EAPB Position Paper on EBA Guidelines on the treatment of connected clients under CRR

26 October 2016

About EAPB

The European Association of Public Banks (EAPB) gathers member organisations (financial institutions, funding agencies, public banks, associations of public banks and banks with similar interests) from 17 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. With a combined balance sheet total of about EUR 3,500 billion and a market share of around 15%, EAPB members constitute an essential part of the European financial sector.

EAPB welcomes the consultation of the European Banking Authority's (EBA) guidelines on the treatment of connected clients under the Capital Requirements Regulation (CRR) article 4(1)(39) and would like to use this opportunity to submit comments of the EAPB members on the guidelines. In the following, a general comment section presents the main EAPB concerns. Subsequently, the detailed comment section offers specific EAPB feedback to the questions in the consultation paper.

General Comments

Stricter implementation of current rules instead of a review at this point

EAPB believes that the current guidelines on the creation of groups of connected clients are sufficiently secure to ensure that concentrated risks arising from a close legal or economic relationship between debtors are measured and controlled. EAPB therefore believes that the reworking of the 2009 CEBS Guidelines as undertaken by the EBA is not necessary at this point. This is especially valid, if the EBA proposals were to lead to stricter measures than the current institutional practices due to the interaction between control and economic dependencies being redefined. It is the opinion of the EAPB that this would require an amendment of CRR article 4 (1) (39). Instead of tightening rules, European or national supervisory authorities should be stricter about the uniform application of existing rules.

Moreover, the new definition of economic dependency will lead to substantial changes and particularly to expansions regarding the classification of group of connected clients within institutions. The requirements related to control and management procedures are very extensive and will have to be introduced not only at high costs for institutions regarding implementation, administration and monitoring but also with a certain amount of time. To fulfill these requirements a close monitoring of almost all clients including their interconnectedness would be needed. Thus, It would be useful if the guidelines would be more precise regarding the establishment of control and management procedures (Chapter 3.5). In any case it would be important and necessary to foresee a transitional period since

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
Website: www.eapb.eu

the proposed concept means an extensive enlargement compared to the existing CEBS guideline. In addition, from a practical point of view, it can be noted that lots of individually arbitrary decisions have to be taken in regard to the classification of a group of connected clients. To take these decisions, in practice, however, it may be difficult to obtain the required information, which is often not available even from current customer relationships. At this point, questions arise on how the information procurement should be achieved and on how the administrative burden could be dealt with by relationship managers, whose main mission is to serve the clients.

The presentation of the examples in the consultation paper is very helpful and very much appreciated. However, from a practical perspective the implementation of several examples (e.g. E2, E3, E6 (page 17/18) and C/E1 – C/E3 (page 19 – 22)) will be very difficult to implement and connections between e.g. different retailers and wholesalers or supply chains in different business sectors will be hardly identifiable. Furthermore, clarification would be needed on whether paragraph 36 (page 23) also refers to the example provided in E 2 (page 14).

Interaction with ongoing review of CRR must be considered – appropriate transitionary periods must be ensured

According to statements by the EBA at the public hearing on 5 September 2016, the guidelines shall be finalised in the first quarter of 2017 and the objective is for them to come into force as early as the second or third quarter of 2017. Keeping in mind the upcoming review of the European capital requirement rules (CRR review, draft proposal expected by end 2016), EAPB believes that a review of the guidelines for the creation of groups of connected clients is not timely. The concrete effects of the EBA proposals, especially the measures that threaten to exceed the limits for large exposure and limit the margins for granting credit, cannot be reliably estimated at this point in light of the lack of clarity about the future framework conditions for the European large exposure regime and the changes in the same as a whole. Therefore, finalising the guidelines should not be the aim of the ongoing consultation process. EAPB does not see any urgent need for changes and would advocate waiting for the review of the CRD IV/CRR to first be completed.

This notwithstanding, it is necessary to ensure that in the case of a final version of the guidelines, sufficient transitionary periods are put in place for the first application of the new rules. Institutes or contracted service providers, as the case may be, require a sufficiently long lead period – at least 18 months after the publication of the final monitoring conditions – to carry out the necessary adaptations to their IT systems. Furthermore, institutes must also revaluate a number of credit commitments to check conformity with the new rules. Therefore, the final guidelines should be structured such that conformity with the new rules can be determined in the course of a regular assessment of credit commitments and the effect on other areas of regulation can also be analysed.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels ● Phone: +32 / 2 / 286 90 70 ● Fax: +32 / 2 / 231 03 47
Website: www.eapb.eu

Scope of the guidelines should be reviewed

As stated by the EBA themselves, the creation of groups of connected clients according to CRR article 4 (1) (39) does not only apply in large exposure regimes. In the spirit of consistency, EAPB would welcome an extension of the scope of the guidelines. Insofar as a rule explicitly refers to the creation of groups of connected clients as laid down in article 4(1) (39), the guidelines should apply. Varying definitions make practical application significantly more difficult. Against this background, EAPB would call for a review of the scope of the guidelines as well as of the draft guidelines' paragraphs 5 and 11.

Economic dependence only in sustained repayment difficulties that endanger existence

EAPB would reject linking economic dependence to the existence of general "financial difficulties" regardless of duration, extent or severity for the crediting institute as it is too far-reaching (see also question 7). This does not fulfil the objective set out in CRR article 4 (1) (39) b). The aim of this rule is to pool debtors that create a single idiosyncratic risk, which – when it does occur – could threaten the existence of an institute and insofar as a supervisory limit has been set. However, this is only the case if financial difficulties, especially funding or repayment difficulties, of a high-probability client were to lead to greater, sustained funding or repayment difficulties for other clients as well. Thus, the objective of the rule interprets the term repayment difficulty not as something that is simply temporary but as something that must be significant and therefore an existential threat. EAPB therefore believes that the fitting description enshrined in the 2009 CEBS Guidelines "substantial, existence-threating repayment difficulties" should be maintained to determine the facts.

Switching to the ambiguous expression "financial difficulties" would essentially lead to new uncertainties when evaluating groups of connected clients because it does not provide information about the degree of financial difficulties due to economic dependence that must exist for treatment as a group of connected clients. Without any further explanation of the term, this poses the risk – contrary to what is intended – of heterogeneous application when creating groups of connected clients across Europe. Ongoing "financial difficulties", for example forced inclusion of supplier credit or payment difficulties resulting from the time needed to substitute a customer that has withdrawn, in no way justify a group of connected clients due to economic dependence and thus treatment as a single debtor, because there is no sustained "single risk". The resulting default risk for the institute due to these client relations would thus be significantly overestimated. According to EAPB's understanding, the EBA also recognises this in its comments in background and rationale 3.2.3, paragraph 25. Furthermore, EAPB would also like to add that in paragraph 19 of its framework for large exposures, the Basel Committee on Banking Supervision (BCBS) assumes that for the creation of a group of connected clients, two clients must be dependent on each other to an extent

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
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that the default of one client is very likely to lead to the other defaulting as well. Gold-plating at European level cannot be accepted.

Criteria for economic dependence due to a common source of funding needs to be adapted

EAPB would not support the proposed criteria to justify economic dependence on the basis of common sources of funding (draft guidelines, paragraph 28) (see also question 7). This proposal would have especially significant consequences for existing ABCP programmes. Sponsor banks would thus be forced to treat concerned purchasing entities or legally separated special-purpose assets as a group of connected clients. This is neither economically nor legally justified and would greatly limit the funding of projects in the real economy using this product that has been recognised by supervisory legislation.

No linking of control and economic dependence

The EAPB sees the proposed close interaction of control and economic dependence during group creation as inappropriate (see also question 10). Dependencies resulting from control relationships are different from those stemming from economic dependence. This is already recognised in the 2009 CEBS Guidelines (see paragraph 53). In a control relationship, a hierarchy is created by a contractual/company law clause, such that it is possible for a controlling entity to, for example, transfer assets in favour of the liability amount with a crediting institute. This risk shall be contained through the creation of a group of connected clients. In comparison, the risk association in an economic dependence essentially results from bilateral business relations and entrepreneurial focus. European legislators have clearly expressed this assessment in the CRR and even before that in CRD article 4 paragraph 45 and have consciously differentiated both reasons for association from each other. EAPB believes that the inclusion of the phrase "between whom there is no relationship of control" does not only establish the precedence of control over economic dependence, but also excludes the linking of both criteria with each other - as proposed by the EBA. Fundamentally redefining the interaction between control and economic dependence goes beyond the mandate of EBA to ensure harmonised supervisory practices in Europe. Thus EAPB believes that such a fundamental decision can only be made by EU lawmakers through an appropriate amendment of CRR article 4 (1) (39). Similarly, the BCBS also specifically differentiates between both criteria in its framework for large exposures, paragraph 20. They also do not determine rules to link these two different circumstances. The obligation to link control and economic dependence with each other in a group of connected clients could have far-reaching consequences that cannot be reliably assessed without individually evaluating all client relations. Limitations when grating credit are, nonetheless, highly likely. The extent of the same depends greatly on further decisions at European level regarding the implementation of the BCBS framework for large exposures, especially on whether it leads to a further tightening of the definition of "eligible financial collateral" and to what extent existing exceptions and eligibility relief will apply in the future.

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Detailed Comments

Question 1: Are you aware of any situations where the existence of a control relationship among clients does not lead to a 'single risk'?

Yes, in cases in which the financing follows a ring-fenced structure that does not impact any related entity. Typical examples are project financings. Similarly, any situation in which a controlling entity makes it explicit that it does not exercise its formal control rights and there is no risk of default contagion, does not constitute a single risk from a counterparty credit risk management perspective.

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.

The impact is fully positive; it permits more accurate counterparty credit risk underwriting and steering by not mixing cash-flows that should not be related.

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 Directive 2013/34/EU or Regulation (EC) No 1606/2002 which should be clarified with respect to the large exposures regime.

Generally speaking, EAPB welcomes the clarification that consolidated financial statements, which are compliant with European law, must be used as the primary source to determine control according to CRR article 4 (1) (37). However, the reference to IFRS 11 (joint arrangements) may be questionable. The term "joint control" does not fulfil the control conditions according to article 4 (1) (37). Common management does not justify a single risk because joint arrangements do not allow any common asset transfers ("looting") in favour of the common entity. EAPB would therefore suggest the reference to IFRS 11 to be completely deleted.

The same applies for the reference to IFRS 12. A stake in an entity without a consolidated structure does not fulfil the conditions for control according to CRR article 4 (1) (37) and does not justify a single risk because no asset transfers ("looting") in favour of investors or the structured entity are allowed. The creation of a group of connected clients in this vein would not be practical because the specific addresses that are listed under IFRS 12 would not be disclosed in the financial statements and also cannot be disclosed due to reasons of banking confidentiality. EAPB would therefore also suggest the reference to IFRS 12 to be removed.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
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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?

EAPB is critical about the indicators "blocking minority" and "management duties" mentioned under Letter iii as well as the criteria listed under iv. EAPB would believe that it is not appropriate to refer only to these criteria when determining a possible control relationship. Only if further indicators are available, it would be possible to consider constellations leading to cases where control could arise. On the criteria individually:

"Blocking Minority" (Letter c, iii):
Holding a blocking minority does not justify control as such. Control is always understood as active action and not as blocking or refraining. A possible blocking minority is also no condition for control according to IFRS 10. Control using a blocking minority is only possible in few, very specific constellations.

"Management Duties" (Letter c, iii):
Carrying out managerial duties in another company can justify a control relationship only in special constellations when additional indicators are available, e.g. in the private equity constellation described in continuation. When the general partner, i.e. the fund initiator or one of the controlled entities, does not have any capital stake or voting rights and can in fact be replaced at any time, but makes all important decisions and – as is usual in such cases – does not want to control the investors and has no interest in replacing the general partner, control characteristics can be allowed for the general partner. Things, however, function differently with, for example, a general partner, who can be replaced at any time, i.e. as it is the case for US-American project businesses with only few, active large investors.

"Right or ability to coordinate the management of an entity with that of other entities in pursuit of a common objective" (Letter c, iv):
EAPB would assume that this condition derives from "single management". However, it is unclear whether only the subsidiary undertaking (article 22 (2) b) of directive 2013/34) or even the associated undertaking (article 22 (7) b of directive 2013/34) is implied. EAPB would request clarification on whether the rule in point iv applies only to subsidiary undertakings as CRR article 4 (1) (37) CRR does not refer to the provisions of article 22 (7) b) of directive 2013/34.

Question 7: What is the likely impact of considering that clients are connected as soon as the failure of a client would lead to 'repayment difficulties' of another client? Please provide an estimation of any associated quantitative costs.

Switching from the restrictive concept of 'default contagion' ("substantial existence-threatening repayment difficulties") to the less restrictive concept of 'repayment difficulties' is counterproductive and prevents proper counterparty risk assessment and risk steering. By removing the crucial qualification that economic dependence exists only in case of 'default

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
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contagion', entire value chains may or must be connected. This creates artificial groupings that cannot be managed with the tools of counterparty credit risk management any more (financial analysis, counterparty rating, etc) and significantly deteriorates the quality of credit risk management in a bank. The clarification provided by paragraph 24 & paragraph 25 (page 16) does not remove this fundamental problem of the proposed modification to the current definition. Therefore, there is reason to doubt whether individual loan officers and relationship managers do have the soft information needed to identify connected clients according to the new guidelines (paragraph 34, page 23). To fulfill these extended requirements banks could be forced to take additional external data providers to closely monitor their business relationships of the clients.

Economic dependence is an extremely important criterion for determining single risks that, by its very nature, can and should only be established based on a thorough case-by-case assessment. Except for paragraph k), any of the criteria listed in paragraph 23 (page 35) may indicate economic dependence, but does not conclusively define it. The case-by-case assessment must be conducted by adequately skilled professionals familiar with the individual case. Defining any list of criteria may – and in actual practice – does lead to situations where group of connected clients formation is done algorithmically by IT-processes or by back-office functions not familiar with the particular case. This creates groupings that may not constitute a single risk which undermines the very concept & usefulness of a group of connected clients.

Similar to the 2009 CEBS Guidelines, the EBA proposes to consider a “one-way or two-way dependency on the same funding source” as a factor for an economic dependency within the meaning of CRR article 4(1) (39) b) (see paragraph 26 of the draft guidelines). However, more pronounced as the 2009 CEBS Guidelines, EBA now insinuates that loans granted by the reporting institution itself can be regarded as such a common source of funding (see paragraph 27 of the draft guidelines). In this context (and, again, following the 2009 CEBS guidelines), EBA lists a number of indicative factors that may lead to the assumption of contagion or idiosyncratic risks (see paragraph 29 of the draft guidelines). In application of these factors, the EBA concludes in example E6 that an institution providing liquidity lines to several SPVs “can constitute the source of risk (the underlying risk factor) as recognized in recital 54 of Regulation (EU) No. 575/2013”. EAPB would believe that the approach taken in paragraphs 27 and 28 of the draft guidelines (and the conclusion drawn in the example E6 based on it) is incorrect and not justified for the following reasons:

First, sectoral concentration risks fall outside the scope of the large exposure regime (see background and rationale, paragraph 7 on page 7 of the consultation paper). Therefore, it is beyond doubt that the fact that several clients tap the same banking or capital market segment (e.g. for commercial paper in general or ABCP in particular) for funding purposes does not constitute a dependency which may justify the treatment as a “single risk” within the meaning of CRR article 4(1) (39) b). Unfortunately, however, the EBA’s proposal does not shed any further light on the crucial distinction between a funding source that constitutes a

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"market" and, therefore, a sectoral concentration risk (outside the scope of the large exposure regime) and a funding source that constitutes an economic dependency within the remit of article 4(1) (39) b).

Second, the large exposure regime aims to prevent "excessive concentration of exposures to a client or a group of connected clients may result in an inacceptable risk of loss" (see CRR recital 53). Based on that legislative intent, it would be assumed that a loan granted by an institution itself is, at least from the perspective of such institution, an intrinsic fact that should not, per se, constitute a relevant economic dependency between separate clients and a risk of excessive concentration for that institution. In this context, EAPB thinks that CRR recital 54 is misconstrued. If EBA's reading of recital 54 and article 4(1) (39) b) was correct, it would lead to a circular reasoning, as then, logically, any and all exposures to separate clients of an institution must be seen as connected with each other, which, in turn, would render the entire concept of the large exposure regime inconsistent and useless. As this should not be the result of its application, EAPB believes accordingly, that an institution must rather look at extrinsic facts or circumstances (in terms of funding sources e.g. the credit granting by other entities or the absence thereof) that may or may not connect clients to a single economic risk unit.

The conclusions derived in example E6 illustrate this conceptional flaw:
From an outsider's perspective, all three SPVs (A, B and C) have at least two different sources of funding: first (and pre-dominantly), a funding via ABCP issuance to investors in the ABCP market and, secondly (and as a fall-back), via drawings under liquidities facilities granted by the sponsor bank.

From the perspective of the sponsor bank, it is the funding via the ABCP market that matters. The funding via ABCP is, however, an extrinsic risk factor that is, at the same time, a sectoral concentration risk that cannot constitute by itself an economic dependency within the meaning of CRR article 4(1) (39) b). As said before, the other source of funding, i.e. the liquidity facility granted by the sponsor bank is, from the perspective of such institution, not relevant. Hence there is, in the absence of other connecting factors, no room for a grouping of the SPVs as connected clients from the reporting (sponsor) institution's perspective. EAPB would think that this result is warranted and that there is no regulatory gap that needs to be closed. It is simply a matter of economic perspective.

From the perspective of a third institution investing in any CP issued by A, B and/or C and relying on the sponsor support (rather than the quality of the underlying assets acquired by the SPV), the facility of the sponsor bank may matter and the analysis may therefore be different: the investor institution may come to the conclusion to treat all SPVs as group of connected clients because of the common liquidity support by the sponsor bank.
Third, the situations (or factors) listed in paragraph 29 of the draft guidelines (which were taken, by and large, from the 2009 CEBS guidelines) are not selective and hence not suitable

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to provide a meaningful distinction to sectoral concentration risks and to appropriately assess "contagion or idiosyncratic risks". They seem to be arbitrarily designed to catch certain ABCP or SIV structures which went into trouble during the financial crisis, but they are extremely broad and ambiguous and therefore go too far:

- It is unclear what is meant with the addendum in brackets "(the same bank or conduit that cannot be easily replaced)" after "use of one funding entity"? What means easily in this context?
- Why should the "use of the same investment advisor" by itself lead to contagion risks? Would that factor then catch all SPV, funds and trusts structures advised and managed by the same investment management company?
- What means "use of similar structures"? What means similar? Similar to what? What is the connecting element here?
- Why should the "use of similar underlying assets" by itself lead to contagion risks and has this fact anything to do with a common source of funding?

In addition, the draft EBA guidelines omit to clarify that these criteria bear only the character of an example. If these criteria are to be applied literally (and mechanically), institutions would be required to connect and group totally unrelated and segregated SPV and fund structures to one economic risk, which makes apparently no sense. Hence, the use of ambiguous and non-selective factors would not provide any further clarity and certainty cause the entire opposite.

Fourth, as stated above, the large exposure regime aims to avoid the accumulation of losses due to concentrations (see CRR recital 53). The sectoral dependence of the SPVs A, B and C on refinancing (i) via the ABCP market and/or (ii) credit facilities provided by the bank has no effect on the loss risk from the perspective of the bank providing the credit facilities. Whether the ABCP market is functional or not, does not increase the loss risk in the case of a drawing. It increases the probability of an utilisation of the credit facility but it has no effect on the probability of the repayment of the credit facilities. Liquidity aspects are, however already covered to the highest extent possible in the LCR provisions for securitistion liquidity facilities. Therefore, the sectoral dependence on the capability of ABCP is not relevant as it has no impact on the loss risk.

Fifth, in EAPB's understanding, the example E6 constitutes a group of connected customers through common funding via the bank itself. However, the SPV does not encounter any danger as the refinancing provided by the sponsor bank is 100% congruent. Even if a sponsor bank fell away, no loss risk would arise of this scenario as the SPV would cease to purchase new assets and would repay outstanding drawings out of the proceeds. The worst-case-scenario would be the wind-down, but not the insolvency or loss of a SPV. Unlike an operating company which causes that un-terminated credit lines continue its business, a SPV requires this only to do new business as all existing business is fully and congruently

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
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refinanced. On this basis, especially example E6 cannot constitute a single risk as, regardless of a potential refinancing by a third bank (which also would be possible), the insolvency of the bank would not endanger the repayment of drawings.

Sixth, unlike the 2009 CEBS guidelines, the EBA proposal omits to include other selective criteria to determine an economic dependency through a main source of funding.

In sum, EAPB would believe that such approach may lead to unwarranted (and probably unintended) consequences: First, taken literally, the proposal would lead, in general, to any SPVs as clients (especially in securitisation or specialised lending structures sponsored by an institution) becoming now a group of connected clients despite the fact that the relevant risks may be appropriately segregated (legally and economically) and hence in fact no excessive single concentration risk exists. EAPB thinks that such regulation or any application by a competent authority conflicts with the principle of proportionality which the provisions of the CCR aim to preserve (recital 46). What is more, although the European ABCP market and the related structures changed dramatically over the last years since its lapse during the 2007 financial crisis, EBA's proposal would in particular catch still existing ABCP programmes in Europe which now try to comply to the fullest extent with the new regulatory framework applicable to securitisations in Europe and used to almost exclusively finance the acquisition of real economy assets. The crucial element combining all such programmes is the fact that the investors in the ABCP basically rely on just one bank as sponsor to provide the full liquidity and credit support (instead of several liquidity banks, so called "fully supported ABCP conduits"), which is per se a result of the application of the self-retention requirements (CRR article 405 (1) sub-paragraph 2, sentence 2) and related own funds and liquidity requirements in the CRR. EAPB believes that the large exposure regime (as now proposed and interpreted by EBA) is not appropriately harmonised with the self-retention, own funds and liquidity requirements contained in CRR and hence inconsistent with those regulations.

Finally, the treatment proposed by EBA may significantly limit the ability of European sponsor banks to promote real economy financing above their individual large exposure limit without justification. It is inconsistent with the aim of other EU bodies (Commission, the Council of the EU and the EU Parliament) to promote real economy financing in Europe, in particular through high quality securitisation (including ABCP). EAPB would therefore think that this specific guideline does not serve its own purpose and also contradicts other legislative initiatives (like the CMU).

EAPB therefore suggests removing paragraph 27 and 28 in the draft guidelines and including, instead, selective criteria to assess an "economic dependency through a main source of funding" (following up on the criteria contained in no. 45 of the 2009 CEBS guidelines): A dependency is supposed to exist when (i) there is just one single source (entity) of funding which is (ii) must be replaced but is not replaceable within an adequate

timeframe and (iii) the respective clients are not able to overcome their dependence on such source even by taking on practical inconvenience or higher costs. In this respect, EAPB would seek further clarification that, from the perspective of a reporting institution, only the dependency on external funding sources (as an extrinsic factor) should be taken into consideration and assessed.

Question 8: Are the situations described in the list in paragraph 23 as constituting 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)?

Based on members' experience, this is a quite exceptional case anyways. Since the likelihood of simultaneous claims under guarantees to unrelated counterparties seems to be fairly low, such clients would not be treated as connected. The situation described in the explanatory box on page 35 would imply a too far reaching interpretation of the term "single risk". Therefore, EAPB would be opposed to the possible grouping of independent clients with the guarantor as proposed by the EBA in the explanations for question 8 when their risk positions are guaranteed by the same guarantor. The risk of the guarantor running into financial difficulties would only arise if multiple or even all guaranteed debtors were to default simultaneously. This risk of contagion is, however, extremely low as the debtors are independent; grouping independent clients would clearly overstate the risk for the crediting institute (please also see response to question 7).

Question 9: Are you aware of any other situations that should be added to the list of situations that constitute economic dependency? In relation to the situation described above, would you treat these exposures as connected? Please explain.

With respect to the evaluation of existing economic dependence between shadow banking entities, EAPB understood from EBA's public hearing that the wording in the draft guidelines, paragraph 24 "Institutions should give due consideration to the fact that relationships between entities falling under the definition of shadow banking entity will most likely not consist of equity ties but rather of a different type of relationship, i.e. situations of de facto control or identifiable by contractual obligations, implicit support, or potential reputational risk (such as sponsorship or even branding)" does not aim to lead to the creation of a group of connected clients if shadow banks were to have, where possible, implicit support or common branding. EAPB would clearly reject any requirements for the creation of groups of connected clients that deviate from this understanding. In this context, EAPB would like to refer to the ongoing work by the BCBS with regards to step-in risks. EAPB would agree to the extent that the indicators listed in the draft guidelines, paragraph 23 also apply for shadow banks according the EBA guidelines 2015/20. However, EAPB would still not see any need to explicitly include the same in the guidelines on the creation of groups of connected clients and would therefore ask for paragraph 24 to be removed.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
Website: www.eapb.eu

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.

The relation between interconnectedness through control and interconnectedness through economic dependency will be difficult to assess as the approach foreseen requires different steps that have to be taken.

Avenue de la Joyeuse Entrée 1 – 5, B-1040 Brussels Phone: +32 / 2 / 286 90 70 Fax: +32 / 2 / 231 03 47
Website: www.eapb.eu