

CLO C-1 Update to Risk-Based Capital Investment Risk and Evaluation (E) Working Group (RBCIRE)

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Chairperson, Academy C-1 Subcommittee

Key Work Completed so Far

- 2022: [CLO overview](#)
- 2023: [ABS RBC principles](#)
- 2024–2025:
 - Acquisition of Moody’s CLO data
 - Collateral modeling approach
 - Scenario compression approach

Completed: Acquisition of Moody's CLO Data

- Candidate comparable attributes
- Tranche-level data
- Deal-level data
- Collateral details
- Examples:
 - Tranche/collateral ratings (by CRP)
 - Overcollateralization
 - Tranche thickness

Completed: Collateral Modeling Approach

- Prioritized consistency with C-1 bond factors
- Used C-1 bond model to produce loss distribution
- Adjusted for seniority of loans vs. bonds and any other known, relevant differences
- Considered closed-form approximation of loss distribution
- Stressed the timing of losses

Completed: Scenario Compression Approach

- Could not feasibly run thousands of collateral loss scenarios through CLO cash flow model
- Could not use only a single scenario due to the cliff-shaped loss distribution of CLOs
- Instead, we will subdivide the tail of the collateral loss distribution into several discrete ranges, where the average loss of each range is run through the CLO cash flow model

Current/Remaining Work

- Acquisition of C-1 bond factor model or results, allowing for:
 - Collateral modeling specification/approximation
 - Scenario compression specification
- Parameterization of CLO cash flow model
- Conversion of CLO cash flows into losses for C-1 capital, allowing for:
 - Identification of comparable attributes
 - Development of base factors
- Diversification & concentration

Questions

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