NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

Date: 5/15/23

Virtual Meeting

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP
Wednesday, May 17, 2023
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

ROLL CALL

RISK-BASED CAPITAL INVESTMENT RISK AND EVALUATION (E) WORKING GROUP

Philip Barlow, Chair	District of Columbia	William Leung/Debbie Doggett	Missouri
Thomas Reedy	California	Lindsay Crawford	Nebraska
Wanchin Chou	Connecticut	Bob Kasinow/Bill Carmello	New York
Ray Spudeck/Carolyn Morgan	Florida	Dale Bruggeman/Tom Botsko	Ohio
Vincent Tsang	Illinois	Rachel Hemphill	Texas
Roy Eft	Indiana	Doug Stolte	Virginia
Carrie Mears/Kevin Clark	Iowa	Steve Drutz/Tim Hays	Washington
Fred Andersen	Minnesota	Amy Malm	Wisconsin

NAIC Support Staff: Dave Fleming/Julie Gann

AGENDA

1. Discuss Review of Yearend 2022 Data Reported for Residual Tranches —*Philip Barlow (DC)* Attachment 1

2. Discuss Comment Letters Received on Residual Factor and Sensitivity Test Factor—*Philip Barlow (DC)*

   - Connecticut Insurance Department Attachment 2
   - Iowa Insurance Division Attachment 3
   - American Academy of Actuaries' (Academy) Attachment 4
   - American Council of Life Insurers (ACLI) Attachment 5
   - Equitable, MetLife, New York Life, Northwestern Mutual, Pacific Life, Prudential Financial, Inc., Western & Southern Attachment 6
   - Everlake Life, Delaware Life, Clear Spring Life and Annuity, Security Benefit Life Attachment 7
   - Global Atlantic Financial Group Attachment 8
   - Athene Attachment 9
   - Nassau Financial Group Attachment 10
   - PineBridge Investments Attachment 11
   - American Investment Council Attachment 12

3. Discuss Any Other Matters Brought Before the Working Group
   —*Philip Barlow (DC)*

4. Adjournment

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

MEMORANDUM

TO: Members of the RBC Investment Risk and Evaluation (E) Working Group
FROM: NAIC Staff
DATE: May 10, 2023
RE: Residual Data – Life Companies

This memo has been developed to provide information on the reporting of residuals by life companies on Schedule BA for year-end 2022. Summaries of information are provided for the following aspects:

- Residual Acquisition Dates
- Residual Investments Involving Related Parties
- Size of Residuals Held by Reporting Entity
- Residuals as a Percentage of Surplus and Invested Assets
- Impact of 45% Residual Factor

Note: Investments identified as misreported as residuals have been removed from the data.

Residual Acquisition Dates

A vast majority in terms of count (67%) and BACV (80%) reported were acquired in the last three years.

Year Acquired	Count	Reported BACV	Percentage of Total BACV
2022	247	1,783,005,489	38%
2021	191	1,246,440,600	27%
2020	75	682,486,811	15%
2019	36	171,991,877	3.7%
2018	49	146,490,438	3.2%
2017	29	56,481,661	1.2%
2016	32	128,910,951	2.8%
2015	4	1,827,971	0.04%
2014	84	420,424,276	9.0%
2013	2	708,750	0.02%
2002 -2012	5	0	
No Date	11	10,675,518	0.23%
Total	**762**	**4,649,444,342**	

Notes:

- *Amount shown is book adjusted carrying value (BACV) as of year-end 2022.*
- *The count includes all reported investments, including those with zero BACV.*
- *76 of the 2014 residuals identified the same vendor.*
- *For the securities without a reported acquisition date, all had a zero BACV except 1.*

Residual Investments Involving Related Parties:

As shown below, 56% of residuals involve related parties in some form. Most of these are from securitizations (or similar structures) with a small percentage of the underlying collateral in direct credit exposure. The full description is as follows:

3. *Securitization or other similar investment vehicles, such as mutual funds, limited partnerships, and limited liability companies involving a relationship with a related party as sponsor, originator, manager, servicer, or other similar influential role and for which less than 50% (including 0%) of the underlying collateral represents investments in direct credit exposure to related parties.*

This description generally means that a related party was involved in originating the investments. This could be another company within the group or other affiliate that serves as an asset manager.

As detailed in SSAP No. 25, paragraph 1, related party transactions can be subject to abuse because reporting entities may be induced to enter transactions that may not reflect economic realities or may not be fair or reasonable to the reporting entity or its policyholders.

In addition to these concerns, specifically for investments that may be formed and held completely within a single group or by related parties, there may be no market validation on the investment in terms of price, fair value, fees, or overall structure. (*It is uncertain the extent these investments are 100% owned by related parties or have non-related party investors.)*

Related Party Code		Count	Reported BACV	Percentage of Total BACV
1	Direct credit exposure.	43	306,533,214	6.6%
2	Securitization with related party with 50% or more of the underlying collateral in direct credit exposure.	1	5,039,607	0.1%
3	Securitization with related party with less than 50% of the underlying collateral in direct credit exposure.	236	2,280,012,224	49%
4	Securitization where structure reflects an in-substance related party transaction, but does not involve a related party as sponsor, originator, manager, servicer, etc.	0		
5	Investment is identified as related party, but the role is a different arrangement from the prior options.	1	13,960,500	0.3%
6	Investment does not involve a related party.	478	2,035,403,345	44%
No Entry		3	8,495,452	0.2%
	Total	**762**	**4,649,444,342**	

Size of Residual Investments Held by Each Reporting Entity:

The individual BACV for each reported residual investment also varies significantly. As detailed below, over 50% of reported residuals reflect less than $2M BACV and over 80% are reported at less than $10M.

122 investments were reported with a BACV greater than $10M, and 9 investments were reported with a BACV of $50M or greater.

BACV	Count	Running Total	Percentage of Total
0	60	60	7.87%
0 - $500,000	161	221	29.00%
$500K - $1M	76	297	38.98%
$1M - $2M	115	412	54.07%
$2M – $3	61	473	62.07%
$3M - $5M	65	538	70.60%
$5M – $7M	48	586	76.90%
$7M - $10M	54	640	83.99%
$10M - $20M	51	691	90.68%
$20M - $30M	38	729	95.67%
$30M - $50M	24	753	98.82%
$50M - $70M	3	756	99.21%
$70M - $100M	4	760	99.74%
> $100M	2	762	100%
Total	**762**		

Residuals as a Percentage of Surplus and Total Invested Assets

The amount of residuals held as a percentage of surplus varies significant by company:

Count	% of Surplus
1	Over 50%
2	20-30%
7	10-20%
2	5-10%
32	1-5%
34	< 1%
78 Companies	

Count	% of Invested Assets
7	1-3%
4	0.5%-1%
67	< 0.5%
78 Companies	

For the 12 companies with residuals over 5% of surplus, $1.36 billion was noted to have underlying collateral of fixed income and $1.69 billion was noted with ‘other’ underlying collateral.

Impact of 45% RBC Factor

Although company specific information cannot be shared publicly, estimated individual company calculations of RBC, after removing the impacts of the 30% factor on the risk component totals going into the covariance adjustment and replacing them with the results of a 45% factor, was noted to have the following impact to RBC results:

Number of Companies	Percentage Change*
3	4.0% - 8.0%
5	1.0% - 3.0%
8	0.50% - 1.0%
6	0.20% - 0.50%
6	0.10% - 0.20%
6	Less than 0.10%

** These numbers have been calculated by determining the difference between current and estimated RBC and then calculating the percentage of the change. For example, if a company had an 860% RBC and the application of the 45% factor within the estimation decreased RBC to 859%, this would represent a change of 1, and a 0.12% percentage change in the calculated RBC ratio.*

This exercise was completed for 34 of the reporting entities with residuals. The companies represent those with the largest amounts of residuals and those whose residual balances are a greater percentage of surplus and/or total invested assets. The analysis also made certain simplifying assumptions such as excluding any change to the impact of concentration or reinsurance included in the actual RBC result.

Although significant discussion has occurred regarding the impact of the factor increase, this information illustrates that the underlying concern of the factor increase is likely not the actual impact to RBC for most companies.

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

I understand the concerns as a regulator that some companies are investing more in the residual tranches and the RBC factor has not reflected the risk charge properly yet for the residual tranches. However, on behalf of CID I would like to propose a delay in implementing the proposed 45% interim RBC factor for residual tranches for the following reasons:

1. Most of us actuaries agree that a more detailed analysis is needed to meet our professional standards in communication per ASOP 41.
2. We have not completed the cost and benefit analysis for the proposed 45% interim RBC factor for residual tranches to clearly define the impacts to some companies, and the benefits in regulation to avoid any unexpected capital risk if incurred.
3. With many uncertainties in the current high inflation high interest rate environment and with a small probability of potential recession in the market in 2023, we should avoid any potential disruptions to the market.
4. We have discussed with companies; some of them in favor of the 45% interim proposal but some against. Although they have different views, they mostly agreed that they could deliver a better study to support their arguments within a year.

CID appreciates your attention to the issues raised in this letter and looks forward to discussing with you further.

Best Regards,

Wanchin W. Chou, FCAS, MAAA, CPCU, CSPA, CCRMP
Chief Insurance Actuary and Asst. Deputy Commissioner
State of Connecticut Insurance Department
Office Phone: 860-297-3943
Cell: 860-488-4408

Cc: Commissioner Mais,
Deputy Commissioner Kosky,

Fields of Opportunities

STATE OF IOWA

KIM REYNOLDS
GOVERNOR

ADAM GREGG
LT. GOVERNOR

DOUG OMMEN
COMMISSIONER OF INSURANCE

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation Working Group
c/o Dave Fleming
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2107

Re: Residual Tranche Exposures

Dear Mr. Barlow:

The Iowa Insurance Division appreciates the opportunity to comment on the two items related to residual tranches in securitizations which are currently exposed for comment. The majority of our comments relate to the proposal for an interim increase in the risk-based capital ("RBC") factor that applies for residual tranches from 30% to 45%, followed by an alternative interim proposal utilizing the sensitivity disclosures adopted during the April 20 meeting.

Background

Upon establishment of the Risk-Based Capital Investment Risk and Evaluation ("RBC IRE") Working Group, the Financial Condition (E) Committee charged the working group with two initial mandates. The first was to proceed with Phase II of the bond factor project to develop new factors tailored specifically to structured securities / asset backed securities ("ABS"). The second was to review the factor for residual tranches in ABS structures specifically.

For the avoidance of doubt, **the Iowa Insurance Division continues to support both of these projects in the strongest of terms**. Without question, ABS now make up a significant portion of life insurers' investment portfolios. The bond factors that are currently applied for ABS were derived from historical corporate bond data. Due to the nature by which cash flows are distributed through the capital stack of a structured asset, it would be reasonably expected that loss experience, particularly during tail stress scenarios, would be different between equivalently rated corporate bonds and ABS. This was acknowledged at the time the bond factors were reassessed as a necessary Phase II of the bond factor project. Through data-driven modeling, these differences can be quantified and tailored factors can be developed. The Working Group has kicked off efforts for such a project, leveraging assistance from the American Academy of Actuaries.

While the current bond factors are likely not sufficiently well fit-to-purpose, they are at least risk-sensitive based on the assigned NAIC Designation. The same cannot be said for the residual tranche of securitized assets. The factor that currently applies is a flat default charge of 30%, which was developed to apply to equity investments. This factor is neither risk-sensitive, nor was it developed based on any data that could reasonably be expected to correlate to the risks of residual tranches. As a result, it is likely that the current

factor for residual tranches is a particularly poor fit. Similar to the debt tranches, it is possible to develop more tailored factors through data-driven modeling, which is incorporated into the working plan of the project mentioned above.

Because of the particularly poor fit of the current capital framework as it applies to residual tranches, the Working Group has been considering an interim step to increase the RBC factor temporarily, while the longer-term analytical project plays out. This step is based on the strong intuition that the charge that applies should be higher based on review of two types of ABS: Collateralized Fund Obligations ("CFOs") and Broadly-Syndicated Collateralized Loan Obligations ("BSL CLOs"). In these examples, a clear reduction in RBC is observable pre- and post-securitization.

Several unknowns have existed throughout Working Group discussions. These include 1) what factor should apply based on the risk of the investment, 2) whether the observations from the two ABS examples referenced above are representative of all ABS, and 3) whether insurers hold material amounts of residual tranches. With the exception of #3, the answers to these questions remain unknown.

Beginning with the filing of the 2022 Annual statement, residual tranches became separately reported for the first time. Upon NAIC staff's review of the reported data as summarized in the public materials, Life insurers hold approximately $4.7B of residual tranches as of 12/31/22, in aggregate. This makes up approximately 0.06% of the $8.5T+ of life industry assets. Larger concentrations in individual insurers exist, with no single insurer investing greater than 3% of their total assets in residual tranches. From an RBC perspective, some high-level analysis of insurers with the largest holdings indicates no individual insurer would have an RBC ratio reduction of greater than 8% (e.g. 400% CAL RBC to 368% CAL RBC) using a 45% factor. Two insurers would have their RBC impacted by 4-8%, while four others would be impacted 1-3%. All others were under 1%.

The proposal to apply an interim charge applies to residual tranches of all types of ABS and is currently exposed using a 45% factor.

<u>45% Interim Factor</u>

The Iowa Insurance Division does not support an interim increase in the RBC charge at this time for the following reasons:

- It is our view that changes in capital requirements should be developed and supported through data-driven, analytical processes. This allows all stakeholders an opportunity to provide input into the methodology and assumptions used in developing capital requirements, and provides a process for surfacing the direct and indirect consequences of proposed changes.
- As this process is often long, it has the drawback of being slow to respond to pressing regulatory concerns. For this reason, rare circumstances may require temporary action without the usual amount of analytical support. While we believe that certain circumstances may warrant a temporary approach, we also believe such an approach should be limited to situations that present a material and pressing solvency concern. Absent these infrequent, urgent situations, we believe that changes in capital requirements should follow the usual analytical process.
- Based on our review of the current data as referenced above, we do not believe the level of investment in residual tranches constitutes a material and pressing solvency concern, currently or in the near-term future, in the aggregate or for individual insurers. No individual company would have

its RBC ratio in relation to Company Action Level meaningfully impacted by increasing the charge to 45%.

- Taking a temporary step in situations where there is no material and pressing solvency concern risks unforeseen consequences which have the potential to negatively impact financial markets, insurers, and policyholders.
- The proposal to apply an interim charge applies to residual tranches of all types of ABS. The view that a higher charge is warranted is primarily informed by a review of CFOs and BSL CLOs where a clear reduction in RBC is observable pre- and post-securitization. However, it remains unknown whether the same applies to all types of ABS, and many of the reported residual tranches appear to fall into this "other" category
- Various types of ABS have varying thicknesses or sizes of the residual tranche. A fixed charge will result in a higher RBC requirement for thicker tranches. Larger, thicker tranches are by definition less leveraged than smaller, thinner ones. While more analysis would be needed to understand the impact of this dynamic on the various types of ABS, it is possible that the RBC reduction observed for BSL CLOs would be not be observed to the same extent in other types of ABS. If this is the case, increasing the factor to 45% for any such investments may be not be warranted.
- We believe alternative regulatory tools exist that would be effective in mitigating the risks that are of concern, without the potential for unintended consequences, as detailed in the next section.

Alternative Interim Step

As an alternative interim step to increasing the RBC charge for residual tranches at this time, we would propose the following:

- Set the sensitivity factor for residual tranches to 15%. This added to the existing 30% charge will allow regulators the ability to easily observe companies' RBC position using a 45% factor.
- Request NAIC staff to generate a summary report that includes the RBC ratio pre- and post-sensitivity test.
- This report can be provided to both the RBC IRE Working Group and Financial Analysis Working Group ("FAWG") for review in regulator-only session.
- Upon review of this report, FAWG can identify any individual companies that have higher concentration in residual tranches, and through coordination with the domiciliary state, request additional information from the insurer.
- This information could include, though is not limited to: 1) detail around the structure and underlying collateral, 2) summary of the insurer's risk management processes and how it determines its risk appetite for its asset allocation to residual tranches, and 3) detail around how the company models its residual tranches and the projected impact to the company's solvency in stress scenarios.
- Additionally, if upon review, the RBC IRE Working Group determines that the growth in holdings significantly alters the urgency of action, whether by organic growth or refinement to reporting guidance, it can revisit an interim step to increase the charge. The structure to accommodate such an increase has already been adopted.
- It is also possible that, at the time revisiting an interim charge may be warranted, work on the longer-term project will have provided better clarity around the remaining unknowns mentioned earlier in

this letter: 1) what the charge should be and 2) whether an increased charge should apply to all ABS residual tranches.

- To the extent that regulators desire more timely reporting of this data, semi-annual or quarterly supplemental filings could be requested to be confidentially submitted to FAWG for any companies where more frequent monitoring is desired.

Iowa believes the process described here would adequately address the regulatory concerns around investments in residual tranches while the longer-term, data-driven, analytical process plays out. It would avoid any potential for unforeseen and unintended consequences of adopting a change without the usual amount of supporting analysis.

Closing

The ongoing work to address the capital treatment of ABS is among the most important initiatives currently in process at the NAIC. Iowa offers its full support of these ongoing efforts, including the potential outcome of higher RBC factors for certain assets, when supported by deliberative, data-driven analysis.

Thank you for your consideration,

Kevin Clark, Chief Accounting Specialist, Iowa Insurance Division

Carrie Mears, Chief Investment Specialist, Iowa Insurance Division

Cc: Doug Ommen, Insurance Commissioner, Iowa Insurance Division

May 8, 2023

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

Re: Exposure 2023-09-IRE—Interim Residual Tranche C1 Factor

Dear Chair Barlow,

On behalf of the American Academy of Actuaries[1] C1 Work Group (C1WG), thank you for the opportunity to comment on the interim residual tranche C1 factor of 45% that was exposed at the April 20 meeting of RBCIRE WG.

We are continuing our work toward a rigorous approach for setting collateralized loan obligation (CLO) C1 factors, including for CLO residual tranches.

As outlined in our December CLO report to the RBCIRE WG, the 30% C1 factor that currently applies to residual tranches is based on an analysis of the S&P 500, which is unrelated to residual tranches of structured securities. The same is true for the exposed 45% C1 factor proposal.[2] This is the case not only for CLOs, but for effectively all residual tranches.

We understand that regulators have a concern regarding residual tranche C1 and have exposed a new residual factor to be applied on an interim basis.

We agree with interested parties[2] that equities and residual tranches have materially different risk profiles. For this reason, we believe equities and residual tranches should not automatically share the same C1 factor.

Any factor that is adopted on an interim basis will be the product of regulator judgment, which we respect is at the discretion of regulators. We encourage a directed effort to substitute appropriate analytical basis for regulator discretion to establish statistically justified capital requirements for structured securities.

We look forward to supporting regulators in the broader objective of developing an appropriate basis for structured security C1 factors.

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[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.

[2] A 45% factor was first introduced in a Feb. 3 interested party letter by a coalition of life insurers. An April 12 letter by the same group of interested parties elaborated further on their support for a factor equal to at least 45%. The Feb. 3 letter justifies the level of 45% by applying a 1.5-beta adjustment to the current equity factor of 30%. The April 12 letter supplements this with historical loss data on the collateral of structured securities compared against typical sizes for residual tranches.

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Sincerely,

Stephen Smith
Chairperson, C1 Work Group
American Academy of Actuaries

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ACLI
Financial Security for Life

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May 12, 2023

Mr. Phil Barlow, Chair
Life RBC Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: 2023-09 IRE Residual Factor Exposure

Dear Mr. Barlow:

Thank you for the opportunity to provide these initial comments on the proposed residual factor (the "factor") that was exposed on April 20, 2023.

ACLI continues to support regulators' efforts to assess the potential need for determining capital charges associated with securitized investments that better reflect the actual risk of the various tranches. ACLI appreciates the Working Group's recent adoption of a structure for a single interim factor approach, rather than a three-bucket approach.

While we understand some regulators' desire to develop an interim solution with some level of expediency, we do have concerns that 45% was recommended without the typical level of rigor provided when making RBC changes.

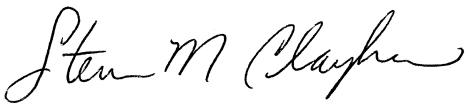
ACLI members have a variety of views on the proposed factor of 45%. Some ACLI members suggest that the factor chosen should not be more conservative than complete non-admittance of the asset for the average industry participant, and likely less so, given the risk premium already contained in policy reserves. For example, using 2021 aggregated life RBC data, ACLI calculated that on average, due to covariance, approximately 57% of a C1cs factor ends up impacting the RBC requirement. Thus, a 45% factor would result in an ultimate after-tax RBC charge of 20.26%. This seems to suggest that for a company with a CAL RBC of 486%, a 45% factor is the rough

equivalent of non-admittance. Of course, the impact for any individual company will vary from this average. ACLI is not privy to the data necessary to determine other metrics, such as a distribution of the impact.

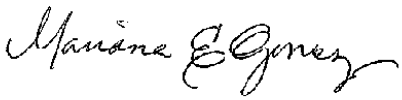
While RBC is often described as a "blunt instrument", ACLI believes that thoughtful analysis of proposed factors ultimately benefits the strength of the RBC framework - and we look forward to reviewing the Working Group's impact assessment of the 45% factor as described in the Capital Adequacy Task Force procedures.[1]

Thank you for the opportunity to share these views with you. Please feel free to contact us if you have any questions or concerns about our comments.

Sincerely,



Steve Clayburn



Mariana Gomez-Vock

cc: Brian Bayerle, ACLI

[1] The Capital Adequacy Task Force procedures for proposed amendments to RBC blanks and instructions requires an impact analysis for any factor change. *See* Procedures of the Financial Condition (E) Committee Capital Adequacy Task Force in Connection with Proposed Amendments to Risk Based Capital Blanks and Instructions, *available at* https://content.naic.org/sites/default/files/inline-files/committees_e_capad_related_rbc_procedures.pdf (last retrieved on May 3, 2023).

ACLI
Financial Security for Life

Steve Clayburn, FSA, MAAA
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May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

Re: 2023-10-IRE Sensitivity Test Factor

Dear Mr. Barlow:

The American Council of Life Insurers ("ACLI") appreciates the opportunity to provide comments on the NAIC's exposure of the sensitivity test factor. ACLI continues to think that sensitivity testing for residual tranches could be an important tool for regulators. The importance varies depending on the decision for the interim solution for residual tranches.

Originally, ACLI suggested a 10% factor as it will provide regulators with a 10% increase as well as a 10% reduction for an insurer's sensitivity testing with the current 30% residual tranche factor. (We note that the factor on the RBC sensitivity testing is additive, e.g., a 30% residual tranche factor would have the .1 (10%) "added" for sensitivity testing.)

Knowing that there is current exposure and discussion to potentially change the interim factor for residual tranches, if the residual tranche factor is increased, ACLI does not see the need for a sensitivity factor at this time; however, the exhibit could include a factor in the future as the work on asset-backed securities continues and this sensitivity testing can be used for future calculations and future impact assessments for the permanent solution (i.e., the results of decisions made once modeling is complete). If regulators decide to continue with the current year-end 2022 factor, we suggest the 10% factor, such that sensitivity testing could occur.

Thank you for the opportunity to outline the ACLI's thoughts the sensitivity testing.

Sincerely,

Steve Clayburn

cc: Mariana Gomez-Vock, ACLI
Brian Bayerle, ACLI

May 12, 2023

Mr. Philip Barlow, Chair
RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: Structured securities – Proposed 45% interim RBC factor for residual tranches

Dear Mr. Barlow,

On behalf of the undersigned life insurance companies ("the companies"), we are writing to express our continued support for an interim RBC factor for the residual tranches of structured securities. The process for consideration of interim RBC charges has been transparent, thorough, and provided adequate time for interested parties to review and respond to these issues over the last year.[1] Accordingly, we strongly feel that the RBC Investment Risk & Evaluation (E) Working Group ("RBC IRE") should adopt the proposed single, interim RBC factor of 45% without delay.

Adoption of a higher interim RBC factor for securitized residuals represents an important first step in reducing capital arbitrage—as identified and discussed in the May 25, 2022 IAO Issue Paper (the "IAO Issue Paper") on the "Risk Assessment of Structured Securities – CLOs"—between securitized tranches of structured securities and the underlying collateral. To that end, based on the results of the last several years of SVO-led CLO stress testing, the IAO Issue Paper suggested the adoption of new NAIC Designation Categories (i.e., 6.A, 6.B and 6.C) with recommended RBC factors of 30%, 75% and 100% respectively, to address tail risk in structured finance tranches and any unintended arbitrage opportunities. The August 20, 2022 referral from the Valuation of Securities Task Force ("VoSTF") to the Capital Adequacy Task Force ("CATF") and RBC IRE endorsed these recommendations as an appropriate interim step while the SVO began modeling CLOs to help determine potential loss risk under stressed scenarios.

In our previous letters to the Working Group on February 3, 2023 and April 12, 2023 (attached), the companies provided support for a single 45% interim RBC charge for the residual tranches of structured securities as a data driven compromise in lieu of the SVO's proposal, which we believe achieves the same goals of better addressing underlying risk and appropriately narrowing the capital arbitrage gap. The companies' February 3 letter also noted that sensitivity testing can provide regulators with valuable information, but sensitivity testing alone will not provide data on what appropriate RBC factors should be nor will it meet the regulators' goals of reducing RBC arbitrage while

[1] The Securities Valuation Office (SVO) recommendation surrounding three suggested interim RBC charges for the NAIC 6 designation (30%, 75%, and 100%) was initially included in the IAO "Issue Paper on the Risk Assessment of Structured Securities – CLOs," which was released on May 25, 2022 and exposed as part of the VoSTF's June 9, 2022 meeting activities. The RBC IRE exposed the SVO interim RBC proposal on December 14, 2022, the proposed single interim RBC charge framework on March 23, 2023, and the companies' suggested 45% interim RBC charge on April 20, 2023. The companies' suggested 45% interim RBC charge was initially proposed in the February 27, 2023 Working Group materials.

more refined charges are developed. As such, immediate adoption of the interim 45% RBC factor is warranted regardless of whether regulators decide to employ sensitivity testing.

The companies further note that without a measurable increase in the RBC factor for residual tranches there is mathematically no logical way to narrow the capital arbitrage gap. That is, in order to have the RBC of the assets supporting a CLO ("Collateral RBC") be comparable to the RBC of the combined CLO bonds ("Blended RBC"), mathematically we need to have a greater than 30% RBC assigned to the residual tranche of the CLO in order to reasonably match the risk of each CLO tranche and its RBC. If the RBC factor for residual tranches were to remain at the current 30% level, then in order to eliminate the opportunities for capital arbitrage the BB, BBB and A-rated tranches would also need to receive a 30% RBC factor (NAIC 6 designation) and the AA-rated tranche would need a 16.9% factor (NAIC 5A designation):

Current CLO RBC Arbitrage			
Tranche	**% of CLO**	**Designation**	**RBC**
AAA	63%	1A	0.158%
AA	12%	1C	0.419%
A	6%	1F	0.816%
BBB	6%	2B	1.523%
BB	5%	3B	4.537%
Residual	8%	6	30%
Blended RBC [A]			2.917%
Collateral RBC [B]			9.535%
Arbitrage [B-A]			6.618%

Solving Arbitrage without Interim Factor			
Tranche	**% of CLO**	**Designation**	**RBC**
AAA	63%	1A	0.158%
AA	12%	5A	16.942%
A	6%	6	30%
BBB	6%	6	30%
BB	5%	6	30%
Residual	8%	6	30%
Blended RBC [A]			9.633%
Collateral RBC [B]			9.535%
Arbitrage [B-A]			-0.098%

Sources, Barclays, MIM.

As demonstrated above, attempting to solve the capital arbitrage issue without changing the RBC factor for the residual tranche is not logical: the tranches are sequentially subordinated and RBC factors should be proportional to the varying degrees of risk. In the table above the RBC factor for multiple tranches senior to the residual tranche would need to share the same flat 30% level instead of a declining level of RBC as would be expected given their declining levels of risk. The only logical, mathematically feasible way to reduce the capital arbitrage problem is to significantly increase the RBC factor for the residual tranche. Furthermore, this change aligns with an RBC framework that was derived in a ***data-driven fashion*** by the NAIC in developing of factors for corporate credits – which serve as the collateral and sole source of repayment in CLOs.

The interim factor solution addresses a present and *growing* risk. In this current environment of economic uncertainty, it is critical for regulators to enact an interim RBC factor that better protects insurers (and by extension policyholders) from potential losses associated with the riskiest tranches of structured securities as soon as possible. As discussed in our February 17, 2023 letter to VoSTF, we note that, in particular, U.S. life insurer CLO investments have grown 20% per year over the last decade, whereas General Account assets have only grown 5% per year. We expect to see additional growth in CLOs as a percentage of general account assets this year. The companies also believe the application of an interim factor will provide regulators with additional information for facilitating the long-term

solution to address the remaining tranches (which will remain at the C-1 bond factor levels in the interim) and provide more granular capital considerations for the residual and mezzanine tranches.

The companies agree with regulators that the process of determining an interim RBC charge should be both transparent and data driven. To that end, we provided analysis to support an interim RBC charge of at least 45% for the residual tranches in our April 12, 2023 letter to the Working Group. In that letter, we noted that when historical collateral losses are compared to typical residual tranche thickness, it demonstrates a likely potential residual tranche loss in excess of 45% in stress events. In 2020, some CLO residuals saw losses exceeding 60%, far greater than the losses experienced by public equities. We would also note the SVO is currently running the first "proof of concept" tests of the CLO modeling methodology with six different types of actual CLOs based on the stress levels it uses for its own stress tests. We would encourage the Working Group to review the results of those findings to help its final decisions on the appropriate level of the interim RBC charge.

Additionally, ACLI's May 12 letter identifies CATF procedures for proposed amendments to RBC blanks and instructions as requiring an impact analysis for any factor change. We believe that our data can help to inform that impact analysis; further, it is the companies' understanding that such analysis does not need to be completed before approval of any factor and therefore does not present a hurdle to continued expedient action on this issue.

The companies are aware of concerns that an interim 45% RBC factor may be inappropriate for the residual tranches of some structured securities due to differing underlying risks and/or thicknesses. We believe concerns about any such outliers are best addressed through increased transparency as we work toward a permanent solution. For this to be a data driven process, those who believe there are "low-risk" residual tranches should identify the securities in question and provide clear justification for different treatment.

Some parties have also raised concerns that a 45% RBC charge held at 300%+ redundancy will result in a capital holding of over 100% or an incentive to non-admit the asset. However, this is an overly simplistic conclusion, as RBC charges are pre-diversification with other risks (C-2 through C-3) and it also ignores other negative effects of non-admitting an asset.[2] More importantly, regulatory capital requirements are intended to identify weakly capitalized companies, not to incentivize investment choices under "normal" circumstances.

Finally, the current 30% RBC factor does not meet regulators' commitment to a transparent and data driven interim charge. The existing RBC treatment of the residual tranche is based arbitrarily on public equity experience. However, public equities and the residual tranche of structured securities have materially different risk profiles. We have not seen **any** data that justifies maintaining a 30% RBC factor for the residual tranche.

The companies strongly believe the proposed single interim RBC factor of 45% should be adopted as exposed. As discussed in our April 12 letter, such a charge is consistent with the existing high-beta equity RBC charge and a directionally appropriate outcome demonstrated by the data.

[2] Regulators should consider if it is appropriate to assume diversification benefit with credit for a residual tranche when its underlying collateral is comprised of credit assets.

Respectfully Submitted,

Equitable
MetLife
New York Life
Northwestern Mutual
Pacific Life
Prudential Financial, Inc.
Western & Southern

Mr. Philip Barlow
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
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RE: Exposure 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Thank you for the opportunity to comment on the April 20, 2023, proposal by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group") to establish an interim 45% Risk-Based Capital ("RBC") charge for "residual tranches or interests" of all asset-backed securities (the "RBC Proposal").

Overview

We have listed below several concerns in this letter followed by a detailed discussion of each concern and concluding remarks.

1. There is no evidence of an urgent need for the NAIC to depart from its required diligent, fact-based, and thoughtful process that it uses to establish C1 risk-based factors. Overall RBC levels among life insurers have been very robust and relatively stable in recent years. In the one specific type of asset-backed security (ABS) that the NAIC has been closely examining for years, namely collateralized loan obligations (CLOs), the NAIC has consistently concluded that there is no material risk to the life insurance industry at large.
2. The proposed level of the charge has been chosen arbitrarily based on scant, misleading, and superficial analysis that contradicts recent studies by the NAIC, the American Academy of Actuaries ("AAA"), academics and market analysts.
3. The proposal reflects a lack of understanding of the inherent risk-mitigation structure of ABS investments and instead focuses on one aspect of them without any analysis of its potential impact on the industry as a whole.
4. ABS risk must be comprehensively studied as CLOs have been able to outperform and experience lower losses than comparable corporate bonds with the same risk rating.
5. Regulators must undertake their own neutral study of risks associated with ABS residuals before unintentionally creating artificial barriers and unintentionally choosing sides in a competitive battle.
6. Regulators have significant supervisory tools today to address concerns regarding specific ABS investments without adopting a punitive RBC charge and causing significant disruption to the larger ABS market.
7. The proposed 45% RBC charge Is not within the Financial Condition (E) Committee's charge to the Working Group.

8. The charge would likely be more than "Interim" and would bias the longer-term analysis that should properly be completed before establishing the appropriate charge for ABS.

Before the NAIC imposes the highest capital charge on any asset in its entire history, we urge the NAIC to follow its typical thorough and rigorous analytical process.

As a standard setting body, the NAIC should be cautious about advancing a proposal supported by one segment of the industry in an April 12, 2023, letter that may cause competitive distortions not reflective of risk. The RBC Proposal may tilt competition in favor of insurers that have direct equity exposure versus ABS residuals exposure and does not reflect a thoughtful analysis of whether ABS residuals are safer or not than direct equity exposure.

Finally, as an alternative to an interim charge, we urge the NAIC to form a working group and retain neutral experts to study the structural and risk mitigation features of ABS and report back to the Working Group. We commit to efficiently and effectively working with the NAIC to analyze the various types of ABS, their loss experience, and risk mitigation features to determine appropriate capital charges.

Detailed Discussion

1. **There is no evidence of a need for urgent action as RBC levels are robust and all analysis to date indicates no material risks to the life insurance industry.**

A recent analysis of YE2022 life insurer's regulatory filings found the industry to be very well capitalized, with the average RBC level for mutual insurance companies at 514%, PE-owned insurers at 465%, publicly owned insurers at 415%, and reinsurers at 298%.[1]

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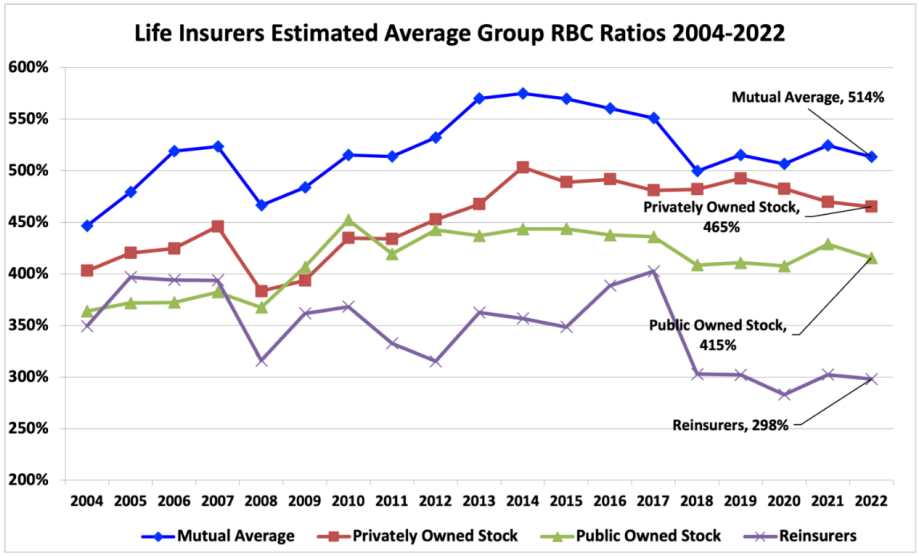
[1] Colin Devine, "U.S. Life Insurer RBC Trends Confirm Industry Capital Levels Remain Strong," the Alliance for Lifetime Income's Retirement Income Institute, April 16, 2023, https://www.linkedin.com/pulse/us-life-insurer-rbc-trends-suggest-industry-capital-levels-devine/



This annual study confirmed that life insurance RBC levels have remained relatively stable over the last few years. Also, a recent Fitch analysis found that the insurance sector has only "modest exposure" to the recent bank failures and that its "liability profiles support stability."[2]

Further, ABS do not present a material risk to life insurers. Indeed, the RBC Proposal is completely contrary to data and risk analysis by the NAIC which is made available to regulators through the NAIC. Over the past five years, regulators have received the following studies by or through the NAIC with specific findings regarding the limited risk in ABS investments.

- The NAIC has been stress testing CLOs since 2019 and has repeatedly found that they do **not** pose a material risk. In the most recent January 5, 2023, NAIC Capital Markets Bureau Special Report, it was determined that, "Based on the NAIC's stress test results, U.S. insurer investments in CLOs remain an insignificant risk."[3]

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[2] Fitch, U.S. Insurers' Direct Exposures to Bank Failures Modest; Liability Profiles Support Stability, March 15, 2023 https://www.fitchratings.com/research/insurance/us-insurers-direct-exposures-to-bank-failures-modest-liability-profiles-support-stability-15-03-2023

[3] NAIC Capital Markets Special Report, Collateralized Loan Obligation – Stress Testing U.S. Insurers' Year-End 2021 Exposure, January 5, 2023. *See also,* Collateralized Loan Obligation (CLO) – Stress Testing U.S. Insurers' Year-End 2020 Exposure, October 7, 2021; Collateralized Loan Obligations – Stress Testing U.S. Insurers' Year-End 2019 Exposure, June 18, 2020; and Collateralized Loan Obligations – Stress Testing U.S. Insurers' Year-End 2018 Exposure, December 6, 2019

- A December 2022 American Academy of Actuaries ("AAA") C1 Working Group presentation to the NAIC said that CLOs do not present a material risk to the industry: "In the C1WG's view, CLOs do not present a material risk to the aggregate solvency of the life insurance industry currently."[4]
- In 2019, the NAIC's Capital Markets Bureau published reports on Consumer ABS[5] and Auto ABS[6], which again did not identify any urgent need for regulatory action.

The AAA presentation to the Working Group in December 2022 indicated that a limited number of life insurance companies held CLO interests, and even fewer held CLO residuals. The study recommended the AAA's C-1 Working Group should review CLO and ABS interests further, especially since ABS instruments are being identified in more detail starting in the 2022 Annual Financial Statement Blanks. We see no reason the NAIC should not wait for the results of the AAA's additional analytical work and instead accelerate for adoption the single largest capital charge in the history of the RBC system based on anecdotal background.

2. The proposed charge level of 45% was established arbitrarily and without analytical support

The RBC Proposal's 45% factor appears to have been developed through a short, less than two-page letter from a limited number of insurers rather than the objective study, modeling and analysis that is the usual and customary practice for the Working Group and other Capital Adequacy (E) Task Force ("CATF") working groups. Prior to exposing the RBC Proposals, the NAIC and the Working Group were not presented with any data, studies, or other evidence that demonstrated that 45% percent is the appropriate charge on ABS residual investments.

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[4] American Academy of Actuaries, Presentation to the Risk-Based Capital Investment Risk and Evaluation Working Group (RBCIRE WG) on Collateralized Loan Obligations (CLOs), December 14, 2022. https://www.actuary.org/sites/default/files/2022-12/C1_Presentation_CLOs.pdf

[5] NAIC Capital Markets Bureau, Consumer ABS Primer, April 2, 2019

[6] NAIC Capital Markets Bureau, Auto ABS, December 20, 2019

A much more thorough analysis of CLOs and their equity performance was conducted by Larry Cordell, an economist at the Federal Reserve Bank of Philadelphia, Professor Michael Roberts of the Wharton School at the University of Pennsylvania, and Michael Schwert.[7] That study compared the risk-adjusted performance of CLO equity to the S&P 500 from 1997 to 2016 and found that CLO equity outperformed common stock.[8] Importantly, one of the key findings of this study was the relative stability of CLO equity during two periods of significant market instability, including the 2008 financial crisis, which led the authors to note that CLOs' "equity performance highlights the resilience of CLOs to market volatility." [9]

Panel B: Public Market Equivalent versus S&P 500

Vintage	Mean	StDev	p10	p25	p50	p75	p90	Obs.
1997-2002	1.50	0.69	0.74	0.88	1.40	1.84	2.37	19
2003	0.91	0.31	0.61	0.75	0.85	1.06	1.28	25
2004	1.11	0.38	0.61	0.90	1.03	1.26	1.58	49
2005	1.48	0.45	1.04	1.22	1.47	1.77	2.04	79
2006	1.76	0.55	1.21	1.44	1.76	2.04	2.27	151
2007	2.03	0.60	1.32	1.79	2.06	2.35	2.69	148
2008	1.11	0.55	0.34	0.70	1.15	1.53	1.75	27
2009-2010	0.75	0.28	0.36	0.57	0.79	1.00	1.02	12
2011	0.95	0.24	0.72	0.79	1.00	1.11	1.25	27
2012	0.83	0.16	0.65	0.75	0.82	0.93	1.03	93
[illegible]	0.84	0.22	0.62	0.74	0.83	0.96	1.13	63
[illegible]	0.81	0.18	0.59	0.67	0.82	0.94	1.00	74
2015	0.81	0.21	0.48	0.66	0.86	0.94	1.10	26
2016	0.79	0.19	0.47	0.71	0.84	0.92	0.99	13
CLO 1.0	1.64***	0.64	0.83	1.20	1.66	2.05	2.37	500
CLO 2.0	0.83***	0.20	0.59	0.72	0.84	0.96	1.07	308
Full Sample	1.33***	0.65	0.66	0.84	1.15	1.81	2.18	808

Exhibit 2

Exhibit 2 shows the average level of CLO equity performance compared to the S&P 500 for each year during that period of time. The chart includes CLO equity results over the entire sample period and separately for each year both on an aggregate basis and on a percentile basis--including the 90th, 75Th, 50th, 25th, and 10th percentiles. In that chart, any performance greater than 1.0 means that CLO equity outperformed the S&P index. The overall score was 1.33, which the authors describe as meaning "that CLO equity earned higher returns than an index of public equities."[10]

Of note, the authors also found that CLO equity particularly outperformed during the two periods of economic stress during the sample period and noted that the "temporal variation in equity performance highlights the resilience of CLOs to market volatility due to their closed-end structure, long-term funding,

Source: CLO data from Intex Solutions and S&P

[7] CORDELL, L., ROBERTS, M.R. and SCHWERT, M, CLO Performance, Journal of Finance, 2023. https://doi.org/10.1111/jofi.13224

[8] *Id.* at 2. "Our central finding is that CLO equity tranches provide statistically and economically significant abnormal returns, or "alpha," against a variety of public benchmarks" during the sample period of 1997 to 2016.

[9] *Id.* at 20.

[10] *Id.* at 20.

and embedded options to reinvest principal proceeds."[11] This analysis directly addresses the question of whether CLO equity is more or less risky than common stock, whereas the April 12 letter only has data on total CLO losses without any precise information about actual CLO equity performance. An article about CLOs issued by Western Asset found similar results for both the 2008 and 2020 economic downturns, finding that, based on median CLO equity cash flow returns, "CLOs that were originated before the last two recessions produced better returns for shareholders than in other years."[12]

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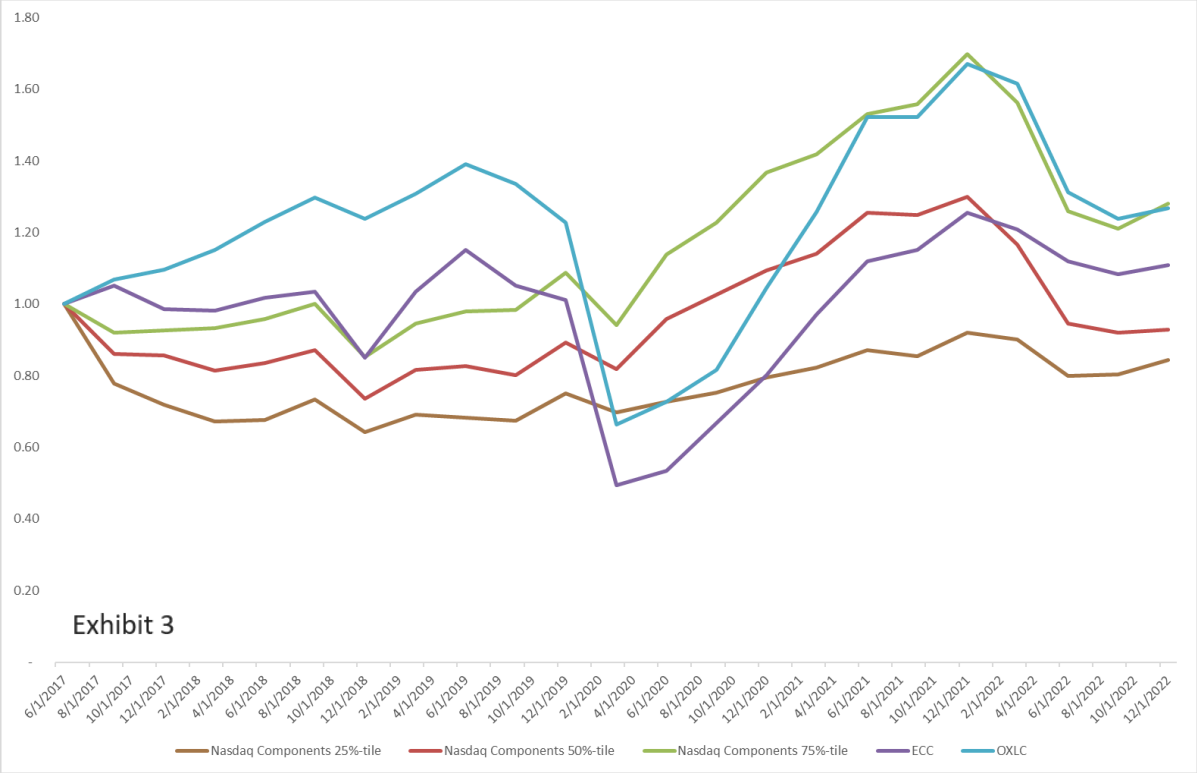
[11] *Id.* at 1.

[12] Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset (See Appendix for a full copy of this article.)

The additional analysis of CLO equity in Exhibit 3 below looks at data from 2016 to 2023 to corroborate the Journal of Finance study's conclusion about the overall outperformance of CLO equity compared to the 50th-tile of Nasdaq stock.



Source: Bloomberg

The chart in Exhibit 3 provides a better perspective on the two CLO equity ETFs, (ECC and OXLC), than the April 12 letter as it only provides data from the year 2020, which is very unique given that was the year of the government-mandated shutdowns due to COVID-19. This longer time frame provides a better sense of how CLO equity outperforms the 25th and 50th %-tile of the NASDAQ index components as of YE 2016 and tracks the performance of such stocks from YE 2016 to YE 2022, showing that CLO equity is less volatile than single-name stocks.

Note that the ECC and OXLC performance here is shown net of fees. Actual performance of the underlying CLOs would have been even higher.

Use of anecdotal evidence supplied by a segment of the industry, rather than credible data, study, or evaluation to support the RBC Proposal is contrary to the foundational principles established by regulators regarding RBC charges. The *NAIC Life & Fraternal RBC Instructions* (the "Instructions") state that:

> "the [Capital Adequacy Task Force (CATF)] and its RBC working groups are charged with evaluating refinements to the existing NAIC RBC formula. . . .The CADTF will consider different methods of determining whether a particular risk should be added as a new risk to be studied and selected for a change to the applicable RBC formula, but due consideration will be given to the materiality of the

risk to the industry, as well as the very specific purpose of the RBC formula to develop regulatory threshold capital levels.[13]

3. The proposed 45% charge does not take into account the risk mitigation features of ABS or the variety of ABS collateral types

ABS investments were originally designed with risk mitigation features in mind without any consideration of insurance capital charges. Because of their risk mitigation features and structural protections, insurers have invested in various types of ABS for decades without material issue. As noted above, the NAIC has been monitoring and studying the insurance industry's exposure to ABS investments for several years, and particularly closely since 2019. Not once in all these many years did the NAIC find a material risk to the insurance industry related to ABS residual tranches.

Two recent publications—Guggenheim's most recent annual report on the ABCs of ABS[14] and the Western Asset Management article on CLO equity[15]—identify the following risk mitigation and structural features of ABS:

1. Over-collateralization
2. Bankruptcy remoteness
3. Diversification of underlying borrowers/payers
4. Amortization ahead of expected maturity
5. Duration matching between the investment assets and financing liabilities
6. Covenants not based on the market price
7. Active management, which in some cases can include buying in or out of the underlying, or in other cases where the investment manager can reinvest or refinance depending on market conditions and individual component performance.

The Western Asset article notes that CLO equity originated prior to the 2008 financial crisis and the 2020 Covid recession outperformed both credit and stocks, which it attributes to several of the structural features of CLOs.[16] Given these findings, we think the NAIC needs to closely study these structural features of ABS before imposing an interim charge.

We also think the NAIC should consider the types of underlying collateral for the primary types of ABS, such as auto and student loans, before imposing such a high interim charge. For instance, in the NAIC's capital charges for bonds, the portfolio adjustment factor recognizes that diversification of a bond portfolio can reduce risk. In a similar manner, some ABS have thousands of underlying loans. In addition, over-collateralization, duration matching, and especially active management can significantly reduce risk for the entire security at issue and should be fully analyzed before determining an

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[13] *NAIC Life & Fraternal RBC Instructions at iii, ¶¶16-17.*

[14] Guggenheim, The ABC's of Asset-Backed Securities (ABS), April 3, 2023, The ABCs of Asset-Backed Securities (ABS) | Guggenheim Investments

[15] Jeff Helsing, Can CLO Equity Outperform if the Economy Tips into Recession?, September 26, 2022, Can CLO Equity Outperform If the Economy Tips Into Recession? | Western Asset

[16] *Id*

appropriate charge. Taken as a whole, these ABS features if sufficient analysis concludes higher charges are appropriate for residual tranches, it may also conclude that lower charges are appropriate for higher tranches given they have a much better track record of fewer losses than stand-alone bonds.

As illustrated in the exhibit below, ABS are specifically designed to include risk mitigation features such as over-collateralization, excess spread protection, and refinancing optionality. These features combine to create a risk profile significantly different from any one of the individual components—including the residual tranche. Isolating the residual tranche ignores the inherent economics of this ABS structure as a whole.

CLO Structure / Structural Protection

Overcollateralization Test ("OC Test")

- A ratio of asset par (with haircuts) divided by liability balances
- An OC Test breach diverts equity distributions and subordinated management fees[1] to repay senior notes
- OC Test haircuts apply to
  - CCC assets >7.5% (at market value; starting with lowest-priced loans)
  - Defaulted / deferring assets (at lower of market value and recovery value)
  - Asset purchased <$80 (at purchase price)

Interest Diversion Test ("ID Test")

- Set just below the lowest OC Test in the waterfall, the ID Test will be impacted first
- An ID Test breach diverts equity distributions to principal, which is used to purchase more assets

Typical Cushion:

BB OC
4-5%

Int. Div.
3.5%-4%

Calculation:

$$\frac{\text{Asset Par Value (with Haircuts) Par}}{\text{Value of CLO Debt}}$$

ID Test: the denominator includes all debt tranches.

OC Test: the denominator includes subject tranche and all tranches senior to it.

All numbers **are illustrative** and subject to market level changes. **OC Test haircuts are simplified examples and may differ between CLOs.** CLO structure source: Citi, CLO Primer, April 2021. CLO structure is for illustrative purposes and not to scale

(1) Management fees are split between senior fees and subordinated fees, which are approximately 30% and 70% of the total, respectively. If fees are diverted due to a breach, they will continue to accrue and will be paid when cured, as cash is available.

4. ABS risk must be comprehensively studied as CLOs have been able to outperform and experience lower losses than comparable corporate bonds with the same risk rating.

As demonstrated in the chart below, the improved performance covers all rating categories.

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CLO OVERVIEW - STRUCTURE AND RISK PROFILE

- CLO tranches benefit from (i) overcollateralization, (ii) excess spread protection and (iii) refinancing optionality, which again, differentiates CLO structures from holding individual loans
- CLO fixed income tranches have experienced fewer losses historically than corporate bonds of comparable ratings, an asset class for which the SVO accepts NRSRO ratings
- Over the long term, CLO debt has experienced lower losses than corporate bonds while the residual equity has delivered consistent cash on cash returns and return on capital, even during the GFC

Historical CLO Losses vs Corporate Credit		
Rating / Tranche	**Historical Corp Credit Losses[1]**	**Historical CLO Losses[2]**
AAA	0.00%	0.00%
AA	0.03%	0.00%
A	0.04%	0.01%
BBB	0.11%	0.09%
BB	0.42%	0.35%

Sources: S&P Global Default, Transition, and Recovery: 2020 Annual Global Leveraged Loan CLO Default and Rating Transition Study. Moody's Investor Service
(1) S&P Default and Rating Transition Study. Corp credit losses assume average default rate from 1998 to 2020, and 35% recovery rate based on historical market performance
(2) Moody's US CLO impairment rates since 1998 through 2020

Developing appropriate structured security RBC factors must be carefully developed to avoid unintended consequences. The debt and the residual risk analysis must be studied comprehensively and together. The appropriate solution is for the NAIC to take the requisite time to understand the types of ABS, their relevant risk mitigation features, and the overall resulting risk before deciding what charge to impose on all tranches, including the residual tranches—this would better reflect the actual economic risks and historical loss experience, and avoid creating market and competitive distortions.

5. Regulators must undertake their own neutral study of risks associated with ABS residuals before unintentionally creating artificial barriers and unintentionally choosing sides in a competitive battle.

Members of our coalition have talked with several regulators regarding the performance and risk history of ABS residuals. In many of these conversations, we have heard that concerns regarding arbitrage in ABS structures are primarily based on concerns from certain market participants unrelated to quantifiable investment risks. We believe that this observation may be correct.

Over the past decade, insurance company ownership and investments have witnessed new market entrants who bring new business models and competition to the market. In its September 27, 2022, Special Report, AM Best states "PE insurers tend to offer more attractive rates on their products than other insurers, in the belief that through their investment expertise, they can earn a higher yield on investments and still make an adequate spread. This competitive pricing puts more pressure on

traditional insurer that lack the same scale and find growing the business more difficult because of their more conservative crediting rates."[17] These new entrants are required to operate their businesses in the same regulatory environment (*e.g. AG 53 regarding Higher Yielding Assets in Asset Adequacy Testing*) as existing businesses. Everyone is operating under the same rules in a changing business environment and innovation that benefits consumers should be supported by NAIC rulemaking.

In a recent comment letter, one group of companies has suggested that the NAIC disregard well-accepted and tested historical data to support a 50% increase in the capital charge based on a misleading analysis. The letter makes the incongruous suggestion that CLO data from the Great Financial Crisis of 2008 is insufficient to support stress testing of data. Data from the Great Financial Crisis is widely accepted to represent an atypical and extreme stress scenario for the industry, and the studies cited above provide concrete evidence of the resilience of ABS equity even during periods of financial stress.

The NAIC must avoid unintended consequences and undertake its own neutral study of risks associated with ABS residuals. For instance, direct investments in bank loans are explicitly authorized in SSAP 26R and thus qualify for a C1 bond charge. However, in most cases the underlying collateral for CLOs are bank loans. Should the NAIC move forward with a 45% charge on CLO residuals, the effect would be a higher charge based on the form rather than the substance and would ignore the ABS structural mechanisms that make them safer than direct ownership. Additionally, a 45% charge would effectively be worse than making ABS residuals a non-admitted asset.

6. **Regulators have significant supervisory tools today to address concerns regarding specific ABS investments without adopting a punitive RBC charge and causing significant disruption to the larger ABS market.**

State Insurance regulators have significant authority to address any concerns they may have regarding a company's solvency, as well as any individual investments that may be of concern to them. They utilize a variety of solvency testing and analysis tools to monitor insurer solvency and can demand a company take corrective action to address any anomaly or concern associated with the company's financial condition. Sensitivity testing can be used to review equity tranche holdings and take supervisory action if needed, without punitively and arbitrarily assessing increase charges on all ABS and all insurers, which is unjustified.

Per NAIC accreditation standards, domiciliary regulators can call a targeted examination of an insurance company at any time, as can foreign state regulators working through the Financial Analysis (E) Working Group ("FAWG").[18] If regulators have concerns regarding the solvency of any insurance company holding

[17] "Best's Special Report, Private Equity Continues to Make Inroads in the Life/Annuity Segment," AM Best, September 27, 2022

[18] *See* NAIC Model Law 380, "On Examinations," https://content.naic.org/sites/default/files/MO390.pdf and Model Law 385, "Model Regulation to Define Standards and Commissioner's Authority for Companies Deemed to be in Hazardous Financial Condition," https://content.naic.org/sites/default/files/MO385.pdf

ABS residuals or the ratings on individual investments held by insurers, regulators can demand additional information regarding the investment.

Considering the significant regulatory authority and the historic risk analysis on ABS investments described above, the suggested basis for the proposed RBC charge as being necessary to limit "arbitrage" occurring with ABS instruments is specious. During the debate leading up to the RBC Proposal, concerns regarding "arbitrage" were raised by NAIC staff in the Securities Valuation Office ("SVO") which is not responsible for addressing capital charges. Even as regulators responded to these concerns raised by the SVO, no specific examples have been provided to the industry or the NAIC or exposed publicly to demonstrate how existing regulatory tools are insufficient to address these arbitrage concerns. Even if isolated examples regarding "arbitrage" do exist, a punitive and excessive RBC charge is a blunt instrument to address the concern. Instead, state insurance regulators should apply their existing and substantial regulatory authority to address and correct isolated examples of questionable or inappropriately classified assets.

7. The proposed 45% is not within the Financial Condition (E) Committee's charge to the Working Group

In prior meetings, the RBC Proposal has been labeled as being directed by the Financial Condition (E) Committee (the "E Committee"). The RBC Proposal, however, does not align with the standing E Committee instructions. The E Committee established the Working Group with the authority to establish a proposed RBC charge with suggested assistance from an outside advisor. The specific proposal of adopting an increased factor for the residual tranches has been developed within the Working Group, whose charge to the Working Group was more general. The 2023 RBCIRE Working Agenda, disclosed as part of the Fall 2022 meeting materials for the RBCIRE lists item 12 as

> "Evaluate the appropriate RBC treatment of Asset-Backed Securities (ABS), including Collateralized Loan Obligations (CLO), collateralized fund obligations (CFOs), or other similar securities carrying similar types of tail risk (Complex Assets)"

as a request from E Committee, SAPWG, and VOSTF added 1/12/2022. The comment states

> "Per the request of E committee comments were solicited asking if these types of assets should be considered a part of the RBC framework."

A change in the factor was never suggested or adopted formally by the E Committee.[19] At no time did the E Committee approve of the Working Group developing a proposed RBC charge based on anecdotal evidence rather than on professionally developed data or a professional study. There was no direction from the E Committee exposed to public comment to impose an interim charge

[19] Minutes of Financial (E) Committee Meeting, April 5, 2022, https://content.naic.org/sites/default/files/national_meeting/Financial%20Condition%20%28E%29%20Committee%20Agenda%204-5-22_2.pdf

8. **The charge would likely be more than "Interim" and would bias the longer-term analysis that should properly be completed before establishing the appropriate charge for ABS.**

The Working Group has suggested that the RBC Proposals would be implemented on an interim basis. However, the RBC Proposal makes no reference to whether the Proposed Charge is being recommended on an interim or permanent basis. In Working Group discussions, the "interim" nature of the charge seems to be the justification for adopting the Proposed Charge without any supporting data. The RBC Proposal does not include a workplan or reference how or when the proposed 45% charge would be studied, modeled, or evaluated in the future to finalize the recommendation. Based on historical precedent, this so-called "interim" charge could last years or decades. For example, the NAIC established a 15% and 23% charge, respectively, on real estate equity charges for wholly owned and joint venture equity charges. Only after over a decade of industry discourse, roughly from 2012 to 2021, did the NAIC update those charges.

Concluding Remarks

Market participants operate under the understanding that the regulatory environment will reflect true risk and historical experience. Imposing a 45% charge on ABS residuals with no evidence of significant investment or solvency risk runs counter to the integrity of the RBC system and fair competition. We respectfully request that regulators withdraw the RBC Proposal until a thorough analysis by a respected third party can be conducted to better inform sound regulatory decision-making and avoid significant unintended consequences and competitive distortions. In the meantime, we encourage regulators to use the robust tools at their disposal to address any concerns with specific insurance company investments.

We appreciate the opportunity to provide these comments. We stand ready to engage with regulators and neutral experts in continued study and evaluation of ABS residuals, and we request that the Working Group table the RBC Proposals pending the completion of a thorough study and evaluation.

Kind Regards,

Everlake Life Insurance Company
Clear Spring Life and Annuity Company
Delaware Life Insurance Company
Security Benefit Life Insurance Company

cc: Superintendent Elizabeth Dwyer, Chair, Financial Condition (E) Committee
Dave Fleming, NAIC Staff for the RBCIREWG, DFleming@naic.org.

Appendix

WESTERN ASSET

Can CLO Equity Outperform If the Economy Tips Into Recession?

September 26, 2022

By Jeff Helsing

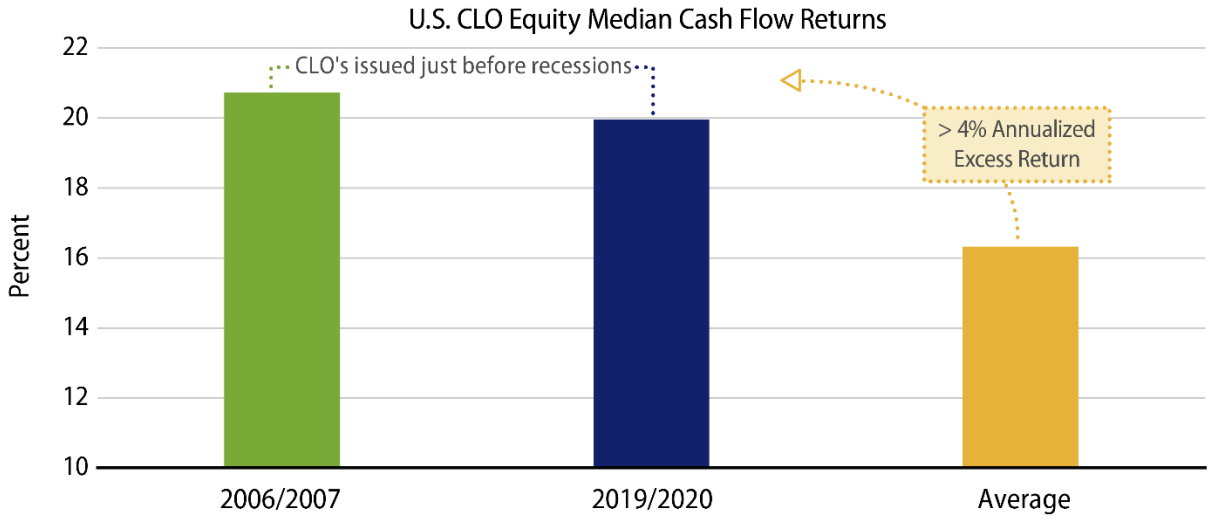
Our base case is not for a US recession in 2022, but the risks of a mild recession are increasing as higher borrowing costs and tighter credit conditions will likely weigh on investment and consumption.

If the recession is mild, where unemployment doesn't rise substantially and defaults don't pick up materially, then credit spreads may not rise to levels seen in previous recessions as in 2009 or 2020. If the recession is worse, then equity multiples will likely decline further and defaults will likely rise above historical averages—both will negatively impact the returns in equity and credit markets.

With yields around 9% in below-investment-grade-credit markets, credit is looking attractive compared to equity in a slower-growth or mild-recession scenario. However, the equity of collateralized loan obligations (CLOs) may perform even better than both of those sectors if market pricing resembles those of a recession similar to the last two.

What may be counterintuitive when reviewing business cycles and the impact they have on market returns is that the equity of an actively managed CLO—which invests in bank loans—may outperform both credit and stocks should the US tip into recession. With history providing some guidance, it's worth noting that CLOs that were originated before the last two recessions produced better returns for shareholders than in other years.

Exhibit 1: CLOs—Pre Global Financial Crisis and 2020 Covid Recession Vintages Outperformed



Source: JPMorgan. Cash flow returns are annualized for the median actively managed CLO equity invested in syndicated bank loans. “Average” represents 2002 through 2021. As of 30 Jun 22. Select the image to expand the view.

Heads I Win, Tails You Lose

Why would the equity of a CLO perform better if we head into a recession? For background, a CLO issues debt and equity securities, then the proceeds are invested in a diversified portfolio of syndicated bank loans. The bank loans provide income to pay interest and other expenses, then the remainder is distributed to equity holders. CLOs feature structural advantages that other investment vehicles don’t. They include two main sources of optionality for a CLO manager that typically enhance returns for the CLO equity holder: the option to refinance in bull markets and to reinvest in bear markets. This is akin to flipping a coin to guess the business cycle, but where both investment outcomes are positive.

When bank loan prices are falling (i.e., credit spreads are widening)—as they did during the global financial crisis and Covid-induced lockdown—a conservatively positioned CLO manager will reinvest their portfolio into higher-yielding securities. Reinvesting as spreads widen is why some CLO managers structure their portfolios conservatively at origination, as they will have several years to wait for an opportunity to swap into higher-yielding securities. On the other hand, when bank loan prices are rising (i.e., credit spreads are tightening), a CLO manager can often reduce their borrowing costs by refinancing their debt securities.

Capitalizing on the option to reinvest in bearish markets or refinance in bullish markets are two ways to increase the returns to CLO equity holders. The median manager that issued CLOs in 2006/2007 as well as in 2019/2020 locked in financing before volatility rose, then swapped into higher-yielding securities as prices declined in the respective recessions—subsequently increasing the returns to equity holders.

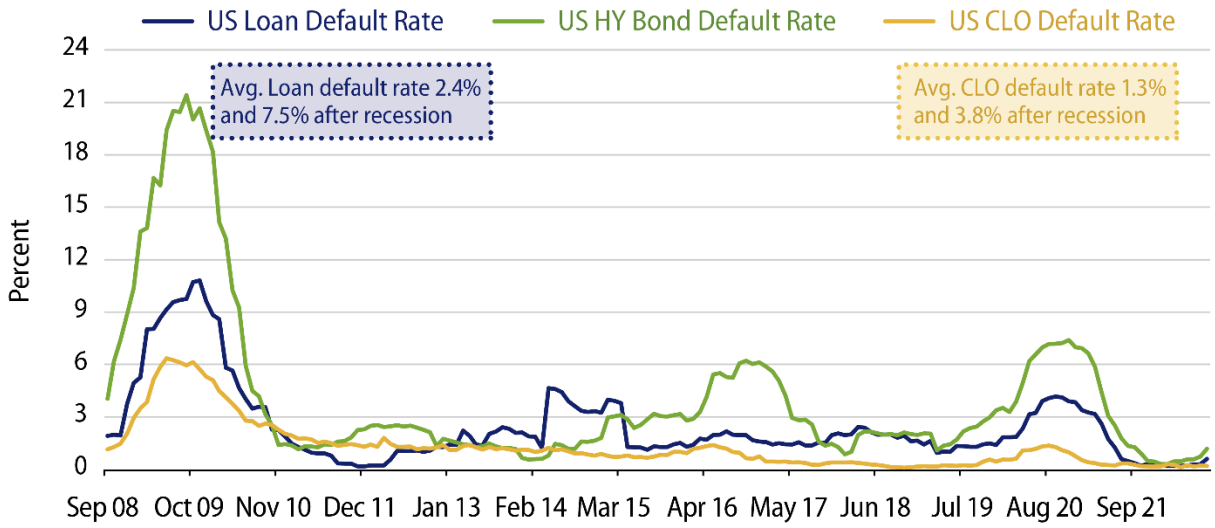
What Reduces CLO Equity Returns?

There are several other advantages to investing in CLOs that have historically supported attractive equity returns relative to other asset classes. These include covenants that aim to reduce default risk and, importantly, the covenants aren’t based on market prices.

One of the most relevant risks to CLO equity returns are defaults in the underlying bank loans. As the bank loan cash flow (i.e., the CLO’s assets) are reduced when defaults happen, there is typically less available cash to distribute to equity holders, so avoiding defaults through active selection and credit research is the goal for managers.

Also, it is worth noting that covenants in CLOs typically limit the concentration in CCC and lower-rated issues. The lower-rated and riskier company limits are typically capped at 7.5% of a CLO’s holdings. For comparison, CCCs and lower-rated issues exceeded 15% in broad loan indices in 2009 (according to the Morningstar LSTA US Leveraged Loan Index). The covenants that limit CCC and lower-rated issues’ risk may help explain why defaults in CLOs were about 50% lower than defaults in the overall bank loan market for the last two recessions.

Exhibit 2: CLO Defaults Historically Are About Half as Frequent as in the Bank Loan Market



Source: BAML, Intex, LCD. As 31 Aug 22. Select the image to expand the view.

Benefits of the CLO Structure

"The investor's chief problem—and even his worst enemy—is likely to be himself." ~Benjamin Graham

While CLO equity may outperform other asset classes, the outsized returns accrued to investors that commit to holding the securities until the CLO matures or is called may be even greater than the historical average if the market tilts into recession.

As mentioned earlier, there are several benefits to the CLO structure that have historically led to outperformance versus other asset classes. The three main structural factors that support CLO equity outperformance are: optionality to reinvest or refinance in bear and bull markets, robust match between investment assets and financing liabilities, and covenants that aren't based on market prices.

Based on the analysis of Cordell, Roberts and Schwert in 2021, the option to reinvest alone may explain about a third of CLO equity's historical outperformance versus other sectors, especially for vintages before recessions. The next two structural advantages are also meaningful to CLO equity returns as they reduce the behavior risk of both the investor and the manager. In other words, these advantages help reduce the risk of the investor or manager becoming their own enemy. For example, liability financing is essentially to the term of the investment so the CLO doesn't subject itself to the possibility of the lender changing terms when volatility rises. Also, as the capital is committed for the life of the investment, and covenants in the CLO aren't based on market prices, the CLO manager can then focus on investment fundamentals rather than being influenced or coerced into selling assets in the portfolio due to market-price fluctuations.

All of these factors may help explain why CLO equity has historically performed better than other sectors, and even more so following the last two recessions.

Global Atlantic
FINANCIAL GROUP

May 12, 2023

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Global Atlantic Response to 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Global Atlantic[1] appreciates the opportunity to comment on **2023-09-IRE Residual Factor ("Interim Solution")** which proposes to set the Risk Based Capital ("RBC") charge at 45% for all residual tranches on an interim basis. Our comments reflect the following three principles:

I. The RBC factors for all assets should be based on a rigorous, data-driven analysis that incorporates both historical performances, where applicable, and the relevant substantive structural features of any investment.

II. The RBC framework should be derived using consistent criteria across assets and risk profiles - a concept we refer to as "equal capital for equal risk."

III. The process employed to reach important decisions, such as the Interim Solution, should follow the traditional, transparent, and deliberative process that has been a hallmark of insurance regulation under the NAIC.

We would like to highlight that the principles above do not appear to have been followed regarding the evaluation of the Interim Solution for Residual Tranches. In conclusion, we offer an alternative to the current proposal.

I. Rigorous Work, Grounded in Data and Analytics, Not Undertaken:

The timeline to implement new RBC charges effective for all residual tranches for year-end 2023 did not allow for the quantitative rigor normally deployed prior to making changes to

[1] Global Atlantic Financial Group is a leading insurance company meeting the retirement and life insurance needs of individuals and institutions. With a strong financial foundation and risk and investment management expertise, the company delivers tailored solutions to create more secure financial futures. The company's performance has been driven by its culture and core values focused on integrity, teamwork, and the importance of building long-term client relationships. Global Atlantic is a majority-owned subsidiary of KKR, a leading global investment firm. Through its relationship, the company leverages KKR's investment capabilities, scale, and access to capital markets to enhance the value it offers clients. KKR's parent company is KKR & Co. Inc. (NYSE: KKR).

RBC. The precedential nature of setting capital charges without any analysis and data should be of concern to both the industry and regulators alike.

This approach deviates sharply from previous changes to RBC factors, such as the C-1 corporate bond factors, C-1 factor for Real Estate, C-2 Longevity factor, and C-3 factor for interest rate risk, all of which involved field testing and were supported by strong data and analytics. We are not aware of any analysis, field testing or data used to develop the "45%" factor proposed in the Interim Solution. It would be the 1) highest capital charge applied to any eligible asset; 2) would apply to a wide range of assets given the lack of clarity provided as to the intended scope of the Interim Solution, and; 3) does not appear to be linked either to an analysis of historical losses in respect of the relevant assets or to the specific risk-mitigating features that may apply to certain of the potentially in-scope investments.

The most comparable capital charge currently available is the capital charge applicable to public equities. While it was developed using a seemingly sensible approach for evaluating historical data with respect to the asset class, industry participants have also raised the possibility that given the data backing this analysis is largely out of date, it could be revisited for all equity-type investments. *See Exhibit 1* for more detail. The more recent development of updated C-1 bond factors also followed a data-gathering exercise and an analysis of the impact on insurance companies. This approach lent transparency, credibility, and predictability to the process.

As a result of the decision to forego any of the usual analysis associated with potential capital charge changes, the impact on the industry is very unclear. In 2023, for the first time, regulators received enhanced transparency related to investments in residual tranches. Insurance companies were required to report these tranches in a separate category of Schedule BA as of December 31, 2022. Unfortunately, it appears that industry participants applied these instructions with a wide range of interpretations. The total amount of residual tranches disclosed was ~$5bn. This is less than 1.5% of the assets on Schedule BA and 0.10% of the assets on life insurance company balance sheets. Some carriers chose to disclose any tranche that could be considered a "first loss" tranche across asset classes. Some, it appears, interpreted the guidance much more narrowly, and scoped far fewer assets into the disclosure. If, indeed, only those assets disclosed in early 2023 are those that concern regulators, one would conclude that these assets do not present a pressing solvency issue for the industry.

This discrepancy in disclosure is just one of the many issues that a rigorous, data-driven field-testing approach would resolve. The stated practice of the Capital Adequacy Task Force is that "an impact analysis will be required for any factor change". To date, to our knowledge, no studies or analysis have been performed.

II. "Equal Capital for Equal Risk" Not Upheld:

The goal of "equal capital for equal risk" is fundamental to regulating the solvency of insurance companies and protecting policy holders against risk of loss in stress scenarios. Consequently, the capital required for a given investment, or other activity, should be proportional to the risk posed by that activity.

Given the broad scope and lack of specificity as to what constitutes a "residual tranche," this goal is unlikely to be achieved even among investments that could plausibly be considered "residual tranches." It is even less likely to be achieved across the other categories of Schedule BA assets.

"Residual tranches" could be backed by cashflows from a wide variety of investments in everything from broadly syndicated non-investment grade rated loans to seemingly non-controversial investments in student loans, prime consumer loans, and investments backed by aircraft, railcars, infrastructure, and other "hard assets."

Also, investments that would generally be perceived as posing far greater risk of loss, including venture capital funds, private equity funds, and hedge funds, would all now receive a lower capital charge than these "residuals." Note that even CLO "residuals" are, by definition, structurally senior to the equity-type investments referenced in this paragraph. *See Exhibit* 2 for an illustration. In the private equity example, the loans held in the CLOs are often to the very same companies as are held in the private equity fund, creating the paradoxical outcome that the first dollar of loss will appear, by necessity, in the investment receiving the lower capital charge.

If the appropriate field testing and data analysis is undertaken, the return profile of the investment would need to be considered. Given the features of structured products transactions as well as the ability to underwrite the pool of assets, residual tranches can provide cashflow day one de-risking an investment in its earliest years. *Exhibit* 3 illustrates that CLO equity/residuals provide return on investment much earlier than other Schedule BA investments that are subject to a 30% charge. In fact, CLO residuals, on average, have returned 50% of their initial investments in ~3 years while, historically, other equity-like BA investments have taken ~4-6 years to return the same 50%.

At the very least, applying a 45% factor only to a portion of the assets on Schedule BA simply favors certain types of investments – and thus certain insurance companies for reasons not based on differences in the relative risk of the assets in question. This has implications for competition, asset selection, and risk management, with the potential for unintended consequences.

III. Transparent Process Not Followed:

The process to impose an interim capital charge has been a departure from the normal methodical NAIC process. A recent public call of the RBC IRE Working Group was held on April 20 and a discussion of the capital charge for residual tranches was not on the agenda. Nevertheless, this group voted to expose the 45% factor for a short 21-day comment period.

There could be significant unintended consequences arising from a capital charge factor that has not been well vetted. The increased charge might deter insurance companies from holding certain lower-risk residuals associated with stable fixed income assets, and instead steering them toward other investments with equity-like properties that could pose greater risk. This is one implication of failing to adhere to "equal capital for equal risk."

Another implication may be a push to invest in similar risk, but under different structures. Consider that certain assets that have been presented to the NAIC as representative of residual performance, such as the CLO ETF cited, as underperforming relative to the S&P during a 1-year period of the COVID lockdown, would still require only a 30% charge as it is structured as an equity investment not as a direct investment in residual tranches.

We are also concerned that assets that have exhibited very strong performance over many cycles, including student loans, prime consumer loans, and investments backed by aircraft, railcars, infrastructure, and other "hard assets," will become more difficult for insurance companies to hold, even though they do not pose the risk of "RBC arbitrage." The investment structures associated with these assets are not intended to reduce capital requirements. The underlying individual assets are too small and too numerous to be rated individually, and there is no "prescribed RBC treatment for the assets (as there may be for commercial mortgage or residential mortgage loans). Instead, the aggregation of many underlying student loans, for example, into a large pool that can be rated pursuant to a securitization is the conventional way for an insurance company to participate in a valuable asset class.

Because no field testing has been done, it is also not clear what effect these changes will have on the industry. They may be applied inconsistently across jurisdictions, and even across companies within jurisdictions.

Proposed Alternative Interim Solution:
We recognize and understand that the types of investments that insurance companies make evolve over time, as an inevitable consequence of participating in dynamic financial markets. In serving our policyholders, it is incumbent upon us to identify and capitalize investments in a manner that enables us to offer security to our customers. We support the mission of regulators to ensure a stable industry that can reliably fulfill its promises through cycles.

We continue to recommend sensitivity testing as a first step in providing regulators with more clarity into the residual tranches that companies hold and those assets' performance in stress situations. We do not believe the ownership of residual tranches poses an imminent solvency threat to the industry, and we are not aware of any information that suggests otherwise.

We support the development of a clear definition of a "residual tranche" such that a complete population can be analyzed. Once a population is defined, the appropriate framework and modeling can be identified. This should include both a historical analysis of realized losses and consideration of any structural features present in particular investments that may influence risk. The industry-wide impact of any proposed change should be evaluated, along with the risk of unintended consequences.

We believe it is critical for any proposal to be developed in a manner that supports the principle of "equal capital for equal risk." Only once the analysis above has been completed will it be possible to determine whether the proposed capital charges are commensurate with the risk of the in-scope investments.

Conducting an appropriately transparent and deliberative process is critical. However, we acknowledge that some regulators desire to move quickly before sufficient analysis is completed. While we would argue that the low prevalence of residual tranches across the industry permits an appropriately rigorous and data-driven analysis, we expect that with clear goals, the benefit of experience gained from the recent C-1 bond project, and a group of incentivized participants, the process for developing a robust proposal can be expedited.

Thank you for the opportunity to comment on 2023-09-IRE Residual Factor and we look forward to working with you to study residual tranche risk and provide data which promotes a thoughtful development of appropriate capital charges. For all the reasons stated in this letter, we respectfully request that the current charge of 30% remains in effect until further analysis is completed.

Sincerely,

Lauren Scott
Global Atlantic Financial Group
SVP and Head of Regulatory & Government Affairs

Exhibits

Exhibit 1 – S&P Historical Performance

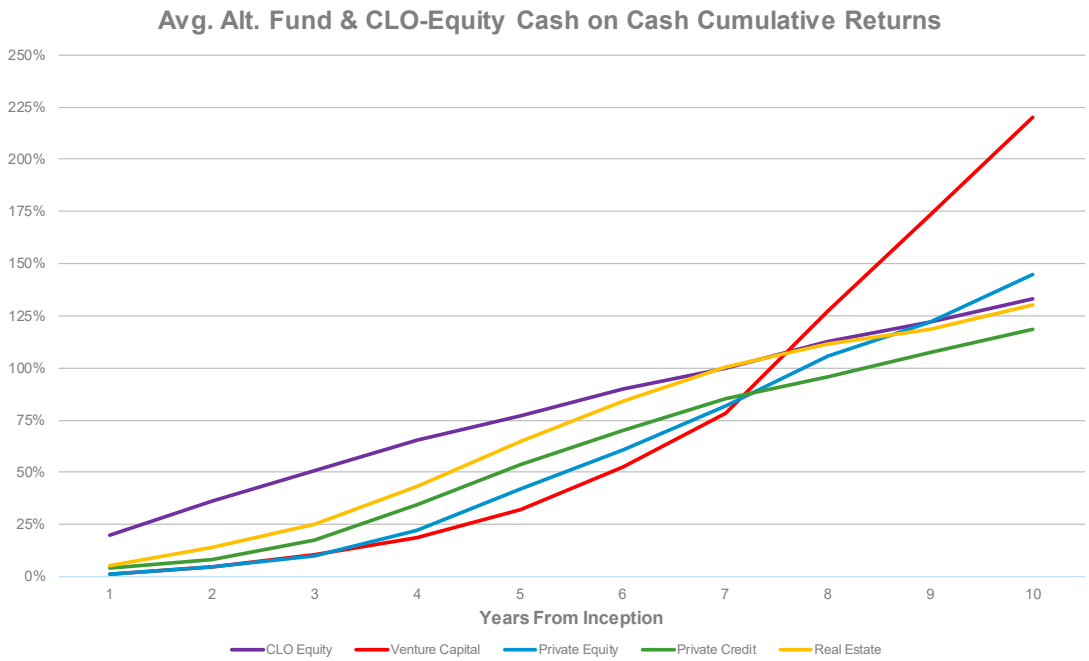
S&P Historical Performance

Criteria	1960 - 1991	1991-Present
Maximum	-46.78%	-54.70%
95th Percentile	-24.65%	-36.06%
90th Percentile	-21.05%	-24.39%

Exhibit 2 – Corporate Capital Structure Relative to CLO Capital Structure

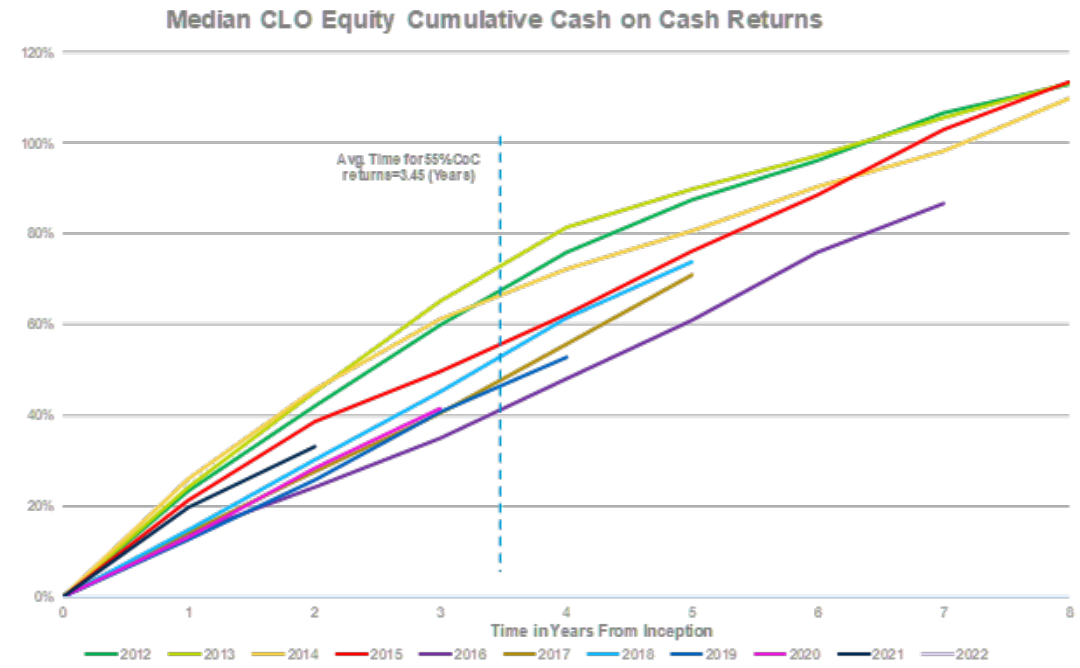
Exhibit 3 – Cashflow Profile of Residual Tranches

Comparison of CLO Equity to Various Alternatives 2012-2018 Vintage



Source: *BofA Research, CLO Equity Research, March 2023*

Source: *Cambridge Associates, Manager_Private_Equity_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Real_Estate_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Venture_Capital_Benchmark_Book_2022, September 2022; Cambridge Associates, Manager_Private_Credit_Benchmark_Book_2022, September 2022;*



Source: Bank of America Research, CLO Equity Research, March 2023

May 12, 2023

Mr. Philip Barlow
Chair, RBC Investment Risk & Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Via email: dfleming@naic.org

RE: Working Group Exposure – IRE Residual Interim Factor

Dear Mr. Barlow:

The RBC Investment Risk & Evaluation (E) Working Group has exposed a proposed interim 0.45 base RBC factor in the life RBC formula for residual tranches of CLOs and other ABS. The proposal did not include a quantitative analysis.

As you know, this process is undertaken at a time when retirement needs in our country are tremendous, while retirees are experiencing declining guaranteed income choices. With these structural demographics, our industry should be rapidly expanding and attracting capital from other parts of the financial system. However, over the past decade, U.S. life and annuity insurers have returned capital equal to 89% of today's market capitalization through share buybacks and dividends, a trend directly contrary to consumer needs. Fundamentally, this trend is due to the complex and often inconsistent frameworks that govern insurers, effectively constituting prohibitive obstacles for many investors. Capital framework inconsistencies are a key underpinning to equity capital frustrations. While RBC has performed well in ensuring life companies' solvency since the 1990s, an acknowledgement of its limitations is a first step in improving outcomes for policyholders. Under that principle, we write to express our concern with the process and express no opinion on the ultimate level of the factor. We are not active residual investors.

As we and others have written in the past, the data demonstrates that investment grade structured securities present safer credit risk than investment grade corporate bonds.[1] After more than two decades of data—decades that included major economic disruptions including the dotcom bubble, the financial crisis, and COVID—that conclusion is robust. It is no mark against the reliability of this data that it does not stretch back as long as the data concerning corporate bonds. Nonetheless, on the basis of stated concerns regarding arbitrage in residual tranches, we are observing a rapid structural shift in a significant but incomplete portion of the regulatory framework for insurer investments through concurrent changes to NAIC designations, RBC capital factors, regulatory processes and the role and oversight of NRSROs.

[1] E.g., Athene "Understanding Structured Credit: Perspectives for Insurance Capital Requirement", December 2, 2022; Professor Robert Jarrow and Donald R. van Deventer, "A Bottom-up, Reduced Form Credit Risk Model Approach for the Determination of Collateralized Loan Obligation Capital", January 2023.

We believe these processes, including any on an expedited basis, should be data-driven and result in asset capital factors that align with risk across all asset classes in a comprehensive 'equal capital for equal risk' framework. The fact that RBC is a "blunt instrument" does not mitigate the management incentives created by the RBC model, which of course involves broad regulatory intervention rights upon control-level triggers. Our comments below identify our concerns with the increasingly inconsistent regulatory framework, as well as third party information that influenced the proposed factor.

Equal Capital for Equal Risk

We highlight two examples below that illustrate our concerns across asset classes.

Real Estate Equity

As you probably are aware, heightened risks have developed in commercial real estate markets. We believe that equity investments in certain subsectors of commercial real estate represent significant capital risks to insurers. Real estate valuations are often measured through 'capitalization rates' (or "cap rates"), which represent a net operating income-to-value ratio for a given property.[2] As illustrated below, in the current market, where cap rates are rising and there is little or negative net operating income growth, a significant quantum of commercial real estate equity holdings may be impaired when debt on these properties matures.

There Has Been a Massive Change in the Real Estate Markets

Impairments Across Various Cap Rate Expansion Scenarios

Cap Rate Expansion		+1.0%	+2.0%	+3.0%	+4.0%
0% Net Operating Income Growth Annually for 3 Years	Equity	(42%)	(71%)	(94%)	(100%)
	Debt	-	-	-	(7%)
5% NOI Growth Annually for 3 Years	Equity	(31%)	(63%)	(86%)	(100%)
	Debt	-	-	-	(3%)
10% NOI Growth Annually for 3 Years	Equity	(21%)	(54%)	(78%)	(97%)
	Debt	-	-	-	-

In 2021, the NAIC lowered capital charges on Schedule A Real Estate Equity from 15% to 11% and Schedule BA Real Estate Equity from 23% to 13%

In light of these metrics, it is difficult to discern why, in 2021 the NAIC lowered capital factors on Schedule A Real Estate Equity from 15% to 11% and Schedule BA Real Estate Equity from 23% to 13%. We are unaware of any consistent, data-driven approach that would lower capital

[2] Cap rate is a measure of yield earned on a commercial real estate property (calculated by dividing NOI by property value). See Athene Perspectives on Real Estate; Cap Rates, Explained | JPMorgan Chase.

requirements for real estate equity in 2021, and raise capital requirements for residual tranches of CLOs today.

Moreover, the charges for commercial real estate are inherently procyclical, reaching a minimum at the market peak. The capital requirements for commercial real estate vary based on prescribed metrics, including debt service coverage ratio ("DSCR").[3] The DSCR is measured using three-year trailing income on the properties, resulting in capital requirements that are lowest at the peak of the market. This feature is, in general, avoided by other rulemaking bodies in the United States and globally.[4]

Corporate Equity

Since the time of the initial "no-arbitrage" dialogue in 2022, some have considered why the principle has not been applied to corporate securities. Like structured credit, corporations issue different tranches of securities to investors with different risk tolerances – senior secured debt, senior unsecured debt, junior debt, preferreds, and equity. The insurance capital framework for corporate bonds uses ratings to determine the appropriate capital charges for the debt and preferred tranches, and then assigns a flat "equity' charge for all corporate equity. But, similar to the different types of collateral pools for structured credit (with auto loans, airplane leases, and consumer loans as collateral), there are many different types of companies with different underlying risk profiles (for example, car manufacturers and technology companies with negative free cashflow).

The chart below illustrates how the equity risk in five different companies held by U.S. insurers can differ materially despite carrying the same capital charge. A true application of the "no-arbitrage" principle would also apply differentiated equity capital charges on corporate securities based on the underlying business model, financial profile, and risks of the corporations that issued those securities. This principle should also be examined and applied across every class of equity and debt within the RBC framework.

[3] DSCR measures the amount of income generated in excess of interest payment obligations.
[4] See for example, Federal Reserve Board votes to affirm the Countercyclical Capital Buffer (CCyB), or The capital buffers in Basel III - Executive Summary.

A Comparison of Similarly Rated Companies[5]

	Johnson & Johnson	Coca-Cola	Chevron	Kraft Heinz	affirm
Market Cap ($bn)	$457.7	$260.1	$327.8	$47.2	$7.4
Price Change Since 52 Wk High	(7)%	(11)%	(5)%	(14)%	(85)%
Ratings (S&P/Moody's/Fitch)	AAA/Aaa/NA	A+/A1/A	AA-/Aa2/NA	BBB-/Baa3/BBB-	NR
2021 EBITDA ($bn)	$32.6	$12.8	$33.4	$6.4	($0.3)
Net Debt / EBITDA	0.6x	2.7x	0.9x	3.0x	NM
Implied LTV[1]	7%	15%	10%	32%	21%
Commentary	Better credit rating than the U.S. government	Strong post-pandemic recovery, with revenue up 4% from pre-pandemic levels	S&P downgraded in 2021. Idiosyncratic exposure to climate change and oil prices	Downgraded to high yield in 2020	Affirm is down ~85% from its 52-week high and has negative EBITDA

We highlight these examples to illustrate our concerns with consistency across asset classes. We are not advocating for increasing or decreasing capital requirements, only that the NAIC and stakeholders should take the time to develop overarching principles that are designed to achieve appropriate, data-driven charges and "equal capital for equal risk". Without such a comprehensive framework, distortions will endure, and there will continue to be industry risk-taking incentives divorced from true economic risk.

Third Party Data

We also write regarding certain data that has been cited in support of the interim factor from one group of companies ("Equitable Letter", dated April 12, 2023).

A 25 Year Time Period Is More Conservative

The Equitable Letter suggested that securitization markets have a history that is "less robust than the 40-year history used to develop the corporate bond factors." Using a 25-year estimation period to determine capital charges may actually be more conservative than using longer periods given that substantial market disruptions (e.g., dot com downturn, the great financial crisis, COVID and the recent banking crisis). In the spirit of equal capital for equal risk, we utilized the C-1 framework to analyze the 95% two-year capital factor on the S&P 500 over different windows ranging from 20 to 70 years. Perhaps not surprisingly, the highest implied capital factor resulted when the most recent 25-year window was used rather than a longer 40- or 70-year window.

Changes in the Financial Markets Since 2008

The Equitable Letter included structured credit issued before and after the financial crisis. As discussed in our whitepaper on structured credit (available here), terms in the structured credit market have changed materially since the financial crisis. The letter does not account for these

[5] Market Data as of May 19th, 2022. 'Implied LTV' represents an illustrative concept for comparison to securitization calculated as Debt / (Debt plus Market Capitalization). Source: company filings, Bloomberg.

changes, and included losses for a securitization market that is non-existent today (Pre-GFC Non-Agency RMBS). Diagram 1 set forth in the Appendix, using CMBS as an example, illustrates that structured products issued post-crisis (2.0) experienced significantly lower cumulative losses from structural protections[6] than pre-crisis (1.0).

Residual Tranches Earn Income, Which Can Offset Losses

The letter's graph "Historical Collateral Losses vs. Residual Tranche Size" fails to acknowledge a fundamental aspect of the investment proposition of residual tranches by overlooking income in the form of excess spread. The income or excess spread received operates to shield losses and is highly relevant to an accurate presentation of the concept in that graph.

If Calibrated Within the C-1 Framework, the Analysis Would Imply a Different Factor Than 45%

The Equitable Letter points to Oxford Lane Capital Corp. (OXLC) and Eagle Point Credit Company (ECC) as proxies for the underlying residuals and the 60% price loss over the first few months of 2020 as evidence of the need for a higher capital charge. However, this is divorced from the C-1 Framework, capturing risks not intended to be covered by C-1 – in particular, liquidity. In addition, the chart uses a maximum loss over a 1-year calculation window, rather than the 95% worst 2-year return that was used to calibrate the 30% equity factor, and excludes other items (e.g., income offsets) that are contemplated within the framework.[7]

In the interest of highlighting the materiality of different features within the C-1 framework, we performed a simple exercise of comparing the 60% loss with the 95% 2-year loss and then considered the impact of dividend income resulting in a 35% factor, which would need to be further adjusted for other aspects of the C-1 framework, such as taxes.[8] The results of this analysis appear in the Appendix, Diagram 2. We are not proposing such a factor; rather we are highlighting the need for a thoughtful process when estimating the charges.

* * * * *

[6] See Athene "Understanding Structured Credit: Perspectives for Insurance Capital Requirement", p. 17.

[7] These companies are incrementally leveraged with preferred shares, and shareholders bear significant fees. Therefore, performance of the common stock is not equal to the performance of underlying residuals. It would be expected that the stock would perform adversely relative to the underlying residuals given the presence of these additional factors in declining conditions.

[8] These numbers represent the weighted average across ECC and OXLC with the ECC time series starting on 10/9/2014 and OXLC on 1/202011.

As noted, we express no view on the proposed 0.45 interim factor other than our significant concerns with the process and the absence of a comprehensive framework. We believe any review, even an expedited one, should be data-driven and result in asset capital factors that align to an 'equal capital for equal risk' framework across asset classes. We appreciate the opportunity to comment.

Sincerely

Doug Niemann
Executive Vice President and Chief Risk Officer

Appendix

Diagram 1

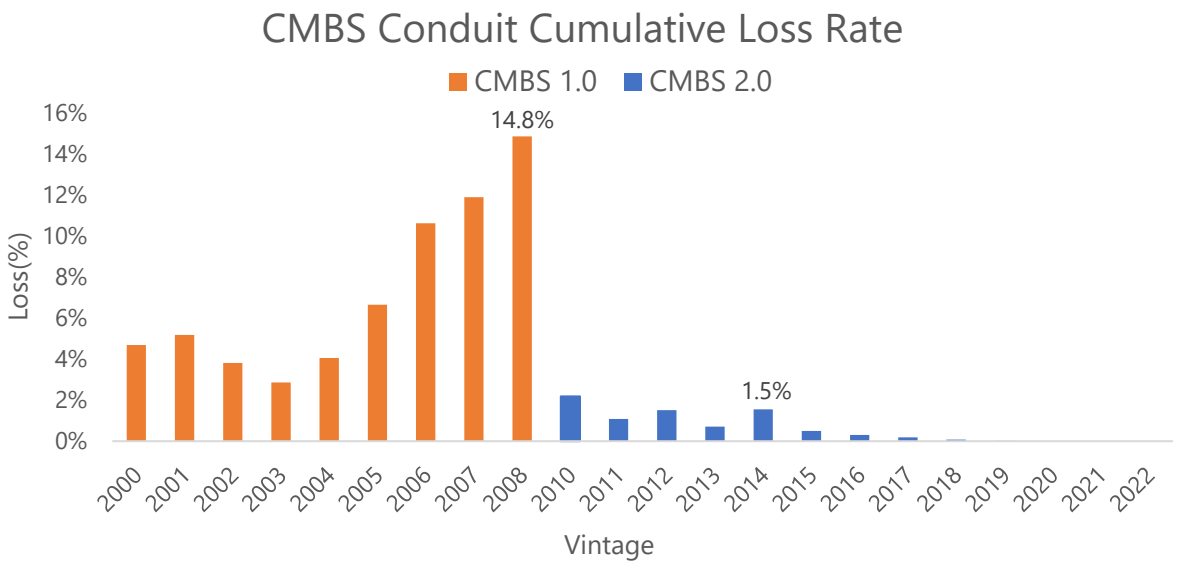
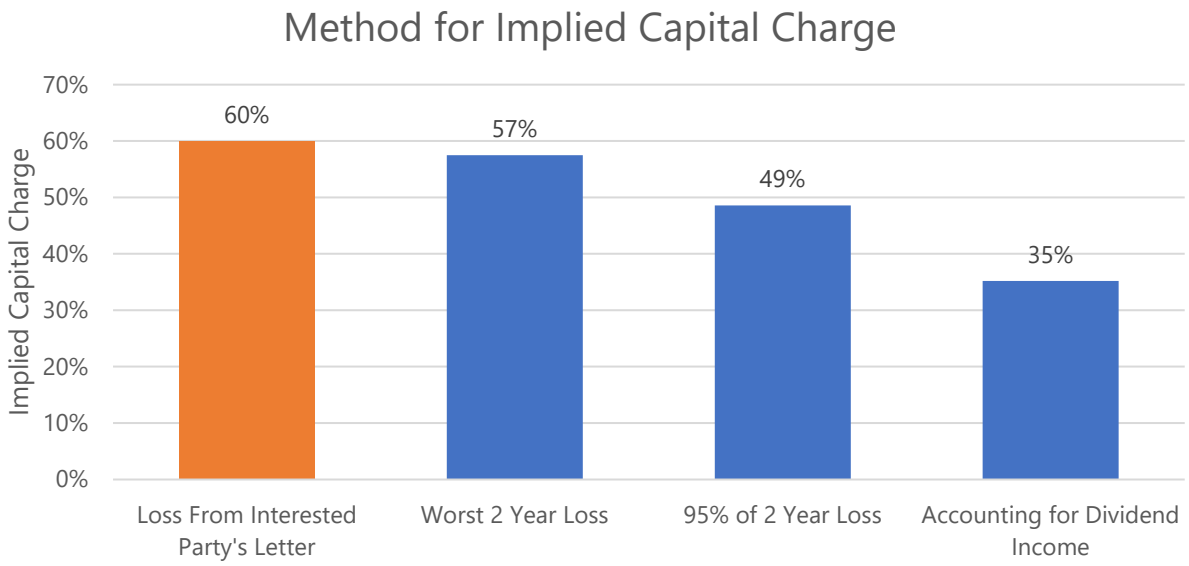


Diagram 2



May 12, 2023

Mr. Phillip Barlow
Risk-Based Capital Investment Risk and Evaluation Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

RE: Exposure 2023-09-IRE Residual Factor

Dear Mr. Barlow:

Thank you for the opportunity to comment on the April 20, 2023, proposal by the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group") to establish an interim 45% Risk-Based Capital ("RBC") charge for "residual tranches or interests" of all asset-backed securities. We very much appreciate the hard work that the members of the Working Group, NAIC staff and others have dedicated to studying this issue. However, we believe that implementing the proposed interim charge for 2023 would amount to a "rush to judgment" given that there is still much work and analysis that needs to be done to meet the NAIC's high standards of scrutiny that characterizes its prior work on issues like this one.

For the reasons described below we respectfully submit that the performance data for CLOs does not support a higher risk charge.

- The performance of CLOs demonstrates that they **do not** present the same investment risk as the underlying investments comprising CLOs.
    - CLO performance since 1999 demonstrates that they have had lower default rates than other loans or high yield investments, including during the financial crisis of 2008-2009.
    - CLOs' historically low default rates compare favorably overall to corporate debt.
    - The break-even underlying default rate for CLO equity is equivalent to BB corporate rating.
    - CLO equity investments have held up well in adverse stress scenarios; median equity IRRs for redeemed deals issued 2005-2007 were higher than 20% and for 2020 deals, higher than 40%.
- CLO performance data does not support higher capital charges, including on the equity tranche of CLOs. Yet, the proposed 45% interim charge would cause insurers to carry a disproportionate amount of capital (i.e., a 50% increase) relative to the risk of these investments.

For the foregoing reasons, we urge the Working Group to reject the proposed 45% interim charge. There is no data supporting that specific charge. On the other hand, the performance data for CLOs indicate that the current risk charge is appropriate. We would be happy to provide you and the Working Group with the data referenced in our letter. Given the volume of comments we expect you to receive, we wanted this letter to be as concise as possible.

Sincerely,

Nassau Financial Group

PineBridge® INVESTMENTS

May 12, 2023

Dear Chair Barlow, Mr. Fleming, and members of Risked-Based Capital Investment Risk and Evaluation (E) Working Group (the "Working Group"):

We appreciate the opportunity to comment on the proposed interim Risk-Based Capital ("RBC") solution for residual interests exposed by the Working Group in April 2023.[1] [2] We believe a more thorough process is needed before adopting the proposed 45% RBC for CLO equity,[3] even on an interim basis. Additionally, robust analysis is desirable to provide a sound basis to revise the RBC treatment broadly for other asset classes.

We recommend allowing the NAIC CLO Ad Hoc working group to complete its detailed analysis and modeling process for CLOs prior to implementing an interim change to CLO equity RBC. A comprehensive analysis would provide a sound basis. We support the analytical work undertaken by the NAIC. In fact, PineBridge has been actively participating in the modeling efforts led by the NAIC CLO Ad Hoc working group. We expect CLO equity loss rates to be driven by a variety of factors such as collateral composition, leverage, and manager profile. We believe active collateral management, portfolio diversification, and structural protections have all contributed to the strong track record of CLOs as stated in our July 15, 2022 response letter to the NAIC.[4]

Given that the analytical work to date has been largely focused on CLOs, we are concerned that assigning the CLO equity risk charge (to be determined), or the proposed interim RBC of 45%, to the residual interests of other types of structured assets is unsupported. CLOs are not necessarily comparable to other securitizations. As seen in other comment letters and prior modeling work for other securitized products (e.g., CMBS and RMBS), there are significant differences in deal structure and performance across structured assets. CMBS, RMBS, and sub-prime autos experienced more severe losses during times of extreme stress such as the 2008 global financial crisis as compared to CLOs.[5] A logical sequencing for determining appropriate RBC treatment for other asset classes is to continue the NAIC's analytical efforts on CLOs (including the modeling work led by the NAIC CLO Ad Hoc working group). After the CLO results have been thoroughly analyzed, we would recommend applying a consistent framework regarding cashflow analysis and stress testing to determine an appropriate solution for other structured asset classes.

We support having a sound basis for any RBC revision and do not believe that it is prudent to increase RBC for residual interests broadly due to the NAIC's concern around capital arbitrage, which was cited as one of the primary reasons for the proposed RBC increase. While it is possible certain residual interests could warrant RBC factors greater than 45% due to capital arbitrage or other reasons, not all structures create capital arbitrage. In our February 2023 comment letter to the Valuation of Securities Task Force ("VOSTF"),[6] we shared a framework to help fret out adverse cases. Below is an example of a structure held by various insurers demonstrating that some structures are not aimed at achieving RBC arbitrage, and in fact, they may have higher RBC than that for the underlying assets, i.e., the sum can be greater than the parts.

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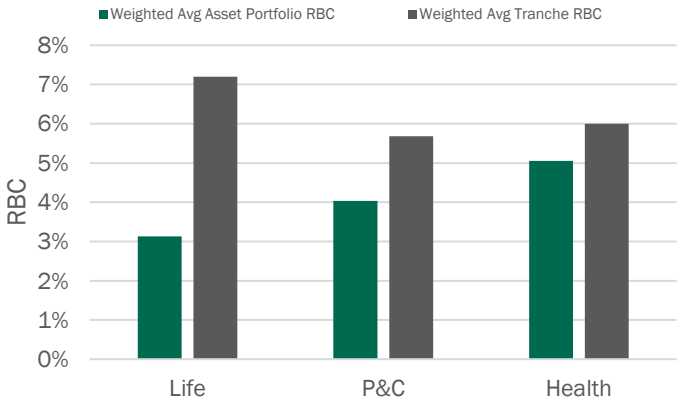
[1] 2023-09-IRE residual factor.pdf (naic.org).
[2] Materials - Risk-Based Capital Investment Risk and Evaluation (E) Working Group (naic.org), April 20, 2023.
[3] For purposes of this letter, we only refer to broadly syndicated loan ("BSL") CLOs.
[4] Agenda - VOSTF (naic.org). 2022 Summer National Meeting. Valuation Of Securities (E) Task Force, August 11, 2022.
[5] Agenda - VOSTF (naic.org). 2022 Summer National Meeting. Valuation Of Securities (E) Task Force, August 11, 2022.
[6] Materials for 2023 NAIC Spring National Meeting, Valuation of Securities (E) Task Force Thursday, March 23, 2023.

PineBridge Investments
65 E 55th St, New York, NY 10022



In conclusion, we strongly recommend allowing the working groups to collaborate with industry and properly model CLO residuals first, and then apply a consistent modeling framework to other structured assets, before implementing any changes to residual interest RBC broadly.

Sincerely yours,
PineBridge Insurance Solutions and Strategies, CLO team, Leveraged Finance team

PineBridge Investments
65 E 55th St, New York, NY 10022

May 12, 2023

VIA ELECTRONIC SUBMISSION

Mr. Philip Barlow, Chair
Risk-Based Capital Investment Risk and Evaluation (E) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Comments regarding Risk-Based Capital Investment Risk and Evaluation (E) Working Group *2023-09-IRE Residual Factor* Proposal

Dear Mr. Barlow,

The American Investment Council ("AIC")[1] welcomes the opportunity to comment on the National Association of Insurance Commissioners ("NAIC") Risk-Based Capital Investment Risk and Evaluation (E) Working Group ("RBCIRE WG" or "Working Group") exposure of *RBC Proposal Form 2023-09-IRE Residual Factor* regarding the proposed 45% risk-based capital ("RBC") factor for Residual Tranches or Interests reported on Schedule BA of the Annual Statement for life insurance companies and fraternal benefit societies.

The AIC appreciates the NAIC's objective of promoting insurer solvency and policyholder protection by ensuring that the various tranches of asset-backed securities ("ABS") are assigned appropriate RBC capital charges. We also understand that certain external stakeholders are advocating for state insurance regulators to take action on perceived issues regarding insurer ABS investments, which, as you know, have historically performed quite well.

[1] The American Investment Council, based in Washington, D.C., is an advocacy, communications, and research organization established to advance access to capital, job creation, retirement security, innovation, and economic growth by promoting responsible long-term investment. In this effort, the AIC develops, analyzes, and distributes information about private equity and private credit industries and their contributions to the US and global economy. Established in 2007 and formerly known as the Private Equity Growth Capital Council, the AIC's members include the world's leading private equity and private credit firms which have experience with the investment needs of insurance companies. As such, our members are committed to growing and strengthening the companies in which, or on whose behalf, they invest, to helping secure the retirement of millions of pension holders and to helping ensure the protection of insurance policyholders by investing insurance company general accounts in appropriate, risk-adjusted investment strategies. For further information about the AIC and its members, please visit our website at http://www.investmentcouncil.org.

For example, collateralized loan obligations ("CLOs") have historically performed – and continue to perform – better than equivalently rated corporate debt instruments. Along with the performance of CLOs, it is significant to note that studies conclude that CLO default rates are substantially lower than default rates for corporates with equivalent ratings. In fact, studies indicate that the number of cumulative losses that would have had to occur with respect to the loans underlying CLOs for CLOs to have suffered significant defaults during the 2008-2012 financial crisis is significantly higher than what actually occurred during such time (assuming a reasonable recovery rate).[2] These consistent returns, including the performance of ABS residuals, have been important in supporting insurers' core mission of meeting policyholder obligations.

For those reasons, we support a thoughtful, methodological approach to assessing residual tranche capital charges (and ABS considerations more broadly), characteristics which, as a standard setting organization, have long been hallmarks of the NAIC and its consensus-driven process. Furthermore, while we can see the utility of the proposed sensitivity analysis as an additional regulatory tool, we do not believe changing capital charges prior to completion of data driven analysis will improve policyholder protection, but rather will unduly increase costs for both insurers and policyholders.

Life insurers also face risks when they are discouraged from accessing appropriate investments that support policyholder obligations. The consequence of this is typically to increase costs for policyholders, reduce availability of products, and/or place downward pressure on insurance company capital. Consequently, we strongly recommend against taking hasty action that could constrain insurer liquidity, or otherwise disrupt the capital markets, during an uncertain economic environment.

To date, the NAIC has not conducted a rigorous, data-focused assessment of what might constitute a proper residual tranche capital charge.[3] The lack of a supporting quantitative analysis was observed by the American Academy of Actuaries ("Academy") during the RBCIRE WG's December 2022 meeting, which, in the same context, stated that it had "zero confidence" in the accuracy of the RBCIRE WG's December 2022 capital charge proposal. The issue of what constitutes a "residual tranche or interest" also seems to be unresolved.[4]

The Working Group appears to be considering an untested capital charge on an ill-defined asset class. What we do know at this stage is that the "interim" RBC solution for residual tranches is expected to last in perpetuity for any asset class for which a dedicated modeling methodology is not developed (a process that, for CLOs, is proving to be more complex than may have been initially anticipated). We also know that, to the extent that ABS investment risk has been assessed more broadly, the NAIC has routinely concluded that insurer aggregate ABS

[2] *See e.g.,* Moody's *Impairment and Loss Rates of Global CLOs* (June 2021) at pp. 14-19 (Appendix I: List of CLO material impairments worldwide).

[3] Subsequent to the December 14, 2022 RBCIRE WG meeting, the Working Group agreed to reduce the number of RBC factors for ABS residual tranches from three to one – again, seemingly without quantitative analysis or support.

[4] *See e.g.*, RBCIRE WG February 27, 2023 *Meeting Minutes* at page 4 (page 3 of Attachment A), *available at*: https://content.naic.org/sites/default/files/national_meeting/RBCIREWG_2023SpringNM_Materials.pdf.

exposure is small and does not currently present a solvency risk to the industry.[5] State regulators have tools available to them to address concerns about individual company investments. These facts alone support a more methodological approach to the "interim solution" work stream.

Importantly, the RBCIRE WG recently gained access to new ABS investment data that was included for the first time in insurers' 2022 year-end reports. That data should facilitate a proper analysis of, or otherwise serve as a starting point for, a number of the considerations referenced above, including how to appropriately define a "residual tranche or interest" for purposes of Schedule BA. Careful analysis of that data is also essential for the consideration of other issues, such as: the impact that a single RBC capital charge could have on insurer RBC; whether such a charge might disproportionately or unintentionally impact certain investments or asset classes; and, at the most fundamental level, whether the baseline assumptions underpinning the Financial Condition (E) Committee's mandate to the RBCIRE WG to develop an "interim solution" continues to be fit for purpose.

In light of the foregoing considerations, we encourage the RBCIRE WG to leave the RBC factor at 30%, while undertaking a more quantitative and methodological approach to any potential "interim" solution with the benefit of stakeholder engagement. We welcome the opportunity to serve as a resource to the RBCIRE WG as it considers both "interim" and "long-term" regulatory frameworks for ABS and would be pleased to present or otherwise provide insight into our members' perspective on these issues.

Thank you for the opportunity to comment. We look forward to continuing to work with you on these important issues.

Sincerely,

/s/ Rebekah Goshorn Jurata
General Counsel
American Investment Council

cc: Mr. Dave Fleming
Senior Life Risk-Based Capital Analyst
National Association of Insurance Commissioners (via email)

[5] *See e.g.,* NAIC Capital Markets, Special Report, *Collateralized Loan Obligation Stress Testing U.S. Insurers' Year End 2021 Exposure*, January 5, 2023, *available at*: https://content.naic.org/sites/default/files/capital-markets-special-reports-clo-stressed-analysis-ye2021.pdf (regarding collateralized loan obligations); NAIC Capital Markets, Special Report, *U.S. Insurers' Exposure to Consumer Asset-Backed Securities as of Year-End 2018*, August 7, 2019, *available at*:https://content.naic.org/sites/default/files/capital-markets-special-report-consumer-asset-backed-securities.pdf. Here, too, the Academy has reached a similar conclusion in the context of CLOs.