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# Consultation Paper

## EBA/CP/2026/06

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Draft revised Guidelines on limits on exposures to shadow banking entities which carry out banking activities outside a regulated framework under Article 395(2) and (2a) of Regulation (EU) No 575/2013

## Goals

- The EBA organises ‘public hearings’ during the public consultation period for its RTS / ITS / GL to **allow interested parties to ask clarifications**;
- The purpose of the hearing is for the EBA to present a summary of the CP and ask attendees whether they require additional explanations or clarifications from the EBA to be able to answer the questions in the CP;
- The **public hearing does therefore not replace written responses to the CP**: the EBA can only consider the views of stakeholders via written responses.

## Housekeeping rules

- To avoid background noise, please stay muted during the presentation, unless you take the floor.
- To increase audio quality please turn off video streaming if you are not speaking.
- If you would like to intervene during the Q&A session, please identify yourself, either:
  - a) Raising your hand on Teams and when the floor is given to you, by providing your full name and organisation; or
  - b) Indicating in the Teams chat your name and on which topic you’d like to intervene; or
  - c) Writing your question / comment directly in the Teams chat.

# EBA Public hearing - Structure

## Agenda

- Background
- Current status, legal basis and new mandate
- Content of the Consultation Paper
- Questions for consultation
- Timeline and next steps

# Background and rationale

- The financial crisis in 2008 revealed links between shadow banking entities and regulated banks, showing how stress outside the regulated sector could quickly transmit into the banking system.
- Institutions' exposures to SBEs may pose higher credit, liquidity and concentration risks, as these entities are generally not subject to the same prudential safeguards or have access to central bank support.
- Without monitoring and limits, exposures to shadow banking entities can increase interconnectedness, and amplify risks to broader financial stability.

# Current status and legal basis

- The Guidelines on limits on institutions' exposures to shadow banking applicable since January 2017 were issued under Article 395(2) of the CRR.
- The RTS specifying the criteria for the identification of shadow banking entities applicable since September 2023 were issued under Article 394(2) of the CRR (RTS on Identification of Shadow Banking Entities).
  - Operationalise the reporting requirement for institutions' 10 largest exposures to shadow banking entities on a consolidated basis under Article 394(4) of the CRR.

# New mandate

- Article 395(2a) of Regulation (EU) No 575/2013 (CRR) sets out two mandates for the EBA in relation to SBE:
  - By 10 January 2027, the EBA, after consulting ESMA, shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, to update the existing Guidelines on limits concerning exposures to SBEs (EBA/GL/2015/20). In updating these guidelines, the EBA shall take due account, among other considerations, of the contribution of SBEs to the Capital Markets Union and of the potential adverse impact that any changes, including the introduction of additional limits, could have on institutions' business models and on the stability and orderly functioning of financial markets.
  - By 31 December 2027, the EBA, after consulting ESMA, shall submit a report to the European Commission on the contribution of SBEs to the Capital Markets Union and on institutions' exposures to such entities, assessing in particular the appropriateness of aggregate or tighter individual limits to those exposures, taking due account of the regulatory framework and business models of such entities.

# The Consultation paper

- The objective is to align the current Guidelines with the RTS on Identification of Shadow Banking Entities, ensuring consistency in the definition of ‘Shadow Banking Entity’.
- The revision retains the governance requirements and both the primary and fallback methods for setting exposure limits.
- Stakeholders input will support policy decisions in the finalisation of the Guidelines and inform broader policy work on shadow banking entities, including:
  - A report on their contribution to the Capital Markets Union; and
  - An assessment of institutions’ exposures to, and limits on, shadow banking entities.

# Identification of shadow banking entities

- Shadow banking entities are entities that carry out banking services or activities as defined in the RTS on Identification of Shadow Banking Entities but are not authorised or subject to prudential regulatory frameworks imposing solvency or liquidity requirements comparable to those under the CRR.
  - The RTS further specifies the banking activities and services relevant for this assessment and includes specific cases (e.g. certain MMFs and leveraged AIFs) while also providing criteria for the assessment of third-country entities.
  - Entities that are authorised and supervised under the EU regulatory frameworks listed in the Annex to the RTS are deemed to be subject to adequate prudential requirements and are therefore excluded from the scope of shadow banking entities.

# Changes to definition

Scope items for SBE	RTS specifying the criteria to identify shadow banking entities for the purposes of reporting large exposures (Sep 2023)	GL on limits on exposures to SBE (Jan 2017)
Investment Firms	Excluded are Investment firms captured under the CRR or MIFIR.	All investment firms excluded from SBE definition.
Third Country Credit Institutions	Assessment is based on banks being authorised and supervised by a third-country supervisory authority that applies banking regulation and supervision based on at least the Basel Core Principles for effective banking supervision.	Assessment is based on third country applying prudential and supervisory requirements that are at least equivalent to those applied in the Union.
Materiality Threshold	None	SBE exposures with an exposure value, after credit risk mitigation and exemptions, less than 0.25% of the institution's eligible capital can be disregarded.
Carve out for CCPs	Activities and services consisting of clearing shall not constitute banking services and activities.	Explicitly excluded if EU CCP or third-country CCP recognised by ESMA.

# Framework for Limits on Exposures to SBE

## Requirements

- Identification of individual SBE exposures and related risks.
- Internal framework for risk identification, management, control and mitigation and risk appetite for SBE exposures.
- Assess interconnectedness, apply mitigation where uncertain.
- Review risk appetite, aggregate and individual limits, risk management, exposures and breaches and set up action plans in case of limit breaches.

## Principal approach

- Setting both aggregate limit and tighter individual limits on the exposures to shadow banking entities, expressed relative to Tier 1 eligible capital.
- For setting limits: consider business model, risk framework, risk appetite, current exposure level and degree of interconnectedness with shadow banking entities.
- Limits on individual exposures to each shadow banking entity should reflect a detailed internal risk assessment.

# Framework for Limits on Exposures to SBE

## Fallback approach

- **Apply the large exposure limits set out in Article 395 of the CRR, where either of the following conditions is met:**
  - **it does not meet the required governance and control standards; or**
  - **it cannot obtain sufficient information in relation to certain exposures to SBE.**

# Overview of questions for consultation (1/2)

Q1: Do you experience any difficulties in your identification process of SBEs, especially regarding whether the SBE definition as specified in Commission Delegated Regulation (EU) 2023/2779 is clear enough or do you see room for improvement or need for an update (please explain/provide clear examples)?

Q2: Does the current guidelines' framework for setting internal aggregate and individual limits on exposures to shadow banking entities (as described in the principal and fallback approaches) provide sufficient flexibility and clarity for your institution's risk management practices? Are there specific aspects of the approach that you find challenging or would suggest improving?

Q3: Do you encounter challenges in obtaining sufficient data on SBEs (e.g., leverage, liquidity profile, interconnectedness, portfolio quality) to apply the principal approach? If so, please describe the main obstacles and how they affect your ability to comply with the Guidelines.

Q4: Under what circumstances does your institution apply the fallback approach, and what challenges have you faced in determining when it should apply? Do you see need for further clarification regarding the trigger conditions for the fallback approach?

Q5: Did your institution experience operational challenges in integrating the binding SBE definition of the Delegated Regulation (EU) 2023/2779 into your internal limit framework?

# Overview of questions for consultation (2/2)

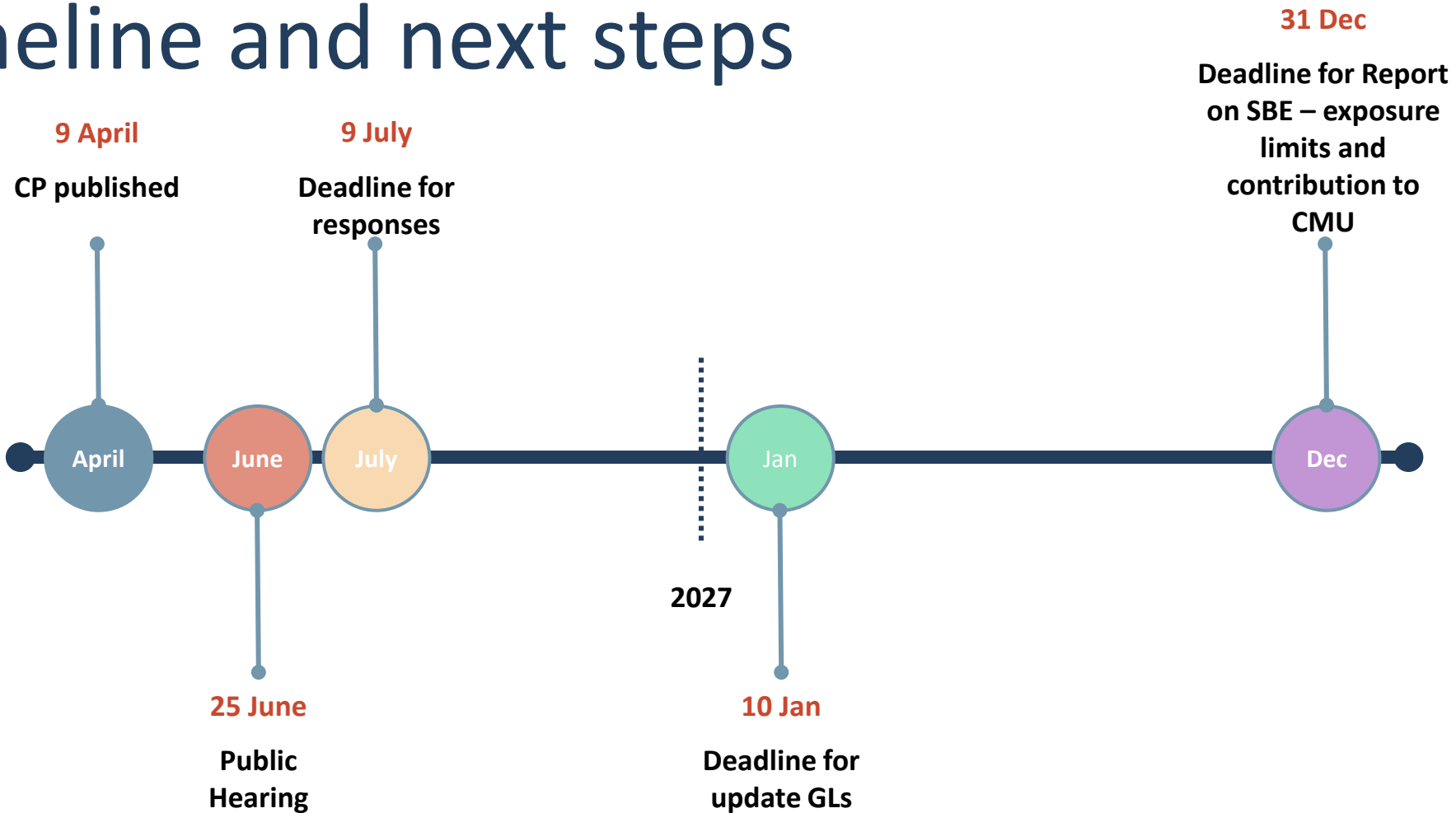
**Q6:** Being part of the removed SBE definition, the previous threshold of 0.25% of the eligible capital for recognising exposures falling under the EBA/GL/2015/20 is deleted in the draft updated GL. Will there be any impact (costs, time required, etc.) for your institution? Please elaborate.

**Q7:** How does your institution determine the appropriate risk tolerance level for exposures to shadow banking entities within your overall business model and risk management framework? Which quantitative internal limits – either at the individual or aggregate level – do you apply on exposures to SBEs? Please describe the criteria, methodologies, or governance processes used to set these limits, and share any challenges or best practices you have encountered in their implementation.

**Q8:** How do the internal aggregate and individual limits on exposures to shadow banking entities interact with the SREP process (as framed by Article 97 and Article 98 of Directive 2013/36/EU) and the competent authorities' assessment under Pillar 2? Are there any aspects of the guidelines or the SREP process that you believe require further clarification or adjustment to ensure effective supervisory review?

**Q9:** How might the introduction of specific individual or aggregate limits on exposures to shadow banking entities affect your institution's willingness or ability to engage in activities giving rise to exposures to SBEs (e.g., lending, investment, intermediation, SFTs)? Please explain any potential impacts – positive or negative – on credit provision, market liquidity, or risk sharing, and provide examples or evidence from your institution's experience.

# Timeline and next steps



# Questions?



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