Clarifications:

Issue	SSG Comment
Default	

INGIIBAN

NAIC Collateralized Loan Obligation (CLO) Stress Tests Methodology

We will model all tranches of broadly syndicated loan CLOs held by U.S. insurance companies.

At this stage we will exclude:

- Commercial real estate (CRE) CLOs The risk is commercial real estate, and different assumptions are required.
- Re-securitizations, asset-backed securities (ABS), collateralized debt obligations (CDOs) and trust preferred securities (TruPS) CDOs They are out of scope.
- Middle market CLOs They are temporarily excluded, as the asset class requires specialized assumptions. We hope to return to these assets shortly.

Another limitation is the availability of the specific QLO via our third-party software vendor.

These will be determined Scenario portion of the process following the setting of the methodology.

Assume that the inputs are period based on the current rating.

In addition, assume each loan has a recovery rate, based on its seniority, for that period.

Historical default rates are reported at the issuer level, while the debt instrument typically has an issue rating, which may be different. The issuer rating is used to calibrate the default rate, while the issue rating influences the recovery rate.

We propose the following logic:

- If an asset has an Issuer rating available within our third-party software (generally those or Fitch), that rating will be used to set the applicable default rating.
- Otherwise, if an asset has an Issue rating available within our third-party software (generally those reported by Moody, S&P or Fitch) that rating will be adjusted to set the applicable default rating as follows:

Asset is reported as Senior Secured Loan or Senior Unsecured Bond: default rating = Issue rating + 1 notch (i.e. higher default probability)

Otherwise: default rating = Issue rating
This is different from our stress tests

o If the Securities Valuation Office has assigned an NAIC