

### Criteria | Structured Finance | General:

# Counterparty And Supporting Obligations Update

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# Counterparty And Supporting Obligations Update

*(Editor's Note: This criteria article amends and partially supersedes "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010.)*

1. Standard & Poor's Ratings Services is updating its criteria for counterparty and supporting obligations. This update addresses the counterparty risk principle described in "Principles-Based Rating Methodology For Global Structured Finance Securities," published May 29, 2007.

## SCOPE OF THE CRITERIA

2. These criteria apply to all new and existing structured finance securities and covered bonds globally and to certain U.S. public finance securities. Specific aspects of this framework also apply to asset-backed commercial paper (ABCP) programs. These counterparty criteria do not apply to forms of credit substitution where the counterparty is intended to cover the repayment of the securities in full. Examples of credit substitution include bond insurance, guarantees, letters of credit (LOCs), stand-by purchase agreements, repurchase agreements, and principal collateral in funded synthetic structures. Other criteria cover these forms of support.

## SUMMARY OF CRITERIA UPDATE

3. Notable changes to the Dec. 6 criteria include:
  - We revised the effective date of the criteria to Jan. 18, 2011, from Jan. 17, 2011, because the earlier date falls on a U.S. national holiday.
  - We delayed the effective date for application of the counterparty criteria to covered bonds.
  - We simplified tables 4 and 6 of the Dec. 6, 2010, criteria article to reflect one set of volatility buffers for floating-to-floating swaps and to expand the scope of the 30-year volatility buffers to 30 years or more.
4. This criteria article amends and partially supersedes "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010.

## IMPACT ON OUTSTANDING RATINGS

5. The changes outlined in this criteria update are not expected to change the ratings impact stated in "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010.

## EFFECTIVE DATE AND TRANSITION

6. The criteria outlined in "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010, and the updates outlined here are effective Jan. 18, 2011, for all securities and programs described in the section on "Scope Of The Criteria" with the exception of covered bonds.

## APPLICATION TO COVERED BONDS

7. Covered bonds are dual-recourse in nature, first to the covered bond issuer and then to the cover pool assets. Given this dual-recourse and the fact that covered bond programs may include multiple counterparties providing support, Standard & Poor's may supplement the application of the criteria as described in paragraphs 101 and 102 of "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010, with additional criteria that reflect the features of those covered bond programs. We are currently reviewing our treatment of counterparties in covered bond programs and we will publish any revised criteria as an update.

## ASSUMPTIONS

8. Tables 4 and 6 in "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010, list the volatility buffers for interest rate and currency swaps, respectively. We present revised versions of those tables here as tables 1 and 2, respectively. We have eliminated the differentiation in tenor for floating-to-floating rate swaps. We have also expanded the application of the floating-to-floating volatility buffers to indices other than EURIBOR and LIBOR.

**Table 1**

Volatility Buffers For Interest Rate Swaps (Percent Of Notional)*		
Swap tenor - legal final (years)	Fixed-to-floating rate swaps (%)	Floating-to-floating rate swaps (%)
3	8.5	4.0
5	12.5	5.0
10	15.0	6.0
15	18.0	7.0
30 or more	21.0	8.0

\*Replaces table 4 in "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010

**Table 2**

Volatility Buffers For Cross Currency Swaps (Percent Of Notional)*			
Swap tenor – legal final (years)	Fixed-to-floating rate swaps (%)	Fixed-to-fixed rate swaps (%)	Floating-to-floating rate swaps (%)
3	10	20	5
5	15	30	8
10	18	36	9
15	22	44	11
30 or more	25	50	13

\*Replaces table 6 in "Counterparty And Supporting Obligations Methodology And Assumptions," published Dec. 6, 2010.

9. In our view, these simplified tables provide a more transparent view of the criteria and expand the criteria to cover a broader range of scenarios.

## RELATED CRITERIA AND RESEARCH

- Counterparty And Supporting Obligations Methodology And Assumptions, published Dec. 6, 2010.

These criteria represent the specific application of fundamental principles that define credit risk and ratings

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