



The NAIC Capital Markets Bureau monitors developments in the capital markets globally and analyzes their potential impact on the investment portfolios of U.S. insurance companies. Previously published [NAIC Capital Markets Bureau reports](#) are available via its webpage and the NAIC archives (for reports published prior to 2016).

## Private Credit Characteristics

The terms *private credit* and *private letter ratings* (PLRs) have unintentionally elicited some confusion about their respective meanings. While there is no standardized definition, and the term may be used differently by market participants, private credit generally refers to debt, or debt-like, securities that are not publicly issued or traded. On the other hand, PLRs refer to credit opinions that are assigned to privately rated securities by credit rating providers and are only communicated to the issuer and a specified group of investors.

To bring some clarity, at least with respect to how the NAIC views them, these terms can be characterized in two dimensions: 1) distribution; and 2) transparency.

### Distribution

Distribution refers to the manner in which a security is issued and traded. There are three main types of distribution:

- Public
  - Registered under the Securities Act of 1933 (the Act).
- Institutional
  - Distributed under one of the institutional exceptions to the Act: Reg D, Reg S, or 144A.
  - Broadly syndicated bank loans (BSLs): Bank loans are not considered “securities” under the Act; the BSL market is relatively liquid, and trading BSLs is relatively easy for institutional investors.
- Private
  - Excepted from the Act.
  - Direct lending: Companies borrow directly from a non-bank lender acting alone or as part of a small group; it involves small loans with no provision for syndication; the market is illiquid, so trading can be challenging.



## Transparency

Transparency refers to the availability of information about a given security. Note that transparency focuses on the attributes of the particular issue—**not** the issuer. Any given issuer may have public, institutional, and private securities.

- Public
  - Public securities are required to provide periodic information under the Exchange Act of 1943 (Exchange Act).
  - Information is available to anyone through various sources (e.g., company website, Edgar, etc.).
- Institutional
  - Information is available broadly but is limited because it requires a user identification/login or is available for a fee (i.e., subscription-based).
- Private
  - Information is actively constrained via contract.

The matrix in Chart 1 shows examples of the types of securities that may be categorized within the two aforementioned dimensions and where PLRs fit in.

**Chart 1: Security Distribution and Transparency Matrix**

		Transparency		
		Public	Institutional	Private
Distribution	Public	<ul style="list-style-type: none"> <li>• <i>Exchange Traded Securities</i></li> </ul>		<ul style="list-style-type: none"> <li>• <i>PLRs</i></li> </ul>
	Institutional		<ul style="list-style-type: none"> <li>• <i>Private Placement</i></li> <li>• <i>Broadly Syndicated Bank Loans</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Private Placement</i></li> <li>• <i>PLRs</i></li> </ul>
	Private		<ul style="list-style-type: none"> <li>• <i>Private Placement</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Private Placement</i></li> <li>• <i>Middle Market/Direct Lending</i></li> <li>• <i>Private Credit</i></li> <li>• <i>PLRs</i></li> </ul>



### Distribution and Transparency for Various Debt Instruments

The following are specific examples of financial instruments and how they are characterized between transparency and distribution based on the above matrix.

#### *Exchange Traded Securities (e.g., Microsoft, McDonalds, etc.)*

Distribution: Public  
Transparency: Public

		Transparency		
		Public	Institutional	Private
Distribution	Public			
	Institutional			
	Private			

#### *Broadly Syndicated Bank Loans*

BSLs are bank loans that are rooted in syndicated bank lending. As such, they are not covered by the Act or the Exchange Act. However, since BSLs were designed for syndication, there is institutional transparency.

Distribution: Institutional  
Transparency: Institutional

		Transparency		
		Public	Institutional	Private
Distribution	Public			
	Institutional			
	Private			



*Private Placements (e.g., BSL Collateralized Loan Obligations [CLOs], corporates, etc.)*

A general term for non-public securities, private placements refer to any security that is NOT subject to the Act or the Exchange Act. However, most of these securities are institutional in nature.

Distribution: Institutional or Private

Transparency: Institutional or Private

		Transparency		
		Public	Institutional	Private
Distribution	Public			
	Institutional			
	Private			

*Middle Market Bank Loans/Direct Lending*

Middle market (MM) bank loans/direct lending (DL) loans are also corporate bank loans and are distributed to a small club (or group) of lenders. While the definition varies slightly across market participants, MM loans are generally made to corporations whose annual revenues are under \$500 million. Both distribution and transparency of MM/DL loans are private.

Distribution: Private

Transparency: Private

		Transparency		
		Public	Institutional	Private
Distribution	Public			
	Institutional			
	Private			



Private Credit

Private credit is a developing term and evolving investment type. While private credit can refer to any debt security not traded on a public exchange, it also commonly refers to securities with private distribution and private transparency characteristics. While private credit appears to include MM/DL, risks can extend beyond corporate risk. Private credit includes leveraged private equities, feeder funds, and structured finance securities (i.e., asset-based lending).

Distribution: Private  
Transparency: Private

		Transparency		
		Public	Institutional	Private
Distribution	Public			
	Institutional			
	Private			

Distribution and Transparency for Private Letter Rating-Rated Securities

While PLRs are credit ratings and not securities or investments, they may be characterized by distribution and transparency depending on the type of investment that is assigned a PLR. As stated in the NAIC Capital Markets Bureau special report published in June 2024, "[Private Ratings Among U.S. Insurer Bond Investments Continue to Rise and Have Nearly Tripled in Five Years](#)," a PLR is assigned to a security by nationally recognized statistical rating organizations (NRSROs) and only communicated to the issuer and a specified group of investors. As such, the rating is limited in its transparency and is not publicly or institutionally available. Its disclosure outside of the issuer is strictly limited by contract. While a PLR can be issued for public or institutionally distributed securities, in practice, it is most often used with privately distributed securities.

Distribution: Any  
Transparency: Private

		Transparency		
		Public	Institutional	Private
Distribution-Rated Security	Public			
	Institutional			
	Private			

Questions and comments are always welcome. Please contact the Capital Markets Bureau at [CapitalMarkets@naic.org](mailto:CapitalMarkets@naic.org).



The views expressed in this publication do not necessarily represent the views of the NAIC, its officers or members. NO WARRANTY IS MADE, EXPRESSED OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY OPINION OR INFORMATION GIVEN OR MADE IN THIS PUBLICATION.

© 1990 – 2024 National Association of Insurance Commissioners. All rights reserved.