Summary of Comments on CEIOPS-CP-51/09	CEIOPS-SEC-114-09
Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	

CEIOPS would like to thank AAS BALTA, AB Lietuvos draudimas, AMICE, Association of British Insurers, Association of Run-off Companies, Belgian Coordination Group Solvency II (Assuralia/, CEA, CRO Forum, DENMARK: Codan Forsikring A/S (10529638), DIMA (Dublin International Insurance & Management , European Union member firms of Deloitte Touche To, FERMA (Federation of European Risk Management Asso, FFSA, German Insurance Association – Gesamtverband der D, GROUPAMA, Groupe Consultatif, IFEX, Institut des actuaires (France), INTERNATIONAL GROUP OF P&I CLUBS, International Underwriting Association of London, Investment & Life Assurance Group (ILAG), Legal & General Group, Link4 Towarzystwo Ubezpieczeń SA, Lloyd's, Lucida plc, Milliman, Munich RE, NORWAY: Codan Forsikring (Branch Norway) (991 502 , Pearl Group Limited, PricewaterhouseCoopers LLP, RBSI, ROAM, RSA Insurance Group PLC, RSA Insurance Ireland Ltd, RSA\32\45\32Sun Insurance Office Ltd., SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799), and XL Capital Ltd

The numbering of the paragraphs refers to Consultation Paper No. 51 (CEIOPS-CP-51/09)

No.	Name	Reference	Comment	Resolution
1.	AAS BALTA	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integratedl such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them. General Comments include: The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules. We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old. In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects. Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

			more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
2.	AB Lietuvos draudimas	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them. General Comments include: The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules. We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old. In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects. Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			Confidential Comment deleted	
4.	AMICE	General Comment	These are AMICE´s views at the current stage of the project. As our work develops, these views may evolve depending, in particular, on other elements of the framework which are not yet fixed. The comments outlined below constitute AMICE´s primary areas of concern:	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

AMICE welcomes the simplification suggested by CEIOPS:

-       We would be in favour of implementing the simplification suggested for calculating the LGD as part of the standard formula, to avoid burdensome calculations (option 1)

-       We understand that due to over-estimation of the counterparty risk, the simplification suggested for subgroups (defined by rating for instance) will be allowed

However, we would like to question three points:

-       Recovery rates are lower than in QIS 4, and no specific explanations are given. We suggest using the prudent and accepted 50% recovery rate as in QIS 4 if no specific studies are carried out.

-       The parameter for type 2 exposure (23%) seems over-calibrated, and no specific reference is given regarding the nature of the exposure (client debts, deposits…). We suggest using different parameters according to the nature of the exposure and allowing undertakings to use entity specific parameters.

-       We welcome the possibility to use Solvency 2 statements to calibrate the counterparty risk. However, we think that this approach could lead to pro-cyclical effects. We agree that this methodology should be used only if no rating is available. Furthermore, if a reinsurer covers its SCR, according to the Directive, he has sufficient own funds to face any 99.5%-chance event: thus, no capital requirement should be calculated for exposure to such reinsurers.

Disagreed. The SCR determines the individual risk level. It is unsuited for an assessment of the risks in interdependent structures. If this assumption were used, it would lead to the faulty conclusion that, if 200 insurers all hold exactly the amount of own funds needed to cover the SCR, the expected one year failure rate is 0, where – based on the assumptions surrounding the SCR – it should be 1. Therefore, it is still

				necessary for a capital charge on counterparties that meet the SCR.
5.	Association of British Insurers	General Comment	We welcome the simplification proposals set out in paragraph 3.99. We favour option 1 and believe that this is an important simplification.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			The recovery rates for reinsurance arrangements and derivatives appear to be too low.	
			We disagree with the assumption that state intervention in a bank should always be interpreted as a default.	
			We are concerned about the potential pro-cyclical nature of certain requirements, which may cause a cliff edge effect (see 3.122).	
			The calibration of risk factors for Type 2 exposures seems to be too conservative (see 3.111).	
6.	Association of Run-off Companies	General Comment	The advice and guidance would be clearer if it explained that the capital charge relates to the risks that a counterparty is unable to settle amounts it owes to a reinsured ("can't pay"), rather than the situation which can be material and common to runoff companies, where the counterparty is in dispute with a reinsured ("won't pay") . The method for applying a charge to the "won't pays" should be included or cross-referenced to the appropriate advice and guidance.	Disagreed. Disputed amounts remain in the confines of counterparty default risk.
			The Consultation Paper does not explain the approach to determining expected recoveries (distinct from default probability) from group counterparties, where reinsurance is with other group companies, and whether the approach should be consistent with the advice in CP51 or it should be based upon a different approach.	
			The general methodology of holding a small amount of capital to mitigate the risk of a "can't pay" is not consistent with the	

			methodology for other SCR risk modules. Capital is needed to be held even if the risk of default is well outside the 1 in 200 limit set for other risk modules (eg. AAA rated counterparties). As the capital required will only be a small proportion of the Loss Given Default then it will not be an effective mitigation in the event of a default. It will therefore be an unnecessary cost that could be quite onerous for small companies in run-off with a large reliance on counterparties.	
			Confidential Comment deleted	
8.	Belgian Coordination Group Solvency II (Assuralia/	General Comment	If a counterparty covers it's SCR, it has sufficient own fund to face any 99,5%-chance event: thus, no capital requirement should be calculated for exposure to such undertaking (following the directive).	Noted. See CEIOPS' resolution to comment 4.
			It's not uncommon for some receivables to be paid after 3 months, without such a delay reflecting any credit difficulty from the intermediary. Therefore the time period of 3 months after which a risk factor of 100% should be applied to past-due intermediary receivables is too conservative. We suggest a period of 1year to discriminate between situations with a specific credit risk not already captured in the general risk factor and simple administrative delays in paying.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
9.	CEA, ECO-SLV-09-446	General Comment	Introductory remarks: The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 51 on SCR further advice on default risk.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			It should be noted that the comments in this document should be considered in the context of other publications by the CEA.	
			Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of	

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our comments.

These are CEA's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.

The CEA welcomes the simplification proposals set out in CP51. It firmly believes in the concept of simplification where appropriate and welcomes the greater clarity in the parameters used in the models set out in CP28. The CEA welcomes the use of examples within the paper to assist clarity.

The (illustrative) calibration of the counterparty default risk module incorporates an unjustified level of prudence. The industry is keen to understand the rationale behind the parameters chosen for the Type 1 and Type 2 model set out in CP28. We firmly believe that these should be fully justified based on statistical evidence and that Ceiops' rationale behindthe parameters chosen should be thoroughly explained.

In particular, it is unclear why the default recovery rates for reinsurance and derivatives have been set at 40% and 10% respectively, when in the papers referred to by Ceiops the recovery rates are shown to be higher.

We look forward to working together with Ceiops on an appropriate calibration of this module.

Moreover, we strongly recommend that policyholder debtors should be exempted from the counterparty default risk module, given that claims are backed by a policy contract.

Partially agreed. As future premiums expected to be received from policyholders depend on the legal enforceability of the contract, given the non-payment by the policyholder, these exposures are operational risk and will be excluded here.

				Other policyholder debts are not backed by a policy and are included in this module.
10.	CRO Forum	General Comment	51.A The calibration assumption should be evidenced (priority: high) In calibrating this sub-module the CRO Forum believes that CEIOPS have used a conservative calibration for several elements of the calculation (default probabilities and loss given default) which reflect market conditions at a particularly stressed point-in-time. The CRO Forum does not believe enough evidence has been provided to justify the calibration and greater clarity is required. We would urge CEIOPS to work together with the industry to arrive at a calibration which is more in line with the 1 in 200 confidence level. 51.B The treatment of unrated entities (major part of the type 2 exposure) needs further consideration (priority: high) The CRO Forum is of the opinion that the proposed calibration for this sub-module is penal for certain counterparties who have not requested a credit rating. These counterparties can be financially strong and be subject to good quality regulation. The CRO Forum recommends CEIOPS to reconsider this area in particular in relation to intra group conduits to external counterparties. We also point out that we are supporting the privileged nature of rating agencies by penalising investment in companies that choose not to seek external ratings. 51.C Threshold to distinguish type 1 and type 2 exposures (priority: high) On one hand, CP 28 separates the types of exposures by nature: (i) the type 1 exposures cover those which may not be diversified and	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

			where the counterparty is likely to be rated (reinsurance arrangements, derivatives,…), (ii) the type 2 includes other exposures (usually diversified and unrated). On the other hand, CP 51 proposes a threshold based on the number of related counterparts of the undertaking (15 counterparties, which appears to be arbitrary)) to distinguish between type 1 and type 2 exposures. We would like to understand the consistency between CP 28 and CP 51 in terms of classification between type 1 and type 2.	
			51.D More work needed with respect to simplifications for Derivatives and Life insurance (priority: medium)	
			The CRO Forum welcomes that the Counterparty default risk module has been simplified and views this as a good improvement. For Non-life reinsurance the first proposed simplification seems to be functional. But the simplifications for Derivatives and Life reinsurance are actually not helpful.	
11.	DENMARK: Codan Forsikring A/S (10529638)	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			General Comments include:	
			The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.	
			We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old.	
			In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.	

			Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
12.	DIMA (Dublin International Insurance & Management	General Comment	DIMA welcomes the opportunity to comment on this paper. Comments on this paper may not necessarily have been made in conjunction with other consultation papers issued by CEIOPS. In adjusting calibrations in response to the crisis is there not a double impact in that the underlying institutions will arguably be more creditworthy post the regulatory changes (ie the solvency of the sectors will be raised to the levels they were perceived to have prior to the crisis) and thus the need to recalibrate is not required? The introduction of different capital charges for Type 1 exposures related to risk mitigations contracts with different but "arguably equivalently" regulated industries of banking and reinsurance may potentially distort the market or otherwise introduce arbitrage There is much more detail in this consultation paper than in the preceding CP28. While CP 51 contains a number of "simplifications" with respect to derivatives, life and non-life reinsurance, number of counterparties, it still remains a complex and potentially time consuming exercise for this single module. Option 1 is the preferred option. Equivalence between regulated sectors :- On the basis of constant expected loss for credit default, any variation to Loss Given Default will have a bearing on Probability of Default (and vice versa) as such the parameters for SCR needs to be benchmarked to Expected Losses in the first instance with the	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

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			higher moments of the distribution used in the calculation then allowing for differing values of Probability of Loss and Loss Given Default between Derivatives and Reinsurance.	
			Does CEIOPS consider it appropriate to allow for a default rating for equivalently rated non insurance financial institutions in the determination of proxy credit ratings or de minimis credit ?	
			The calibration is influenced by the current financial crisis view of counterparty risk.	
			Internal reinsurance treatment needs to be clarified.	
			Receivables from intermediaries appear to have a mitigating effect, which seems to be uniquely mentioned.	
13.	European Union member firms of Deloitte Touche To	General Comment	Overall, we are supportive of the simplification proposals that CEIOPS has put forward.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			Regarding the calibrations, we would suggest that additional studies be commissioned to complement the data available today in order to set the calibration in a transparent and robust way before Level 2 measures are set in stone.	
14.	FERMA (Federation of European Risk Management Asso	General Comment	Ferma welcomes this opportunity to provide comments on this Consultation paper. The main purpose of our comments is to outline specificities of captive insurance and reinsurance undertakings as defined in Art 13-1a of the Directive.	Noted.
15.	FFSA	General Comment	FFSA particularly welcomes the efforts done by CEIOPS to simplify the calculation of this SCR.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			FFSA believes that if a counterparty covers its SCR, hence, following the Directive, it has sufficient own fund to face a 99.5%-chance event: then, no capital requirement should be calculated for	

			exposure to such undertaking.	Noted. See CEIOPS' resolution to comment 4.
			CEIOPS outlines that the risk factors for type 2 exposures should be consistent with the model for type 1 exposure. FFSA would like to get clarification about the consistency given the fact that in both types all parameters appear to have been already fixed.	
			CEIOPS sets a risk factor for the calculation of the SCR of type 2 exposure in this section:	
			• FFSA believes that the time period of 3 months after which a risk factor of 100% should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. FFSA would suggest using a period of [6] month is better as it would discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying. In addition, a probability of recovery given default should be set at 50%	
			• FFSA also believes that the risk factor of 23% used for the calculation of the SCR of type 2 is overly conservative. FFSA would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does CEIOPS consider that on average, policyholders should have a BB rating). FFSA notes that simply assuming a BBB rating and a 50% recovery rate would reduce the risk factor to 8%, while assuming a A rating and a 50% recovery rate would reduce the risk factor to 2%.	
			Concerning the threshold to distinguish between type 1 and type 2 exposures: CP 28 separates the types of exposures by nature: (i) the type 1 exposures cover those which may not be diversified and where the counterparty is likely to be rated (reinsurance	

			arrangements, derivatives,…), (ii) the type 2 includes other exposures (usually diversified and unrated). but CP 51 proposes a threshold based on the number of related counterparts of the undertaking (15 counterparties) to distinguish between type 1 and type 2 exposures.	
			- FFSA would like to understand the consistency between CP 28 and CP 51 in terms of classification between type 1 and type 2	
			- FFSA considers that this threshold approach (15 counterparties) appears to be arbitrary. In any case, FFSA would like undertakings to keep the option (but not the obligation) to use Type 1 methodology for their largest counterparties, even in cases when the total number of counterparties exceeds 15.	
			Also, FFSA notices that the calibration has been increased without any scientific justification. As a consequence it is difficult to agree with some of the advice included in this consultation paper.	
			Confidential comment deleted	
17.	German Insurance Association – Gesamtverband der D	General Comment	GDV appreciates CEIOPS' effort regarding the implementing measures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important issues for the German market based on CEIOPS' advice in the blue boxes.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			It should be noted that our comments might change as our work develops. Our views may evolve depending, in particular, on other elements of the framework which are not yet fixed – e.g. specific issues that will be discussed not until the third wave is disclosed.	
			Overall comment:	
			The decreased levels of recovery rates from reinsurances or from	

			financial instruments are inappropriate. These rates should be much closer to the former QIS4 level as long as no respective evidence is given for the appropriateness of such a marked decrease. With respect to past-due intermediaries receivables it is not realistic to suppose a 100% default after a period of 3 months.	
			The GDV welcomes the simplification proposals set out in CP 51. It firmly believes in the concept of simplification where appropriate and the greater clarity in the parameters used in the models set out in CP 28. The GDV welcomes the use of examples within the paper to assist clarity.	
			The GDV finds that too much caution was used in deriving the calibration of this module and is keen to understand the rationale behind the parameters chosen for the Type 1 and Type 2 model set out in CP 28. We firmly believe that these should be fully justified based on statistical analysis and that CEIOPS' rationale behind, and derivation of, the parameters chosen should be thoroughly explained.	Partially agreed. As future premiums expected to be received from policyholders depend on the legal enforceability of the contract, given the non-payment by the policyholder, these exposures are operational risk and will be excluded here. Other policyholder debts are not backed by a policy and are included in this module.
			We strongly recommend that policyholder debtors should be exempted from the counterparty default risk module, given that claims are backed by a policy contract.	
18.	GROUPAMA	General Comment	Groupama welcomes the simplification suggested by CEIOPS: - We would be in favor of implementing the simplification suggested for calculating LGD as part of the standard formula, to	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

			avoid burdensome calculations (option 1) (3.90)	
			- We understand that due to over-estimation of the counterparty risk, the simplification suggested of using subgroups (defined by rating, for instance) will be allowed without regard to the proportionality principle.	
			However, we would like to question three points:	
			- The recovery rate is lower than in QIS 4, and no specific explanation is given. We suggest using the prudent and accepted 50% recovery rate as in QIS 4 if no specific studies are carried out. (3.105)	
			- The parameter for type 2 exposure (23%) seems over-calibrated, and no specific reference is made regarding the nature of the exposure (client debs, deposits etc.). We suggest using different parameters regarding the nature of the exposure and allowing undertakings to use entity-specific parameters. (3.111)	
			- We welcome the possibility of using Solvency 2 statements to calibrate the counterparty risk. However, we think that this approach could lead to pro-cyclical effects. We agree that this methodology should be used only if no rating is available. Furthermore, if a reinsurer covers its SCR, following the Directive, it has sufficient own funds to face any 0.5%-chance event: thus, no capital requirement should be calculated for exposure to such reinsurers. At least a higher recovery rate could be used.	Noted. See CEIOPS' resolution to comment 4.
19.	Groupe Consultatif	General Comment	Broker/ intermediary default on receivables due over 3 months at 100% appears very conservative	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			The probability of default for unrated counterparties (not covered by Solvency II) will force them to either adopt Solvency II or get a credit rating or else the use of such entities will be less attractive. May be an issue for (highly rated) reinsurers who make use of	

			unrated carriers in non EU countries	
			Calculations are very complex.	
			The support for recovery factors of 40%/10% (and changes since QIS4) for reinsurance / derivatives seem arbitrary.. We have noted in our comment on CP 44 the need for a conceptual reconciliation with the recovery rate assumption used for provisions.	
			Default charge of 23% for type 2 exposures seems high.	
			This article should be read with the Consultation Paper 28. It complements the earlier Consultation Paper in the following areas and several simplifications of the calculations are proposed. In fact, many participants to the QIS4 raised concerns about the time-consuming calculations required for this capital charge; it was considered to be disproportionate in view of the low capital changes it produced.	
			This complexity is caused by the definition of this risk: it is supposed to reflect the possible losses due to unexpected default, or deterioration in the credit standing, of counterparty and debtors of the insurance undertakings. To perform these calculations, the insurance undertakings are supposed to evaluate the risk mitigating effect of each individual reinsurance arrangement or derivatives. Therefore, this module raised many problems among the participants to the QIS4 because it requires to do re-evaluate all the sub-modules affected by the reinsurance arrangement or by the financial derivatives.	
			We support the CEIOPS's simplifications and urged it to continue with its simplifications.	
20.	IFEX	General Comment	Our only comment is a fundamental one. The paper does not include any analysis of reinsurance derivatives which are exchange traded cleared and margined. Such contracts have no collateral in	Exchange traded reinsurance derivatives are treated as other derivatives. CEIOPS notes that,

			the conventional sense but still provide negligible couter party risk and are the equivalent of the very best reinsurance security.	where the standard formula has shortcomings, undertakings may wish to consider (partial) internal models.
			Such contracts are listed and traded on the Chicago Climate Futures Exchange, the Chicago Mercantile Exchange and Eurex. This is a burgeoning field with significant activity.	
			We feel that full consideration needs to be given the counter party security of exchange traded, cleared and margined derivative reinsurance contracts. These appear not to be susceptible to the analysis outlined in CP 51/09	
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			T: +44 (0)20 7382 7808	
21.	Investment & Life Assurance Group (ILAG)	General Comment	We welcome the proposed simplifications to the loss given default calculation but have concerns over the reduction in the recovery rates for corporate bonds and derivatives.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
22.	Link4 Towarzystwo Ubezpieczeń SA	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			General Comments include:	
			The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.	
			We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where	

			the SCR will often be based upon data >12months old.	
			In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.	
			Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
23.	Lloyd's	General Comment	We support the simplification of the loss-given-default calculations originally proposed in CP28, although the simplifications are quite conservative, as they do not allow for diversification across sub-modules.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			We agree with CEIOPS' preference for option 3, which allows for an amended default for the non-life reinsurance calculations. Option 3 also allows for simplified calculation under certain conditions which we agree is important, due to the disproportionate complexity that may otherwise exist.	
			We agree with CEIOPS' proposed simplification where there is a large group of counterparties by grouping them together. We suggest using a weighted average of the credit ratings, as is suggested for groups, rather than taking either the lowest credit rating or the rating of the dominant entity, as this is too conservative.	
			Overall, the calibration parameters presented appear to be very conservative and seem to be based on judgement rather than observed data. Specific comments on these parameters have been included below. We are concerned at the lack of supporting evidence for a large number of the parameters.	

			We also note a possible improvement in the formula suggested of loss-given-defaults.	
24.	Lucida plc	General Comment	Lucida is a specialist UK insurance company focused on annuity and longevity risk business. We currently insure annuitants in the UK and the Republic of Ireland (the latter through reinsurance).	Noted.
25.	Milliman	General Comment	We welcome the effort done by CEIOPS to simplify the calculation of this SCR.	Thank you.
26.	Munich RE	General Comment	We fully support all of the GDV statements and would like to add the following points: • The look-trough approach for intra-Group reinsurance should still be applicable if the Group can provide evidence that capital is fungible within the Group. • CEIOPS have used an extremely conservative calibration for several elements of the calculation (default probabilities and loss given default) which may reflect market conditions at a particularly stressed point-in-time. However, there does not seem to be enough evidence to justify this kind of calibration and thus greater clarity is required. Especially setting the recovery rate for reinsurers from 50% to 40% does not seem to be motivated and do not seem to be in line with long time averages. • We see quite a large effort for determining the risk mitigating (RM) effect for each counterparty separately. Hence, we welcome the simplification approaches. However, in the simplified approaches for derivatives and life reinsurance, the diversification effect should be taken into account again via a simplified approach. One could, for instance, derive a diversification factor via looking at the overall diversification benefit within one sub-module.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

			• The consultation paper describes the treatment of probability of default and recovery for entities unrated by a recognised (presumed external) credit rating agency or regulated under Solvency II. This seems to be penal for certain unrated counterparties who can be financially strong and may be subject to good quality regulation. • It should be made clearer that CP51 deals with the unexpected loss of counterparties defaults within the risk context whereas CP44 deals with the expected loss of counterparties within the valuation context.	
27.	NORWAY: Codan Forsikring (Branch Norway) (991 502	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them. General Comments include: The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules. We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old. In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects. Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.

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28.	Pearl Group Limited	General Comment	In general the calibration appears to have been based more on judgement than observed data, and appears prudent in a number of respects. Given the complexity of the proposed model (even with simplifications) it would be better for parameterisation to be more rigorous, as otherwise the complexity of the calculation appears likely to be disproportionate to the accuracy of the results. In 3.99 CEIOPS proposes 3 options and asks which one is best. Option 3 is the best option, as it allows companies to use the complicated method if that is appropriate and the simplifications otherwise. The caveat to this would be that the supervisory authority would have to change the criteria for allowing the simplified method so that they can be justified without an accurate calculation of the risk mitigating effect in the first place.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
29.	PricewaterhouseCoopers LLP	General Comment	• 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. • 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.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
30.	ROAM	General	ROAM welcomes the simplification suggested by CEIOPS:	Noted. See the comments on

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		Comment	- We would be in favor of implementing the simplification suggested for calculating the LGD as part of the standard formula, to avoid burdensome calculations (option 1) - We understand that due to over-estimation of the counterparty risk, the simplification suggested to use subgroups (defined by rating for instance) will be allow without regarding the proportionality principle. However, we would like to question three points: - CEIOPS explains in this paper why the recovery rate has changed due to the financial crisis. ROAM wants to emphasize that during this crisis no reinsurers defaulted. ROAM thinks that there is no argument to justify a decrease for the recovery rate. Furthermore, in QIS4 Technical Specification in the footnote page 155, CEIOPS considers that "50% is a conservative choice". We suggest keeping this recovery rate by default. - The parameter for type 2 exposure (23%) seems over-calibrated, and no specific reference is done regarding the nature of the exposure (client debs, deposits…). We suggest using different parameters regarding the nature of the exposure and allowing undertakings to use entity specific parameters. We welcome the possibility to use Solvency 2 statements to calibrate the counterparty risk. However, we think that this approach could lead to pro-cyclical effects. We agree that this methodology should be used only if no rating is available. Furthermore, if a reinsurer covers its SCR, following the Directive, the reinsurer has sufficient own fund to face any 99,5%-chance event: thus no capital requirement should be calculated for exposure to such reinsurer. At least, a higher recovery rate could be used.		specific paragraphs for CEIOPS' resolutions. Noted. See CEIOPS' resolution to comment 4.

| 31. | RSA Insurance Group PLC | General Comment | Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.

General Comments include:

The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.

We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old.

In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.

Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results… | Noted. See the comments on specific paragraphs for CEIOPS' resolutions. |
| 32. | RSA Insurance Ireland Ltd | General Comment | Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.

General Comments include:

The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.

We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where | Noted. See the comments on specific paragraphs for CEIOPS' resolutions. |

			the SCR will often be based upon data >12months old.	
			In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.	
			Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
33.	RSA - Sun Insurance Office Ltd.	General Comment	Overall the modular approach to modelling risks appears to be sub-optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			General Comments include:	
			The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.	
			We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old.	
			In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.	
			Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
34.	SWEDEN:	General	Overall the modular approach to modelling risks appears to be sub-	Noted. See the comments on

	Trygg-Hansa Försäkrings AB (516401-7799)	Comment	optimal to a fully integrated model such as an ESG / stochastic modelling which encompasses all risk types and incorporates the dependencies' between them.	specific paragraphs for CEIOPS' resolutions.
			General Comments include:	
			The "simplifications" in CP 51 are quite conservative as they do not allow for diversification between sub-modules.	
			We are comfortable with the RRre of 40% and RRfin of 10%. Not so with the use of SCRs to derive the probability of default where the SCR will often be based upon data >12months old.	
			In general the calibrations appear to have been based more on expert opinion / judgement than observed data, and appear prudent in a number of respects.	
			Given the complexity of the proposed model (even with these simplifications) would it not be better for the parameters to be more rigorous and empirical? Otherwise the effort in completing the complex calculations is disproportionate to the accuracy of the results…	
			Confidential comment deleted	
36.	XL Capital Ltd	General Comment	We appreciate CEIOPS' recognition (in paragraph 3.11) of the issues raised in QIS 4 with regard to non-life reinsurance where the number of counterparties is often high and the calculation of the loss-given-default was complex, and the simplification proposed in CP 51.	Noted. See the comments on specific paragraphs for CEIOPS' resolutions.
			Our main concerns regarding CP 51 are:	
			• The probability of default for unrated companies, particularly captives in the context of internal reinsurance arrangements. Unrated counterparties outside the Solvency II regime (e.g. Bermuda) will have the probability of default	

			set to 10%. The 10% probability of default is not justified in the paper and for non-EU captives with highly rated parents, this seems high. It is equivalent to the worst case of an unrated counterparty within the Solvency II regime. We would welcome additional clarification from CEIOPS on the reason for the strengthening of the default probabilities from those use for the QIS 4 exercise, which were in line with our expectations. • Removal of the look approach for internal reinsurance because "the group support regime is no longer envisaged for Solvency II". The non-recognition of the intra group reinsurance arrangements is seriously neglecting the manner in which groups operates. Furthermore it will seriously distort the organisation of insurance within a group, which requires suboptimal solutions. This will lead to higher costs.	
37.	Association of British Insurers	2.	It is not clear how the proposed approach and calibration meets the requirements of Article 105 Para 6. This requires the CDR module to reflect "unexpected default, or deterioration in the credit standing" of counterparties. The "ter Berg" model models explicitly only default. Deterioration in credit standing could be allowed for implicitly in the calibration of the model. However the lack of detail and rigour in the currently proposed calibration makes it difficult to assess whether the considerable prudence and judgment applied in the calibration is partly to allow for such deterioration.	The deterioration in credit standing is included implicitly in the calculations.
38.	CEA, ECO-SLV-09-446	2.	It is not clear how the proposed approach and calibration meets the requirements of Article 105 para 6. This requires the CDR module to reflect "unexpected default, or deterioration in the credit standing" of counterparties. The "ter Berg" model models explicitly only default. Deterioration in credit standing could be allowed for implicitly in the calibration of the model. However the lack of detail	The deterioration in credit standing is included implicitly in the calculations.

			and rigour in the currently proposed calibration makes it difficult to assess whether the considerable prudence and judgment applied in the calibration is partly to allow for such deterioration.	
39.	FERMA (Federation of European Risk Management Asso	2.	The counterparty risk for captives is relatively high because of the small number of counterparties involved. The main counterparty risk is the possible failure to pay by a reinsurer. Since most reinsurers used by captives have a high rating, this risk does not have a large impact on the SCR calculation. This also applies to loans to the parent company.	For special rules concerning captives, please refer to CEIOPS' consultation paper on Captives.
40.	ROAM	2.	It is not clear how the proposed approach and calibration meets the requirements of Article 105 para 6. This requires the CDR module to reflect "unexpected default, or deterioration in the credit standing" of counterparties. The "ter Berg" model models explicitly only default. Deterioration in credit standing could be allowed for implicitly in the calibration of the model. However the lack of detail and rigour in the currently proposed calibration makes it difficult to assess whether the considerable prudence and judgment applied in the calibration is partly to allow for such deterioration.	The deterioration in credit standing is included implicitly in the calculations.
41.	Groupe Consultatif	3.2.	The calculation of the loss-given-default is based on the calculation of the risk mitigating effect that is the difference between: • The (hypothetical) capital requirement for underwriting and market risk under the condition that the risk mitigating effect of the reinsurance arrangement, SPV or derivative of a particular counterparty is not taken into account in its calculation • The capital requirements for underwriting risk and market risk without any amendments are the requirements as defined in the Level 1 text Because these 2 calculations can be proved to be burdensome (e.g.	Noted.

the risk module has to be re-calculated without the financial derivative in order to evaluate the risk mitigating effect), some simplifications are proposed:

- The mitigation effect for financial derivatives can be estimated at the level of the sub-module of the market risk;

- In the same manner, the mitigation effect for life reinsurance can be estimated at the sub-module affected. For proportional life reinsurance, the risk mitigating effect can be estimated like the ratio of the gross (of reinsurance) best-estimate and the net (of reinsurance) best-estimate.

For non-life reinsurance, 2 types of simplification are proposed:

- Simplification in relation to the number of counterparties. Aggregation of the counterparties (e.g. ratings) are submitted and allow the participants to reduce significantly the number of calculations

- Simplification of the calculations. Simplified formulas are proposed to calculate in a quicker and easier way, the mitigation effect. It consists of approximations of the SCR gross and SCR net. These formulas allow the participants to spare calculation times, to capture diversification effect, and, according to the CEIOPS, is still risk sensitive.

We welcome these simplifications and we think that the insurance undertakings should now test the practicality of these new formulas.

42.	Groupe Consultatif	3.3.	In this section, some calibration issues are discussed :	Noted.
			• The recovery rate used in the Loss-given default are 40% for reinsurance arrangement and 10% for financial derivatives;	

			The parameters of the loss distribution are set at 4;	
			More interestingly, the probabilities of default are discussed. Two cases are considered: • Counterparties are rated by CRA (credit rating agencies like Moody's or Standard&Poors). Its rating can be used in the formulas and more precisely, to determine their probabilities of going bankrupt. • Otherwise, the probability of default should be inferred by the financial information: either the counterparty is a insurance or reinsurance that is subject to Solvency 2 and the probability of default should be derived by means of a solvency ratio rating; or, the probability should be a fixed figure. Due to the financial crisis we are in, we think that CEIOPS should adopt a transparent approach to establishment of the probabilities.	
43.	CRO Forum	3.4.	From a best estimate view not the whole Risk Mitigating effect of the arrangement should be part of the loss given default. See feedback on paragraph 3.87	Noted. See CEIOPS' resolution to comment 307.
44.	Lloyd's	3.4.	Care is needed in the construction of this formula for loss-given-default. We suggest that the formula is improved by allowing collateral to be deducted for recoverables and risk mitigating effect prior to applying the recovery rate. This reflects the fact that, in an reinsurance insolvency, recovery rates would be applied to creditors' claims net of collateral. For example, if the recoverables + RM is 100 and the collateral is 60 and then recovery rate 40% then the current formula would give a LGD of (1-40%)*100 – 60 = 0. We feel the correct calculation would be a loss given default of (1-	Agreed. See revised formula.

			40%) * (100-60) = 24.	
			Therefore the correct formula should be:	
			LGD = max((1-RR)*(recoverable + RM – Collateral),0)	
45.	Pricewaterho useCoopers LLP	3.4.	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.	See revised CP28.
			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).	
46.	RBSI	3.4.	We feel there should be clarity on what constitutes collateral in the LGD calculation.	See revised CP28.
47.	CEA, ECO-SLV-09-446	3.5.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" as a measure for impact on required capital should a particular reinsurance counterparty default. In our view, the risk mitigating effect is either the economic cost of bearing the additional risk (i.e. the cost of the increase in capital requirement, not the increase in capital requirement), or the additional reinsurance premium necessary to reinstate the cover with another reinsurer. For derivative arrangements often collateral arrangements are part of the arrangement and thus not all fair value changes are directly losses. Furthermore, if the fair value difference is settled on a repetitive basis, this should also be taken into account.	Noted. See CEIOPS' resolution to comment 307.
48.	German Insurance	3.5.	1.	n/a

	Association – Gesamtverb and der D			
49.	ROAM	3.5.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" as a measure for impact on required capital should a particular reinsurance counterparty default. In our view, the risk mitigating effect is either the lost mitigation effect or the reinstatement premium necessary to provide cover again. For derivative arrangements often collateral arrangements are part of the arrangement and thus not all fair value changes are directly losses. Furthermore, if the fair value difference is settled on a repetitive basis, this should also be taken into account.	Noted. See CEIOPS' resolution to comment 307.
50.	Association of British Insurers	3.6.	For derivatives, the loss given default calculation refers to the market value of the collateral in relation to derivatives. It is unclear what market value of collateral is being referred to. Is it the collateral currently held or the market value of the collateral post a 1-year 99.5% VaR-shock? Our interpretation is that the collateral in the equation is the market value of the collateral post 1-year 99.5% VaR shock.\n\nIn any event, as part of the supervisory process, the supervisor should be assessing whether this assumption reflects the actual risk profile for the company and giving an add-on if the recovery rate is unrealistically high.	The value of the collateral is the value post a 1-year 99.5% VaR-shock. See revised CP28.
51.	CEA, ECO-SLV-09-446	3.6.	Calibrating a single recovery rate for all types of derivatives allowing for recovery of the risk mitigating effect could lead to unrealistic rates.	For the sake of simplicity, CEIOPS deems it not possible to treat all possible types of financial derivatives differently. CEIOPS also notes that, where the

			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
				standard formula has shortcomings, undertakings may wish to consider (partial) internal models.
52.	CRO Forum	3.6.	See 3.4 For derivatives, the loss given default calculation refers to the market value of the collateral in relation to derivatives. It is unclear what market value of collateral is being referred to, is it the collateral currently held or the market value of the collateral post 1 year VaR shock. We would welcome further clarification. Our interpretation is the collateral in the equation is the market value of the collateral post 1 year VaR shock.	The value of the collateral is the value post a 1-year 99.5% VaR-shock. See revised CP28.
53.	Lloyd's	3.6.	See comments under 3.4.	Agreed. See revised formula.
54.	Lucida plc	3.6.	We own a derivative which has a risk-mitigating effect on longevity risk. We are assuming that such derivatives would be treated per this section.	A derivative with a risk-mitigating effect on longevity risk does indeed fall under the counterparty default risk treatment for financial derivatives.
55.	Pearl Group Limited	3.6.	Calibrating a single recovery rate for all types of derivatives allowing for recovery of the risk mitigating effect could lead to unrealistic rates.	Noted. See CEIOPS' resolution to comment 55.
56.	ROAM	3.6.	Calibrating a single recovery rate for all types of derivatives allowing for recovery of the risk mitigating effect could lead to unrealistic rates.	Noted. See CEIOPS' resolution to comment 55.
57.	CRO Forum	3.12.	The CRO Forum welcome that the Counterparty default risk module has been simplified, which is good improvement. For Non-life reinsurance the first proposed simplification seems to be functional. But the simplifications for Derivatives and Life reinsurance are	Noted.

			actually not helpful.	
58.	Lloyd's	3.12.	Agreed.	Noted.
59.	DIMA (Dublin International Insurance & Management	3.13.	The "simplifications" of the calculation of the risk mitigating effects (paragraphs 3.13-3.26) and counterparty effects (3.27-3.40.3.40), while conventional, have the problem that they underestimate the risk mitigating effect (see paragraphs 3.18, 3.26, 3.36 etc.) and therefore result in higher than required safety margins. The aggregation results in the loss of the advantage gained through diversification.	Disagreed. As undertakings still have the option to use the more sophisticated calculation, CEIOPS considers that the model risk which would be introduced by the proposal undesirable.
60.	Groupe Consultatif	3.13.	3.13 to 3.16 The simplifications brought into the Loss Given Default (LGD) calculations for risk mitigating contracts are at the expense of introducing more conservatisms (because they neglect diversification benefits). However, it does not seem possible (or at least easy) to correct for this prudence.	Noted.
61.	CRO Forum	3.14.	The proposed simplified approach is based on a common sense but seems to provide a little simplification of the process of the calculation under the sophisticated method.	Noted.
62.	Lloyd's	3.14.	We support the simplification of this calculation.	Noted.
63.	Lloyd's	3.15.	We support the simplification of this calculation.	Noted.
64.	Association of British Insurers	3.18.	Allowance may be needed via a reduction factor/simplified approach for the loss of diversification assuming Option 1 is adopted. Just because the average diversification will not be correct in all circumstances, it does not justify ignoring diversification altogether. There are many other areas where the average assumption will not reflect the true risk profile of the insurer and this should be picked up within the supervisory review process.	Noted. See CEIOPS' resolution to comment 59.

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65.	CEA, ECO-SLV-09-446	3.18.	Allowance may be needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted.	Noted. See CEIOPS' resolution to comment 59.
66.	Pearl Group Limited	3.18.	We believe that allowance should be made via a reduction factor/simplified approach for the loss of diversification. This would be particularly important under Option 1 (where simplification is mandatory) as otherwise the module would deliver conservative results rather than being calibrated at the 99.5th centile.	Noted. See CEIOPS' resolution to comment 59.
67.	ROAM	3.18.	ROAM believes that allowance should be made via a reduction factor/simplified approach for the loss of diversification. This would be particularly important under Option 1 (where simplification is mandatory) as otherwise the module would deliver conservative results rather than being calibrated at the 99.5th percentile.	Noted. See CEIOPS' resolution to comment 59.
68.	CEA, ECO-SLV-09-446	3.21.	Allowance may be needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted.	Noted. See CEIOPS' resolution to comment 59.
69.	ROAM	3.21.	ROAM believes that allowance should be made via a reduction factor/simplified approach for the loss of diversification. This would be particularly important under Option 1 (where simplification is mandatory) as otherwise the module would deliver conservative results rather than being calibrated at the 99.5th percentile.	Noted. See CEIOPS' resolution to comment 59.
70.	Lloyd's	3.24.	This says that simplifications should not apply to non-proportional reinsurance for life reinsurance. It would be inappropriate to extend this assumption to non-life reinsurance.	Noted.
71.	CRO Forum	3.25.	The approximation proposed may still require a disproportional effort in light of the overall impact on capital requirements (see also feedback on paragraph 3.87).	CEIOPS condsiders that as a whole the simplifications on the intensity and on the number of required calculations are

			Summary of Comments on CEIOPS-CP-51/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula -** **Counterparty default risk**	**CEIOPS-SEC-114-09**
				adequate to address these concerns.
72.	Lloyd's	3.25.	We agree with the simplification of this calculation and believe it is not perfect but is acceptable.	Noted.
73.	Munich RE	3.25.	The approximation proposed may still require a disproportional effort in light of the overall impact on capital requirements (see also feedback on paragraph 3.87).	Noted. See CEIOPS' resolution to comment 71.
74.	XL Capital Ltd	3.25.	We appreciate CEIOPS' proposed simplification for the treatment of non-life reinsurance proposed in this paragraph. These comments also apply to paragraph 3.98	Noted.
75.	Association of British Insurers	3.27.	Option 1 would also have the advantage of being the least onerous option. Allowance would then be needed via a reduction factor/simplified approach for the loss of diversification. If this risk is deemed significant to an insurer, there is always the possibility to introduce a "partial" internal module for this sub risk.	Based on input received, all options have some support. CEIOPS will use option 3, as CEIOPS believes that this option leaves the choice between accuracy and simplicity to the undertaking and adequately addresses the complexity concerns regarding non-life.
76.	CEA, ECO-SLV-09-446	3.27.	In our opinion, Ceiops should choose between option 1 and option 2. The standard formula should be such that any undertaking, regardless of size, is able to use it. The QIS4 methodology was seen as too complex. Thus, the simplifications provided in this paper, either as default approach or as simplifications in terms of Article 109, would need to be recognized under the standard formula. Option 1 would also have the advantage of being the least onerous option. Allowance is needed via a reduction factor/simplified approach for the loss of diversification in case	Noted. See CEIOPS' resolution to comment 75.

			Option 1 will be adopted.	
			If this risk is deemed significant to an insurer, there is always the possibility to introduce a "partial" internal module for this sub risk.	
77.	CRO Forum	3.27.	In our opinion CEIOPS should opt for option 1. The standard formula should be such that any undertaking regardless of size is able to use the formulas. The QIS4 method was seen as too complex and could be used, if appropriate by insurers who want to have a more refined outcome. If the subrisk is becoming too significant an insurer is always able to introduce a "partial" internal module for this sub risk. If option 1 is deemed not to be appropriate option 2 would be the least onerous.	Noted. See CEIOPS' resolution to comment 75.
78.	Pearl Group Limited	3.27.	For Options 2 and 3 CEIOPS lists three criteria for deciding whether the simplification method can be used because the complicated method is "disproportionate". It is difficult to see how these simplifications could be justified without an accurate calculation of the risk mitigating effect in the first place. Option 3 is the best option, as it allows companies to use the complicated method if that is appropriate and the simplifications otherwise. The caveat to this would be that the supervisory authority would have to change the criteria for allowing the simplified method so that they can be justified without an accurate calculation of the risk mitigating effect in the first place.	Noted. See CEIOPS' resolution to comment 75.
79.	RBSI	3.27.	We would recommend Option 2 as being more reasonable provided that the requirements for the use of simplifications were clearer (see comment for 3.28)	Noted. See CEIOPS' resolution to comment 75.
80.	ROAM	3.27.	In our opinion CEIOPS should opt for option 1. The standard	Noted. See CEIOPS' resolution to

			formula should be such that any undertaking regardless of size is able to use it. The QIS4 method was seen as too complex. If this risk is deemed significant to an insurer there is always the possibility to introduce a "partial" internal module for this sub risk.	comment 75.
81.	XL Capital Ltd	3.27.	We believe that CEIOPS should select option 1 and the simplifications should become part of the default standards formula. These comments also apply to paragraph 3.99	Noted. See CEIOPS' resolution to comment 75.
			Confidential comment deleted	
83.	CEA, ECO-SLV-09-446	3.28.	We suggest that undertakings should be allowed to determine the counterparty default risk by means of the proposed simplification method if the default calculation is not practicable on grounds such as proportionality. Furthermore we strongly recommend introducing a diversification effect, because there is no reason why diversification is to be left out.	Noted. See CEIOPS' resolution to comments 59 and 75.
84.	Groupe Consultatif	3.28.	The requirements which need to be met in order to use the simplified calculation under Option 2 may mean that the sophisticated calculation is required to prove that you can use the simplified calculations.	Disagreed. It is not automatically required to calculate the sophisticated outcome to be able to assess whether or not there are indications that the simplification significantly misestimates the risk.
85.	Lloyd's	3.28.	We agree with the criteria for application of the simplifications, but we note that 20% appears to be an arbitrary choice (although we agree that it is sensible).	Noted.
86.	RBSI	3.28.	We feel that the third bullet point is not very clear. We would like clarity on the meaning of "the result of the sophisticated calculation is not easily available". This could be interpreted as requiring some kind of proof that the sophisticated approach is too difficult which	A possible reason would indeed be the number of counterparties.

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			we would envisage being mainly due to a high number of counterparties.	
87.	Association of British Insurers	3.30.	While this is a simpler approach than full recalculation of the SCR, it is not clear how this would apply to cross-class reinsurance (e.g. a whole-account stop loss – which parameter for reserve/premium SD would be used?) or with loss-sensitive premiums or with other more complex features. Another concern with this approach is the difficulty of allocating catastrophe risk per counterparty. This may be relatively feasible for proportional reinsurance but would require sophisticated approaches in most cases of non-proportional reinsurance.	As for cross-class reinsurance a split if premiums and recoverables needs to be made by line of business for the accounts and for calculating the net technical provisions, this split can also be used for these calculations. Disagreed. For non-proportional reinsurance this could be done based on the individual impact of each counterparty on the CAT risk capital charge.
88.	CEA, ECO-SLV-09-446	3.30.	While this is a simpler approach than full recalculation of the SCR, it is not clear how this would apply to cross-class reinsurance (e.g. a whole-account stop loss – which parameter for reserve/premium SD would be used?) or with loss-sensitive premiums or with other more complex features. Another concern with this approach is the difficulty of allocating catastrophe risk per counterparty. This may be relatively feasible for proportional reinsurance but would require sophisticated approaches in most cases of non-proportional reinsurance.	Noted. See CEIOPS' resolution to comment 87.
89.	Lloyd's	3.30.	We agree with the proposed amendment for non-life insurance.	Noted.
90.	Pearl Group Limited	3.30.	A concern with this approach is the difficulty of allocating catastrophe risk per counterparty. This may be relatively feasible for proportional reinsurance but would require sophisticated	Noted. See CEIOPS' resolution to comment 87.

			approaches in most cases of non-proportional reinsurance.	
91.	RBSI	3.30.	It would be interesting to know in what circumstances this formula gives significantly different answers than the simpler formula in 3.25. If the differences only occur in exceptional circumstances it may be that the simplest formula would suffice.	Noted. See CEIOPS' resolution to comment 75.
92.	ROAM	3.30.	It seems to be difficult to calculate a CAT risk for every counterparty, especially if there is non-proportional reinsurance.	Noted. See CEIOPS' resolution to comment 87.
93.	XL Capital Ltd	3.30.	While this is a simpler approach than full recalculation of the SCR, it is not clear how this would apply to cross-class reinsurance (eg a whole-account stop loss – which parameter for reserve/premium SD would be used?) or with loss-sensitive premiums or with other more complex features. Another concern with this approach is the difficulty of allocating catastrophe risk per counterparty. This may be relatively feasible for proportional reinsurance but would require sophisticated approaches in most cases of non-proportional reinsurance. Do you agree?	Noted. See CEIOPS' resolution to comment 87.
94.	CEA, ECO-SLV-09-446	3.32.	The formula is incorrect. The second summand of the first square root (SCRgross) would have to be assigned with the index 2 (instead of 1), while the first summand of the second square root (SCRnet) would have to be assigned with the index 1 (instead of 2).	Agreed. See revised formula.
95.	Association of Run-off Companies	3.33.	The simplified calculation could still be an onerous task for a small insurer and depending on the exposure the materiality could be low. We recommend that a minimum level of exposure for a counterparty should be included. It would be disproportionate to expect a company to calculate a gross and net SCR for counterparties with a very low exposure, which may be the case on long tail legacy business.	Disagreed. This would entail ignoring risks.

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96.	CEA, ECO-SLV-09-446	3.33.	Option 3 assumes that the problems are faced only by non-life reinsurance. However that is not generally the case. Moreover in the future circumstances and markets can change.	With CEIOPS' choice for option 3, the simplifications for life and financial derivatives remain available.
97.	CRO Forum	3.33.	Option 3 assumes that the problems are only faced by non-life reinsurance. However that is not generally the case and in the future circumstances and markets could change.	Noted. See CEIOPS' resolution to comment 96.
98.	Lloyd's	3.33.	We support the proposed Option 3, to amend the default calculation for non life reinsurance and include simplified approaches where appropriate.	Noted.
99.	RBSI	3.33.	As mentioned in 3.30 we would question as to whether the increased accuracy in the 3.3 formula over 3.25 is balanced by the extra complexity.	Noted. See CEIOPS' resolution to comment 96.
100.	Association of Run-off Companies	3.34.	CEIOPS should permit a 'comply or explain' method to be used instead of a strict set recovery rate. If a company has reason to believe that the recovery rate will be different to a market average, it could use this rate and justify the reasons for this. Recovery rates may differ considerably between different contract types (savings/annuity/insurance) and the terms and conditions of the reinsurance contract.	Disagreed. CEIOPS also notes that, where the standard formula has shortcomings, undertakings may wish to consider (partial) internal models.
101.	Groupe Consultatif	3.34.	3.34 to 3.40 The simplification in relation to the number of counterparties also brings in a degree of prudence due to the lack of diversification benefits and using the lowest quality counterparty to set the probability of default. A better approach to set the probability of default (depending on the homogeneity of the subsets) could be to use a weighted average probability, however this could be at the expense of the simplifications brought in. CEIOPS have not ruled out this approach to default probabilities (in fact they propose it in	Disagreed. CEIOPS considers that its proposed treatment is proportionate, and that the use of a weighted average default rate increases the scope for cherry picking. It is proposed for counterparties within one group, as this is a more homogeneous set of counterparties.

			relation to groups – see 3.84).	
102.	XL Capital Ltd	3.34.	We welcome the proposed modifications to treat counterparties as subsets rather than individually. These comments also apply to paragraph 3.102	Noted.
103.	CRO Forum	3.35.	It would seem more correct and in line with paragraph 3.84 to use the weighted average PD of a subset instead of the maximum.	Noted. See CEIOPS' resolution to comment 101.
104.	International Underwriting Association of London	3.35.	We welcome the proposal for simplifications in relation to the number of counterparties. However we are concerned that adopting a simplification of the probability of default equal to the highest probability of default of the counterparties in the subset will be excessively prudent, particularly where there are a number counterparties, and only one entity (who might be a relatively minor counterparty), could significantly increase the risk mitigating effect.	Noted. See CEIOPS' resolution to comment 101.
105.	Lloyd's	3.35.	We agree with the aggregation of counterparties into subsets. However, we consider that taking the counterparty with the highest probability of default as the rating for the subset overall is too conservative. A weighted average would be a more appropriate factor to use, as is suggested for groups in 3.84.	Noted. See CEIOPS' resolution to comment 101.
106.	Munich RE	3.35.	Taking the maximum default probability rather than a weighted average as proposed in 3.37 appears overly conservative.	Noted. See CEIOPS' resolution to comment 101.
107.	RBSI	3.35.	We agree that the use of subsets of counterparties is very useful in the circumstances where there are a high number of them.	Noted.
108.	XL Capital Ltd	3.35.	Assigning the probability of default to that subset based on the highest probability of default of the counterparties in the subset will be excessively prudent where the counterparty with the highest probability of default is a minor counterparty and is not representative of the sub set as a whole.	Noted. See CEIOPS' resolution to comment 101.

			These comments also apply to paragraph 3.103	
109.	CRO Forum	3.36.	We believe that a simplification should aim to provide a good approximation of the risk using an easier calculation process. Proposing a single, rigid and rather conservative way of grouping counterparties may not work for all companies. We believe the simplifications only provide reasonably accurate results for homogeneous (sub) portfolios. For inhomogeneous portfolios the full calculations remain the preferred solution. We appreciate that the text gives some flexibility in finding the most appropriate grouping.	Noted.
110.	International Underwriting Association of London	3.36.	We agree that the lack of diversification effects, and only using the lowest quality rated counterparty will always be conservative.	Noted.
111.	Lloyd's	3.36.	We recognise that increasing the number of subsets reduces the level of conservatism, although this then increases the complexity of the calculation.	Noted.
112.	XL Capital Ltd	3.36.	We agree with the comments made by CEIOPS in this paragraph, that the simplification is always conservative and that by treating several counterparties as one counterparty, the diversification benefits between the counterparties are ignored. The lowest quality counterparty determines the probability of default of the subset. We understand that the undertaking will define the subsets of counterparties and hence this problem can be managed on a proportional basis.	Noted.
113.	AMICE	3.37.	AMICE members believe the probability of default should not be calculated as the highest probability of default of the counterparties in the subset but an average probability of default should be used from that subset instead.	Noted. See CEIOPS' resolution to comment 101.

114.	Association of British Insurers	3.37.	We support the use of weighted default probabilities rather than the highest default probability. This will reduce conservatism in the simplified approach. However, the insurer should be able to take the most onerous default rating if this was deemed not to be material rather than trying to determine a weighted average rating, to reduce the calibration burden.	Noted. See CEIOPS' resolution to comment 101.
115.	CEA, ECO-SLV-09-446	3.37.	The CEA supports the use of weighted default probabilities rather than the highest default probability. This will reduce conservatism in the simplified approach.	Noted. See CEIOPS' resolution to comment 101.
116.	CRO Forum	3.37.	We support calculating the PD as an exposure weighted average.	Noted. See CEIOPS' resolution to comment 101.
117.	International Underwriting Association of London	3.37.	We anticipate that one of the greatest applications of this simplification will be in respect of reinsurance contracts. These are often written on a subscription basis, with different counterparties writing a percentage of the overall risk. This will lead to a number of different counterparties, who will most likely have differing ratings. Such shares of the risk, we would anticipate would make it rather straightforward to develop a weighted average probability of default, and therefore would not offset the simplification effect of the approach. We therefore support the weighted average approach over the lowest quality counterparty approach. We disagree that the weighted probability approach would present "significant distortions"; subscribers on a reinsurance contract are only liable for their own share, so a default of a low quality counterparty would have no impact on the other counterparties' shares. Furthermore, the "significant distortions" referred to can also be a symptom of the lowest quality counterparty approach. We believe that the weighted probability approach offers a fairer	Noted. See CEIOPS' resolution to comment 101.

			Summary of Comments on CEIOPS-CP-51/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk**	**CEIOPS-SEC-114-09**
			reflection of the "true" default probability.	
118.	Lloyd's	3.37.	We agree that using a weighted average would be a more appropriate approach to take. We do not agree that using a weighted average offsets the simplification effect, as the calculations involved are not overly complex.	Noted. See CEIOPS' resolution to comment 101.
119.	ROAM	3.37.	ROAM supports the use of weighted default probabilities rather than the highest default probability. This will reduce conservatism in the simplified approach.	Noted. See CEIOPS' resolution to comment 101.
			Confidential comment deleted	
121.	XL Capital Ltd	3.37.	We anticipate that one of the greatest applications of this simplification will be in respect of reinsurance contracts. These are often written on a subscription basis, with different counterparties writing a percentage of the overall risk. This will lead to a number of different counterparties, who will most likely have differing ratings. Such shares of the risk, we would anticipate would make it rather straightforward to develop a weighted average probability of default, and therefore would not offset the simplification effect of the approach. We therefore support the weighted average approach over the lowest quality counterparty approach. We disagree that the weighted probability approach would present "significant distortions"; subscribers on a reinsurance contract are only liable for their own share, so a default of a low quality counterparty would have no impact on the other counterparties' shares. Furthermore, the "significant distortions" referred to can also be a symptom of the lowest quality counterparty approach. We believe that the weighted probability approach offers a fairer reflection of the "true" default probability.	Noted. See CEIOPS' resolution to comment 101.
122.	Association of British Insurers	3.42.	It is not clear why the recovery rates should be prudent estimates. Also, if these are prudent estimates, then why is the same recovery rate being used for the adjustment for counterparty default risk in	Noted. See CEIOPS' resolution to comment 129.

			the best estimate technical provisions?	
123.	CEA, ECO-SLV-09-446	3.42.	It is not clear to us why the recovery rates should be "prudent estimates". This appears to run counter to the principles underlying the SCR and the requirement to calibrate to the 99.5th percentile.	Noted. See CEIOPS' resolution to comment 129.
124.	DIMA (Dublin International Insurance & Management	3.42.	The calibration of some of the variables in the counterparty default risk modules is stated to be "based on expert opinion" and that "empirical data…is rare" (see paragraphs 3.42, 3.46, 3.51, 3.52). While some references are given (see nn.7-8, on page 15/36), the general applicability of these assumptions needs to be tested, particularly in the light of paragraph 3.45 – recovery rate of 10%. Little justification or reference is available to support up these expert opinions.	Noted. See CEIOPS' resolution to comment 129.
125.	International Underwriting Association of London	3.42.	We cannot see why it is appropriate to determine the Recovery rate as the "prudent estimate of the relative share of the stressed credit exposure that still can be collected in the case of default". The level one text (article 80) refers to recoverables from reinsurance contracts as being "adjusted to take account of expected losses due to default of the counterparty...based on the assessment of the probability of default of the counterparty and the average loss resulting there from (loss given default)". Paragraph 3.4 refers to the loss given default as being dependent on the recovery rate and recoverables. However, we would suggest that "prudent estimate...of the stressed exposure" goes much further than the "average loss" referred to in the Level 1 text. It might also be worth reiterating that for any given reinsurance contract with a number of counterparties subscribing to the contract (as is often the case), even if the maximum recovery rate for each counterparty were 40%, the actual recovery on the reinsurance contract is likely to be much higher than 40% as the likelihood of all participating counterparties defaulting together is considerably	This CP deals with the unexpected loss of counterparties' defaults within the risk context. Further, see CEIOPS, resolution to comment 129.

			reduced.	
126.	Pearl Group Limited	3.42.	It is not clear to us why the recovery rates should be "prudent estimates". This appears to run counter to the principles underlying the SCR and the requirement to calibrate to the 99.5th centile.	Noted. See CEIOPS' resolution to comment 129.
127.	CRO Forum	3.43.	The statement in this section suggests that empirical data on recoverable rates of reinsurance arrangements and derivatives is rare because the number of defaults is small. Moody's report – Corporate Default and Recovery Rates, 1920-2008 suggests that recovery rate is a decreasing function with the number of defaults. This suggests that recovery rate should also depend on the rating.	Noted. See CEIOPS' resolution to comment 129. Disagreed. Basing the recovery rate on the rating would increase the complexity, and the balance of opinion is against increasing the complexity of the calculation.
128.	DIMA (Dublin International Insurance & Management	3.43.	An earlier consultation paper stated a rate of 40%, which appears to have been changed here to 50%. What is the rationale for this, and which rate is to apply?	Noted. See CEIOPS' resolution to comment 129.
129.	Lloyd's	3.43.	We agreed with QIS4's use of 50% as a recovery rate as this was based on observable data, i.e. corporate bond recovery rates. There have been market studies on recovery rates from past insurance failures that also support the choice of 50%.	Agreed. Recovery rate has been set to 50%.
130.	AAS BALTA	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	Noted. See CEIOPS' resolution to comment 129.
131.	AB Lietuvos	3.44.	Proposed recovery rate for RI exposures of 40% are not	Noted. See CEIOPS' resolution to

	draudimas		unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	comment 129.
			Confidential comment deleted	
133.	Association of British Insurers	3.44.	The referenced papers do not imply CEIOPS's conclusion of a recovery rate of 40%. 40% is not an appropriate benchmark. The crisis has not shown reasons for decreasing the recovery rate from reinsurers and consequently this prudency of CEIOPS might be interpreted as an attempt to increase the capital requirements for this risk in an artificial manner. Significant care is needed in the consideration of single data points coming from recent developments. - Further, recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as: - The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level. - The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the rating of a reinsurance counterparty drops below a certain level.	Noted. See CEIOPS' resolution to comment 129.
134.	Association of Run-off Companies	3.44.	Regarding the maximum of 40% recovery which applies to counterparties in the event of default… is there any justifiable basis for this maximum recovery? We would expect more analysis of market data showing recovery rates experienced by type of counterparty (e.g. according to their ratings).	Noted. See CEIOPS' resolution to comment 129.

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| 135. | CEA, ECO-SLV-09-446 | 3.44. | The referenced papers do not imply Ceiops' conclusion of a recovery rate of 40%. The 40% is not an appropriate benchmark. The crisis has not shown reason for decreasing the recovery rate from reinsurers and consequently this prudency of Ceiops might be interpreted as an attempt to increase the capital requirements for this risk in an artificial manner. Further significant care is needed in the consideration of single data points coming from recent developments.

• Further, recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as:

• The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level.

• The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the rating of a reinsurance counterparty drops below a certain level. | Noted. See CEIOPS' resolution to comment 129. |
| 136. | CRO Forum | 3.44. | Within the requirements of Solvency II an insurer has to compare experience against assumptions. The insurer is required to use professional judgement in considering whether the experience renders the assumptions inappropriate and requires an adjustment. Especially when this changing of assumptions is based on a single data point insurers have to be very careful.

The CRO Forum notes that CEIOPS is changing assumptions based on recent developments, but doesn't see the evidence, care or justification for this changed calibration of factors. There is also no mentioning or evidence that the new calibration is in line with the | Noted. See CEIOPS' resolution to comment 129. |

			99.5% confidence level threshold as set by the EC.		
			In the current financial crisis we have not witnessed any defaults of a reinsurer. Hence there is no new information suggesting the recovery rates should be lowered.		
			Recovery rates on corporate default underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as: - The right to retrospectively remove a reinsurance counterparty from the contract, if it was downgraded. - The insurer's right to demand collateral when the reinsurance counterparty is downgraded		
			In addition CEIOPS needs to recognise the situation where cover is provided by an SPV operating under the fully funded criteria.	Noted. See revised text.	
			Therefore we see a choice for 40% recovery rate, without sound evidence as very conservative and to prudent.		
			The recovery rate of reinsurers has been set to 50% in QIS4. This is a conservative choice indicated by the papers cited here but also in the paper 'Solvency II Reinsurance Credit Risk' by Dr. Rainer Sachs, Munich Re, October 2007. This paper again is inter alia based on studies of Standard & Poor's, Annual 2005 Global Corporate Default Study And Rating Transitions, January 2006 and Fitch Ratings, Prism: Favourable Market Feedback and Clarifying Responses – Part 1, September 2006.		
			We do not see that the current financial crisis indicates an increase of recovery rates for reinsurers. Even if general probabilities of defaults might have risen this does not automatically imply an decrease of recovery rates. In our opinion the recovery rate for reinsurers should be set to 50%.		

			We propose that rather than setting an arbitrary recovery rate the recovery rate should be set using similar/ related paper available in the market if the insurer is not able to estimate an actual recovery rate based on its own data.	
137.	DENMARK: Codan Forsikring A/S (10529638)	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	Noted. See CEIOPS' resolution to comment 129.
138.	European Union member firms of Deloitte Touche To	3.44.	We would suggest that additional studies be commissioned to complement the data available today in order to set the calibration in a transparent and robust way before Level 2 measures are set in stone.	Noted.
139.	International Underwriting Association of London	3.44.	We would like to refer you to our comment on paragraph 3.42. We feel this is another example of excessive prudence being built into Solvency II. Furthermore we would like point out that comparison with event in the financial crisis better represent a stressed event, rather than "average" event. We would therefore expect the use of parameters in response to the financial crisis is rather more prudent than "average loss". By definition "average loss" will be more than sufficient during times of normality, but might not be sufficient during times of stress.	Note that the SCR is not concerned with "average lossess", but with the 99.5% VaR. See also CEIOPS' resolution to comment 129.
140.	Investment & Life Assurance Group (ILAG)	3.44.	The reduction in the recovery rate for corporate bonds seems to be prudent and not backed by empirical evidence. The rate should not be reduced until such evidence is obtained.	Disagreed. The current crisis, an event that is arguably less severe than a 99.5% shock, has shown low recovery rates for financial derivatives. The recovery rate of financial derivatives will be kept

<table>
<tr><td colspan="4" align="center">Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td><td>at 10%.</td></tr>
<tr>
<td>141.</td>
<td>Link4 Towarzystwo Ubezpieczeń SA</td>
<td>3.44.</td>
<td>Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'</td>
<td>Noted. See CEIOPS' resolution to comment 129.</td>
</tr>
<tr>
<td>142.</td>
<td>Lloyd's</td>
<td>3.44.</td>
<td>We disagree with this proposal. The paper does not justify a 40% recovery rate, which appears to be the consequence of an unduly conservative approach, and will increase capital requirements for no good reason. We consider that the recovery rate should be 50%, as with QIS4. .

There have been market studies on recovery rates from insurance failure and these are consistent with 50%. Absent evidence to the contrary, there is no reason to deviate from a selection of 50%.</td>
<td>Noted. See CEIOPS' resolution to comment 129.</td>
</tr>
<tr>
<td>143.</td>
<td>Munich RE</td>
<td>3.44.</td>
<td>The recovery rate of reinsurers has been set to 50% in QIS4. This is already a conservative choice indicated by the papers cited here but also in the paper 'Solvency II Reinsurance Credit Risk' by Dr. Rainer Sachs, Munich Re, October 2007. This paper again is inter alia based on studies of Standard & Poor's, Annual 2005 Global Corporate Default Study And Rating Transitions, January 2006 and Fitch Ratings, Prism: Favourable Market Feedback and Clarifying Responses – Part 1, September 2006.

We do not see that the current financial crisis indicates an increase of recovery rates for reinsurers. Even if general probabilities of defaults might have risen this does not automatically imply an decrease of recovery rates. All in all the recovery rate for reinsurers should be set to 50%.</td>
<td></td>
</tr>
<tr>
<td>144.</td>
<td>NORWAY: Codan</td>
<td>3.44.</td>
<td>Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend</td>
<td>Noted. See CEIOPS' resolution to comment 129.</td>
</tr>
</table>

			Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	
145.	Pearl Group Limited	3.44.	The proposed 40% reinsurance recovery assumption is not an appropriate benchmark and is too low even where limited data exists.	Noted. See CEIOPS' resolution to comment 129.
146.	RBSI	3.44.	We feel that the move from 50% to 40% lacks any analytical evidence. Will this rate be reviewed in time when data from the current crisis is available?	Noted. See CEIOPS' resolution to comment 129.
147.	ROAM	3.44.	CEIOPS explains in this paper why the recovery rate has changed due to the financial crisis. ROAM wants to emphasize that during this crisis no reinsurers defaulted. ROAM thinks that there is no argument to justify a decrease for the recovery rate. Furthermore, in QIS4 Technical Specification in the footnote page 155, CEIOPS considers that "50% is a conservative choice". We suggest keeping this recovery rate by default.	Noted. See CEIOPS' resolution to comment 129.
148.	RSA Insurance Group PLC	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	Noted. See CEIOPS' resolution to comment 129.
149.	RSA Insurance Ireland Ltd	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	Noted. See CEIOPS' resolution to comment 129.
150.	RSA - Sun Insurance	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend	Noted. See CEIOPS' resolution to comment 129.

			Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	
151.	SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799)	3.44.	Proposed recovery rate for RI exposures of 40% are not unreasonable. London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009 would suggest that it may be higher - refer 'London Market Reinsurer Insolvencies - Dividend Statistics 1989 to 2009.xls'	Noted. See CEIOPS' resolution to comment 129.
			Confidential comment deleted	
153.	Association of British Insurers	3.45.	A 10% recovery on derivatives is far too low. This does not appear to be backed with evidence and it would not recognise collateral arrangements.	Noted. See CEIOPS' resolution to comment 140.
154.	CEA, ECO-SLV-09-446	3.45.	The CEA finds the 10% rate as being very low, since many of the recovery rates in the referenced paper are above 10% and this figure is not presented as a threshold. Further, collateral arrangements seem not to be considered in its derivation. The CEA is interested in finding from Ceiops the reasoning behind the proposed rate. The CEA would like to attract attention on the long term implications of this figure following hasty judgements.	Noted. See CEIOPS' resolution to comment 140.
155.	CRO Forum	3.45.	The CRO Forum thinks that the paper of Moody's CEIOPS is referring to doesn't support a value of 10% for the recovery rate for defaulted derivatives. Most presented recovery rates are well above the 10%, the recovery rate for a typical loan or bond seems to be at least 30%. Also the type of mitigating clauses mentioned in 3.44 exist and should be taken into account	Noted. See CEIOPS' resolution to comment 140.
156.	Groupe Consultatif	3.45.	A value of 10% for the recovery rate of defaulted derivatives is a significant change from the QIS4 figure of 50% and seems fairly	Noted. See CEIOPS' resolution to comment 140.

			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
			arbitrary, as is the proposed reduction for reinsurance recoverables. A certain degree of prudence appears to have been applied (although a decrease from QIS4 figure of 50% is justified as a result of the recent financial crisis).	
157.	Institut des actuaires (France)	3.45.	The 10% rate comes from the current crisis view. There should be two rates, one in the case of a crisis with a correlation crisis (around 10%) and another one much larger (25% or 30%) in normal times.	Disagreed. The SCR is only concerned with the 99.5% VaR outcome, and does not distinguish between types of crisis. Note also that a 99.5% shock indicates a particularly severe crisis.
158.	Investment & Life Assurance Group (ILAG)	3.45.	The reduction to 10% seems excessive and is not fully backed up by the studies quoted. The rate is being set at a prudent level which may not be appropriate going forward.	Noted. See CEIOPS' resolution to comment 140.
159.	Lloyd's	3.45.	We disagree with this proposal. Reducing the recovery rate for derivatives from 50% to 10% requires further justification from CEIOPS of how this is derived. A 10% recovery rate is significantly more conservative and should not be imposed unless there is clear evidence that this is the most appropriate figure. We recommend that the 50% recovery rate is maintained.	Noted. See CEIOPS' resolution to comment 140.
160.	Pearl Group Limited	3.45.	A 10% recovery on derivatives is far too low. This does not appear to be backed with evidence and it would not recognise collateral arrangements.	Noted. See CEIOPS' resolution to comment 140.
161.	ROAM	3.45.	ROAM finds the 10% rate as being very low, since many of the recovery rates in the referenced paper are above 10% and this figure is not presented as a threshold. ROAM is interested in understanding from CEIOPS the reasoning	Noted. See CEIOPS' resolution to comment 140.

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			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
			behind the proposed rate. ROAM would like to attract attention on the long term implications of this figure following hasty judgements.	
			Confidential comment deleted	
163.	CEA, ECO-SLV-09-446	3.46.	The uncertainty Ceiops seems to introduce is not helping the insurance industry. In our opinion it seems that parameters are set by reference to incidents rather than by structural analysis.

Next to evidence of recovery rates, evidence of the impact of mitigating clauses as mentioned in our feedback on 3.44 should also be taken into account. | CEIOPS has only stated its desire to use all available and relevant information for the calibration of the counterparty default risk. |
| 164. | CRO Forum | 3.46. | The CRO Forum agrees that all available information should be taken into account. That is information evolving in the unwinding of the current financial crisis, but also already available information like the existence of mitigating clauses, the fact that no reinsurer has defaulted or the available recovery rates for financial institutions.

We support the preliminary nature of the calibration of recovery rates. However, in the absence of further evidence, the recovery rate for reinsurers should stay at the level of QIS4, i.e. at 50%. | Noted. |
165.	Lloyd's	3.46.	We recommend reference to market studies when setting the recovery rates.	Noted.
166.	Lucida plc	3.46.	In line with recommendations made for internal modelling, it would be helpful if the names and qualifications of the experts providing opinion were disclosed.	The standard formula is developed by the Committee of European Insurance and Occupational Pensions Supervisors. Qualifications: the European body of supervisors.
167.	Munich RE	3.46.	We support the preliminary nature of the calibration of recovery	Noted. See CEIOPS' resolution to

			rates. However, in the absence of further evidence, the recovery rate for reinsurers should stay at the level of QIS4, i.e. at 50%.	comment 129.
168.	ROAM	3.46.	The uncertainty CEIOPS seems to introduce is not helping the insurance industry. In our opinion it seems that parameters are set by reference to incidents rather than by structural analysis. Next to evidence of recovery rates, evidence of the impact of mitigating clauses as mentioned in our feedback on 3.44 should also be taken into account.	Noted. See CEIOPS' resolution to comment 163.
169.	CEA, ECO-SLV-09-446	3.47.	The underlying distribution for the PDs may be unrealistic: e.g. for rating class BBB with an assumed average default probability of 0.24% the 99.5% quantile is 7.7% (which looks high, but might be justifiable) but the 95%-quantile is only 0.048% (clearly too low), while the 99.9%-quantile is 60.5% (certainly too high). Values derived by stochastic simulation with 1 Mil simulations.	Noted.
170.	Groupe Consultatif	3.47.	3.47 to 3.52 The "alpha/tau" ratio of 4 proposed appears to have no empirical backup and may contain an element of conservatism. We are still not convinced by the model and by the way it is used (just the first two moments of the distribution). See also comment 3.55.	See explanatory text on the rationale of the calibration The QIS4 Vasicek model assumes a well diversified, homogeneous portfolio, making it unsuitable for reinsurance risks. No viable other methods have been proposed.
171.	Institut des actuaires (France)	3.47.	We are still not convinced by the model and by the way it is used (just the first two moments of the distribution). See also comment 3.55.	Noted. See CEIOPS' resolution to comment 170.
172.	Lloyd's	3.47.	We agree with the model for the loss distribution of type 1 exposures, subject to appropriate calibration.	Noted.
173.	Association	3.48.	The calibration of alpha/tau chosen appears conservative and	Noted. See CEIOPS' resolution to

	of British Insurers		judgemental.	comment 170.
			It is not clear to us that the same ratio would apply to all ratings categories. It is not clear whether the apparent conservatism of this calibration is partly to allow for the effects of deterioration in credit standing as well as default. Even with the simplifications proposed in this paper, application of the ter Berg model will be complex (compared with the simpler treatment of spread risk) and it is important that the calibration of the model produces reasonable results proportionate to the effort involved. More rigorous and open calibration would also assist undertakings in adapting this approach for internal models.	
174.	CEA, ECO-SLV-09-446	3.48.	The calibration of alpha/tau chosen appears conservative and judgemental.	Noted. See CEIOPS' resolution to comment 170.
			The CEA would like to have further details as to how this was derived. In particular it is not clear to us that the same ratio would apply to all ratings categories. As noted in our comments in 2 above, it is not clear whether the apparent conservatism of this calibration is partly to allow for the effects of deterioration in credit standing as well as default. Even with the simplifications proposed in this paper, application of the ter Berg model will be complex (compared with the simpler treatment of spread risk) and it is important that the calibration of the model produces reasonable results proportionate to the effort involved. More rigorous and open calibration would also assist undertakings in adapting this approach for internal models.	
175.	Pearl Group Limited	3.48.	The probabilities of default have been based on a Pareto distribution with relatively arbitrary parameters. It would be appropriate for CEIOPS to benchmark this against published ratings for companies who are actually rated and covered by Solvency II to see that these are consistent.	Noted. See CEIOPS' resolution to comment 170.

176.	ROAM	3.48.	The calibration of alpha/tau chosen appears conservative and judgemental. ROAM would like to have further details as to how this was derived. In particular it is not clear to us that the same ratio would apply to all ratings categories. As noted in our comments in 2 above, it is not clear whether the apparent conservatism of this calibration is partly to allow for the effects of deterioration in credit standing as well as default. Even with the simplifications proposed in this paper, application of the ter Berg model will be complex (compared with the simpler treatment of spread risk) and it is important that the calibration of the model produces reasonable results proportionate to the effort involved. More rigorous and open calibration would also assist undertakings in adapting this approach for internal models.	Noted. See CEIOPS' resolution to comment 170.
177.	CEA, ECO-SLV-09-446	3.50.	Although the current crisis provided anecdotal evidence of correlation between credit events, credit correlation calibration requires a long time series and should not be based on 1 year's experience.	Noted.
178.	Groupe Consultatif	3.50.	Yes, it is true that the default probability of a counterparty can vary significantly over time, and that there is a significant dependence between defaults. But in addition, correlation may increase a lot during a crisis, which corresponds to a correlation crisis. These correlation crises must be taken into account because correlation may suddenly increase at a very bad instant.	Agreed. The correlations used in the standard formula are stressed correlations, in line with the 99.5% VaR.
179.	Institut des actuaires (France)	3.50.	Yes, it is true that the default probability of a counterparty can vary significantly over time, and that there is a significant dependence between defaults. But in addition, correlation may increase a lot during a crisis, which corresponds to a correlation crisis (see e.g. S. Loisel, From Liquidity Crisis to Correlation Crisis, and the Need for "Quanls" in ERM, in Risk Management: The Current Financial Crisis,	Noted. See CEIOPS' resolution to comment 178.

			Lessons Learned and Future Implications, Edited by the SOA, CAS and CIA, 75-77 (2008).) These correlation crises must be taken into account because correlation may suddenly increase at a very bad instant. To quantify the potential impact of correlation crises, one should rely on contagion vulnerability studies as the one by Cont and Bastos (2009) for the Brazilian banking network (see e.g. Cont, Moussa and Minca (2009) Too interconnected to fail: Contagion and systemic risk in financial networks, Conference on Numerical Methods in Finance (2009) and references therein).	
180.	ROAM	3.50.	Although the current crisis provided anecdotal evidence of correlation between credit events, credit correlation calibration requires a long time series and should not be based on 1 year's experience.	Noted. See CEIOPS' resolution to comment 178.
181.	CEA, ECO-SLV-09-446	3.51.	If empirical evidence is rare than Ceiops should take exceptional care in using new data. By just changing the parameters to onerous levels based on one new empirical findings seems to be statistically unsound.	Noted.
182.	CRO Forum	3.51.	If empirical evidence is rare than CEIOPS should take exceptional care in using this data. By changing the parameters to – for the insurance industry – onerous levels based on vague assumptions ("in corporate bonds the average DP seems to be a multiple of a baseline DP") is unsound and not reflective of the care insurers have to use when making assumptions. There is no evidence for this and also a corporate bond is not a reinsurance undertaking.	Noted.
183.	AAS BALTA	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the	Noted. See CEIOPS' resolution to comment 166.

			Summary of Comments on CEIOPS-CP-51/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula -** **Counterparty default risk**	**CEIOPS-SEC-114-09**
			"expert opinion" and how it was determined.	
184.	AB Lietuvos draudimas	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
185.	CEA, ECO-SLV-09-446	3.52.	The CEA would like to know from Ceiops what makes the ratio to be reasonable.	Noted. See CEIOPS' resolution to comment 170.
186.	DENMARK: Codan Forsikring A/S (10529638)	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
187.	Link4 Towarzystwo Ubezpieczeń SA	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
188.	Lloyd's	3.52.	The proposed calibration for the "alpha/tau" ratio of the Ter Berg model set out at 4 appears arbitrary (although not necessarily unreasonable).	Noted. See CEIOPS' resolution to comment 185.
189.	NORWAY:	3.52.	CEIOPS has proposed a "conservative calibration" for the key	Noted. See CEIOPS' resolution to

	Codan Forsikring (Branch Norway) (991 502		"alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	comment 166.
190.	RBSI	3.52.	We agree that the setting of this factor is currently very judgemental and that further evidence as to the choice of 4 for the factor would be very welcome.	Noted. See CEIOPS' resolution to comment 185.
191.	ROAM	3.52.	ROAM would like to know from CEIOPS what makes the ratio reasonable.	Noted. See CEIOPS' resolution to comment 185.
192.	RSA Insurance Group PLC	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
193.	RSA Insurance Ireland Ltd	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
194.	RSA - Sun Insurance Office Ltd.	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as	Noted. See CEIOPS' resolution to comment 166.

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			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
			"preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	
195.	SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799)	3.52.	CEIOPS has proposed a "conservative calibration" for the key "alpha/tau" ratio of the Ter Berg that implies that the long term average default probability will be five times higher than typical default rates (in stable conditions) for each rating bucket. This calibration appears highly arbitrary, has been advised as "preliminary" and it would be useful to know who provided the "expert opinion" and how it was determined.	Noted. See CEIOPS' resolution to comment 166.
			Confidential comment deleted	
197.	Groupe Consultatif	3.53.	If the shape of the distribution is complex, it is unlikely that the first two moments enable one to get a reliable approximation of the 99.5%-quantile! Model risk is still much too present here. It is then useless to use a complex and questionable model if one uses such a rough approximation at the end. Simplicity should be preferred except if precision and robustness are improved, which is not the case here.	Using only the first two moments is enough; mean and variance allow for a reliable estimation through the central limit theorem. See CEIOPS' resolution to comment 170.
198.	Institut des actuaires (France)	3.53.	If the shape of the distribution is complex, it is unlikely that the first two moments enable one to get a reliable approximation of the 99.5%-quantile! Model risk is still much too present here. It is then useless to use a complex and questionable model if one uses such a rough approximation at the end. Simplicity should be preferred except if precision and robustness are improved, which is not the case here.	Noted. See CEIOPS' resolution to comment 198.
199.	CEA, ECO-SLV-09-446	3.54.	We believe that the quantile factor calibration of 3 seems reasonable for diversified portfolios.	Noted.

200.	DIMA (Dublin International Insurance & Management	3.54.	For type 1 exposures the quantile factor Q is set to be 3 for a diversified portfolio and 5 for a undiversified portfolio. These assumptions made may not be supported by reality on the ground.	Noted.
201.	Lloyd's	3.54.	We agree that using a lognormal distribution with a quantile factor of 3 would seem to be appropriate.	Noted.
202.	ROAM	3.54.	We believe that the quantile factor calibration of 3 seems reasonable for diversified portfolios.	Noted.
203.	AAS BALTA	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. The threshold for the application of q=5 was lowered to 5% of the LGD.
204.	AB Lietuvos draudimas	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
205.	CEA, ECO-SLV-09-446	3.55.	We would like to understand the rationale for the factor of 5 used for smaller portfolios.	Noted. See CEIOPS' resolution to comment 203.
206.	CRO Forum	3.55.	CEOIPS could explain the link between quantile q=5 and the rating below A. In addition it is not clear whether undertakings will be free to pick their own quantile. In principle all information like LGD, PD, etc is available to construct the loss distribution and look-up the "real" quantile.	Noted. See CEIOPS' resolution to comment 203.
207.	DENMARK:	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS	Noted. See CEIOPS' resolution to

	Codan Forsikring A/S (10529638)		proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	comment 203.
208.	Groupe Consultatif	3.55.	The quantile factor (q) for smaller non-diversified portfolios appears conservative and without a firm basis.	Noted. See CEIOPS' resolution to comment 203.
209.	Institut des actuaires (France)	3.55.	It is a good idea to penalize small numbers of counterparties and bad ratings. Nevertheless, the following rule could be improved: 'If the standard deviation of the loss distribution exceeds 3% of the overall loss-given-default for type 1 exposures, the quantile factor should be set at q = 5 (instead of 3)'. We believe that this approach is too dichotomic. We propose : - q=3 if the standard deviation of the loss distribution is less than 2.75% of the overall loss-given-default for type 1 exposures, - q=5 if the standard deviation of the loss distribution exceeds 3.75% of the overall loss-given-default for type 1 exposures, - q=3+2(r-2.75%) if the ratio r=[standard deviation of the loss distribution / overall loss-given-default for type 1 exposures] is between 2.75% and 3.75%. This would avoid threshold effects and incentives to get to a 2.98% level for r…	Noted. See CEIOPS' resolution to comment 203.
210.	Link4 Towarzystwo Ubezpieczeń	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.

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211.	NORWAY: Codan Forsikring (Branch Norway) (991 502	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
212.	ROAM	3.55.	We would like to understand the rationale for the factor of 5 used for smaller portfolios.	Noted. See CEIOPS' resolution to comment 203.
213.	RSA Insurance Group PLC	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
214.	RSA Insurance Ireland Ltd	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
215.	RSA - Sun Insurance Office Ltd.	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
216.	SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799)	3.55.	For "q", the quantile factor for the Ter Berg model, CEIOPS proposes a factor of 3 (from the log normal distribution) for diversified portfolios. However for smaller portfolios the factor is 5 which again is based on judgement and appears conservative.	Noted. See CEIOPS' resolution to comment 203.
			Confidential comment deleted	
			Confidential comment deleted	

			Summary of Comments on CEIOPS-CP-51/09 Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
219.	AMICE	3.57.	The parameter for type 2 exposure (23%) seems over-calibrated, and no specific reference is given regarding the nature of the exposure (client debts, deposits…). We suggest using different parameters regarding the nature of the exposure and allowing undertakings to use entity specific parameters	Disagreed. Increasing the granularity would increase the complexity, and the balance of opinion is against increasing the complexity of the calculations.
220.	Association of British Insurers	3.57.	The charge for the type 2 exposures seems to be too high. The 23% factor is conservative if the average rating of ceding institutions is higher than BB. We would like to see the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions. In the calculation of the "x" there is also no mentioning towards the effects of the default of the counterparty towards the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value.	Partially agreed. See revised text.
221.	CEA, ECO-SLV-09-446	3.57.	The charge for the type 2 exposures seems to be too high. The 23% factor is conservative if the average rating of ceding institutions is higher than BB. We would like to get from Ceiops the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions. In the calculation of the "x" there is also no mentioning of the effects of the default of the counterparty on the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value. The risk factors for type 2 exposures do not fit the specificities of certain markets, in particular the Dutch health insurance position.	Noted. See CEIOPS' resolution to comment 220. CEIOPS considers that the

			The LGD could be derived from the table in Annex A.9, depending on the diversification. A subcategory within type 2 for counterparties not rated and not subject to Solvency II supervision, but subject to government supervision or a separate subcategory for counterparties like hospitals/healthcare-institutions should be added to cater for this specificity.	treatment of Type 2 exposures by Dutch health insurers is adequate.
222.	CRO Forum	3.57.	The assumed parameters 1. and 3. for type 2 exposures, i.e. BB-rating and recovery rate of a third, seem arbitrary and conservative. For certain type 2 exposures, like policy debtors, there is a market and parameters could be calibrated from market data.	Noted. See CEIOPS' resolution to comment 220.
223.	Groupe Consultatif	3.57.	As we are not convinced by the approach for type 1 exposures, we are reluctant to apply it to a model portfolio of type 2 exposures.	Noted. See CEIOPS' resolution to comment 170.
224.	Institut des actuaires (France)	3.57.	As we are not convinced by the approach for type 1 exposures, we are reluctant to apply it to a model portfolio of type 2 exposures.	Noted.
225.	INTERNATIONAL GROUP OF P&I CLUBS	3.57.	This paragraph is concerned with the risk factor for type 2 exposures, including receivables from policyholders. This would include outstanding calls from the Members of a P&I Club. The IG previously commented on this issue in relation to CP 28. Para 3.57 sets out a number of assumptions, including a BB credit rating and a one-third recovery rate (i.e. 67% LGD). Using these assumptions, the risk factor derived is 23%. This appears to be excessive in the case of mutuals where the member is not only a policyholder but also an insurer and hence has a much greater incentive to pay than a policyholder of a non-mutual insurer. For the IG Clubs the 23% charge would be disproportionately high given actual historical experience and the contractual conditions in place over outstanding calls (including a right to withold the payment of outstanding claims). It would appear possible that	See CEIOPS' Advice on Pools for the treatment of pool arrangements, including the P&I arrangement.

			Summary of Comments on CEIOPS-CP-51/09	CEIOPS-SEC-114-09
			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
			other insurers will have similar contractual or commercial safeguards in place which reduce the risk of default. We suggest therefore that a lower risk factor should apply for mutuals. In its response to CP 28, the IG noted that a P&I-specific factor would avoid the possibility of risk capital for calls that have already been made being overstated.	
226.	Lloyd's	3.57.	We agree with consistency between type 1 and type 2 calibrations. However we consider that both the type 1 and the type 2 calibrations are too high. The choice of an effective recovery rate of 33% is arbitrary.	Noted. See CEIOPS' resolution to comment 220.
227.	Munich RE	3.57.	We welcome the approach of applying risk factors to type 2 exposures. However, the assumptions underlying the calibration of a risk factor for type 2 for non past-due receivables are in our view too conservative and the resulting risk factor of 23% too high.	Noted. See CEIOPS' resolution to comment 220.
228.	RBSI	3.57.	For the exposure called policyholder debtors, which is classified as a type 2 exposure, we feel that the application of 23% to this exposure would generate a far too conservative load for the risk of default given the nature of the counterparties and the mitigants that can be used (e.g. cancellation of the policy). We would ask if there is something in the definition of the exposure from these counterparties which will mitigate this very high risk charge.	Noted. See CEIOPS' resolution to comment 220.
229.	ROAM	3.57.	The charge for the type 2 exposures seems to be too high. The 23% factor is conservative if the average rating of ceding institutions is higher than BB. We would like to understand from CEIOPS the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions.	Noted. See CEIOPS' resolution to comment 220.

			In the calculation of the "x" there is also no mentioning towards the effects of the default of the counterparty towards the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value.	
			Confidential comment deleted	
231.	Association of British Insurers	3.58.	Setting the "y" factor at 100% is very conservative and does neglect any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration. We also believe that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. We would suggest using a period of 12 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying. Alternatively, CEIOPS should allow undertakings to use their experience in this regard.	
232.	CEA, ECO-SLV-09-446	3.58.	Setting the "y" factor at 100% is very conservative and does neglect any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration. The CEA also believes that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. We	Noted. See CEIOPS' resolutions to comment 234 and 236.

			would suggest using a period of 12 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying.	
			Alternatively, Ceiops should allow undertakings to use their experience in this regard.	
233.	CRO Forum	3.58.	To set the "y" factor at 100% is very conservative and does neglect any possibility of recoveries. The capital requirement for these type of exposures are definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration.	Noted. See CEIOPS' resolution to comment 234.
234.	Groupe Consultatif	3.58.	Y=100% is too high, Y should be strictly less than 100%; e.g. Y=95% would still be conservative and would better take into account potential recoveries (which cannot be completely ignored).	Agreed. Y will be set to 90%.
235.	Institut des actuaires (France)	3.58.	Y=100% is too high, Y should be strictly less than 100%; e.g. Y=95% would still be conservative and would better take into account potential recoveries (which cannot be completely ignored).	Noted. See CEIOPS' resolution to comment 234.
236.	Lloyd's	3.58.	Three months is too short a period on which to class recoveries as vulnerable. Reinsurance processing via intermediaries can be quarterly in arrears and receivables may well be paid after three months, without any implication that their recovery is in doubt. We suggest that this is increased to a minimum of six months.	Disagreed. CEIOPS considers three months to be adequate.
237.	Milliman	3.58.	We suggest that recoveries "in dispute" should be treated separately from recoveries which are simply past due.	Disagreed. Disputed amounts remain in the confines of counterparty default risk.
			Further, due dates (and terms of reimbursement) can be contractually defined and market practice differs across Europe. We suggest that CEIOPS defines exactly what is meant by due date (the day the gross loss is paid by primary? date when treaty says payment is due? date the reinsurer receives an invoice from the primary? other?), at which time the 3 month clock starts ticking.	

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			Finally, the 3 months period may not be reasonable for all markets.	
238.	Munich RE	3.58.	The risk factor of 100% for risks which are 3 months past due appears too high. Even in '1 in 200 year' events there would be some recoveries against a set of well diversified debtors.	Noted. See CEIOPS' resolution to comment 234.
239.	ROAM	3.58.	Setting the "y" factor at 100% is very conservative and does neglect any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration.	Noted. See CEIOPS' resolution to comment 234.
			Confidential comment deleted	
241.	CEA, ECO-SLV-09-446	3.60.	The CEA suggests that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate.	Agreed. Note that this threshold only applies to deposits with ceding institutions and called up but unpaid capital. CEIOPS agrees to allow for optionality: when an insurer has more than 15 counterparties, it may still opt to use the Type 1 calculation.
242.	ROAM	3.60.	ROAM suggests that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate.	Noted. See CEIOPS' resolution to comment 242.
243.	CRO Forum	3.62.	Undertakings may have more than one credit rating. From this section, and the following it is not clear how the external rating needs to be determined. If this is the case we are the opinion that the undertaking should be able to use the rating it deems to be the most appropriate (e.g. the most dominant one).	Disagreed. For counterparties with more than one credit rating, the second-best rating should be used. This is consistent with the treatment of multiple credit ratings in the Capital Requirements Directive (2006/48/EC) and with the

				treatment of multiple credit ratings for spread risk in QIS4.
244.	DIMA (Dublin International Insurance & Management)	3.62.	In particular, having regard to the need to integrate the Probability Of Default and the Loss Given Default in arriving at the Expected Claims cost it would appear to inappropriate to alter the Loss Given Default assumption for derivative counterparties without altering the Probability of Default. As such where the distinction is made one would expect to see amended default probabilities by rating class to be utilised in the assessment of V the variance of the loss distribution, or more specifically the parameters p and b.	Noted.
			The qualifications in the paragraphs on the use of credit rating agency assessments (see paragraphs 3.62ff) are appropriate – but the conclusions on paragraph 3.65-3.66 are not reassuring. As no alternative to credit rating agencies seems to be readily available and the use of credit ratings is increasingly important for regulatory purposes, we would urge to introduce regulation and supervision of the credit rating agency sector at the earliest possible date in advance of Solvency II.	
			In the treatment of unrated counterparties we would expect to see some guidance for the treatment of unrated but equivalently regulated non insurance undertakings who are subject, for example, to the Capital Requirement Directives by an EU regulator and an importation of either some base level of rating eg BBB/BB+ or some other solvency ratio equivalent.	Agreed. Unrated banks compliant with the Capital Requirements Directive (2006/48/EC) shall be treated as having a BBB rating.
			We look forward to advice on Treatment of Risk mitigations techniques and would expect to see commentary and advice on the beneficial effects on counterparty exposure of increased frequency of rebalancing of collateral.	
245.	Lloyd's	3.64.	This refers to financial instruments that are very different to those provided by insurance and reinsurance undertakings. Care must be	Noted.

			made if drawing comparisons between the two.	
246.	Institut des actuaires (France)	3.65.	This is clearly one of the strong weaknesses of Solvency II. Many developments in this CP and in CP28 are drawn from what has been observed during the recent crisis (x=23%, y=100%, and so on...), but one of the main conclusions of the crisis is that one cannot base estimation of default probabilities only on rating agencies... A European Committee should be formed to (at least) provide guidance on the use of those ratings. Otherwise it is useless to deal with so complex formulas...	Noted.
247.	CRO Forum	3.69.	One should consider how much influence current circumstances have on the calibration. The short term information is applied as if it were based on multiple years.	CEIOPS has only stated its desire to use all available and relevant information for the calculation of the counterparty default risk, and that care should be taken in interpreting this information.
			Whether state intervention or not would have led to a default is uncertain. To assume that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating. Moreover, entities were open to state intervention due to public pressure as the markets deteriorated. Therefore it is difficult to assess which default numbers are to be amended.	
			We strongly disagree with this statement and propose that it be removed from the advice.	
248.	DIMA (Dublin International Insurance & Management	3.69.	State intervention is suggested to be removed when calculating default risk, based on the abnormal occurrence of the support. However, if support and/or promise of support exists, is it available within the CPD calculation?	Implicit support should not be allowed for, nor should ad hoc support be allowed for.
249.	Association of British Insurers	3.70.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions	Noted. See CEIOPS' resolution to comments 247 and 248.

			allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	
250.	CEA, ECO-SLV-09-446	3.70.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended and as such we recommend eliminating this requirement.	Noted. See CEIOPS' resolution to comments 247 and 248.
251.	CRO Forum	3.70.	We agree that it is imprudent to implicitly assume state intervention in next crises. We note however that not all financial institutions which have received state support in the current crisis would have defaulted otherwise. Many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention.	Noted. See CEIOPS' resolution to comments 247 and 248.
252.	Pearl Group Limited	3.70.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	Noted. See CEIOPS' resolution to comments 247 and 248.
253.	ROAM	3.70.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	Noted. See CEIOPS' resolution to comments 247 and 248.
254.	Association of British	3.71.	A parent company will have in-depth knowledge of its subsidiary company and so being unrated is not relevant. Therefore, for intra-	In this case, if it is an EEA subsidiary, undertakings may

			group relations, a very high implicit credit rating should be given if there is a strong internal risk management framework and there are no material restrictions on the movement of capital.	apply the Solvency ratio rating outlined in paragraph 3.78.
	Insurers			
255.	CEA, ECO-SLV-09-446	3.71.	It is necessary for Ceiops to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's.	An assessment of credit quality is required. CEIOPS offers several alternatives to credit ratings. CEIOPS also notes that, where the standard formula has shortcomings, undertakings may wish to consider (partial) internal models.
256.	INTERNATIONAL GROUP OF P&I CLUBS	3.71.	This paragraph and those that follow deal with the treatment of unrated counterparties. In its response to CP 44, the IG welcomed the recognition of the use of risk mitigating instruments in the determination of default risk. The IG notes that there is no reference in CP 51 to the use of risk mitigating instruments, which seems to be an inconsistency.	See the revised CP28.
257.	Lloyd's	3.71.	Some unrated reinsurers fully collateralise their obligations. To the extent that there is collateral held for the undertaking, then credit should be given in the SCR at a level comparable with the credit rating of the underlying assets.	See the revised CP28.
258.	ROAM	3.71.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's.	Noted. See CEIOPS' resolution to comment 255.

	Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk			
259.	XL Capital Ltd	3.71.	The absence of a CRA rating does not necessarily imply that counterparties are financial weak or would have a higher probability of default. Some counterparties actively choose not to be CRA rated. The proposals will unfairly penalise these entities because they imply higher costs for unrated companies and unjust additional administrative burdens.	Noted. See CEIOPS' resolution to comment 255.
260.	Pearl Group Limited	3.73.	The impact on internal reinsurances needs to be considered. This was a concern raised in the Pearl response to CP28. The current CP states that the group support system is no longer envisaged for Solvency II so the look through approach has no application anymore. Therefore the solvency ratio approach would appear to be the proposed method. We would appreciate it if CEIOPS would confirm that this is correct.	This is correct. It is not in line with economic reality to assume that capital flows freely between group members. The solvency ratio rating should be used if the intra-group counterparty is not rated.
261.	Association of British Insurers	3.74.	While the group support system is not currently in place, there should still be appropriate assumptions in place around intra-group reinsurance. For example, provided capital fungibility cannot be shown, it could be possible for undertakings to treat intra-group reinsurance as "risk free" with the exception of a requirement to apply look-through, as outlined in QIS4. If capital fungability cannot be shown, then the intra-group reinsurance should be treated as an external reinsurer in line with the approach outlined in 3.113.	Noted. See CEIOPS' resolution to comment 260.
262.	CEA, ECO-SLV-09-446	3.74.	We strongly disagree with the statement that the look through is not applicable because the group support regime is currently not applicable. The non-recognition of the intra group reinsurance arrangements is seriously neglecting the manner in which groups operate. Furthermore it will seriously distort the organisation of insurance within a group which requires suboptimal solutions. This will lead to higher costs. We request to make use of the look-though approach even though	Noted. See CEIOPS' resolution to comment 260.

			Summary of Comments on CEIOPS-CP-51/09 Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	CEIOPS-SEC-114-09
			the group support regime appears to be implemented with delay.	
263.	CRO Forum	3.74.	The CRO Forum disagrees with the last sentence "As the group support system is no longer envisaged for Solvency II, the look through approach has no application anymore". As long as fungibility constraints are met the look through approach should still be allowed.	Noted. See CEIOPS' resolution to comment 260.
264.	Lloyd's	3.74.	We agree.	Noted.
265.	Munich RE	3.74.	We strongly disagree with the last sentence "As the group support system is no longer envisaged for Solvency II, the look through approach has no application anymore". As long as fungibility constraints are met the look through approach should still be allowed.	Noted. See CEIOPS' resolution to comment 260.
266.	Pearl Group Limited	3.74.	We do not agree with the statement that the look through is not applicable because the group support regime is currently not applicable. The non-recognition of the intra group reinsurance arrangements is seriously neglecting the manner in which groups operates. Furthermore it will seriously distort the organisation of insurance within a group, which requires suboptimal solutions. This will lead to higher costs.	Noted. See CEIOPS' resolution to comment 260.
267.	XL Capital Ltd	3.74.	We do not agree with the statement that the look through is not applicable because the group support regime is currently not applicable. The non-recognition of the intra group reinsurance arrangements is seriously neglecting the manner in which groups operates. Furthermore it will seriously distort the organisation of insurance within a group, which requires suboptimal solutions. This will lead to higher costs.	Noted. See CEIOPS' resolution to comment 260.
268.	Groupe Consultatif	3.75.	3.75 to 3.80 While the solvency ratio approach for calculating default probabilities for unrated counterparties has many shortfalls (e.g.	Noted.

			information often being one year out of date) it is preferable to the fixed defaults previously touted.	
269.	Association of British Insurers	3.77.	It is unclear how the default probability of 30% is derived.	An undertaking that does not meet the MCR has a probability of default between 15% and 100%. 30% is chosen as an average value.
270.	CEA, ECO-SLV-09-446	3.77.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
271.	CRO Forum	3.77.	Setting the probability at such level that the risk factor is 100% is very conservative and does neglect any possibility of recovery. The capital requirement for these type of exposures are definitely higher than the 99.5% threshold.	Noted. See CEIOPS' resolution to comment 269.
272.	Pearl Group Limited	3.77.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
273.	CEA, ECO-SLV-09-446	3.78.	The last category OF/SCR <= 80%, PD=10% should be further divided into OF/SCR >70%, PD=5% and OF/SCR <= 70%, PD=10%. This would maintain the approximately logarithmic jumps in the PD and is based on Annex B.	Not agreed. CEIOPS assumes that the case OF/SCR<=80% will not be sufficiently relevant to justify further granularity.
274.	RBSI	3.78.	It would be useful to benchmark the proposed default rates with actual default rates assigned to companies that have both a credit rating and a measurable solvency ratio.	Noted.
275.	Lloyd's	3.79.	More information on the derivation is required. For example, B.7 assumes a parameter of a=6 for which no justification is given.	a=6 is chosen judgementarily.
276.	Lloyd's	3.80.	We agree.	Noted.
277.	Lloyd's	3.81.	We agree.	Noted.
278.	Groupe	3.82.	3.82 to 3.83	Noted. The calibration is based on

	Consultatif		The probability of default for counterparties which are unrated and not covered by Solvency II has been changed, but no backup or evidence has been giving to the background for this.	assumptions about the rating the counterparty would have if it were rated, and takes into account the uncertainty regarding its default chance.
279.	AAS BALTA	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
280.	AB Lietuvos draudimas	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
281.	Association of British Insurers	3.83.	See comments to 3.71.	Noted. See CEIOPS' resolution to comment 254.
282.	CEA, ECO-SLV-09-446	3.83.	It is necessary for Ceiops to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's	Noted. See CEIOPS' resolution to comment 255.
283.	CRO Forum	3.83.	It is necessary for CEIOPS to consider that counterparties choose to have not a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies.	Noted. See CEIOPS' resolution to comment 255.
284.	DENMARK: Codan Forsikring A/S	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.

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285.	Link4 Towarzystwo Ubezpieczeń SA	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
286.	Lucida plc	3.83.	There is no justification given for assuming this probability. We feel that attributing a CCC rating to a counterparty that is outside of the Solvency II jurisdiction but is in all material respects equivalent to a counterparty that is inside the Solvency II jurisdiction is unnecessarily onerous. We would prefer a more objective approach to be taken whereby the local regulator can pay more scrutiny to the regulatory regime of the counterparty and an informed view can be derived with a rating given to all counterparties within that regime. Alternatively an assessment of the individual company's credit rating could be performed based on available (and possibly confidential) information. This also applies to 3.122.	Noted. See CEIOPS' resolution to comment 294.
287.	Munich RE	3.83.	It is necessary for CEIOPS to consider that counterparties choose to have not a rating for various reasons. The absence of a rating does not automatically imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies.	Noted. See CEIOPS' resolution to comment 255.
288.	NORWAY: Codan Forsikring (Branch Norway)	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.

	(991 502			
289.	ROAM	3.83.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's	Noted. See CEIOPS' resolution to comment 255.
290.	RSA Insurance Group PLC	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
291.	RSA Insurance Ireland Ltd	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
292.	RSA - Sun Insurance Office Ltd.	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
293.	SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799)	3.83.	Assigning a probability of default of 10% (broadly equivalent of S&P B or CCC rating) seems reasonable.	Noted.
294.	Lucida plc	3.85.	It is not clear to us why this advice has avoided the treatment of equivalent supervision. As we state in our response to 3.83 the advice currently given seems to penalise counterparties on a geographical basis rather than any alternative basis. This also applies to 3.124	Agreed. See revised text.

			Summary of Comments on CEIOPS-CP-51/09	CEIOPS-SEC-114-09
			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
295.	PricewaterhouseCoopers LLP	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.	Noted. See CEIOPS' resolution to comment 294.
296.	AAS BALTA	3.86.	We look forward to seeing the advise on Pools	Noted.
297.	AB Lietuvos draudimas	3.86.	We look forward to seeing the advise on Pools	Noted.
298.	DENMARK: Codan Forsikring A/S (10529638)	3.86.	We look forward to seeing the advise on Pools	Noted.
299.	Link4 Towarzystwo Ubezpieczeń SA	3.86.	We look forward to seeing the advise on Pools	Noted.
300.	NORWAY: Codan Forsikring (Branch Norway) (991 502	3.86.	We look forward to seeing the advise on Pools	Noted.
301.	RSA Insurance Group PLC	3.86.	We look forward to seeing the advise on Pools	Noted.
302.	RSA	3.86.	We look forward to seeing the advise on Pools	Noted.

	Insurance Ireland Ltd			
303.	RSA - Sun Insurance Office Ltd.	3.86.	We look forward to seeing the advise on Pools	Noted.
304.	SWEDEN: Trygg-Hansa Försäkrings AB (516401-7799)	3.86.	We look forward to seeing the advise on Pools	Noted.
305.	Association of British Insurers	3.87.	These requirements will be very onerous computationally and it is not clear how much difference these will make in the capital calculated, particularly the post-diversification SCR.	CEIOPS provides simplifications, CEIOPS' resolution to comment 75.
306.	CEA, ECO-SLV-09-446	3.87.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" as a measure for impact on required capital should a particular reinsurance counterparty default. In our view, the risk mitigating effect is either the lost mitigation effect or the reinstatement premium necessary to provide cover again. For derivative arrangements often collateral arrangements are part of the arrangement and thus not all fair value changes are directly losses. Furthermore, if the fair value difference is settled on a repetitive basis, this should also be taken into account. The CEA believes, that for the avoidance of doubt, it should be stated clearly that loans made to policyholders should be excluded from the scope of calculation.	Noted. See CEIOPS' resolution to comment 307. Disagreed. Loans made to policyholders face risk and should be treated as a Type 2 exposure.
307.	CRO Forum	3.87.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" (the difference between capital requirements for underwriting risk with and without consideration	Disagreed. A more accurate assessment of LGD would lead to a more onerous calculation, and

			of the reinsurance arrangement) as a measure for impact on required capital should a particular reinsurance counterparty default. In case of a reinsurer default however, the difference between the two capital requirements would go through the insurer's economic P&L and be subject to the recovery rate if and only if the default was caused by the insured event. In all other cases the insured could either replace the reinsurance cover or raise capital. Therefore we conclude that the present LGD formula contains some implicit conservatism.	the balance of opinion is that CEIOPS should not increase the complexity of its module.
			If the default is caused by another event than the insured loses his reinsurance cover and hence the financial loss would either be the replacement cost or the capital cost of bearing the risk. It is prudent to base the LGD on the capital cost, since replacement would only take place if the replacement cost were smaller than the capital cost.	
			The LGD formula could allow for a weighted average between the two possible causes of default and associated financial loss. In line with our comment on CP44-3.9 we argue that the weight on 'default caused by insured event', thus loss of the whole mitigating effect, should be low. The credit quality, let alone the default, of a viable reinsurer should not depend on a single serious claim against it.	
308.	FFSA	3.87.	FFSA believes that for the avoidance of doubt, it should be clarified that loans made to policyholders under a life policy should be excluded from the scope of calculation	Noted. See CEIOPS' resolution to comment 306.
309.	German Insurance Association – Gesamtverb	3.87.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" as a measure for impact on required capital should a particular reinsurance counterparty default. In our view, the risk mitigating effect is either the lost mitigation effect or the reinstatement premium necessary to	Noted. See CEIOPS' resolution to comment 307.

	and der D		provide cover again. For derivative arrangements often collateral arrangements are part of the arrangement and thus not all fair value changes are directly losses. Furthermore, if the fair value difference is settled on a repetitive basis, this should also be taken into account.	
			The GDV believes, that for the avoidance of doubt, it should be stated clearly that loans made to policyholders should be excluded from the scope of calculation.	Noted. See CEIOPS' resolution to comment 306.
310.	Legal & General Group	3.87.	These requirements will be very onerous computationally and it is not clear how much difference these will make in the capital calculated, particularly the post-diversification SCR. Also relevant to 3.88-3.90	Noted. See CEIOPS' resolution to comment 305.
311.	Lloyd's	3.87.	We believe that care is needed in the construction of this formula for loss-given-default. We suggest that the formula is improved by allowing collateral to be deducted for recoverables and risk mitigating effect prior to applying the recovery rate. This reflects the fact that, in an reinsurance insolvency, recovery rates would be applied to creditors claims net of collateral. For example, if the recoverables + RM is 100 and the collateral is 60 and then recovery rate 40% then the current formula would give a LGD of $(1-40\%)*100 - 60 = 0$. We feel the correct calculation would be a loss given default of $(1-40\%) * (100-60) = 24$. Therefore the correct formula should be: $LGD = max((1-RR)*(recoverable + RM - Collateral),0)$	Agreed. See revised formula.
312.	ROAM	3.87.	The LGD formula for a reinsurance arrangement or derivative introduces "risk mitigating effect" as a measure for impact on required capital should a particular reinsurance counterparty	Noted. See CEIOPS' resolution to comment 307.

			default. In our view, the risk mitigating effect is either the lost mitigation effect or the reinstatement premium necessary to provide cover again. For derivative arrangements often collateral arrangements are part of the arrangement and thus not all fair value changes are directly losses. Furthermore, if the fair value difference is settled on a repetitive basis, this should also be taken into account.	
313.	Association of British Insurers	3.88.	Simplification should be allowed.	Noted. See CEIOPS' resolution to comment 75.
314.	Legal & General Group	3.88.	As per 3.87	Noted.
315.	Lloyd's	3.88.	We agree.	Noted.
316.	Legal & General Group	3.89.	As per 3.87	Noted. See CEIOPS' resolution to comment 305.
317.	Lloyd's	3.89.	We agree.	Noted.
318.	Association of British Insurers	3.90.	There should be a break down for significant counterparties (see also paragraph 3.103).	Noted.
319.	FFSA	3.90.	CEIOPS presents in section 3.90 – 3.101, 3 options related to the criteria required to use simplified approaches. FFSA disagrees with the preferred option (option 3). FFSA considers that this option is still burdensome as the undertaking should meet several conditions to use the simplifications and leaves too much room for the regulator to choose the sophisticated approach. Therefore, FFSA recommends selecting option 1.	Noted. See CEIOPS' resolution to comment 75.

320.	GROUPAMA	3.90.	We would be in favor of implementing the simplification suggested for calculating LGD as part of the standard formula, to avoid burdensome calculations (option 1)	Noted. See CEIOPS' resolution to comment 75.
321.	Legal & General Group	3.90.	As per 3.87	Noted. See CEIOPS' resolution to comment 305.
322.	Lloyd's	3.90.	We agree.	Noted.
323.	ROAM	3.90.	CEIOPS presents in section 3.90 – 3.101, 3 options related to the criteria required to use simplified approaches. ROAM disagrees with the preferred option (option 3). ROAM considers that this option is still burdensome as the undertaking should meet several conditions to use the simplifications and it leaves too much room for the supervisor to choose the sophisticated approach. Therefore, ROAM recommends selecting option 1.	Noted. See CEIOPS' resolution to comment 75.
324.	Association of British Insurers	3.91.	These simplifications are theoretically fine, but it is not clear how much benefit they will bring. Many life reinsurance contracts will automatically produce different gross and net impacts for all modules of the insurance module.	Noted.
325.	CEA, ECO-SLV-09-446	3.91.	Allowance may be needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted.	Noted. See CEIOPS' resolution to comment 59.
326.	FFSA	3.91.	CEIOPS outlines in setion 3.91 – 3.93 that the simplification for derivatives and life is conservative as it does not take into account the diversification effect. The argument provided for not reflecting the diversification is the complexity of calibration. Although, FFSA believes that a simplified approach is a good step,	Noted. See CEIOPS' resolution to comment 59.

			FFSA believes that companies should not be penalized by using the simplified approach. In other areas, the diversification impact was defined using simplified approaches and FFSA would like to get a simplified approach to address this specific matter but FFSA does not think this will have a very material impact in practice	
327.	German Insurance Association – Gesamtverb and der D	3.91.	An adjustment is needed via a reduction factor for the loss of diversification in case Option 1 will be adopted because there is no reason why diversification is to be left out.	Noted. See CEIOPS' resolution to comment 59.
328.	Legal & General Group	3.91.	These simplifications are theoretically fine, but it is not clear how much benefit they will bring. Many life reinsurance contracts will automatically produce different gross and net impacts for all modules of the insurance module. Also relevant to 3.92-3.97	Noted.
329.	Pearl Group Limited	3.91.	We believe that allowance should be made via a reduction factor/simplified approach for the loss of diversification.	Noted. See CEIOPS' resolution to comment 59.
330.	ROAM	3.91.	ROAM believes that allowance should be made via a reduction factor/simplified approach for the loss of diversification. This would be particularly important under Option 1 (where simplification is mandatory) as otherwise the module would deliver conservative results rather than being calibrated at the 99.5th percentile.	Noted. See CEIOPS' resolution to comment 59.
331.	Legal & General Group	3.92.	As per 3.91	Noted.
332.	Pearl Group Limited	3.92.	The simplifications are quite conservative as they do not allow for diversification between sub-modules. Pearl proposes that some allowance for diversification should be made.	Noted. See CEIOPS' resolution to comment 59.
333.	Legal &	3.93.	As per 3.91	Noted.

	General Group			
334.	CEA, ECO-SLV-09-446	3.94.	Allowance may be needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted.	Noted. See CEIOPS' resolution to comment 59.
335.	German Insurance Association – Gesamtverband der D	3.94.	An adjustment is needed via a reduction factor for the loss of diversification in case Option 1 will be adopted because there is no reason why diversification is to be left out.	Noted. See CEIOPS' resolution to comment 59.
336.	Legal & General Group	3.94.	As per 3.91	Noted.
337.	Pearl Group Limited	3.94.	The simplifications are quite conservative as they do not allow for diversification between sub-modules. Pearl proposes that some allowance for diversification should be made.	Noted. See CEIOPS' resolution to comment 59.
338.	Legal & General Group	3.95.	As per 3.91	Noted.
339.	Legal & General Group	3.96.	As per 3.91	Noted.
340.	Legal & General Group	3.97.	As per 3.91	Noted.
341.	AMICE	3.98.	AMICE members think that calculating $SCR^{gross} - SCR^{net}$ for all reinsurance counterparties together is very burdensome. We	Disagreed. CEIOPS notes that a simplification in relation to the

			suggest simplifying the calculation by estimating the difference only for the reinsurance counterparties which cover catastrophe risk. Indeed, the main divergence changes in the underwriting risk gross and net of reinsurance is in the catastrophe risk.	number of counterparties is provided for.
342.	Association of British Insurers	3.98.	It is not clear why this is specifically only allowed for non-life insurance. We have life reinsurance with multiple parties (group protection catastrophe cover) that should be allowed under a simplification. Although the simplification in 3.102 could be used, this would remove some of the diversification benefit compared to application of 3.98.	Noted. See CEIOPS' resolution to comment 59.
343.	DIMA (Dublin International Insurance & Management	3.98.	There is a spelling error in the second bullet point, which should read "single".	Agreed. See revised text.
344.	Legal & General Group	3.98.	It's not clear why this is specifically only allowed for non-life insurance. We have life reinsurance with multiple parties (group protection catastrophe cover) that should be allowed under a simplification. Although the simplification in 3.102B could be used, this would remove some of the diversification benefit compared to application of 3.98B. It would be useful for Reci and RecTotal to be defined more clearly.	Noted. See CEIOPS' resolution to comment 59.
345.	Lloyd's	3.98.	We agree with the simplification of this calculation and believe it is not perfect but is acceptable.	Noted.
346.	XL Capital Ltd	3.98.	See comments at paragraph 3.25 above	Noted.
			Confidential comment deleted	
348.	AMICE	3.99.	AMICE members favour Option 1. In our opinion, simplifications	Noted. See CEIOPS' resolution to

			Summary of Comments on CEIOPS-CP-51/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula -** **Counterparty default risk**	**CEIOPS-SEC-114-09**
			must become part of the default standard formula if the simplifications are appropriate and capture the risk in the same way as the standard formula.	comment 75.
349.	Association of British Insurers	3.99.	Option 1 is probably the most appropriate for the standard formula.	Noted. See CEIOPS' resolution to comment 75.
350.	CEA, ECO-SLV-09-446	3.99.	In our opinion, Ceiops should choose between option 1 and option 2. The standard formula should be such that any undertaking, regardless of size, is able to use it. The QIS4 methodology was seen as too complex. Thus, the simplifications provided in this paper, either as default approach or as simplifications in terms of Article 109, would need to be recognized under the standard formula. Option 1 would also have the advantage of being the least onerous option. Allowance is needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted. If this risk is deemed significant to an insurer, there is always the possibility to introduce a "partial" internal module for this sub risk. The CEA disagrees with option 3. We consider that this option is still burdensome.	Noted. See CEIOPS' resolution to comment 75.
351.	CRO Forum	3.99.	We would opt for option 1 (see also our remark under 3.87). The standard formula should be such that any undertaking regardless of size is able to use the formulas. The QIS4 method was seen as too complex and could be used, if appropriate by insurers wanting to have a more refined outcome. If the subrisk is becoming to significant an insurer is always able to introduce a "partial" internal module for this sub risk. If option 1 is deemed not to be appropriate option 2 would be the	Noted. See CEIOPS' resolution to comment 75.

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			least onerous.	
352.	European Union member firms of Deloitte Touche To	3.99.	This paragraph makes reference to para. 3.30 to 3.31. We suggest these two paragraphs are included in the advice.	The final paper shall present only one option and shall include all relevant simplifications in the advice box.
353.	German Insurance Association – Gesamtverband der D	3.99.	In our opinion, CEIOPS should choose between option 1 and option 2. The standard formula should be such that any undertaking, regardless of size, is able to use it. The QIS4 methodology was seen as too complex. Thus, the simplifications provided in this paper, either as default approach or as simplifications in terms of Article 109, would need to be recognized under the standard formula. Option 1 would also have the advantage of being the least onerous option. However, an adjustment is needed via a reduction factor/simplified approach for the loss of diversification in case Option 1 will be adopted, because there is no reason why diversification is to be left out. Otherwise we recommend choosing option 2. If this risk is deemed significant to an insurer, there is always the possibility to introduce a "partial" internal module for this sub risk. The GDV disagrees with option 3. We consider that this option is still burdensome.	Noted. See CEIOPS' resolution to comment 75.
354.	Investment & Life Assurance Group (ILAG)	3.99.	None of the 3 options will be appropriate for all undertakings. In order to keep the approach flexible and proportionate we believe that Option 2 should be adopted.	Noted. See CEIOPS' resolution to comment 75.

355.	Legal & General Group	3.99.	Agree in the context of the previous comments that option 3 is appropriate. Also relevant to 3.100 and 3.101.	Noted. See CEIOPS' resolution to comment 75.
356.	Lloyd's	3.99.	We support the proposed Option 3, to amend the default calculation for non-life reinsurance and include simplified approaches where appropriate.	Noted. See CEIOPS' resolution to comment 75.
357.	Munich RE	3.99.	We opt for option 3 as this seems to be in line with the standard model and takes into account the proportionality principle.	Noted. See CEIOPS' resolution to comment 75.
358.	Pearl Group Limited	3.99.	For Options 2 and 3 CEIOPS lists three criteria for deciding whether the simplification method can be used because the complicated method is "disproportionate". It is difficult to see how these simplifications could be justified without an accurate calculation of the risk mitigating effect in the first place. Option 3 is the best option, as it allows companies to use the complicated method if that is appropriate and the simplifications otherwise. The caveat to this would be that CEIOPS would have to change the criteria for allowing the simplified method so that they can be justified without an accurate calculation of the risk mitigating effect in the first place.	Noted. See CEIOPS' resolution to comment 75.
359.	ROAM	3.99.	ROAM favours option 1, which is potentially a pragmatic, although conservative solution. Reduction factors/simplified method should be added to bring the module at the 99.5th centile. The standard formula should be such that any undertaking regardless of size is able to use the formulas. The QIS4 method was seen as too complex. If the risk is deemed too significant, an insurer is always able to introduce a "partial" internal module for this sub risk.	Noted. See CEIOPS' resolution to comment 75.

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			ROAM disagrees with option 3. We consider that this option is still burdensome as the undertaking should meet several conditions to use the simplifications and it leaves too much room for the supervisor to choose the sophisticated approach.	
360.	XL Capital Ltd	3.99.	See comments at paragraph 3.27 above	Noted. See CEIOPS' resolution to comment 75.
361.	CEA, ECO-SLV-09-446	3.100.	To determine whether the simplification can be used under Option 2/3 it appears that the accurate calculation needs to be carried out in the first place. On an ongoing basis, the simplification would have to be checked to see whether it remains appropriate. This could mean carrying out the accurate calculation regularly which would make the methodologies burdensome. We suggest that undertakings should be allowed to determine the counterparty default risk by means of the proposed simplification method if the default calculation is not practicable on grounds such as proportionality. Furthermore we strongly recommend introducing a diversification effect, because there is no reason why diversification is to be left out. The CEA would welcome disclosure by Ceiops of the rationale for the choice of the 20% threshold.	Noted. See CEIOPS' resolution to comment 84. The threshold is double the value for QIS4. CEIOPS deems this to be an appropriate threshold level, above which materiality is considered to be automatically proven.
362.	German Insurance Association – Gesamtverb and der D	3.100.	To determine whether the simplification can be used under Option 2/3 it appears that the accurate calculation needs to be carried out in the first place. On an ongoing basis, the simplification would have to be checked to see whether it remains appropriate. This could mean carrying out the accurate calculation regularly which would make the methodologies burdensome.	Noted. See CEIOPS' resolution to comment 84.

			We suggest that undertakings should be allowed to determine the counterparty default risk by means of the proposed simplification method if the default calculation is not practicable on grounds such as proportionality. Furthermore we strongly recommend introducing a diversification effect, because there is no reason why diversification is to be left out.	
			The GDV would welcome disclosure by CEIOPS of the rationale for the choice of the 20% threshold.	Noted. See CEIOPS' resolution to comment 361.
363.	Legal & General Group	3.100.	As per 3.99	Noted.
364.	Lloyd's	3.100.	We agree with the criteria for application of the simplifications, but we note that 20% appears to be an arbitrary choice (although we agree that it appears sensible).	Noted.
365.	Pearl Group Limited	3.100.	To determine whether the simplification can be used under Option 2/3 it appears that the accurate calculation needs to be carried out in the first place. On an ongoing basis, the simplification would have to be checked to see whether it remains appropriate. This could mean carrying out the accurate calculation regularly or if the risk attributes change. In this case, there would appear to be little time or calculating savings involved under these options.	Noted. See CEIOPS' resolution to comment 84.
			CEIOPS would have to change the criteria for allowing the simplified method so that they can be justified without an accurate calculation of the risk mitigating effect in the first place.	
366.	ROAM	3.100.	To determine whether the simplification can be used under Option 2/3 it appears that the accurate calculation needs to be carried out in the first place. On an ongoing basis, the simplification would have to be checked to see whether it remains appropriate. This could mean carrying out the accurate calculation regularly or if the	Noted. See CEIOPS' resolution to comment 84.

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			risk attributes change. In this case, there would appear to be little time or calculating savings involved under these options.	
			ROAM would welcome disclosure by CEIOPS of the rationale for the choice of the 20% threshold.	Noted. See CEIOPS' resolution to comment 361.
367.	Legal & General Group	3.101.	As per 3.99	Noted.
368.	Lloyd's	3.101.	We support option 3.	Noted.
369.	Legal & General Group	3.102.	Agree	Noted.
			Confidential comment deleted	
371.	Association of British Insurers	3.103.	We support the use of weighted default probabilities rather than the highest default probability. This will reduce conservatism in the simplified approach.	Noted. See CEIOPS' resolution to comment 101.
			However, the insurer should be able to take the most onerous default rating if this was deemed not to be material rather than trying to determine a weighted average rating, to reduce the calibration burden.	
372.	CEA, ECO-SLV-09-446	3.103.	The CEA supports the use of weighted default probabilities rather than the highest default probability. This will reduce the conservatism in the simplified approach.	Noted. See CEIOPS' resolution to comment 101.
			If there are many counterparties with different ratings a practical approach consists of introducing a "Weighted Average Rating", being the weights equal to the market value of the derivatives/best estimate of the recoverable. There are a number of methodologies, especially from rating agencies, implemented by market participants, for the calculation of the WAR, which take into account	

			the default probabilities associated to the rating classes (which exponentially grow moving towards lower ratings). While such an approach is not feasible for the credit risk of the bond portfolio (spread risk sub-module) for which it is clearly important to accurately estimate the capital requirement (taking into account diversification), for the counterparties default risk it seems reasonable in view of the low capital charges it produces in comparison to other market risks or underwriting risks.	
373.	CRO Forum	3.103.	The simplification assumes full dependency between all the counterparties in the subset. The probability of default for the subset should than be calculated according to 3.123	Noted. See CEIOPS' resolution to comment 101.
374.	FFSA	3.103.	CEIOPS states that, in the simplification made to the number of counterparties (calculation at the subset level), the probability of default assigned to the subset should be the highest probability of default of the counterparties in the subset. FFSA suggests to apply the calculation as set in §3.37, ie to take the average default probability, and not only for reinsurance within a group. FFSA also believes that the second bullet point proposes to use the highest probability of default to quantify LGD and SCR Def. This choice is not economical. FFSA proposes to have an economic approach with a weighted average of the counterparties' probability default. FFSA believes that an economic approach is more consistent with the overall valuation principles sets in the standards.	Noted. See CEIOPS' resolution to comment 101.
375.	German Insurance Association – Gesamtverb	3.103.	The GDV supports the use of weighted default probabilities rather than the highest default probability. This will reduce the conservatism in the simplified approach. If there are many counterparties with different ratings a practical	Noted. See CEIOPS' resolution to comment 101.

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			approach consists of introducing a "Weighted Average Rating", being the weights equal to the market value of the derivatives/best estimate of the recoverable. There are a number of methodologies, especially from rating agencies, implemented by market participants, for the calculation of the WAR, which take into account the default probabilities associated to the rating classes (which exponentially grow moving towards lower ratings). While such an approach is not feasible for the credit risk of the bond portfolio (spread risk sub-module) for which it is clearly important to accurately estimate the capital requirement (taking into account diversification), for the counterparties default risk it seems reasonable in view of the low capital charges it produces in comparison to other market risks or underwriting risks.	
376.	Legal & General Group	3.103.	Agree	Noted.
377.	Lloyd's	3.103.	We agree with the aggregation of counterparties into subsets. However, we think that taking the counterparty with the highest probability of default as the rating for the subset overall is too conservative. A weighted average would be a more appropriate factor to use, as is suggested for groups in 3.84	Noted. See CEIOPS' resolution to comment 101.
378.	Munich RE	3.103.	Taking the maximum default probability rather than a weighted average appears overly conservative.	Noted. See CEIOPS' resolution to comment 101.
379.	Pearl Group Limited	3.103.	The CEA supports the use of weighted default probabilities rather than the highest default probability. This will reduce the conservatism in the simplified approach. If there are many counterparties with different ratings a practical approach consists of introducing a "Weighted Average Rating", being the weights equal to the market value of the derivatives/best estimate of the recoverable. There are a number of methodologies,	Noted. See CEIOPS' resolution to comment 101.

			especially from rating agencies, implemented by market participants, for the calculation of the WAR, which take into account the default probabilities associated to the rating classes (which exponentially grow moving towards lower ratings). While such an approach is not feasible for the credit risk of the bond portfolio (spread risk sub-module) for which it is clearly important to accurately estimate the capital requirement (taking into account diversification), for the counterparties default risk it seems reasonable in view of the low capital charges it produces in comparison to other market risks or underwriting risks.	
380.	ROAM	3.103.	ROAM supports the use of weighted default probabilities rather than the highest default probability. This will reduce the conservatism in the simplified approach. If there are many counterparties with different ratings a practical approach consists of introducing a "Weighted Average Rating", being the weights equal to the market value of the derivatives/best estimate of the recoverable. There are a number of methodologies, especially from rating agencies, implemented by market participants, for the calculation of the WAR, which take into account the default probabilities associated to the rating classes (which exponentially grow moving towards lower ratings). While such an approach is not feasible for the credit risk of the bond portfolio (spread risk sub-module) for which it is clearly important to accurately estimate the capital requirement (taking into account diversification), for the counterparties default risk it seems reasonable in view of the low capital charges it produces in comparison to other market risks or underwriting risks.	Noted. See CEIOPS' resolution to comment 101.
381.	XL Capital Ltd	3.103.	See comments at paragraph 3.34 above	Noted.
382.	Legal &	3.104.	Agree	Noted.

	General Group			
383.	Lloyd's	3.104.	We agree.	Noted.
384.	CEA, ECO-SLV-09-446	3.105.	By including the term "stressed" Ceiops seems to introduce the state of play of the full market rather the counterparty. In our opinion the word "stressed" should be removed.	Disagreed. The SCR is a 99.5% VaR stress level. This also applies to credit exposures.
385.	CRO Forum	3.105.	By including the term "stressed" CEIOPS seems to introduce the state of play of the full market rather the counterparty. In our opinion the word stressed should be removed. The reference to securitisation and SPV is missing.	Noted. See CEIOPS' resolution to comment 384. Noted. See revised text.
386.	FFSA	3.105.	CEIOPS presents in section §3.105-§3.106, the recovery rate for reinsurers and derivatives. FFSA disagrees with the lowering of the recovery rate for reinsurers and derivatives for the following reasons: - The current rates are not supported by historical data. In particular, the crisis does not provide with support to the decrease in the reinsurer recovery rate (as we are not aware of any default of a major reinsurer that would be related to the financial turmoil). - The recovery rate for derivatives is extremely low and it does not take into account the nature of the market where the derivative is traded	Noted. See CEIOPS' resolution to comment 129.
387.	German Insurance Association – Gesamtverband der D	3.105.	By including the term "stressed" CEIOPS seems to introduce the state of play of the full market rather the counterparty. In our opinion the word "stressed" should be removed.	Noted. See CEIOPS' resolution to comment 384.

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388.	GROUPAMA	3.105.	The recovery rate is lower than in QIS 4, and no specific explanation is given. We suggest using the prudent and accepted 50% recovery rate as in QIS 4 if no specific studies are carried out.	Noted. See CEIOPS' resolution to comment 129.
389.	Legal & General Group	3.105.	We feel strongly that the proposed levels for RR are excessively prudent and believe we should challenge these, especially the RRre value of 40%.

The original 50% was based primarily on bond data and the reduction down to 40% appears to be based entirely on the recent financial crisis which was bank focused. In both cases it ignores completely the fact that reinsurers generally are regulated in a completely different way to either of these two sectors, with specific controls when they are part of bigger mixed entity groups to control contagion (e.g. with AIG). Specifically if a reinsurer is EEA (or an "equivalent" country) regulated it becomes subject to Solvency II regulations. Consequently its probability of default should, if the SCR is met, be limited and, more importantly here, if default occurs the level of recoveries under Solvency II must surely be significantly higher than 40%. To prevent significant over reserving and unnecessary cost to policyholders we propose for reinsurers regulated under Solvency II or an equivalent regime a much higher figure be used, say in the region of 80% which still provides a large safety net for this type of reinsurer.

The move of RRfin from 50% in QIS4 to 10% entirely on the back of the recent financial crisis seems extreme, not least as all parties are now acutely aware of the problems with this type of contract and are seeking to put in controls. Any value at this time is clearly subjective but we believe a higher figure is more appropriate, perhaps of the order of 20% at least.

The table in annex A showing example LGD values resulting again justifies itself by reference to current financial crisis and banks. The | Noted. See CEIOPS' resolutions to comments 129 and 140. |

			jump for higher rated entities looks high given the justification, especially in a reinsurance context under Solvency II. Also relevant to 3.106	
390.	Lloyd's	3.105.	We believe the assumed recovery rates should be consistent with available market information/studies. We think that the rates have been chosen arbitrarily.	Noted. See CEIOPS' resolution to comment 129.
391.	ROAM	3.105.	By including the term "stressed" CEIOPS seems to introduce the state of play of the full market rather the counterparty. In our opinion the word "stressed" should be removed.	Noted. See CEIOPS' resolution to comment 384.
392.	XL Capital Ltd	3.105.	See comments at paragraph 3.35 above	Noted. See CEIOPS' resolution to comment 101.
393.	AMICE	3.106.	AMICE members believe there is not enough reasoning to justify lower recovery rates both for reinsurance arrangements and derivatives. In our opinion, CEIOPS' paper should maintain the recovery rates defined in the QIS4.	Noted. See CEIOPS' resolutions to comments 129 and 140.
394.	Association of British Insurers	3.106.	We feel strongly that the proposed levels for the recovery rates (RR) are excessively prudent, especially the RRre value of 40%. The original 50% was based primarily on bond data and the reduction down to 40% appears to be based entirely on the recent financial crisis, which was bank focused. In both cases it ignores completely the fact reinsurers generally are regulated in a completely different way to either of these two sectors, with specific controls when they are part of bigger mixed entity groups to control contagion (e.g. with AIG). Specifically if a reinsurer is regulated in the EEA (or an "equivalent" country), it becomes subject to Solvency II regulations. Consequently its probability of default should be limited where the SCR is met and if default	Noted. See CEIOPS' resolutions to comments 129 and 140.

			occurs, the level of recoveries under Solvency II must surely be significantly higher than 40%. To prevent significant over reserving and unnecessary cost to policyholders we propose for reinsurers regulated under Solvency II or an equivalent regime a much higher figure be used, say in the region of 80% which still provides a large safety net for this type of reinsurer.	
			The move of RRfin from 50% in QIS4 to 10% entirely on the back of the recent financial crisis seems extreme, not least as all parties are now acutely aware of the problems with this type of contract and are seeking to put in controls. Any value at this time is clearly subjective but we believe a higher figure is more appropriate, perhaps of the order of 20% at least.	
			The table in annex A showing example LGD values resulting again justifies itself by reference to current financial crisis and banks. The jump for higher rated entities looks high given the justification, especially in a reinsurance context under Solvency II.	
395.	Association of Run-off Companies	3.106.	See comments at 3.44, above	Noted. See CEIOPS' resolution to comment 129.
396.	CEA, ECO-SLV-09-446	3.106.	The referenced papers do not imply Ceiops' conclusion of a recovery rate of 40%. The CEA would like further detail on how this has been derived and attracts attention that the new calibration should stay in line with the 99.5% confidence interval set by the Directive.	Noted. See CEIOPS' resolutions to comments 129 and 140.
			The crisis has not shown reasons for decreasing the recovery rate from reinsurers and consequently this prudency of Ceiops might be interpreted as an attempt to increase the capital requirements for this risk in an artificial manner. Further, significant care is needed in the consideration of single data points coming from recent developments.	

			Further, recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as:	
			• The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level.	
			• The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the rating of a reinsurance counterparty drops below a certain level.	
			The CEA finds the 10% rate as being very low, since many of the recovery rates in the referenced paper are above 10% and this figure is not presented as a threshold. Further, collateral arrangements and the nature of the market where the derivative is traded seem not to be considered in its derivation.	
			We suggest returning to the QIS4 approach, which indicated a recovery rate of 50%. The CEA would like to attract attention on the long term implications of these figure following hasty judgements.	
397.	CRO Forum	3.106.	Within the requirements of Solvency II an insurer is to compare experience against assumptions. But in all these cases the insurer is to take care in changing assumptions based on a single data point (recent developments). The insurer is required to use professional judgement in considering whether the experience render the assumptions inappropriate and to require an adjustment.	Noted. See CEIOPS' resolutions to comments 129 and 140.
			However CEIOPS seems to forget their advice by using the evidence of the recent crisis as argument to increase or decrease the factors used in the calculations with the sole reason to increase	

the capital requirements for the counter party default risk. There is also no mentioning or evidence that the new calibration is in line with the 99.5% confidence level threshold as set by the EC.

In the current crisis we have not witnessed any default of a reinsurer suggesting the recovery rates should be lowered.

Recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as:

 - The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level.

 - The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the rating of a reinsurance counterparty drops below a certain level.

The choice for 40% without recognition of the above is very conservative

CEIOPS is referring to a paper of Moody's and uses this as evidence to propose a value of 10% for the recovery rate for defaulted derivatives. However the 10% is not reflected in this paper as being the threshold. The most presented recovery rates are well above the 10%. Furthermore the recovery rates are based on bonds and not derivatives. It seems CEIOPS is aiming to be even more conservative that the market consistent facts.

All in all, the recovery rate for reinsurance should be set to 50% as it has been done in QIS4. This is already a conservative choice. A motivation for setting the RR to 50% can also be found in the paper 'Solvency II Reinsurance Credit Risk' by Dr. Rainer Sachs, Munich Re, October 2007.

			CEIOPS recognises that default of reinsurance arrangements is rare. According to the Moody's report the recovery rate is a decreasing function with number of defaults. This has not been taken into account in the calibration of RR.	
398.	European Union member firms of Deloitte Touche To	3.106.	Taking into account latest crises, it might be better to reformulate the statement "RRre/RRfin should not be higher than 40%/10% respectively". Possibility applying lower ratios might better reflect reality for particular counterparties.	Noted. See CEIOPS' resolutions to comments 129 and 140.
399.	German Insurance Association – Gesamtverband der D	3.106.	The referenced papers do not imply CEIOPS' conclusion of a recovery rate of 40%. The GDV would like further detail on how this has been derived and attracts attention that the new calibration should stay in line with the 99.5% confidence interval set by the Directive. The crisis has not shown reasons for decreasing the recovery rate from reinsurers and consequently this prudency of CEIOPS might be interpreted as an attempt to increase the capital requirements for this risk in an artificial manner. Further, significant care is needed in the consideration of single data points coming from recent developments. Further, recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as: • The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level. • The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the	Noted. See CEIOPS' resolutions to comments 129 and 140.

			rating of a reinsurance counterparty drops below a certain level.	
			The GDV finds the 10% rate as being very low, since many of the recovery rates in the referenced paper are above 10% and this figure is not presented as a threshold. Further, collateral arrangements and the nature of the market where the derivative is traded seem not to be considered in its derivation.	
			We suggest returning to the QIS4 approach, which indicated a recovery rate of 50%. The GDV would like to attract attention on the long term implications of these figure following hasty judgements.	
400.	Legal & General Group	3.106.	As per 3.105	Noted. See CEIOPS' resolutions to comments 129 and 140.
401.	Lloyd's	3.106.	We disagree with this proposal. The paper does not justify a 40% recovery rate, which appears to be the consequence of an unduly conservative approach, and will increase capital requirements for no good reason. We consider that the recovery rate should be 50%, as with QIS4. . There have been market studies on recovery rates from insurance failure and these are consistent with 50%. Absent evidence to the contrary there is no reason to deviate from a selection of 50%.	Noted. See CEIOPS' resolution to comment 129.
402.	Munich RE	3.106.	All in all, the recovery rate for reinsurance should be set to 50% as it has been done in QIS4. This is already a conservative choice. A motivation for setting the RR to 50% can also be found in the paper 'Solvency II Reinsurance Credit Risk' by Dr. Rainer Sachs, Munich Re, October 2007.	Noted. See CEIOPS' resolution to comment 129.
403.	Pearl Group Limited	3.106.	CEIOPS proposes to reduce the recovery rate for reinsurance arrangements has been reduced to 40% (from 50%). This seems	Noted. See CEIOPS' resolution to comment 129.

			particularly harsh as reinsurance would be paid out before bonds and the recovery rates for most bonds is greater than 40%.	
			The recovery rate for derivatives is reduced to 10% (from 50%). This is a significant move which CEIOPS judges is more appropriate following the recent crisis. However, neither move is fully justified by the studies CEIOPS references. Pearl would like to see more robust justification for setting it at this level.	
			Also, Pearl assumes that a 40% recovery rate isn't to be applied to reinsurance that is internal to a Group but would appreciate CEIOPS confirming this is the case.	
404.	ROAM	3.106.	CEIOPS explains in this paper why the recovery rate has changed due to the financial crisis. ROAM wants to emphasize that during this crisis no reinsurers defaulted. ROAM thinks that there is no argument to justify a decrease for the recovery rate. Furthermore, in QIS4 Technical Specification in the footnote page 155, CEIOPS considers that "50% is a conservative choice". We suggest keeping this recovery rate by default.	Noted. See CEIOPS' resolutions to comments 129 and 140.
			Further, recovery rates on corporate bonds will underestimate the recovery rates on a defaulting reinsurance counterparty, as many reinsurance contracts have loss mitigating clauses such as:	
			• The insurer's right to retrospectively remove a reinsurance counterparty from the contract, if its rating drops below a certain level.	
			• The insurer's right to demand collateral (often in the form of cash deposits, or sometimes financial guarantees) when the rating of a reinsurance counterparty drops below a certain level.	
			ROAM finds the 10% rate as being very low, since many of the recovery rates in the referenced paper are above 10% and this	

			figure is not presented as a threshold.	
			ROAM is interested in finding from CEIOPS the reasoning behind the proposed rate. ROAM would like to attract attention on the long term implications of this figure following hasty judgements.	
405.	Legal & General Group	3.107.	These formulae are too detailed to give meaningful commentary on without understanding the impact on L&G. Also relevant to 3.108-3.112	Noted.
406.	CEA, ECO-SLV-09-446	3.108.	This ratio is set eight times higher than in CP28. The CEA would like to have further details as to how this was derived.	Noted. See CEIOPS' resolution to comment 170.
407.	CRO Forum	3.108.	This ratio is set eight times higher than in CP28. For this assumption the same considerations hold as in our comment to 3.106	Noted. See CEIOPS' resolution to comment 170.
408.	German Insurance Association – Gesamtverband der D	3.108.	This ratio is set eight times higher than in CP 28. The GDV would like to have further details as to how this was derived.	Noted. See CEIOPS' resolution to comment 170.
409.	Legal & General Group	3.108.	As per 3.107	Noted.
410.	Lloyd's	3.108.	The proposed calibration for the "alpha/tau" ratio of the Ter Berg model set out at 4 appears arbitrary (although not necessarily unreasonable).	Noted. See CEIOPS' resolution to comment 170.
411.	ROAM	3.108.	This ratio is set eight times higher than in CP28. ROAM would like to have further details as to how this was derived.	Noted. See CEIOPS' resolution to comment 170.

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412.	CRO Forum	3.109.	It is not clear why the parameter 3% has been chosen.	Noted. See CEIOPS' resolution to comment 203.
413.	Legal & General Group	3.109.	As per 3.107	Noted.
414.	Lloyd's	3.109.	We agree that using a lognormal distribution with a quantile factor of 3 would seem to be appropriate.	Noted. See CEIOPS' resolution to comment 203.
415.	Pearl Group Limited	3.109.	The probabilities of default have been based on a Pareto distribution with relatively arbitrary parameters. It would be appropriate for CEIOPS to benchmark this against published ratings for companies who are actually rated and covered by Solvency II to see that these are consistent.	Noted.
416.	CEA, ECO-SLV-09-446	3.110.	We would like to get from Ceiops the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions.	Noted. See CEIOPS' resolution to comment 220.
417.	FFSA	3.110.	CEIOPS outlines that the risk factors for type two exposures should be consistent with the model for type 1 exposure. FFSA would like to get clarification about the consistency given the fact that in both types all parameters appear to have been already fixed.	Noted. See CEIOPS' resolution to comment 220.
418.	German Insurance Association – Gesamtverband der D	3.110.	We would like to get from CEIOPS the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions.	Noted. See CEIOPS' resolution to comment 220.
419.	Legal &	3.110.	As per 3.107	Noted.

	General Group			
420.	Lloyd's	3.110.	We agree with consistency between type 1 and type 2 calibrations. However we consider that both the type 1 and the type 2 calibrations are too high.	Noted. See CEIOPS' resolutions to comments 170 and 220.
421.	ROAM	3.110.	We would like to understand from CEIOPS the reasoning of reconciling type 2 to type 1 exposures, as the two types of exposures are fundamentally different, but also for the other assumptions.	Noted. See CEIOPS' resolution to comment 220.
422.	Association of British Insurers	3.111.	We strongly disagree with CEIOPS proposal for x. The charge of 23% is too high and the assumptions generating it are not clear. • It is not clear why there is no mentioning towards the effects of the default of the counterparty towards the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value. • We would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does CEIOPS consider that on average, policyholders should have a BB rating). The 23% factor is conservative if the average rating of ceding institutions is higher than BB. The lack of granularity for this type implies that any exposures with higher rated or government counterparties are treated very onerously. The type 2 exposures should have a more granular approach which if appropriate could include these deficiencies. • We would like to understand the rationale for estimating a 33% recovery rate in case of default. We note that simply assuming a BBB rating and a 50% recovery rate would	Noted. See CEIOPS' resolution to comment 220.

			reduce the risk factor to 8%, while assuming an A rating and a 50% recovery rate would reduce the risk factor to 2%	
			We strongly disagree with CEIOPS proposal for y. Setting the "y" factor at 100% is very conservative and neglects any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration.	
			We also believe that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. We would suggest using a period of 12 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying.	
			Alternatively, CEIOPS should allow undertakings to use their experience in this regard.	
423.	CEA, ECO-SLV-09-446	3.111.	The CEA strongly disagrees with Ceiops proposal for x. The charge of 23% is too high and the assumptions generating it are not clear. • It is not clear why there is no mentioning of the effects of the default of the counterparty on the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value. • We would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does Ceiops consider that on average, policyholders should have a BB rating). The 23%	Noted. See CEIOPS' resolution to comment 220.

			factor is conservative if the average rating of ceding institutions is higher than BB. The lack of granularity for this type implies that any exposures with higher rated or government counterparties are treated very onerously. The type 2 exposures should have a more granular approach which if appropriate could include these deficiencies. • We would like to understand the rationale for estimating a 33% recovery rate in case of default. We note that simply assuming a BBB rating and a 50% recovery rate would reduce the risk factor to 8%, while assuming a A rating and a 50% recovery rate would reduce the risk factor to 2% • For a diversified portfolio of type 2 counterparties having BBB rating, where 1/3 of the exposure can be collected in default, the risk factor of 10% would be more appropriate.	
			The risk factors for type 2 exposures do not fit the specificities of certain markets, in particular the Dutch health insurance position. The LGD could be derived from the table in Annex A.9, depending on the diversification. A subcategory within type 2 for counterparties not rated and not subject to Solvency II supervision, but subject to government supervision or a separate subcategory for counterparties like hospitals/healthcare-institutions should be added to cater for this specificity	Noted. See CEIOPS' resolution to comment 221.
			The CEA strongly disagrees with Ceiops proposal for y. Setting the "y" factor at 100% is very conservative and neglects any possibility of recoveries. Ceiops should provide evidence on the choice of the calibration of this parameter.	Noted. See CEIOPS' resolution to comment 234.
			The CEA also believes that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in	Noted. See CEIOPS' resolution to comment 236.

			payment reflecting any credit difficulty from the intermediary. We would suggest using a period of 12 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying. Alternatively, Ceiops should allow undertakings to use their experience in this regard.	
424.	CRO Forum	3.111.	The assumptions leading to the values of the "x" and the "y" factor seem very conservative, they may be not market consistent and will lead to a capital requirement for these type of exposures that is higher than the 1 in 200. We would like to have evidence on the basis for this calibration.	Noted. See CEIOPS' resolution to comment 220.
425.	FFSA	3.111.	CEIOPS sets a risk factor for the calculation of the SCR of type 2 exposure in this section. • FFSA believes that the time period of 3 months after which a risk factor of 100% should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. FFSA would suggest using a period of [6] months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying. In addition, a probability of recovery given default should be set at 50% • FFSA also believes that the risk factor of 23% used for the calculation of the SCR of type 2 is overly conservative. FFSA would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does CEIOPS consider that on	Noted. See CEIOPS' resolutions to comments 234 and 236.

			average, policyholders should have a BB rating). FFSA notes that simply assuming a BBB rating and a 50% recovery rate would reduce the risk factor to 8%, while assuming a A rating and a 50% recovery rate would reduce the risk factor to 2%. • FFSA suggests that the probability of default of type 2 counterparties should correspond to a BBB rating. If the portfolio is well diversified and a third of the exposure can be collected in case of default then a risk factor x = 10% should be chosen.	
426.	German Insurance Association – Gesamtverband der D	3.111.	The GDV strongly disagrees with CEIOPS proposal for x. The charge of 23% is too high and the assumptions generating it are not clear. • It is not clear why there is no mentioning towards the effects of the default of the counterparty towards the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value. • We would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does CEIOPS consider that on average, policyholders should have a BB rating). The 23% factor is conservative if the average rating of ceding institutions is higher than BB. The lack of granularity for this type implies that any exposures with higher rated or government counterparties are treated very onerously. The type 2 exposures should have a more granular approach which if appropriate could include these deficiencies. • We would like to understand the rationale for estimating a 33% recovery rate in case of default. We note that simply assuming a BBB rating and a 50% recovery rate would	Noted. See CEIOPS' resolution to comment 220.

				reduce the risk factor to 8%, while assuming a A rating and a 50% recovery rate would reduce the risk factor to 2%	
				• For a diversified portfolio of type 2 counterparties having BBB rating, where 1/3 of the exposure can be collected in default, the risk factor of 10% would be more appropriate.	
				The risk factors for type 2 exposures do not fit the specificities of certain markets, in particular the Dutch health insurance position. The LGD could be derived from the table in Annex A.9, depending on the diversification. A subcategory within type 2 for counterparties not rated and not subject to Solvency II supervision, but subject to government supervision or a separate subcategory for counterparties like hospitals/healthcare-institutions should be added to cater for this specificity	Noted. See CEIOPS' resolution to comment 221.
				The GDV strongly disagrees with CEIOPS proposal for y. Setting the "y" factor at 100% is very conservative and neglects any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration.	Noted. See CEIOPS' resolution to comment 234.
				The GDV also believes that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. We would suggest using a period of 12 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying.	Noted. See CEIOPS' resolution to comment 236.
				Alternatively, CEIOPS should allow undertakings to use their experience in this regard.	

427.	GROUPAMA	3.111.	The parameter for type 2 exposure (23%) seems over-calibrated, and no specific reference is made regarding the nature of the exposure (client debs, deposits etc.). We suggest using different parameters regarding the nature of the exposure and allowing undertakings to use entity-specific parameters.	Noted. See CEIOPS' resolution to comment 220.
428.	Legal & General Group	3.111.	As per 3.107	Noted.
429.	Lloyd's	3.111.	Three months is too short a period on which to class recoveries as vulnerable. Reinsurance processing via intermediaries can be quarterly in arrears and receivables may well be paid after three months, without any implication that their recovery is in doubt. We suggest that this is increased to a minimum of six months.	Noted. See CEIOPS' resolution to comment 236.
430.	Munich RE	3.111.	Risk factors of 23% and 100% appear to be too high and not reflective of a 1 in 200 year scenario.	Noted. See CEIOPS' resolutions to comments 220 and 234.
431.	Pearl Group Limited	3.111.	This Appears to be quite a conservative set of assumptions. We would appreciate a fuller explanation / justification of these, at a standard that the supervisory authorities would require from ourselves. This will then give Pearl a good indication of the levels of justifications required and let us fully understand where the figures have came from.	Noted. See CEIOPS' resolutions to comments 220, 234 and 236.
432.	ROAM	3.111.	ROAM strongly disagrees with CEIOPS proposal for x. The charge of 23% is too high and the assumptions generating it are not clear. • It is not clear why there is no mentioning towards the effects of the default of the counterparty towards the liability value (for example with respect to policyholder debtors) and there is no mentioning of reducing the market value with collateral value.	Noted. See CEIOPS' resolution to comment 220.

- We would like to understand the reasons why type 2 exposures are considered to be equivalent to a BB exposure (for instance, on which ground does CEIOPS consider that on average, policyholders should have a BB rating). The 23% factor is conservative if the average rating of ceding institutions is higher than BB. The lack of granularity for this type implies that any exposures with higher rated or government counterparties are treated very onerously. The type 2 exposures should have a more granular approach which if appropriate could include these deficiencies.

- We would like to understand the rationale for estimating a 33% recovery rate in case of default. We note that simply assuming a BBB rating and a 50% recovery rate would reduce the risk factor to 8%, while assuming a A rating and a 50% recovery rate would reduce the risk factor to 2%

- ROAM suggests that the default probability of type 2 counterparties should correspond to a BBB rating. If the portfolio is well diversified and a third of the exposure can be collected in case of default then a risk factor $x = 10\%$ should be chosen

ROAM strongly disagrees with CEIOPS proposal for y. Setting the "y" factor at 100% is very conservative and neglects any possibility of recoveries. The capital requirement for this type of exposures is definitely higher than the 1 in 200. We would like to have any evidence on the basis for this calibration.	Noted. See CEIOPS' resolution to comment 234.
ROAM also believes that the time period of 3 months after which a risk factor of y should be applied to past-due intermediary receivables is overly conservative. Indeed, it is not uncommon for some receivables to be paid after 3 months, without such a delay in payment reflecting any credit difficulty from the intermediary. We	Noted. See CEIOPS' resolution to comment 236.

			would suggest using a period of 12 months 6 months to better discriminate between situations reflecting a specific credit risk not already captured in the general risk factor and simple administrative delays in paying. Alternatively, CEIOPS should allow undertakings to use their experience in this regard.	
433.	Association of British Insurers	3.112.	Setting the threshold at 15 appears to be arbitrary it does not fully reflect the diversification of exposures. We suggest that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate.	Noted. See CEIOPS' resolution to comment 241.
434.	CEA, ECO-SLV-09-446	3.112.	Setting the threshold at 15 appears to be arbitrary it does not fully reflect the diversification of exposures. The CEA suggests that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate.	Noted. See CEIOPS' resolution to comment 241.
435.	CRO Forum	3.112.	The reference to independent counterparties could be explained further. The text seems to imply different legal entities.	For determining the number of independent counterparties, those counterparties that belong to one group should be treated as one independent counterparty.
436.	DIMA (Dublin International Insurance & Management	3.112.	The threshold to distinguish between Type 1 and Type 2 exposures is set at 15 independent counterparties without real justification. There is risk that the addition of one additional counterparty (to exceed the threshold of 15), even if immaterial, would create a different result when compared to treatment as type 1 exposures (up to 15).	Noted. See CEIOPS' resolution to comment 241.

Resolutions on Comments on CEIOPS-CP-XX/08 (Title of CP)

	Summary of Comments on CEIOPS-CP-51/09			**CEIOPS-SEC-114-09**
	Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk			
437.	FFSA	3.112.	CP 28 separates the types of exposures by nature: (i) the type 1 exposures cover those which may not be diversified and where the counterparty is likely to be rated (reinsurance arrangements, derivatives,…), (ii) the type 2 includes other exposures (usually diversified and unrated), but CP 51 proposes a threshold based on the number of related counterparts of the undertaking (15 counterparties) to distinguish between type 1 and type 2 exposures. - FFSA would like to understand the consistency between CP 28 and CP 51 in terms of classification between type 1 and type 2 - FFSA considers that this threshold approach (15 counterparties) appears to be arbitrary. In any case, FFSA would like undertakings to keep the option (but not the obligation) to use Type 1 methodology for their largest counterparties, even in cases when the total number of counterparties exceeds 15.	Noted. See CEIOPS' resolution to comment 241.
438.	German Insurance Association – Gesamtverband der D	3.112.	Setting the threshold at 15 appears to be arbitrary it does not fully reflect the diversification of exposures. The GDV suggests that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate.	Noted. See CEIOPS' resolution to comment 241.
439.	Legal & General Group	3.112.	As per 3.107	Noted.
440.	Milliman	3.112.	We believe this guidance is inconsistent with CP 28 (split type1, type 2 was based on the nature of counterparties in CP28). Please provide more information that might support the use of 15 as a threshold.	Noted. See CEIOPS' resolution to comment 241.

			Summary of Comments on CEIOPS-CP-51/09 Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	CEIOPS-SEC-114-09
441.	ROAM	3.112.	Setting the threshold at 15 appears to be arbitrary as it does not fully reflect the diversification of exposures. ROAM suggests that the application of the threshold be optional, so that deposits with ceding institutions can be treated as Type 1 using the sophisticated approach or by aggregation (as per 3.34-3.38) if this is more accurate. CP 28 separates the types of exposures by nature: (i) the type 1 exposures cover those which may not be diversified and where the counterparty is likely to be rated (reinsurance arrangements, derivatives,…), (ii) the type 2 includes other exposures (usually diversified and unrated), but CP 51 proposes a threshold based on the number of related counterparts of the undertaking (15 counterparties) to distinguish between type 1 and type 2 exposures.	Noted. See CEIOPS' resolution to comment 241.
442.	Association of British Insurers	3.113.	We are pleased to see that an alternative is proposed to determine the default probability, using solvency ratio for undertaking submitted to solvency II regime (or equivalent). However, it is not clear how an intra-group reinsurance should be treated. It seems sensible that intra-group reinsurance should be on a look-through basis. Here we do not refer to a look-through basis in the same way as described in 3.71-3.74, but rather to aggregate the SCR of the cedant with that of the reinsurer, after allowing for an appropriate restriction on capital fungibility. Furthermore it is not clear how to treat intra-group reinsurances where there is no onwards retrocession. This text seems to have been drafted quite narrowly to cover a specific case without considering all the uses for intra-group reinsurance.	Noted. See CEIOPS' resolution to comment 260.
			Confidential comment deleted	

			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
444.	CEA, ECO-SLV-09-446	3.113.	The CEA is pleased to see that an alternative is proposed for determining the default probability by using solvency ratios, for undertaking submitted to Solvency II regime or equivalent. We look forward to cooperating with Ceiops in developing an appropriate methodology for deriving default probabilities based on solvency ratios. We strongly believe that undertakings, with rated counterparties subject to Solvency II, should have the option to choose the most appropriate between the two methods (rating or solvency ratio).	Disagreed. As it might lead to cherry picking, undertakings will not be allowed to choose between the standard approach and the solvency ratio approach.
445.	CRO Forum	3.113.	The fully funded nature of SPVs should be given special consideration. CEOIPS could consider providing the probabilities of default for rated entities in line with CEIOPS' parameters in 3.120. The calibration for default probabilities is very conservative reflecting market conditions at a particularly stressed time. There is insufficient evidence to justify the calibration and further clarity is requested	Noted. See CEIOPS' resolution to comment 136.
446.	European Union member firms of Deloitte Touche To	3.113.	Determination of probability of default based on solvency ratio might be recognized as important step towards simplification of the approach. However, it should be recognised that one might expect SCR based on internal model to be smaller than by obtained by the standard formula potentially resulting in incomparable OF/SCR ratio between companies We would suggest that CEIOPS tests the theoretically derived table of default (annex B) against the real data (e.g. comparison to probability of default resulting from CRA rating for rated companies). This also applies to para. 3.120	Noted.
447.	FFSA	3.113.	FFSA is glad to see that an alternative is proposed to determine the	Noted. See CEIOPS' resolution to

			default probability, using solvency ratio for undertaking submitted to solvency II regime (or equivalent). Therefore, CEIOPS allows this method only in case of an undertaking not rated.	comment 444.
			FFSA would be in favour of letting the choice to cedant who has a counterparty which is rated and also submitted to solvency II to choose between the two methods (rating or solvency ratio).	
448.	German Insurance Association – Gesamtverb and der D	3.113.	The GDV is pleased to see that an alternative is proposed for determining the default probability by using solvency ratios, for undertaking submitted to solvency II regime or equivalent.	Noted. See CEIOPS' resolution to comment 444.
			We are very much interested in developing with CEIOPS a full methodology for deriving default probabilities based on solvency ratios in the near future.	
			The GDV is in favour of letting the undertaking, having a counterparty which is rated and also submitted to solvency II, to choose between the two methods (rating or solvency ratio).	
449.	Legal & General Group	3.113.	Agree, other than it is not clear how an intra-group reinsurance should be treated. It seems sensible that intra-group reinsurance should be on a look-through basis. Here we do not refer to a look-through basis in the same way as described in 3.71-3.74, but rather to aggregate the (total) SCR of the cedant with that of the reinsurer, after allowing for an appropriate restriction on capital fungibility.	Noted. See CEIOPS' resolution to comment 260.
			Furthermore it is not clear how to treat intra-group reinsurances where there is no onwards retrocession. This text seems to have been drafted quite narrowly to cover a specific case without considering all the uses for intra-group reinsurance.	
450.	Lloyd's	3.113.	We agree.	Noted.
451.	ROAM	3.113.	ROAM is pleased to see that an alternative is proposed to determine	Noted. See CEIOPS' resolution to

			the default probability, using solvency ratio for undertaking submitted to Solvency II regime (or equivalent).	comment 444.
			ROAM is in favour of letting the undertaking, having a counterparty which is rated and also submitted to Solvency II, to choose between the two methods (rating or solvency ratio).	
452.	Association of British Insurers	3.114.	We understand that (re)insurers are expected to use ratings from recognised credit rating agencies and assign them a probability of default within the guidelines of Directive 2006/48/EC taking account of 3.117B. We note that for QIS 4 this assignment was already provided.	Noted. These tables will be updated for QIS5.
			On this basis we ask for these assignments to be provided and maintained centrally to avoid duplication of effort and potentially different results. With this system we would want to be sure we were happy with the method in the first place, especially adjustments linked to 3.117B. Without seeing these numbers it is hard to judge whether 3.120 and 3.122 are reasonable / consistent.	
453.	Legal & General Group	3.114.	We understand that (re)insurers are expected to use recognised CRA's ratings and assign them a probability of default within the guidelines of Directive 2006/48/EC taking account of 3.117B. We note that for QIS 4 this assignment was already provided.	Noted. See CEIOPS' resolution to comment 452.
			On this basis we ask for these assignments to be provided and maintained centrally to avoid duplication of effort and potentially different results. With this system we would want to be sure we were happy with the method in the first place, especially adjustments linked to 3.117B. Without seeing these numbers it is hard to judge whether 3.120 and 3.122 are reasonable / consistent.	
			Also relevant to 3.115-3.117	
454.	Legal & General	3.115.	As per 3.114	Noted. See CEIOPS' resolution to comment 452.

Summary of Comments on CEIOPS-CP-51/09	CEIOPS-SEC-114-09
Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	

	Group			
455.	Legal & General Group	3.116.	As per 3.114	Noted. See CEIOPS' resolution to comment 452.
456.	Association of British Insurers	3.117.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	Noted. See CEIOPS' resolution to comment 247.
457.	CEA, ECO-SLV-09-446	3.117.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended and as such we recommend eliminating this requirement.	Noted. See CEIOPS' resolution to comment 247.
458.	CRO Forum	3.117.	Whether state intervention or not would have led to a default is uncertain. To assume that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating. Moreover, entities were open to state intervention due to public pressure as the markets deteriorated. Therefore it is difficult to assess which default numbers are to be amended. We strongly disagree with this statement and propose that it be removed from the advice.	Noted. See CEIOPS' resolution to comment 247.
459.	German Insurance Association	3.117.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions	Noted. See CEIOPS' resolution to comment 247.

			allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended and as such we recommend eliminating this requirement.	
460.	Legal & General Group	3.117.	As per 3.114	Noted. See CEIOPS' resolution to comment 452.
461.	Pearl Group Limited	3.117.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	Noted. See CEIOPS' resolution to comment 247.
462.	ROAM	3.117.	Whether state intervention or not would have led to a default is uncertain. To have the assumption that state intervention was necessary to avoid default is not true as many financial institutions allowed for state intervention to retain their rating and because market pressure was huge to allow state intervention. Therefore it is difficult to assess which default numbers are to be amended.	Noted. See CEIOPS' resolution to comment 247.
			Confidential comment deleted	
464.	Association of British Insurers	3.118.	The relationship between an insurance company and its own subsidiary is very different to that between an insurance company and an external counterparty. Therefore a look through approach should be allowed to reflect the dynamics of the insurance group, otherwise there may be incentives to set up sub-optimal structures.	Noted. See CEIOPS' resolution to comment 260.
465.	CEA, ECO-SLV-09-446	3.118.	We strongly hold the opinion that the look through approach should be allowed in order to recognize the practical nature of intra-group reinsurance arrangements and in view of potential future developments on the group support side of the Directive.	Noted. See CEIOPS' resolution to comment 260.

Resolutions on Comments on CEIOPS-CP-XX/08 (Title of CP)

			Summary of Comments on CEIOPS-CP-51/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk**	**CEIOPS-SEC-114-09**
466.	CRO Forum	3.118.	We are still the opinion that in these cases also the look through approach should be applicable. In any case within one Member State if the absence of the Group Support Regime seems to be a too great hurdle. Also if in a few years time the GSR would become available, CEIOPS is to revisit this section and to allow the look through approach throughout the group.	Noted. See CEIOPS' resolution to comment 260.
467.	German Insurance Association – Gesamtverband and der D	3.118.	We strongly hold the opinion that the look through approach should be allowed in order to recognize the practical nature of intra-group reinsurance arrangements and in view of potential future developments on the group support side of the Directive.	Noted. See CEIOPS' resolution to comment 260.
468.	Legal & General Group	3.118.	The derivation of these probabilities in Annex B seems somewhat arbitrary, but they look reasonable. Also relevant to 3.119-3.121	Noted.
469.	Lloyd's	3.118.	We agree.	Noted.
470.	Pearl Group Limited	3.118.	We have the opinion that the look through approach should be allowed in order to recognise the practical nature of intra-group reinsurance arrangements and in view of potential future developments on the group support side of the Directive.	Noted. See CEIOPS' resolution to comment 260.
471.	Association of British Insurers	3.119.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
472.	CEA, ECO-SLV-09-446	3.119.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
473.	CRO Forum	3.119.	To set the probability leading to a risk factor of 100% is very conservative and does neglect any possibility of recoveries. The	Noted. See CEIOPS' resolution to comment 234.

			capital requirement for these type of exposures are definitely higher than the 1 in 200.	
474.	German Insurance Association – Gesamtverband der D	3.119.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
475.	Legal & General Group	3.119.	As per 3.118	Noted.
476.	Pearl Group Limited	3.119.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
477.	ROAM	3.119.	It is unclear how the default probability of 30% is derived.	Noted. See CEIOPS' resolution to comment 269.
478.	Association of British Insurers	3.120.	We appreciate the more risk sensitive approach. Was there any benchmarking of companies who completed the QIS4 with their external credit rating to see if the probability of default was reasonably consistent between the two? If CEIOPS holds on this table, the last category OF/SCR <= 80%, PD=10% should be further divided into OF/SCR >70%, PD=5% and OF/SCR <= 70%, PD=10%. This would maintain the approximately logarithmic jumps in the PD and is based on Annex B.	Noted. See CEIOPS' resolution to comment 273.
479.	CEA, ECO-SLV-09-446	3.120.	We appreciate the more risk sensitive approach. Was there any benchmarking of companies who completed the QIS4 with their external credit rating to see if the probability of default was reasonably consistent between the two? If Ceiops holds on this table, the last category OF/SCR <= 80%,	Noted. See CEIOPS' resolution to comment 273.

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			PD=10% should be further divided into OF/SCR >70%, PD=5% and OF/SCR <= 70%, PD=10%. This would maintain the approximately logarithmic jumps in the PD and is based on Annex B.	
480.	European Union member firms of Deloitte Touche To	3.120.	See comment on 3.113	Noted.
481.	German Insurance Association – Gesamtverband der D	3.120.	We appreciate the more risk sensitive approach. Was there any benchmarking of companies who completed the QIS4 with their external credit rating to see if the probability of default was reasonably consistent between the two? If CEIOPS holds on this table, the last category OF/SCR <= 80%, PD=10% should be further divided into OF/SCR >70%, PD=5% and OF/SCR <= 70%, PD=10%. This would maintain the approximately logarithmic jumps in the PD and is based on Annex B.	Noted. See CEIOPS' resolution to comment 273.
482.	Legal & General Group	3.120.	As per 3.118	Noted.
483.	Lloyd's	3.120.	More information on the derivation should be supplied. For example, B.7 assumes a parameter of a=6 (a key parameter) for which no justification is given.	Noted. See CEIOPS' resolution to comment 275.
484.	Pearl Group Limited	3.120.	We appreciate the more risk sensitive approach and we would like to get from CEIOPS the calibration of the solvency ratio rating approach. Was there any benchmarking of companies who completed the QIS4 with their external credit rating to see if the probability of default was reasonably consistent between the two?	Noted. See CEIOPS' resolution to comment 273.
485.	ROAM	3.120.	We appreciate the more risk sensitive approach and we would like	Noted. See CEIOPS' resolution to

			to get from CEIOPS the calibration of the solvency ratio rating approach. Was there any benchmarking of companies who completed the QIS4 with their external credit rating to see if the probability of default was reasonably consistent between the two?	comment 273.
486.	Legal & General Group	3.121.	As per 3.118	Noted.
487.	Lloyd's	3.121.	We agree.	Noted.
			Confidential comment deleted	
489.	Association of British Insurers	3.122.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. Furthermore not all counterparties are subject to Solvency II but subject to another regulatory/ prudential supervision (ex. the CRD). This may be included as a factor as well. See also comments to 3.118 on the basis for the probability.	Noted. See CEIOPS' resolution to comment 244.
			Confidential comment deleted	
491.	CEA, ECO-SLV-09-446	3.122.	It is necessary that Ceiops recognises that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financially weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's.	Noted. See CEIOPS' resolution to comment 244.

			Furthermore not all counterparties are subject to Solvency II but subject to another regulatory/ prudential supervision (ex. the CRD). This may be included as a factor as well.	
492.	CRO Forum	3.122.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. Furthermore not all counterparties are subject to Solvency II but subject another regulatory / prudential supervision (for example the CRD). This should be included as a factor as well. CEIOPS needs to specify the treatment for SPV's where the fully funded concept will drive security. The treatment of unrated entities requires further consideration. Counterparties that are financially strong and subject to good quality regulation could be assigned a probability of default of 10% on the grounds they have not requested a credit rating. CEIOPS should reconsider this point as it currently penalises investment in companies who choose not to seek external ratings.	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.
493.	DIMA (Dublin International Insurance & Management	3.122.	A probability of 10% should be assigned to unrated counterparties where no SCR can be assigned to them. No justification for the use of 10% is being given. In addition, this could be construed as stifling developing country growth.	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.
494.	German Insurance Association –	3.122.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.

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	Gesamtverband der D		have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's. Furthermore not all counterparties are subject to Solvency II but subject to another regulatory/ prudential supervision (ex. the CRD). This may be included as a factor as well.	
495.	Legal & General Group	3.122.	Agree, but same comment as 3.118B on the basis for the probability.	Noted.
496.	Lucida plc	3.122.	It is not clear what the "requirement of the solvency ratio rating" is. If one looks at 3.118 as the requirement then the only requirement is to be "not rated by a recognised CRA" and "subject to Solvency II supervision". If this is the case then 3.122 could be worded in a much clearer way to read: "A probability of default of 10% should be assigned to counterparties which are not rated by a recognised CRA and are not subject to Solvency II supervision". If 3.118 is not the requirement then the requirement does not appear to be stated anywhere, which makes 3.122 difficult to assess. Note that we also feel that this assessment is somewhat arbitrary.	Paragraph 3.80 states that if the last calculated figures are not available or if there are indications that the ratio significantly and adversely deviates from the most recent known figures, the solvency ratio rating should not be applied.
497.	Munich RE	3.122.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens.	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.

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498.	Pearl Group Limited	3.122.	This seems to be very conservative and penal. CEIOPS needs to review this and develop a broader scope can be set for conterparties to be allowed?	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.
499.	ROAM	3.122.	It is necessary for CEIOPS to consider that not all counterparties want to have a rating for various reasons. The absence of a rating does not imply these counterparties are financial weak or would have a higher probability of default. The implicit requirement to have a rating will imply higher costs for those unrated companies and unjust additional administrative burdens. In our opinion it is not the role of the supervisors to generate additional business for the CRA's. Furthermore not all counterparties are subject to Solvency II but subject to another regulatory/ prudential supervision (ex. the CRD). This may be included as a factor as well.	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.
500.	XL Capital Ltd	3.122.	Too much reliance on CRA's. Potentially pro-cyclical in particular cliff edge effect with non-rated counterparties, which could be very onerous. This will also be determined by the decision on equivalence (paragraph 3.124).	Noted. See CEIOPS' resolutions to comments 170, 244 and 255.
501.	Association of British Insurers	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Partly agreed. If cover is given by a letter of credit, then this should be taken into account. See revised text.
502.	CEA, ECO-SLV-09-446	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Noted. See CEIOPS' resolution to comment 501.

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503.	CRO Forum	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Noted. See CEIOPS' resolution to comment 501.
504.	German Insurance Association – Gesamtverb and der D	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Noted. See CEIOPS' resolution to comment 501.
505.	Legal & General Group	3.123.	Agree	Noted.
506.	Lloyd's	3.123.	We agree.	Noted.
507.	ROAM	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Noted. See CEIOPS' resolution to comment 501.
508.	XL Capital Ltd	3.123.	If a guarantee of the parent of the group head covers the relevant parts of the group, it should be allowed to use the credit rating of the parent.	Noted. See CEIOPS' resolution to comment 501.
509.	Pearl Group Limited	3.124.	CEIOPS should identify who the equivalent supervisors are likely to be as while this seems reasonable in principle if it turns out that CEIOPS won't recognise many other supervisors then it becomes overly penal.	This will be covered in CEIOPS' advice on third country equivalence.
510.	XL Capital Ltd	3.124.	2The scope of this advice does not include the treatment of counterparties under supervision equivalent to Solvency II"	Noted. See CEIOPS' resolution to comment 510.
511.	Association of British Insurers	A.4.	There should be an explanation for CEIOPS when and how it will change these parameters in the future. In their opinion the assumption setting is a dynamic process. But which principles are	Noted.

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			guiding this process. Why does CEIOPS have the opinion that the crisis is actually reflective of a changed trend and that the capital requirement is still based on the 1 in 200 event? The default rates are mainly based on some banking examples but should not be used for (re-) insurers, as there were no bailouts in Europe.	
512.	CEA, ECO-SLV-09-446	A.4.	Ceiops should first explain when and how it will change these parameters in the future. In their opinion the assumption setting is a dynamic process. But which principles are guiding this process. Why does Ceiops have the opinion that the crisis is actually reflective of a changed trend and that the capital requirement is still based on the 1 in 200 event? The default rates are mainly based on some banking examples but should not be used for (re-) insurers as there were no bail outs in Europe.	Noted.
513.	CRO Forum	A.4.	CEIOPS should first explain when and how it will change these parameters in the future. In their opinion the assumption setting is a dynamic process. But which principles are guiding this process. Why does CEIOPS have the opinion that the crisis is actually reflective of a changed trend and that the capital requirement is still based on the 1 in 200 event? The default rates are mainly based on some banking examples but should not be used for (re-) insurers as there were no bail outs in Europe.	Noted.
514.	Pearl Group Limited	A.4.	CEIOPS should first explain when and how it will change these parameters in the future. In their opinion the assumption setting is a dynamic process. But which principles are guiding this process. Why does CEIOPS have the opinion that the crisis is actually reflective of a changed trend and that the capital requirement is still based on the 1 in 200 event?	Noted.

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			Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Counterparty default risk	
515.	ROAM	A.4.	CEIOPS should first explain when and how it will change these parameters in the future. In their opinion the assumption setting is a dynamic process. But which principles are guiding this process. Why does CEIOPS have the opinion that the crisis is actually reflective of a changed trend and that the capital requirement is still based on the 1 in 200 event? The default rates are mainly based on some banking examples but should not be used for (re-) insurers as there were no bail outs in Europe	Noted.
516.	Munich RE	A.5.	The increase of the percentages for AAA and AA ratings of 550% and 200%, respectively, seem very high and not based on long term average default probabilities.	Noted.
517.	Pricewaterho useCoopers LLP	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 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). 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 soley 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. In the case of a single counterparty with a rating of B or below	In the 99.5% VaR scenario, it seems extemely unlikely that CCC-rated counterparties will survive.

			(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.	
518.	Association of British Insurers	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified.	The QIS4 approach, as stated in A.9, significantly overstated the diversification when only two counterparties were used. In fact, for rating classes A and higher, the capital charge *increased* as, ceteris paribus, the number of counterparties was increased. CEIOPS considers this to be enough justification to acknowledge the weaknesses of the QIS4 approach.
519.	CEA, ECO-SLV-09-446	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified	Noted. See CEIOPS' resolution to comment 518.
520.	CRO Forum	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified	Noted. See CEIOPS' resolution to comment 518.
521.	Pearl Group Limited	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified.	Noted. See CEIOPS' resolution to comment 518.
522.	ROAM	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified	Noted. See CEIOPS' resolution to comment 518.
523.	XL Capital Ltd	A.7.	The charges for two counterparties are significantly higher, which seems not to be justified.	Noted. See CEIOPS' resolution to comment 518.

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524.	Association of British Insurers	A.8.		We agree that the model needs to be adjusted to remove the "spill-over" effect of B and CCC counterparties.	Agreed. See revised text.
525.	CEA, ECO-SLV-09-446	A.8.		The CEA agrees that the model needs to be adjusted to remove the "spill-over" effect of B and CCC counterparties.	Agreed. See revised text
526.	ROAM	A.8.		ROAM agrees that the model needs to be adjusted to remove the "spill-over" effect of B and CCC counterparties.	Agreed. See revised text
527.	CRO Forum	A.9.		The marginal diversification benefit between 100 names and 10 names from the proposed approach is very small. CEIOPS should comment on these counterintuitive results.	This is because the model assumes that already at 10 counterparties there is a substantial degree of diversification. CEIOPS notes that the CRO Forum would intuitively prefer a higher diversification threshold.
528.	Lloyd's	B.7.		The assumption of a=6 is a key assumption but has been given no justification. The derivation of the parameter should be made available.	Noted. See CEIOPS' resolution to comment 275.