

| Comments Template on CEIOPS-CP 51 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Counterparty default risk | | Deadline 11.09.2009 4 p.m. CET |
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| Name of Company: | PricewaterhouseCoopers LLP | |
| Disclosure of comments: | CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential: | No |
| <p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column “reference”. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. <p>Please send the completed template, in Word Format, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. 51 (CEIOPS-CP-51/09).</p> | | |
| Reference | Comment | |
| General Comment | <ul style="list-style-type: none"> • The approach outlined in CP51 is an improvement on QIS4 and on the guidance provided in CP28. • The loss given default calculation has been simplified in line with comments from the market regarding the disproportionately complex calculation. | |

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| | <ul style="list-style-type: none"> The loss distribution has been parametised; however it remains to be seen whether or not this parametisation will be an accurate reflection of companies' risks (see additional comments below on paragraph A5). There are still a number of outstanding issues in particular regarding the treatment of unrated counterparties under Solvency II equivalent supervision and also the use of collateral to offset the risk of default. | |
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| 3.4. | <p>Our comments on CP28 stated that additional guidance is required on the allowance of Risk Mitigation within the counterparty risk calculation. Simplifications for this calculation have now been provided within CP51.</p> <p>Additional guidance is required on acceptable forms of collateral in relation to risk mitigating arrangements with counterparties. In particular, guidance on how such collateral should be structured, what a regulator is likely to require a company to demonstrate to gain full benefit for such arrangements and possible variations on this (e.g. collateral that may gain partial benefits).</p> | |
| 3.5. | | |

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| 3.85. | The treatment of counterparties under Solvency II equivalent supervision is not considered in this paper. The treatment of such counterparties is likely to have a significant impact on some companies and we urge CEIOPS to provide additional guidance on this in its next set of consultation papers. | |
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| A. | | |
| A.1. | | |
| A.2. | | |
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| A.4. | | |
| A.5. | The paper suggests that a baseline probability of default will be calculated based on a company’s credit rating, its solvency ratio (if under Solvency II regulation) or a fixed percentage (where the first two do | |

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| | <p>not apply). However, this probability of default is translated into a risk factor based on the loss distribution that the probability of default implies (subject to a 100% ceiling). In paragraphs A5, A7 and A9 the examples show that this risk factor is 100% in almost all cases for CCC rated counterparties or unrated counterparties (even when combined with arrangements with higher rated counterparties).</p> <p>A 100% risk charge effectively gives zero allowance for the counterparty's existence. Additional consideration is required as to whether this is appropriate. For example, where a company has risk mitigation arrangements provided solely by a company which is unrated and not under Solvency II regulation, they will be given no benefit for any of these risk mitigating arrangements.</p> <p>In the case of a single counterparty with a rating of B or below (which includes unrated counterparties not under Solvency II regulation) the calculation gives a risk factor of 100%. A risk factor of 100% also results where a CCC rated or unrated counterparty is combined with any other rated single counterparty or with many CCC rated counterparties.</p> | |
| A.6. | | |
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| B. | | |
| B.1. | | |
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| B.5. | | |
| B.6. | | |
| B.7. | | |