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February 14, 2023

Carrie Mears
Chair, Valuation of Securities (E) Task Force
National Association of Insurance Commissioners (NAIC)

Cc: Philip Barlow, Tom Botsko

Re: Proposed Methodology for Modeling Collateralized Loan Obligations (CLOs)

Dear Ms. Mears,

Thank you for the opportunity to comment on proposed methodology for modeling CLOs. The American Academy of Actuaries¹ C1 Work Group (work group) appreciates the open dialogue granted by the Securities Valuation Office (SVO) and Structured Securities Group (SSG) staff as we have studied the topic of Risk-Based Capital (RBC) for CLOs. The work group aims to support the Risk-Based Capital Investment Risk and Evaluation Working Group (RBCIRE) in its objective to determine appropriate C1 factors for CLOs.

Interested parties are requested to comment on a model methodology document, but the work group suggests that a discussion on the SSG model be deferred until RBCIRE provides guidance on CLO RBC methodology objectives. The work group is looking to RBCIRE to provide direction on objectives, in response to a recent [letter](#) sent to RBCIRE.

The work group delivered a [presentation](#) to RBCIRE at the 2022 Fall National Meeting, which included its view on objectives for a CLO RBC methodology. The work group proposed a type of risk measure to use for CLO capital requirements and indicated that total C1 for the CLO tranches should not necessarily add up to total C1 for the underlying bank loans. The risk transformation within CLOs extends the consideration of risk beyond credit risk into other types of market risk. Therefore, implementing the concept of RBC arbitrage requires a more thorough and holistic analysis. Should you have any questions or comments in response to this letter, please contact Amanda Barry-Moilanen, life policy analyst (barrymoilanen@actuary.org).

Stephen Smith
Chairperson, C1 Work Group
American Academy of Actuaries

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.