# Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

## TITLE I

## [X1VALUATION AND RISK-BASED CAPITAL REQUIREMENTS (PILLAR I), ENHANCED GOVERNANCE (PILLAR II) AND INCREASED TRANSPARENCY (PILLAR III)]

## CHAPTER V

## SOLVENCY CAPITAL REQUIREMENT STANDARD FORMULA

### *SECTION 6*

### ***Counterparty default risk module***

#### *Subsection 1*

#### ***General provisions***

##### *Article 189*

##### **Scope**

1 The capital requirement for counterparty default risk shall be equal to the following:

$$SCR_{def} = \sqrt{SCR_2^{(def,1)} + 1{,}5 \times SCR_{(def,1)} \times SCR_{(def,2)} + SCR_2^{(def,2)}}$$

where:

(a) $SCR_{def,1}$ denotes the capital requirement for counterparty default risk on type 1 exposures as set out in paragraph 2;

(b) $SCR_{def,2}$ denotes the capital requirement for counterparty default risk on type 2 exposures as set out in paragraph 3.

2 Type 1 exposures shall consist of exposures in relation to the following:

a Risk-mitigation contracts including reinsurance arrangements, special purpose vehicles, insurance securitisations and derivatives;

b Cash at bank as defined in Article 6 item F of Council Directive 91/674/EEC[1];

c Deposits with ceding undertakings, where the number of single name exposures does not exceed 15;

d Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid, where the number of single name exposures does not exceed 15, including called up but unpaid ordinary share capital and preference shares, called

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up but unpaid legally binding commitments to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions;

e Legally binding commitments which the undertaking has provided or arranged and which may create payment obligations depending on the credit standing or default on a counterparty including guarantees, letters of credit, letters of comfort which the undertaking has provided.

3 Type 2 exposures shall consist of all credit exposures which are not covered in the spread risk sub-module and which are not type 1 exposures, including the following:

a Receivables from intermediaries;

b Policyholder debtors;

c mortgage loans which meet the requirements in Article 191(2) to (13);

d Deposits with ceding undertakings, where the number of single name exposures exceeds 15;

e Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in paragraph 2(d), where the number of single name exposures exceeds 15.

4 Insurance and reinsurance undertakings may, at their discretion, consider all exposures referred to in points (d) and (e) of paragraph 3 as type 1 exposures, regardless of the number of single name exposures.

5 Where a letter of credit, a guarantee or an equivalent risk mitigation technique has been provided to fully secure an exposure and this risk mitigation technique complies with the requirements of Articles 209 to 215, then the provider of that letter of credit, guarantee or equivalent risk mitigation technique may be considered as the counterparty on the secured exposure for the purposes of assessing the number of single name exposures.

6 The following credit risks shall not be covered in the counterparty default risk module:

a the credit risk transferred by a credit derivative;

b the credit risk on debt issuance by special purpose vehicles, whether as defined in Article 13(26) of Directive 2009/138/EC or not;

c the underwriting risk of credit and suretyship insurance or reinsurance as referred to in lines of business 9, 21 and 28 of Annex I of this Regulation;

d the credit risk on mortgage loans which do not meet the requirements in Article 191(2) to (9).

7 Investment guarantees on insurance contracts provided to policy holders by a third party and for which the insurance or reinsurance undertaking would be liable should the third party default shall be treated as derivatives in the counterparty default risk module.

*Article 190*

## Single name exposures

1 The capital requirement for counterparty default risk shall be calculated on the basis of single name exposures. For that purpose exposures to undertakings which belong to the same corporate group shall be treated as a single name exposure.

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2 The insurance or reinsurance undertaking may consider exposures which belong to different members of the same legal or contractual pooling arrangement as different single name exposures where the probability of default of the single name exposure is calculated in accordance with Article 199 and the loss-given-default is calculated in accordance with Article 193 if it is a pool exposure of type A, in accordance with Article 194 if it is a pool exposure of type B and in accordance with Article 195 if it is a pool exposure of type C. Alternatively exposures to the undertakings which belong to the same pooling arrangement shall be treated as a single name exposure.

*Article 191*

**Mortgage loans**

1 Retail loans secured by mortgages on residential property (mortgage loans) shall be treated as type 2 exposures under the counterparty default risk provided the requirements in paragraphs 2 to 13 are met.

2 The exposure shall be either to a natural person or persons or to a small or medium sized enterprise.

3 The exposure shall be one of a significant number of exposures with similar characteristics such that the risks associated with such lending are substantially reduced.

4 The total amount owed to the insurance or reinsurance undertaking and, where relevant, to all related undertakings within the meaning of Article 212(1)(b) and (2) of Directive 2009/138/EC, including any exposure in default, by the counterparty or other connected third party, shall not, to the knowledge of the insurance or reinsurance undertaking, exceed EUR 1 million. The insurance or reinsurance undertaking shall take reasonable steps to acquire this knowledge.

5 The residential property is or will be occupied or let by the owner.

6 The value of the property does not materially depend upon the credit quality of the borrower.

7 The risk of the borrower does not materially depend upon the performance of the underlying property, but on the underlying capacity of the borrower to repay the debt from other sources, and as a consequence, the repayment of the facility does not materially depend on any cash flow generated by the underlying property serving as collateral. For those other sources, the insurance or reinsurance undertaking shall determine maximum loan-to-income ratio as part of its lending policy and obtain suitable evidence of the relevant income when granting the loan.

8 All of the following requirements on legal certainty shall be met:

a a mortgage or charge is enforceable in all jurisdictions which are relevant at the time of the conclusion of the credit agreement and shall be properly filed on a timely basis;
b all legal requirements for establishing the pledge have been fulfilled;
c the protection agreement and the legal process underpinning it enable the insurance or reinsurance undertaking to realise the value of the protection within a reasonable timeframe.

9 All of the following requirements on the monitoring of property values and on property valuation shall be met:

a the insurance or reinsurance undertaking monitors the value of the property on a frequent basis and at a minimum once every three years. The insurance or reinsurance

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undertaking carries out more frequent monitoring where the market is subject to significant changes in conditions;

b the property valuation is reviewed when information available to the insurance or reinsurance undertaking indicates that the value of the property may have declined materially relative to general market prices and that review is external and independent and carried out by a valuer who possesses the necessary qualifications, ability and experience to execute a valuation and who is independent from the credit decision process.

10 For the purposes of paragraph 9, insurance or reinsurance undertakings may use statistical methods to monitor the value of the property and to identify property that needs revaluation.

11 The insurance or reinsurance undertaking shall clearly document the types of residential property they accept as collateral and their lending policies in this regard. The insurance or reinsurance undertaking shall require the independent valuer of the market value of the property, as referred to in Article 198(2), to document that market value in a transparent and clear manner.

12 The insurance or reinsurance undertaking shall have in place procedures to monitor that the property taken as credit protection is adequately insured against the risk of damage.

13 The insurance or reinsurance undertaking shall report all of the following data on losses stemming from mortgage loans to the supervisory authority:

a losses stemming from loans that has been classified as type 2 exposures according with Article 189(3) in any given year;

b overall losses in any given year.

14 The supervisory authorities shall publish annually on an aggregated basis the data specified in points (a) and (b) of paragraph 13, together with historical data, where available. A supervisory authority shall, upon the request of another supervisory authority in a Member State, the EBA or the EIOPA provide to that supervisory authority, the EBA or the EIOPA more detailed information on the condition of the residential immovable property markets in that Member State.

## *Article 192*

## Loss-given-default

1 The loss-given-default on a single name exposure shall be equal to the sum of the loss-given-default on each of the exposures to counterparties belonging to the single name exposure. The loss-given-default shall be net of the liabilities towards counterparties belonging to the single name exposure provided that those liabilities and exposures are set off in the case of default of the counterparties and provided that Articles 209 and 210 are complied with in relation to that right of set-off. No offsetting shall be allowed for if the liabilities are expected to be met before the credit exposure is cleared.

2 The loss-given-default on a reinsurance arrangement or insurance securitisation shall be equal to the following:

$$LGD = \max[50\% \times (REcov erables + 50\% \times RM_{re}) - F \times Collateral ;0]$$

where:

(a) *Recoverables* denotes the best estimate of amounts recoverable from the reinsurance arrangement or insurance securitisation and the corresponding debtors;

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(b) $RM_{re}$ denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement or securitisation;

(c) *Collateral* denotes the risk-adjusted value of collateral in relation to the reinsurance arrangement or securitisation;

(d) *F* denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty.

Where the reinsurance arrangement is with an insurance or reinsurance undertaking or a third country insurance or reinsurance undertaking and 60 % or more of that counterparty's assets are subject to collateral arrangements, the loss-given-default shall be equal to the following:

[F1

$$LGD = \max(90\,\% \times (Recoverables + 50\,\% \times RM_{re}) - F' \times Collateral\,;0)$$

]

where:

*F'* denotes a factor to take into account the economic effect of the collateral arrangement in relation to the reinsurance arrangement or securitisation in the case of a credit event related to the counterparty.

3 The loss-given-default on a derivative shall be equal to the following:

$$LGD = \max(90\%\,(Derivative + RM_{fin}) - F' \times Collateral\,;0)$$

where

(a) *Derivative* denotes the value of the derivative in accordance with Article 75 of Directive 2009/138/EC;

(b) $RM_{fin}$ denotes the risk mitigating effect on market risk of the derivative;

(c) *Collateral* denotes the risk-adjusted value of collateral in relation to the derivative;

(d) *F'* denotes a factor to take into account the economic effect of the collateral arrangement in relation to the derivative in case of a credit event related to the counterparty.

4 The loss-given-default on a mortgage loan shall be equal to the following:

$$LGD = \max(Loan - 80\% \times Mortgage\,;0)$$

where:

(a) *Loan* denotes the value of the mortgage loan in accordance with Article 75 of Directive 2009/138/EC;

(b) *Mortgage* denotes the risk-adjusted value of the mortgage.

5 The loss-given-default on a legally binding commitment as referred to in Article 189(2)(e) of this Regulation shall be equal to the difference between its nominal value and its value in accordance with Article 75 of Directive 2009/138/EC.

6 The loss-given-default on cash at bank as defined in Article 6 item F of Council Directive 91/674/EEC, of a deposit with a ceding undertaking, of an item listed in Article 189(2)(d) or Article 189(3)(e) of this Regulation, or of a receivable from an intermediary or policyholder debtor, as well as any other exposure not listed elsewhere in this Article shall be equal to its value in accordance with Article 75 of Directive 2009/138/EC.

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**Textual Amendments**

**F1** Substituted by Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings (Text with EEA relevance).

*Article 193*

**Loss-given-default for pool exposures of type A**

1 For pool exposures of type A which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each only liable up to their respective portion of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated in accordance with Article 192.

For pool exposures of type A which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each liable up to the full amount of the obligation covered by the pooling arrangement, the loss-given-default calculated in accordance with Article 192 shall be multiplied by the risk-share factor, calculated as follows:

$$risk\text{-}share_factor = e^{-0,15(\min(SR,196\%)-1)}$$

where:

(a)

$$SR = (1-P) \times \frac{\sum_i EOF_i}{\sum_i (EOF_i/SR_i)} + \sum_j P_j \times SR_j$$

;

(b) $i$ denotes all pool members falling within the scope defined in Article 2 of Directive 2009/138/EC and $j$ denotes all pool members excluded from the scope of Article 2 of that Directive;

(c)

$$P = \sum_j P_j$$

;

(d) $P_j$ denotes the share of the total risk of the pooling arrangement undertaken by pool member $j$;

(e) for pool members for which a credit assessment by a nominated ECAI is available, $SR_i$ and $SR_j$ shall be assigned in accordance with the following table:

| **Credit quality step** | **0** | **1** | **2** | **3** | **4** | **5** | **6** |
|---|---|---|---|---|---|---|---|
| $SR_i$ | 196 % | 196 % | 175 % | 122 % | 95 % | 75 % | 75 % |

(f) for pool members which fall within the scope of Directive 2009/138/EC and for which a credit assessment by a nominated ECAI is not available, $SR_i$ and $SR_j$ shall be the latest available solvency ratio;

(g) for pool members situated in a third country and for which a credit assessment by a nominated ECAI is not available:

(i) $SR_i$ and $SR_j$ shall be equal to 100 % where the pool member is situated in a country whose solvency regime is deemed equivalent pursuant to Article 172 of Directive 2009/138/EC;

(ii) $SR_i$ and $SR_j$ shall be equal to 75 % where the pool member is situated in a country whose solvency regime is not deemed equivalent pursuant to Article 172 of Directive 2009/138/EC.

2 Where the undertaking is ceding risk to a pooling arrangement by the intermediary of a central undertaking, the central undertaking shall be considered as part of the pooling arrangement and its share of the risk calculated accordingly.

*Article 194*

**Loss-given-default for pool exposures of type B**

1 For pool exposures of type B which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each liable up to the full amount of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated as follows:

$$LGD = \max\left(\left((1 - RR_C) \times \left(\frac{P_U}{(1-P_C)} \times BE_C + \Delta RM_C\right) - F \times Collateral\right);0\right)$$

where:

(a) $P_U$ denotes the undertaking's share of the risk according to the terms of the pooling arrangement;

(b) $P_C$ denotes the counterparty member's share of the risk according to the terms of the pooling arrangement;

(c) $RR_C$ is equal to:

(i) 10 % if 60 % or more of the assets of the counterparty member are subject to collateral arrangements;

(ii) 50 % otherwise;

(d) $BE_C$ denotes the best estimate of the liability ceded to the counterparty member by the undertaking, net of any amounts reinsured with counterparties external to the pooling arrangement;

(e) $\Delta RM_C$ denotes the counterparty member's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;

(f) *Collateral* denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;

(g) $F$ denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

2 For pool exposures of type B which the undertaking considers as separate single name exposures in accordance with Article 190(2), where members are each only liable up to their respective portion of the obligation covered by the pooling arrangement, the loss-given-default shall be calculated as follows:

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$$LGD = \max(((1 - RR_C) \times (P_C \times BE_U + \Delta RM_C) - F \times Collateral);0)$$

where:

(a) $P_C$ denotes the counterparty member's share of the risk according to the terms of the pooling arrangement;

(b) $RR_C$ is equal to:

(i) 10 % if 60 % or more of the assets of the counterparty member are subject to collateral arrangements;

(ii) 50 % otherwise;

(c) $BE_U$ denotes the best estimate of the liability ceded to the pooling arrangement by the undertaking, net of any amounts reinsured with counterparties external to the pooling arrangement;

(d) $\Delta RM_C$ denotes the counterparty member's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;

(e) *Collateral* denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;

(f) $F$ denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

*Article 195*

**Loss-given-default for pool exposures of type C**

For pool exposures of type C which the undertaking considers as separate single name exposures in accordance with Article 190(2), the loss-given-default shall be calculated as follows:

$$LGD = \max(((1 - RR_{CE}) \times (P_U \times BE_{CE} + \Delta RM_{CE}) - F \times Collateral);0)$$

where:

(a) $P_U$ denotes the undertaking's share of the risk according to the terms of the pooling arrangement;

(b) $RR_{CE}$ is equal to:

(i) 10 % if 60 % or more of the assets of the external counterparty are subject to collateral arrangements;

(ii) 50 % otherwise;

(c) $BE_{CE}$ denotes the best estimate of the liability ceded to the external counterparty by the pooling arrangement as a whole;

(d) $\Delta RM_{CE}$ denotes the external counterparty's contribution to the risk-mitigating effect of the pooling arrangement on the underwriting risk of the undertaking;

(e) *Collateral* denotes the risk-adjusted value of collateral held by the counterparty member of the pooling arrangement;

(f) $F$ denotes the factor to take into account the economic effect of the collateral held by the counterparty member, calculated in accordance with Article 197.

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*Article 196*

**Risk-mitigating effect**

The risk-mitigating effect on underwriting or market risks of a reinsurance arrangement, securitisation or derivative shall be the difference between the following capital requirements:

(a) the hypothetical capital requirement for underwriting or market risk of the insurance or reinsurance undertaking that would apply if the reinsurance arrangement, securitisation or derivative did not exist;

(b) the capital requirement for underwriting or market risk of the insurance or reinsurance undertaking.

*Article 197*

**Risk-adjusted value of collateral**

1 The risk-adjusted value of collateral provided by way of security, as referred to in Article 1(26)(b), shall be equal to the difference between the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, and the adjustment for market risk, as referred to in paragraph 5 of this Article, provided both of the following requirements are fulfilled:

a the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the counterparty (the counterparty requirement);

b the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain, in a timely manner, the collateral in the event of a default, insolvency or bankruptcy or other credit event relating to the custodian or other third party holding the collateral on behalf of the counterparty (the third party requirement).

2 Where the counterparty requirement is met and the criteria set out in Article 214 of this Regulation are met and the third party requirement is not met, the risk-adjusted value of a collateral provided by way of security, as referred to in Article 1(26)(b) of this Regulation, shall be equal to 90 % of the difference between the value of the assets held as collateral in accordance with Article 75 of Directive 2009/138/EC and the adjustment for market risk, as referred to in paragraph 5 of this Article.

3 Where either the counterparty requirement is not met or the requirements in Article 214 are not met, the risk-adjusted value of collateral provided by way of security, as referred to in Article 1(26)(b), shall be zero.

4 The risk-adjusted value of a collateral of which full ownership is transferred, as referred to in Article 1(26)(a) of this Regulation, shall be equal to the difference between the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, and the adjustment for market risk, as referred to in paragraph 5 of this Article, provided the requirements in Article 214 of this Regulation are fulfilled.

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5 The adjustment for market risk is the difference between the following capital requirements:

a the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the assets held as collateral were not included in the calculation;

b the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the assets held as collateral were included in the calculation.

6 For the purposes of paragraph 5, the currency risk of the assets held as collateral shall be calculated by comparing the currency of the assets held as collateral against the currency of the corresponding exposure.

7 Where in case of insolvency of the counterparty, the determination of the insurance or reinsurance undertaking's proportional share of the counterparty's insolvency estate in excess of the collateral does not take into account that the undertaking receives the collateral, the factors $F$ and $F'$ referred to in Article 192(2) and (3) shall both be 100 %. In all other cases these factors shall be 50 % and 90 % respectively.

*Article 198*

## Risk-adjusted value of mortgage

1 The risk-adjusted value of mortgage shall be equal to the difference between the value of the residential property held as mortgage, valued in accordance with paragraph 2, and the adjustment for market risk, as referred to in paragraph 3.

2 The value of the residential property held as mortgage shall be the market value reduced as appropriate to reflect the results of the monitoring required under Article 191(9) and (10) of this Regulation and to take account of any prior claims on the property. The external, independent valuation of the property shall be the same or less than the market value calculated in accordance with Article 75 of Directive 2009/138/EC.

3 The adjustment for market risk referred to in paragraph 1 shall be the difference between the following capital requirements:

a the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the residential property held as mortgage were not included in the calculation;

b the hypothetical capital requirement for market risk of the insurance or reinsurance undertaking that would apply if the residential property held as mortgage were included in the calculation.

4 For the purposes of paragraph 2, the currency risk of the residential property held as mortgage shall be calculated by comparing the currency of the residential property against the currency of the corresponding loan.

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## *Subsection 2*

## ***Type 1 exposures***

### *Article 199*

### **Probability of default**

1 The probability of default on a single name exposure shall be equal to the average of the probabilities of default on each of the exposures to counterparties that belong to the single name exposure, weighted by the loss-given-default in respect of those exposures.

2 Single name exposure *i* for which a credit assessment by a nominated ECAI is available shall be assigned a probability of default $PD_i$ in accordance with the following table.

| **Credit quality step** | **0** | **1** | **2** | **3** | **4** | **5** | **6** |
|---|---|---|---|---|---|---|---|
| Probability of default $PD_i$ | 0,002 % | 0,01 % | 0,05 % | 0,24 % | 1,20 % | 4,2 % | 4,2 % |

3 Single name exposures *i* to an insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available and where this undertaking meets its Minimum Capital Requirement, shall be assigned a probability of default $PD_i$ depending on the undertaking's solvency ratio, in accordance with the following table:

| Solvency ratio | 196 % | 175 % | 150 % | 125 % | 122 % | 100 % | 95 % | 75 % |
|---|---|---|---|---|---|---|---|---|
| Probability of default | 0,01 % | 0,05 % | 0,1 % | 0,2 % | 0,24 % | 0,5 % | 1,2 % | 4,2 % |

Where the solvency ratio falls in between the solvency ratios specified in the table above, the value of the probability of default shall be linearly interpolated from the closest values of probabilities of default corresponding to the closest solvency ratios specified in the table above. Where the solvency ratio is lower than 75 %, the probability of default shall be 4,2 %. Where the solvency ratios is higher than 196 %, the probability of default shall be 0,01 %.

For the purposes of this paragraph, ‘solvency ratio’ denotes the ratio of the eligible amount of own funds to cover the Solvency Capital Requirement and the Solvency Capital Requirement, using the latest available values.

4 Exposures to an insurance or reinsurance undertaking that do not meet its Minimum Capital Requirement shall be assigned a probability of default equal to 4,2 %.

5 Paragraphs 3 and 4 of this Article shall only apply as of the first date of public disclosure, by the undertaking corresponding to the exposure, of the report on its solvency and financial condition referred to in Article 51 of Directive 2009/138/EC. Before that date, if a credit assessment by a nominated ECAI is available for the exposures, paragraph 2 shall apply. Otherwise, the exposures shall be assigned the same risk factor as the ones that would result

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from the application of paragraph 3 to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

6 Exposures to a third country insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available, situated in a country whose solvency regime is deemed equivalent to that laid down in Directive 2009/138/EC in accordance with Article 227 of Directive 2009/138/EC, and which complies with the solvency requirements of that third-country, shall be assigned a probability of default equal to 0,5 %.

7 Exposures to credit institutions and financial institutions within the meaning of points (1) and (26) of Article 4(1) of Regulation (EU) No 575/2013 which comply with the solvency requirements set out in Directive 2013/36/EU and Regulation (EU) No 575/2013, for which a credit assessment by a nominated ECAI is not available, shall be assigned a probability of default equal to 0,5 %.

8 Exposures to counterparties referred to in points (a) to (d) of Article 180(2) shall be assigned a probability of default equal to 0 %.

9 The probability of default on single name exposures other than those identified in paragraphs 2 to 8 shall be equal to 4,2 %.

10 Where a letter of credit, a guarantee or an equivalent arrangement is provided to fully secure an exposure and this arrangement complies with Articles 209 to 215, the provider of that letter of credit, guarantee or equivalent arrangement may be considered as the counterparty on the secured exposure for the purposes of assessing the probability of default of a single name exposure.

11 For the purposes of paragraph 10, exposures fully, unconditionally and irrevocably guaranteed by counterparties listed in the implementing act adopted pursuant to point (a) of Article 109a(2) of Directive 2009/138/EC shall be treated as exposures to the central government.

*Article 200*

**Type 1 exposures**

1 Where the standard deviation of the loss distribution of type 1 exposures is lower than or equal to 7 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following:

$$SCR_{def,1} = 3 \times \sigma$$

where $\sigma$ denotes the standard deviation of the loss distribution of type 1 exposures, as defined in paragraph 4.

2 Where the standard deviation of the loss distribution of type 1 exposures is higher than 7 % of the total losses-given-default on all type 1 exposures and lower or equal to 20 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following:

$$SCR_{def,1} = 5 \times \sigma$$

where σ denotes the standard deviation of the loss distribution of type 1 exposures.

3 Where the standard deviation of the loss distribution of type 1 exposures is higher than 20 % of the total losses-given-default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the total losses-given-default on all type 1 exposures.

4 The standard deviation of the loss distribution of type 1 exposures shall be equal to the following:

$$\sigma = \sqrt{V}$$

where $V$ denotes the variance of the loss distribution of type 1 exposures.

*Article 201*

**Variance of the loss distribution of type 1 exposures**

1 The variance of the loss distribution of type 1 exposures as referred to in paragraph 4 of Article 200 shall be equal to the sum of $V_{inter}$ and $V_{intra}$.

2 $V_{inter}$ shall be equal to the following:

$$V_{inter} = \sum_{(j,k)} \frac{PD_k \times (1 - PD_k) \times PD_j \times (1 - PD_j)}{1{,}25 \times (PD_k + PD_j) - PD_k \times PD_j} \times TLGD_j \times TLGD_k$$

where:

(a) the sum covers all possible combinations ($j$,$k$) of different probabilities of default on single name exposures in accordance with Article 199;

(b) $TLGD_j$ and $TLGD_k$ denote the sum of losses -given- default on type 1 exposures from counterparties bearing a probability of default $PDj$ and $PDk$ respectively.

3 $V_{intra}$ shall be equal to the following:

$$V_{intra} = \sum_j \frac{1{,}5 \times PD_j \times (1 - PD_j)}{2{,}5 - PD_j} \times \sum_{PD_j} LGD_2^i$$

where:

(a) the first sum covers all different probabilities of default on single name exposures in accordance with Article 199;

(b) the second sum covers all single name exposures that have a probability of default equal to $PD_j$;

(c) $LGD_i$ denotes the loss-given-default on the single name exposure $i$.

*Subsection 3*

***Type 2 exposures***

*Article 202*

**Type 2 exposures**

The capital requirement for counterparty default risk on type 2 exposures shall be equal to the loss in the basic own funds that would result from an instantaneous decrease in value of type 2 exposures by the following amount:

$$90\% \times LGD_{receivables>3\,months} + \sum_i 15\% \times LGD_i$$

where:

(a) $LGD_{receivables>3months}$ denote the total losses-given-default on all receivables from intermediaries which have been due for more than three months

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**Changes to legislation:** *Commission Delegated Regulation (EU) 2015/35, SECTION 6 is up to date with all changes known to be in force on or before 27 September 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

(b) the sum is taken on all type 2 exposures other than receivables from intermediaries which have been due for more than three months;

(c) $LGD_i$ denotes the loss-given-default on the type 2 exposure $i$.

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***Changes to legislation:** Commission Delegated Regulation (EU) 2015/35, SECTION 6 is up to date with all changes known to be in force on or before 27 September 2024. There are changes that may be brought into force at a future date. Changes that have been made appear in the content and are referenced with annotations. (See end of Document for details)*

(**1**) Council Directive 91/674/EEC of 19 December 1991 on the annual accounts and consolidated accounts of insurance undertakings, OJ L 374, 31.12.1991, p. 7.

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