



# Draft Guide on financial conglomerate reporting of significant risk concentrations and intragroup transactions

## 1 Overview

### 1.1 Purpose

Article 4 of Council Regulation (EU) No 1024/2013<sup>1</sup> confers on the European Central Bank (ECB) several specific tasks relating to the prudential supervision of credit institutions. One of those tasks is to participate in the supplementary supervision of a financial conglomerate in relation to the credit institutions included in it and to assume the tasks of a coordinator where the ECB is appointed as the coordinator for a financial conglomerate in accordance with the criteria set out in relevant Union law.

Following the entry into force of Commission Implementing Regulation (EU) 2022/2454<sup>2</sup> laying down the implementing technical standards (ITS) for the supervisory reporting of risk concentrations and intra-group transactions (hereinafter the “RC-IGT reporting ITS”), the ECB has decided to publish general policy guidance on the reporting that, in its role as coordinator, it will require individual financial conglomerates to report in accordance with those standards and Directive 2002/87/EC of the European Parliament and of the Council<sup>3</sup> (hereinafter “the Financial Conglomerates Directive”).

The purpose of this Guide is to provide consistency, coherence, effectiveness and transparency regarding the approach that the ECB will take where it has been appointed as the coordinator for a financial conglomerate in accordance with the criteria set out in relevant Union law. In particular, the Guide aims to help financial conglomerates in setting up the necessary internal processes for reporting significant risk concentrations and intragroup transactions using the templates provided for in the RC-IGT reporting ITS.

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<sup>1</sup> Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

<sup>2</sup> Commission Implementing Regulation (EU) 2022/2454 of 14 December 2022 laying down implementing technical standards for the application of Directive 2002/87/EC of the European Parliament and of the Council with regard to supervisory reporting of risk concentrations and intra-group transactions (OJ L 324, 19.12.2022, p. 55).

<sup>3</sup> Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 83/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council (OJ L 35, 11.2.2003, p. 1).

## 1.2 Scope and effect

This Guide is relevant for financial conglomerates that are headed by a credit institution which the ECB has classified as a significant institution. To the extent that national legislation on reporting requirements for financial conglomerates does not already provide otherwise, the ECB's expectations in this Guide could also be taken into consideration by the national competent authorities when defining the reporting requirements for financial conglomerates that are headed by less significant institutions.

When supervising significant risk concentrations and intragroup transactions, coordinators and other relevant competent authorities are required to take into account the specific group and risk management structure of the financial conglomerate and the existing sector-specific requirements on intragroup transactions and risk concentrations, in particular when identifying the significant risk concentrations and intragroup transactions that regulated entities and mixed financial holding companies in a particular financial conglomerate are to report pursuant to Articles 7(2) and 8(2) of the Financial Conglomerates Directive.

Accordingly, the final decision regarding the requirements for each individual financial conglomerate for which the ECB is the coordinator will be communicated bilaterally by the ECB to that financial conglomerate after consultation with the other relevant competent authorities and, where relevant, the conglomerate itself.

The general policies set out in this Guide reflect the minimum expectations that the ECB will normally have when setting those reporting requirements. The ECB may depart from the general expectations mentioned in this Guide if there is clear and sufficient reason to do so. Therefore, financial conglomerates should not assume that the general expectations set out in this Guide are directly applicable to them. Rather, financial conglomerates should refer to the individual decision that is provided by the ECB as coordinator.

When setting out its policy guidance as provided for in this Guide, the ECB acts within the limits of applicable Union law. In particular, as regards cases where this Guide refers to the provisions of the Financial Conglomerates Directive, the ECB sets out its policy stance without prejudice to the application of national legislation transposing directives, in particular the Financial Conglomerates Directive, where a relevant policy choice is already adopted in such national legislation.

This Guide does not establish new regulatory requirements and the specifications and principles included herein should not be construed as being legally binding.

The ECB reserves the right to review the general expectations set out in this Guide in order to take account of changes in legislative provisions or specific circumstances, as well as the adoption of specific delegated acts that may regulate a specific policy issue in a different way.

## 1.3 Explanations of the general expectations set out in this Guide

### Types of transactions that should be reported (Article 1(3) of the RC-IGT reporting ITS)

The Guide sets out the expectations that the ECB will have in relation to the types of concentration risk and the types of intragroup transactions that financial conglomerates are to report in accordance with Articles 7(2) and 8(2) and Annex II of the Financial Conglomerates Directive. The ECB may, on a case-by-case basis, require that more types of risk concentration or other intragroup transactions be reported.

While the definition of intragroup transactions (Article 2, point (18) of the Financial Conglomerates Directive) encompasses transactions between regulated entities of the same financial sector, the ECB considers that these intragroup transactions need, in general, not be reported. Indeed, as mentioned in recital 5 of the Financial Conglomerates Directive, “in order to be effective, the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate should be applied to all such conglomerates, the cross-sectoral financial activities of which are significant”. Therefore, the ECB considers that requesting financial conglomerates to report intrasectoral financial activities (i.e. between regulated entities of the same financial sector) would not ordinarily be necessary to meet the objectives of the Financial Conglomerates Directive and that such reporting should only be requested by the coordinator, after consulting the relevant competent authorities, when deemed relevant owing to specific circumstances.

### Format of reporting on information on the management of conflicts of interests and risks of contagion (Article 2(2) and 3(2) of the RC-IGT reporting ITS)

The ECB sees the management of conflicts of interests and risks of contagion by financial conglomerates as key elements of proper governance.

This Guide does not specify the format and contents of the reporting on the management of conflicts of interests and risks of contagion. However, the ECB will generally expect this information to be sufficiently comprehensive as to enable it to obtain a sound understanding of how conflicts of interest and risks of contagion are managed.

To ensure coherence, the ECB expects this information to be reported together with the information on the “legal structure and governance and organisational structure”, which is reported in accordance with Article 9(4) of the Financial Conglomerates Directive.

Depending on the consistency of the information the ECB receives, the ECB may consider developing a standardised template for such reporting in due course.

### Thresholds for concentration risk reporting (Article 7(2) and Annex II of the Financial Conglomerates Directive)

In accordance with Article 7(2) and Annex II of the Financial Conglomerates Directive, the coordinator is empowered to “define appropriate thresholds” for the reporting of significant risk concentrations, “after consultation with the other relevant competent authorities and the conglomerate itself”. While the ECB will set thresholds on a case-by-case basis, the Guide specifies the thresholds above which the ECB will generally expect significant risk concentrations to be reported. The thresholds have been set in order to be aligned as far as possible with existing practices and to meet the objectives of supplementary supervision. This general approach is without prejudice to the ECB’s ability to set different thresholds on a case-by-case basis, after consultation with the relevant competent authorities and the financial conglomerate itself.

### Quantitative and qualitative requirements regarding risk concentrations (Article 7(3) of the Financial Conglomerates Directive)

Under Article 7(3) of the Financial Conglomerates Directive, pending further coordination of Union legislation, Member States may set quantitative limits, allow their competent authorities to set quantitative limits, or adopt other supervisory measures which would achieve the objectives of supplementary supervision, with regard to any risk concentration at the level of a financial conglomerate.

This Guide does not specify a quantitative limit for risk concentrations. However, in those Member States where power is granted to competent authorities to set quantitative limits, the ECB may do so on a case-by-case basis, after consultation with the relevant competent authorities. In line with the objectives of supplementary supervision, the Guide specifies that there is a general expectation that financial conglomerates explain how they have mitigated any single name concentration risk that exceeds 25% of their own funds.

### Thresholds for intragroup transaction reporting (Article 8(2) and Annex II of the Financial Conglomerates Directive)

In accordance with Article 8(2) and Annex II of the Financial Conglomerates Directive, the coordinator is empowered to “define appropriate thresholds” for the reporting of all significant intragroup transactions, “after consultation with the other relevant competent authorities and the conglomerate itself”. While the ECB will set thresholds on a case-by-case basis, the Guide specifies the thresholds above which

the ECB will generally expect intragroup transactions to be reported. This general approach is without prejudice to the ECB's right to set different thresholds on a case-by-case basis after consultation with the relevant competent authorities and the financial conglomerate itself.

## Quantitative and qualitative requirements regarding intragroup transactions (Article 8(3) of the Financial Conglomerates Directive)

In accordance with Article 8(3) of the Financial Conglomerates Directive, pending further coordination of Union legislation, Member States may set quantitative limits and qualitative requirements, allow their competent authorities to set quantitative limits or qualitative requirements, or take other supervisory measures that would achieve the objectives of supplementary supervision, with regard to intra-group transactions of regulated entities within a financial conglomerate.

This Guide does not specify a quantitative limit for intragroup transactions. However, in those Member States where power is granted to competent authorities to set such quantitative limits, the ECB may do so on a case-by-case basis, after consultation with the relevant competent authorities. In line with the objectives of supplementary supervision, the Guide specifies that there is a general expectation that intragroup transactions be conducted on an arm's length basis in line with Article 4(1), point (a) of Commission Delegated Regulation (EU) 2015/2303.<sup>4</sup>

## 2 General expectations

This section sets out the general policy that the ECB intends to follow when carrying out certain tasks assigned to it in its role as coordinator, in accordance with the RC-IGT reporting ITS and the Financial Conglomerates Directive.

### 2.1 Types of transaction and risk to be reported

#### Article 1(3) of the RC-IGT reporting ITS and Annex II of the Financial Conglomerates Directive

With regard to the "types of transactions" that regulated entities or mixed financial holding companies are to report, and without prejudice to reporting on different types of risk concentration being requested by the coordinator after consultation with the relevant competent authorities taking into account the specific group and risk

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<sup>4</sup> Commission Delegated Regulation (EU) 2015/2303 of 28 July 2015 supplementing Directive 2002/87/EC of the European Parliament and of the Council with regard to regulatory technical standards specifying the definitions and coordinating the supplementary supervision of risk concentration and intra-group transactions (OJ L 326, 11.12.2015, p. 34).

management structure of the financial conglomerate, the ECB expects all of the following types of risk concentration to be reported:

- (i) counterparty (for exposures to a client or a group of connected clients, the latter as defined in Article 4(1) point (39) of the Capital Requirements Regulation (EU) No. 575/2013<sup>5</sup>);
- (ii) country;
- (iii) sectoral; and
- (iv) currency.

In addition, without prejudice to the coordinator, after consultation with the other relevant competent authorities, requiring different types of intragroup transactions to be reported, the ECB expects the following types of intragroup transactions to be reported:

- (i) intragroup transactions between regulated entities belonging to different financial sectors, as defined in Article 2(8) of the Financial Conglomerates Directive;<sup>6</sup>
- (ii) intragroup transactions between a regulated entity of the group and any natural or legal persons which are not regulated entities “linked to the undertakings within that group by close links”.

This reporting should include intragroup transactions were:

- (i) in force at the start of the reporting period;
- (ii) initiated during the reporting period and still in force at the reporting date; or
- (iii) initiated and expired/matured during the reporting period.

In addition, the amount reported as intragroup transactions, should be the maximum amount registered during the reporting period.

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<sup>5</sup> Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1)

<sup>6</sup> In line with Annex II, part 1: general instructions of the RC-IGT reporting ITS, paragraph 1.5, where sector-wide reporting is required, investment firms as defined in Article 4(1), point (1), of the revised Markets in Financial Instruments Directive are to be treated as part of the banking sector. Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (OJ L 173, 12.6.2014, p. 349).

## 2.2 Reporting information on the management of conflicts of interests and risks of contagion

### Articles 2(2) and 3(2) of the RC-IGT reporting ITS

With regard to the “information on the management of conflicts of interests and risks of contagion”, the ECB expects, without prejudice to a different format being requested by the coordinator after consultation with the relevant competent authorities, the information on the management of conflicts of interests and risks of contagion at the level of the financial conglomerate to be reported together with the information on “legal structure and governance and organisational structure” mentioned in Article 9(4) of the Financial Conglomerates Directive.

## 2.3 Thresholds for reporting significant risk concentrations

### Article 7(2) and Annex II of the Financial Conglomerates Directive

With regard to the thresholds for identifying the significant risk concentration to be reported, the ECB expects, as regards counterparty risk concentration for any exposures to a client or group of connected clients, as defined in Article 4(1), point (39) of the CRR, and without prejudice to different thresholds defined by the coordinator after consultation with the relevant competent authorities and the conglomerate itself, the financial conglomerate to report any exposures above the lower of the two thresholds below:

- (i) 10% of the own funds of the financial conglomerate calculated in accordance with the method used by the group for calculating its capital adequacy;
- (ii) €300 million.

The exposure should be considered on a gross basis before taking into account any risk mitigation instruments or techniques.

The ECB expects, as regards country and currency concentrations, without prejudice to different thresholds defined by the coordinator after consultation with the relevant competent authorities and the financial conglomerate itself, the financial conglomerate to report any exposures above 5% of the own funds of the financial conglomerate calculated in accordance with the method used by the group for calculating its capital adequacy. Where an exposure related to a particular country or currency is below the threshold mentioned above, the exposure should be included and reported under the category entitled “Other”.

The ECB expects, as regards sector concentration, without prejudice to thresholds imposed by the coordinator after consultation with the relevant competent authorities

and the financial conglomerate itself, the exposures to be reported and allocated to the relevant sectors without applying any type of threshold.

## 2.4 Requirements regarding risk concentrations

### Article 7(3) of the Financial Conglomerates Directive

Pending further coordination of Union legislation, and provided that the power to set quantitative limits with regard to any risk concentration at the level of the financial conglomerate has been delegated by Member States to competent authorities, the ECB may set quantitative limits on risk concentration on a case-by-case basis.

In any case, in line with the objectives of supplementary supervision, where a financial conglomerate reports exposures to a client or a group of connected clients, the latter as defined in Article 4(1) point (39) of the CRR, that exceed 25% of the own funds of the financial conglomerate, the financial conglomerate is expected to provide the coordinator with an explanation demonstrating that the level of these exposures does not constitute an excessive concentration risk, taking into account the business strategy, the activities concerned, the risk appetite of the group and the underlying limits, as well as any other relevant aspects.

For the purposes of the first paragraph:

- (i) These exposures should be considered on a net basis, taking into account any risk mitigation instruments or techniques;
- (ii) Those exposures related to assets whose risks are mainly borne by the policyholders toward the external counterparty may be taken into account with a 0.1 multiplying factor if the financial conglomerate is able to demonstrate that the economic risk is contractually mainly transferred to the policy holders. This is assumed to be the case whenever the policyholders do not benefit from protection for more than 10% of the capital invested;
- (iii) The amount prior to the application of the multiplying factor is to be reported in template FC0205, the amount of the reduction due to the application of the multiplying factor in template FC0260, and the amount after applying the multiplying factor in template FC0280.



## 2.5 Thresholds for reporting intragroup transactions

### Article 8(2) together with Annex II of the Financial Conglomerates Directive

The ECB expects, without prejudice to different tighter thresholds defined by the coordinator after consultation with the relevant competent authorities and the financial conglomerate itself, the financial conglomerate to report each intragroup transaction between regulated entities belonging to different sectors, or between a regulated entity of the group and any natural or legal person linked to the undertakings within that group by close links, whenever this amount is equal or above the following thresholds:

- (i) For equity-type transactions, debt and asset transfers, where the sum of the exposures equals or exceeds the lower of 5% of the total amount of capital adequacy requirements of the financial conglomerate or €300 million.
- (ii) For derivatives, where the sum of the nominal values of the derivatives equals or exceeds the lower of 5% of the total amount of capital adequacy requirements of the financial conglomerate or €300 million.
- (iii) For off-balance sheet items and contingent liabilities, where the sum of the exposures after taking into account any conversion factors, as defined under the sectoral rules, equals or exceeds the lower of 5% of the total amount of capital adequacy requirements of the financial conglomerate or €300 million.
- (iv) For insurance or reinsurance, where the sum of the transactions constitutes, equals or exceeds the lower of 5% of the total amount of capital adequacy requirements of the financial conglomerate or €300 million.
- (v) Profit and Loss (P&L), where the absolute value of the transaction constitutes at least 5% of the financial conglomerate's income on the same reference date.

Intragroup transactions between regulated entities belonging to different sectors, and between a regulated entity of the group and any natural or legal person linked to the undertakings within that group by close links, should also be reported whenever the sum of equity-type transactions, debt and asset transfers, derivatives, off-balance sheet items and contingent liabilities intragroup transactions between the entities equals or exceeds 5% of the total amount of capital adequacy requirements of the financial conglomerate or €300 million.

All exposures should be considered before taking account of any risk mitigation techniques and exemptions as defined under the sectoral rules. The capital adequacy requirements of the financial conglomerate are calculated in accordance with the method used by the group for calculating its capital adequacy.

Transactions that are executed as part of a single economic operation are to be aggregated and reported individually if together, they meet one of the thresholds mentioned above.

## 2.6 Requirements regarding intragroup transactions

### Article 8(3) of the Financial Conglomerates Directive

Pending further coordination of Union legislation, and provided that the power to set quantitative limits and qualitative requirements with regard to intragroup transactions of regulated entities within a financial conglomerate has been delegated by Member States to competent authorities, the ECB expects intragroup transactions to be performed at arm's length. It is expected that the financial conglomerate implements an internal process and controls to ensure that the intragroup transactions are conducted on an arm's length basis.

The coordinator, after consultation with the relevant competent authorities, may impose further restrictions and limits on intragroup transactions, particularly in the case of regulatory arbitrage or circumvention of the sectoral rules, as well as in the case of excessive contagion risk.

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