

06 February 2023

Circular on Draft Regulatory Technical Standards on identification of Groups of Connected Clients and Draft Regulatory Technical Standards on criteria for identifying Shadow Banking Entities

Draft Regulatory Technical Standards on the Identification of a Group of Connected Clients under Article (4)(1)(39) of Regulation (EU) no 575/2013

On 20 December 2022, the European Banking Authority ('EBA') has published its [final Draft Regulatory Technical Standard \('RTS1'\) on the identification of a group of connected clients \('GCC'\) under the Capital Requirements Regulation \('CRR'\)](#).

The draft RTS1, in conjunction with the EBA Guidelines ('GLs') on connected clients ([EBA/GL/2017/15](#)), provide the complete framework for the identification of two or more natural or legal persons who are so closely linked by idiosyncratic (individual) risk factors, that it is prudent to treat as a single risk.

Based on the current GLs, the draft RTS1 sheds light on when the criteria for two types of interconnections, control and economic, are met. They provide details on how institutions shall identify GCCs based on these two types of interconnections, separately as well as jointly.

The draft RTS1 elaborates on the below conditions, leading to the identification of two or more legal persons being connected through:

- Control Relationship
- Economic Dependency
- Combined existence of Control Relationships and Economic Dependencies

The RTS also sets out circumstances when economic dependency can connect a group, leading to a significant uptick in the likelihood of financial difficulties spreading and provides a non-exhaustive list of situations in which the spread of financial difficulties within a connected group can prove problematic for the full and timely repayment of liabilities.

Draft Regulatory Technical Standards on criteria for the identification of Shadow Banking Entities under Article 394(4) of Regulation (EU) no 575/2013

On 23 May 2022, the EBA has published its [final Draft Regulatory Technical \('RTS2'\) specifying the criteria to identify Shadow Banking Entities for the purposes of reporting Large Exposures](#).

The final draft RTS2 relies on great extent on the EBA Guidelines on exposures to Shadow Banking ([EBA/GL/2015/20](#)) to ensure consistent implementation from a prudential point of view of the large exposures framework.

The draft RTS2 on Shadow Banking addresses the following:

- Criteria for identifying both shadow banking and non-shadow banking entities
- Definition of banking activities and services
- Criteria for excluding entities established in third countries from being deemed as shadow banking entities, differentiating between institutions and other entities.

Credit Institutions are recommended to take note of the conditions set out in both draft Regulatory Technical Standards as outlined in this Circular, which are expected to be adopted by the European Commission in due course.