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January 31, 2023

Mr. Philip Barlow

Chair, Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE WG)
National Association of Insurance Commissioners (NAIC)

Re: Follow-up to Academy Presentation on CLOs given to RBCIRE WG

Dear Mr. Barlow,

On behalf of the American Academy of Actuaries¹ C1 Work Group (C1WG), thank you for the opportunity to present early findings on collateralized loan obligations (CLOs) risk-based capital (RBC). As the work group continues to research the issue, it aims to produce analysis that is relevant for regulators. To that end, this letter seeks clarification on several issues raised in the [December CLO report](#) to the RBCIRE WG that needs regulatory judgment.

1. Given the exposure statistics that the C1WG shared with RBCIRE, what is the urgency of updating C-1 factors for CLOs? Is the risk sufficiently material to warrant a short-term solution before a long-term solution can be determined?
2. What information does the RBCIRE need to establish the statistical safety level (SSL)? The SSL specifies the statistical measure for the capital requirement, including the choice of risk measure (percentile vs. conditional tail expectation vs. other) and the level, and the time horizon. For reference, the C1 bond factors are set at the 96th percentile over a ten-year period.
3. Does RBCIRE believe that the “no RBC arbitrage” principle should be applied to the C-1 factor methodology?
4. Would RBCIRE like to follow up on exploring possible C-3 implications of the optionality embedded in CLOs (including callability, resets, or other choices available to the equity tranche vis-à-vis the debt tranches)?
5. Should active management within the CLO structure be considered when developing C-1 factors?

The C1WG appreciates your attention to the issues raised in this letter and looks forward to discussing them further with you. Should you have any questions or comments in response to

¹ The American Academy of Actuaries is a 19,500-member professional association whose mission is to serve the public and the U.S. actuarial profession. For more than 50 years, the Academy has assisted public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

this letter, please contact Amanda Barry-Moilanen, life policy analyst
(barrymoilanen@actuary.org).

Sincerely,

Stephen Smith
Chair, C1 Work Group
American Academy of Actuaries