to assume broad connection relationships without the benefit of intensive investigation. This issue is exacerbated when considering natural persons (exposures would be unlikely to exceed the threshold for intensive investigation) and creating systems to track connections would be near impossible and unaffordable in most cases. Two respondents add that in certain jurisdictions there are legal restrictions on obtaining data on account of client data protection issues. Information sharing can be even more complex between jurisdictions (e.g. obtaining client-sensitive data from the US) and the cost implication and investigatory burden for those with operations in many jurisdictions would be significant. Another respondent notes that in the Netherlands there are legal limitations on the use of clients' information. Two respondents note that the proposals would create a disconnect between requirements and the way banks manage their retail exposures, which are typically managed on a portfolio level for each entity, not individually. Therefore, aggregation of all the required retail information on all the subsidiaries would be practically infeasible. One of these respondents adds that, unlike large corporates, retail decisions are generally based on scorecards and automated credit decision systems, the focus being on the speed of processing, with minimal client contact (for performing loans) after the retail loan/facility is granted. Most respondents recommend that natural persons be excluded from the scope of application of the guidelines or at least exempted from	'group of connected clients' to the categorisation of retail exposures as required by Article 123(c) and Article 147(5)(a)(ii) of the CRR. It is recognised that the inclusion of the same client in different groups of connected clients (retail and non-retail groups) would result in that client not being considered eligible for the retail exposure class. This is, however, an impact that stems directly from the application of the CRR, which requires that economic dependencies are considered in assigning exposures to different exposures classes.	

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	the requirement to carry out an economic interdependence assessment under Article 123. Two of these respondents agree to the inclusion of specific categories such as shareholders and top executives. Others among these respondents believe the proposals are not in line with the CRR, as introducing the assessment would make it difficult to argue that the exposure complies with Article 123(b). Two respondents note that if the revised concept of economic dependency were to be applied to private individuals, resulting in their inclusion in economic groups to a larger extent, a shift might occur from retail to SME or other asset classes, thus creating a probable unwarranted increase in RWA. One respondent recommends that it should be clear that any extension of the scope of the guidelines would be on a reasonable efforts basis. Banks should not be made accountable for information that is not available, or not made available by its customers or counterparts. Additionally, connections, particularly arising from economic dependencies, are likely to change frequently and a bank can only reasonably be expected to update this information when going through its regular review cycle or if information that a dependency has changed is brought to its attention. One respondent proposes keeping the intention of the current connected clients text in the CRR (Articles 123 and 147) close to legal connectedness, or economic connectedness due to power of majority votes. Another respondent states that the risk of disqualification from the retail exposures class due to connected clients might be justified only by ownership relationships and not economic dependencies.		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	One respondent notes that retail customers default for a very wide range of reasons (e.g. changes in debt affordability caused by illness, divorce or unemployment, etc.) and that there is no evidence to suggest that connected obligor contamination is predominant among them. There is no evidence that the risks of the population, when viewed holistically, are in any way significantly underpinned by unidentified dependencies that warrant the efforts that identification and differentiated reporting would require. Another respondent believes that connected clients that together do not form an excessive concentration should not lead to adjustments in the calculation of RWA or changes in reporting. The risk of excessive concentration is very remote in the retail assets class. Half of the respondents believe that it is inappropriate to mix retail exposures with non-retail exposures. A number of retail connected groups of clients, in particular SMEs, would be overinflated, with larger corporate exposures, and very likely to exceed the EUR 1 million threshold (e.g. an exposure to a smaller supplier would no longer be classified as retail if this supplier were considered connected to a large corporate). This would mean that retail clients would attract a 100% risk weight (and not the 75% risk weight that recognises the diversification effect of these exposures at portfolio level), thus disincentivising such diversification and potentially resulting in higher RWA. One of these respondents asks for a regulatory review of the EUR 1 million threshold if the consideration regarding economic dependencies were to be imposed. One respondent notes that it should be recognised that removing the		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	designation of an exposure as retail will alter its asset class assignment, potentially leading to exposures being reported in different ways in different periods based on changes in the materiality threshold for economic dependency investigation or changes in the view on the degree of an obligor's dependency. It is undesirable to have asset class assignments driven by matters of opinion or judgement rather than objective obligor characteristics. One respondent says that the extension of the scope of the draft guidelines would not change practices regarding the categorisation of retail exposures. The total amount owed to the institution (Article 123(c) of the CRR) is already calculated considering the group of connected clients. This respondent also assumes that the impact of considering clients connected through economic dependencies will be limited in the retail exposure class. One respondent notes that the calculation of the probability of default (PD) for many (most) clients should be revised if the 'connected clients' definition is to be interpreted in line with the EBA proposal, which has costs but no clear prudential benefits. Another respondent states that extending the scope of the guidelines would lead to significant changes in banks' internal models, at least those used for large corporates, to enable them to cover a wider and less homogenous population; these changes would need to be validated by supervisors. A few respondents note that the proposal would lead to situations where the same client would be included in more than one group of		

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	connected clients (and could even be included in a group of non-retail connected clients and at the same time in a group of retail clients, resulting in uncertainty about how to calculate capital requirements). This assessment is operationally complex and the double counting unduly penalising in terms of calculation of capital requirements. The guidelines should specifically address this point and avoid multiple counting of exposures for capital requirements purposes. Three respondents note that a quantitative impact assessment of the application of the framework is not possible either under the IRB approach or the SA because of the difficulties in obtaining data on retail clients.		
Question 3	*[All 10 respondents provided a response to this question.]*		
Do you agree with the EBA's assessment that there would be no impact of applying the draft guidelines on connected clients to the development and application of the rating systems (Article 172(1)(d)	One respondent fully agrees with the EBA's assessment. The other respondents generally disagree for the reasons summarised below. Some respondents note that although paragraph 61 of the EBA Guidelines on definition of default states that default is identified at an individual obligor basis, as a result of the enlargement of the concept of economic link to simply 'repayment difficulty', the economic groups perimeter is expected to include more counterparties. Therefore, in case of default of one member, the need to assess the potential 'unlikeliness to pay' might be extended to a much broader perimeter of companies with a twofold implication: (i)	The EBA notes that the concepts of 'unlikeliness to pay' and of economic dependency as further specified in the guidelines on connected clients are broadly consistent. Regarding the change of the wording to 'repayment difficulties', please refer to the EBA's analysis regarding Question 7 of EBA/CP/2016/09. The EBA notes that Article 172(1)(d) of the CRR	Amendments in response to the first consultation are relevant, namely to section 6, 'Establishing interconnectedness based on economic dependency', paragraph 22.

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of the CRR)?	the enlargement of the perimeter to be assessed and hence the additional workload might jeopardise the accuracy of the default/non-default classification given the bank's limited capacity; (ii) as a consequence of a potential negative impact on the modelling side, the link between a default event and information on an economic link might be diluted. A few of these respondents reiterate that, also for the purposes of Article 172(1)(d) of the CRR, it is important to keep the concept of 'single risk' linked to 'substantial, existence-threatening repayment difficulties'. Half of the respondents reiterate concerns in respect of the proposed change from the 'substantial, existence threatening repayment difficulties' concept in the 2009 CEBS guidelines to 'repayment difficulties' in the draft guidelines. These respondents highlight the implications for modelling. The counterparty rating assessment would be extended to a larger number of entities included in the group perimeter due to an economic connection, thus impacting the appropriateness of the rating for a single obligor and consequently the applicable pricing and the relative capital absorption. The link between a default event and information on an economic link would probably weaken, given the extension of the rating assignment perimeter, embedding the group link function for a broad range of obligors. In this regard, CRR Article 174(a) states that 'the model shall have good predictive power and capital requirements shall not be distorted as a result of its use'. A few respondents are of the view that any change in methodology or expectation that would require rating systems to consider	clearly requires that a separate rating is provided to each separate legal entity and that it also requires that institutions have in place appropriate policies regarding the treatment of individual obligor clients and groups of connected clients. The wording in this article makes clear that institutions have to consider connections between clients and capture the risk of connected clients in their rating system. However, institutions are allowed some leeway on how to do this, as the CRR provides different methods for reflecting connected clients in a rating system. The EBA agrees that if an entity is a risk driver to several other entities that have to be rated separately, this risk has to be captured in every single rating. Whatever method is chosen to capture this risk, it has to be in line with the requirements of the CRR. In short, the EBA is of the view that the guidelines should not have an impact on how institutions consider connected clients in a rating system. The EBA confirms that there is no proposal to extend the application of the guidelines to Pillar 2 requirements. Please refer also to the EBA's analysis on Question 1 of EBA/CP/2017/07.	

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	connections with other clients, as defined in the draft EBA guidelines, would give rise to significant complexity and heterogeneity, as it would depend on the judgement and capacity of the institution to identify the relationships between exposures. One respondent is of the view that related and administrative efforts would increase significantly, and would represent a disproportionate burden for smaller institutions in particular. Two respondents state that current practices consider the existence of connection based on economic dependencies on a case-by-case basis with expert analysis (or in a semi-automatic approach) for both rating analysis and default definition. The monitoring of connected clients pursuant to the definition proposed in the EBA's draft guidelines would be unduly burdensome in terms of IT systems, with no significant improvement in the results of risk profile assessments. Moreover, a few respondents highlight that the inclusion of economic dependencies would lead to double counting of entities across groups of connected clients. Different institutions would make different judgements in respect of economic dependencies and this would result in increased variability in ratings. Additionally, this would create a greater disparity between those using external ratings (that do not consider economic dependencies in the same manner) and internal ratings, again exacerbating variability in credit risk weights. The frequency of changes in economic dependencies would also add significant volatility to capital requirements. Rating entities repeatedly across multiple aggregation groups, as a result of an entity being considered in the overall credit assessment for each group of		

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	connected counterparties in which it sits, would also probably lead to RWA growth. A few respondents stress that the EBA's proposal would require rating systems models to be developed or rebuilt, or at best recalibrated. One of these respondents gives an example: some institutions may have chosen to reflect the existence of idiosyncratic economic dependencies in different ways in the design of their models; if such dependencies are forced, instead, to be reflected in the obligor grouping itself, such models will have to be formally redeveloped, probably with substantial costs. One respondent notes that Article 172(1)(d) of the CRR applies only to IRB banks. However, given the importance of rating systems for the risk management of each institution, this respondent asks for confirmation that the requirements for establishing groups of connected clients would have no influence on the development and calibration of rating systems for risk management purposes (Pillar 2). One respondent is of the view that Article 172(1)(d) of the CRR is not clear. This respondent believes that only the control criterion should be relevant for the purposes of Article 172(1)(d) and that the subsidiary rating can be based on the parent's rating, both being separately rated and having separate ratings.		

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Question 4	*[2 out of 10 respondents were silent on this question.]*		
Please explain how the application of the draft guidelines on connected clients would possibly change current practices regarding the use of the SME supporting factor? What is the likely impact of applying the draft guidelines on connected clients to the SME supporting factor (Article 501(2)(c) of the CRR)? If there is an impact, please provide concrete examples and both qualitative	One respondent states that the implementation of the guidelines in relation to SME exposures will have the following effects (arising primarily as a result of the need to capture connections arising from economic dependency): (i) volatility and variability arise from the constant changes in group perimeters as dependencies change; (ii) legal challenges, such as client confidentiality limiting the distribution of relevant data, make it difficult to perform the economic dependency test; and (iii) operational and systems limitations arise from the difficulties in implementing automated procedures, with the process for identifying economic dependencies (including indirect dependencies) being operationally complex. Two other respondents also put an emphasis on operational issues as highlighted in the previous Questions 1 and 2. In addition, these respondents state that extending the scope of the guidelines would lead to significant changes in the banks' internal models, at least those used for large corporates to enable covering a wider and less homogenous population, which would need to be validated by supervisors. Most respondents note that it is likely that the application of the draft guidelines, particularly economic dependency, would enlarge some groups of connected clients. This would result in a higher number of groups exceeding the threshold of EUR 1.5 million of exposure, in their exclusion from the application of the SME supporting factor and in a consequent increase of RWA. As the EUR 1.5 million threshold is,	Please refer to the EBA's analysis regarding Questions 1, 2 and 3 of EBA/CP/2017/07. Regarding the comment on the effect on the 'discounted PD', the EBA notes that Article 153(4) refers to the 'consolidated group', which is a different concept from 'group of connected of clients', as it does not consider economic dependencies.	Amendments in response to the first consultation are relevant, namely to section 6, 'Establishing interconnectedness based on economic dependency', paragraph 22, and to section 8, 'Control and management procedures for identifying connected clients', paragraphs 36 and 37.

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and quantitative information.	in any case, excessively low, these respondents disagree with the EBA's proposal, which would further restrict the scope of application of this capital discount. Moreover, two respondents highlight that with the application of economic dependency as per the draft guidelines, the extension of a group of connected clients to further counterparts could bring some groups to cross 50 million revenues threshold, thus causing the exclusion from the application of discounted PD (Article 153(4) of the CRR), which would result in a further RWA growth effect for IRB banks. Two respondents add that it would be a problem to assess whether the SME supporting factor was applicable or not whenever a client was included in several different groups of connected clients. One respondent also points out that these SME-related capital treatments exist to reflect the fact that SME portfolios are made up of a larger number of smaller exposures and so benefit from a degree of diversification. In the same way as retail exposures, SME obligors default for a very wide variety of reasons and there is no evidence to suggest that failure by reason of the financial difficulty of entities on which they may be economically dependent is so predominant as to warrant a specific treatment to remove these treatments. The Basel large exposures framework deliberately assumes a worst-case scenario so as to limit the maximum exposure, but this is not the right tool to consider the likely economic performance of a portfolio, which is in effect what the Pillar 1 capital treatments are trying to do. This		

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	respondent strongly urges that matters of risk concentration continue to be dealt with through Pillar 2 rather than being reflected in Pillar 1. One respondent is of the view that the disqualification of the SME supporting factor categorisation on account of 'connected clients' might only be justified by ownership relationships and not by economic dependencies. This respondent suggests that the EBA follow an approach consistent with the review of the CRR/the Capital Requirements Directive (CRD), whereby the SME supporting factor would be applicable to all levels of exposures. Moreover, a few respondents are of the opinion that the proposed guidelines would counteract the Commission's efforts to strengthen the SME market through an extension of the SME supporting factor as proposed in the CRR review.		
Question 5 Please explain how the application of the draft guidelines on connected clients would possibly change current practices regarding the	*[1 of 10 respondents was silent on this question.]* One respondent is of the view that there are no changes in relation to current practices. This view is supported by another respondent, who does not expect major changes to reporting practices. Two respondents state that the proposal will largely impact processes, data and the systems/IT landscape and will require a change in reporting practices. It was not feasible to accurately measure the impact.	The EBA notes that currently the concept of 'group of connected clients' is already applicable in different parts of the liquidity reporting framework, which implies that institutions are already grouping clients on the grounds of control and/or economic dependencies. From the feedback received, it is not clear why the internal data systems that are currently	Amendments in response to the first consultation are relevant, namely to section 6, 'Establishing interconnectedness based on economic

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reporting to competent authorities, for instance in the area of liquidity? What is the likely impact of applying the draft guidelines on connected clients to reporting requirements, where relevant? If there is an impact, please provide concrete examples and both qualitative and quantitative information.	Some respondents go further and highlight that there would be operational issues involved in obtaining the information required, because the liquidity databases containing data on counterparties are not designed with the proposed change to 'connected client' in mind. This would require significant efforts in time and cost on account of the application of economic dependency as per the draft guidelines. Therefore, they are unable to provide an accurate estimation of potential impacts on metrics as a result of the extension of the application, but they noted the expected implications on current practices as set out below: • Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR): change in the type/bucketing of some counterparties if they are included in the same group of connected clients. • Additional liquidity monitoring metrics (ALMM) template 67: concentration of funding by counterparty. Concentration ratios could increase if a counterparty is included in multiple groups of connected clients. • ALMM template 71: concentration of counterbalancing capacity by issuer. Concentration ratios could increase if a counterparty is in multiple groups of connected clients. A number of respondents are of the view that it would be inappropriate to capture entities multiple times across multiple groups, as liquidity can be lost only once. Three of these respondents add that, in the case of ALMM, this would lead to an overestimation	providing the regulatory reporting on connected clients for these liquidity/funding purposes could not be easily updated in line with the guidelines. As noted in the consultation, the concept of 'group of connected clients' is used in reporting on stable funding (Article 428(g)(ii) of the CRR) and in templates C67 and C71 of the ALMM framework for reporting on the 10 largest concentrations in funding and counterbalancing capacity. Therefore, the EBA agrees that the updated guidelines on connected clients imply the need for institutions to update internal systems for liquidity reporting. However, the additional burden of this update should be limited, as the update would need to be carried out for large exposures purposes in any case. For example, in the case of template C71, which looks at concentrations of counterparties (and groups of connected clients) on the asset side of the balance sheet, like the large exposures framework, the additional burden of the update should be limited. Regarding the comment on double counting, the EBA acknowledges the issue and clarifies that the amended 'Implementing technical standard on additional monitoring metrics', submitted to	dependency', paragraph 22, and to section 8, 'Control and management procedures for identifying connected clients', paragraphs 36 and 37.

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	of concentration risk on the refinancing site (C67.00). Another of these respondents suggests that the impact of a counterparty should be taken into account only in the group where the dependency is most relevant, which means recognising the exposure only once and preventing double counting. This would be consistent with other areas of the prudential framework. Furthermore, one respondent does not believe that the connected clients concept as being currently developed based on credit risk management concepts is directly relevant for liquidity risk management and as such scope extension using consistency as a premise is not justified. This is particularly the case when considering that counterparties whose financial health may be intrinsically linked owing to economic relationship, may not exhibit the same propensity to withdraw deposits or other short-term investments in funding. In the same vein, another respondents says that if the scope of the guidelines is expanded to clients that only have deposits, it would mean that institutions would have to gather additional information that would not be available with the necessary level of detail. In this sense, the guidelines should not be extended to areas of liquidity, and in particular these respondents oppose to the expansion of the scope of the draft guidelines to the liability side of the balance sheet. One respondent states that the extension of the guidelines' scope of application onto the liquidity regime would only be acceptable if no new requirements were introduced regarding the examination and potential establishment of groups of connected clients and using	the European Commission on 7 April 2017, aimed to address this issue by clarifying that 'Where a counterparty belongs to several groups of connected clients, it shall be reported only once in the group with the highest amount'. Comments that are not related to the EBA's proposal to apply the guidelines on connected clients to the relevant liquidity reporting templates are outside the scope of this consultation.	

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	existing groups established on the basis of lending relationships only in liquidity regime. Another respondent highlights that liquidity needs reliance on its own bespoke framework for understanding and dealing with concentrations. The impact of this proposal would overlay the existing behavioural considerations that already exist within the regulation. For example, the CRR delegated act for liquidity (of 10 October 2014) already includes detailed requirements on outflows and materiality threshold; e.g. Article 25 defines a EUR 500,000 deposit balance across all accounts as an indicator when higher outflow rates are required. A few respondents note that, in addition to the reporting impact, the extension of the 2016 guidelines would also have a ratio impact on LCR and NSFR. This is because of the definition of retail deposits in Article 3 of the Delegated Act on LCR.[33] As the retail exposure categorisation for credit risk would be impacted by the application of the guidelines, there would accordingly be an impact on LCR/NSFR reporting and related requirements. In addition to the issues noted in relation to the expansion of scope to retail and SME exposures, there would probably be an unwarranted decrease in liquidity ratios, as retail exposures would be aggregated with non-retail exposures and fall outside of the retail classification, thus no longer attracting the		

[33] ‘ “retail deposits” means a liability to a natural person or to an SME, where the natural person or the SME would qualify for the retail exposure class under the Standardised or IRB approaches for credit risk, or a liability to a company which is eligible for the treatment set out in Article 153(4) and where the aggregate deposits by all such enterprises on a group basis do not exceed EUR 1 million.’

Comments	Summary of responses received	EBA analysis	Amendments to the proposals
	appropriate retail deposits treatment. One respondent stresses that an application date of mid-2018 is not feasible on the liquidity side, based on the details included in the consultation. Implementation would require new systems that hold the relevant information required to assess interconnectedness for depositors, and then the time required to collect the required information would need to be considered. In addition, this respondent highlights that liquidity implications would need to be reconsidered in a separate consultation in order to focus on the implications/requirements for institutions and depositors.		