

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

TITLE I

[<sup>XI</sup>VALUATION AND RISK-BASED CAPITAL REQUIREMENTS  
(PILLAR I), ENHANCED GOVERNANCE (PILLAR II)  
AND INCREASED TRANSPARENCY (PILLAR III)]

CHAPTER V

SOLVENCY CAPITAL REQUIREMENT STANDARD FORMULA

SECTION 6

*Counterparty default risk module*

*Subsection 2*

*Type 1 exposures*

*Article 199*

**Probability of default**

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

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

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

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

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

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

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

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

5 Paragraphs 3 and 4 of this Article shall only apply as of the first date of public disclosure, by the undertaking corresponding to the exposure, of the report on its solvency and financial condition <sup>F1</sup>.... Before that date, if a credit assessment by a nominated ECAI is available for the exposures, paragraph 2 shall apply. Otherwise, the exposures shall be assigned the same risk factor as the ones that would result from the application of paragraph 3 to exposures to an insurance or reinsurance undertaking whose solvency ratio is 100 %.

6 Exposures to a third country insurance or reinsurance undertaking for which a credit assessment by a nominated ECAI is not available, situated in a country whose solvency regime is deemed equivalent <sup>F2</sup>... in accordance with [<sup>F3</sup>Article 379A of this Regulation], and which complies with the solvency requirements of that third-country, shall be assigned a probability of default equal to 0,5 %.

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

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

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

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

11 For the purposes of paragraph 10, exposures fully, unconditionally and irrevocably guaranteed by counterparties listed in [<sup>F4</sup>Commission Implementing Regulation (EU) 2015/2011 laying down implementing technical standards with regard to the lists of regional governments and local authorities, exposures to whom are to be treated as exposures to the

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central government in accordance with Directive 2009/138/EC of the European Parliament and of the Council] shall be treated as exposures to the central government.

[<sup>F5</sup>]<sup>X2</sup>12 Notwithstanding paragraphs 2 to 11, exposures referred to Article 192(3) shall be assigned a probability of default equal to 0,002 %.

13 Notwithstanding paragraphs 2 to 12, exposures referred to Article 192(3a) shall be assigned a probability of default equal to 0,01 %.]

#### Editorial Information

- X2** Substituted by [Corrigendum to Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Official Journal of the European Union L 161 of 18 June 2019\)](#).

#### Textual Amendments

- F1** Words in [Art. 199\(5\)](#) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(33)(a)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F2** Words in [Art. 199\(6\)](#) omitted (31.12.2020) by virtue of [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(33)(b)(i)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F3** Words in [Art. 199\(6\)](#) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(33)(b)(ii)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F4** Words in [Art. 199\(11\)](#) substituted (31.12.2020) by [The Solvency 2 and Insurance \(Amendment, etc.\) \(EU Exit\) Regulations 2019 \(S.I. 2019/407\)](#), regs. 1(2), **11(33)(c)** (as amended by [S.I. 2020/1385](#), regs. 1(2), 54(2) and with savings in [S.I. 2019/680](#), reg. 11)
- F5** Inserted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\) \(Text with EEA relevance\)](#).

## Article 200

### Type 1 exposures

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

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

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

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

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

where  $\sigma$  denotes the standard deviation of the loss distribution of type 1 exposures.

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

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

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

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

### Article 201

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

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

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

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

where:

- (a) [<sup>F6</sup>the sum covers all possible combinations  $(j,k)$  of probabilities of default on single name exposures in accordance with Article 199;]
- (b)  $TLGD_j$  and  $TLGD_k$  denote the sum of losses -given- default on type 1 exposures from counterparties bearing a probability of default  $PD_j$  and  $PD_k$  respectively.

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

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

where:

- (a) the first sum covers all different probabilities of default on single name exposures in accordance with Article 199;
- (b) the second sum covers all single name exposures that have a probability of default equal to  $PD_j$ ;
- (c)  $LGD_i$  denotes the loss-given-default on the single name exposure  $i$ .

#### Textual Amendments

- F6** Substituted by [Commission Delegated Regulation \(EU\) 2019/981 of 8 March 2019 amending Delegated Regulation \(EU\) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance \(Solvency II\)](#) (Text with EEA relevance).

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### Changes and effects yet to be applied to :

- Regulation revoked by [2023 c. 29 Sch. 1 Pt. 3](#)
- Recital 53 Sentence 1 replacement by [EUR 2016/2283](#) Regulation

### Changes and effects yet to be applied to the whole legislation item and associated provisions

- Art. 177(2)(b) words omitted by [S.I. 2019/407 reg. 11\(25\)\(a\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words omitted by [S.I. 2019/407 reg. 11\(25\)\(b\)\(ii\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(h)(i) words substituted by [S.I. 2019/407 reg. 11\(25\)\(b\)\(i\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(r) words substituted by [S.I. 2019/407 reg. 11\(25\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(s) words substituted by [S.I. 2019/407 reg. 11\(25\)\(c\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(2)(t) words substituted by [S.I. 2019/407 reg. 11\(25\)\(d\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(a) words substituted by [S.I. 2019/407 reg. 11\(25\)\(f\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)
- Art. 177(5)(c) words substituted by [S.I. 2019/407 reg. 11\(25\)\(f\)](#) (This amendment not applied to legislation.gov.uk. Reg. 11(25)(39) omitted immediately before IP completion day by virtue of S.I. 2019/710, regs. 1(2), 22)