



**TOPICS:**

Credit Risk

**SOURCE:**

European Banking Authority

## The EBA Streamlines its Guidelines on Connected Clients to Align with New EU Legislation

- The guidelines establish a harmonised framework for identifying groups of connected clients that should be treated as a **single risk** for prudential purposes, particularly within the large exposures regime and related areas of EU banking regulation.
- The guidelines clarify that institutions must assess two primary forms of interconnectedness: **control relationships** and **economic dependencies**. Control-based connections arise where one entity has legally enforceable influence over another (e.g. majority voting rights or strategic control). In such cases, a presumption of single risk applies, and institutions bear the burden of demonstrating exceptions. The use of consolidated financial statements is emphasised as a key tool for identifying control, supplemented by qualitative indicators where standard accounting frameworks do not apply.
- Economic dependency, by contrast, focuses on **contagion risk** - situations where financial distress in one client could impair another's ability to meet obligations. This includes dependencies through funding sources, supply chains, or reliance on key counterparties. However, institutions may avoid grouping where they can evidence that alternative

arrangements mitigate repayment risk.

- The guidelines also introduce an **alternative approach for exposures to central governments**, allowing institutions to assess certain government-controlled entities separately, while still requiring inclusion of the central government in each identified group. Importantly, this flexibility does not remove the need to capture economic dependencies between such entities.
- A key conceptual clarification is that both control and economic dependency ultimately serve to identify a **“single risk” via potential chains of contagion (“domino effect”)**, meaning interlinked relationships may result in broader groupings than initially apparent.
- Finally, the guidelines require robust **internal processes and governance**. Institutions must systematically identify, document, and monitor connections using all available information, applying a proportionate approach but intensifying analysis where exposures exceed 5% of Tier 1 capital.

