List of Open Issues: Staff believes that the issues below are mechanical in nature and their solutions should not be controversial or delay the process.

<table>
<thead>
<tr>
<th>Issue</th>
<th>SSG Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reinvestment Assumptions. More detail on the assumed mechanism -</td>
<td>Medium term issue. Will provide clarification.</td>
</tr>
<tr>
<td>including type (bond/loan) and WAL.</td>
<td></td>
</tr>
<tr>
<td>Detail on Caa default vectors. We have been asked to provide more</td>
<td>Medium term issue. Caa default data is not as historically common and tends</td>
</tr>
<tr>
<td>detail on this vector, given its outsized impact on some deals.</td>
<td>to bump to 100% in stress scenarios. Will provide.</td>
</tr>
<tr>
<td>Initial conditions. Dealing with current amount in Int/Defaults.</td>
<td>Long term issue. Initial conditions of model. Need to firm up the disclosure</td>
</tr>
<tr>
<td>That is, how to deal with current amounts reported in the trustee</td>
<td>of the mechanics of Interest Proceeds estimation (Current Bucket + projected</td>
</tr>
<tr>
<td>report. Additionally, how to deal with currently held equity</td>
<td>remaining in period). Defaulted bucket is currently recovered after 6</td>
</tr>
<tr>
<td>securities and other not-debt.</td>
<td>months.</td>
</tr>
<tr>
<td>Use of Issuer rating. Most of the deals we have modeled have the</td>
<td>Longer term issue -- we will work on an arrangement where the mapping of the</td>
</tr>
<tr>
<td>Moody's Issuer rating populated and, as a result, we did not have to</td>
<td>loan ratings is consistent and transparent.</td>
</tr>
<tr>
<td>make any changes. We have learned through this process that this is</td>
<td></td>
</tr>
<tr>
<td>not the case for other platforms.</td>
<td></td>
</tr>
<tr>
<td>Recovery Categories. Similar to above, but with respect to recovery</td>
<td>Longer term issue. Will work on mapping other Moody's and non-Moody's</td>
</tr>
<tr>
<td>categories.</td>
<td>categories. Goal here is simplicity and a small number of categories.</td>
</tr>
<tr>
<td>Ramp up</td>
<td></td>
</tr>
</tbody>
</table>

NAIC Collateralized Loan Obligation (CLO) Stress Tests Methodology

Scope

- We will model all tranches of broadly syndicated loan CLOs held by U.S. insurance companies.
- At this stage we will exclude:
  - Commercial real estate (CRE) CLOs – The risk is commercial real estate, and different assumptions are required.
  - Re-securitizations, asset-backed securities (ABS), collateralized debt obligations (CDOs) and trust preferred securities (TruPS) CDOs – They are out of scope.
• Middle market CLOs – They are temporarily excluded, as the asset class requires specialized assumptions. We hope to return to these assets shortly.
  • Another limitation is the availability of the specific CLO via our third-party software vendor.

**Givens**

• These will be determined via the “Scenario” portion of the process following the setting of the methodology.
• Assume that the inputs are periodic “partial” default rates for each loan based on the current rating.
• In addition, assume each loan has a recovery rate, based on its seniority, for that period.

**Assigning Ratings to Underlying Assets**

• Historical default rates are reported at the **issuer** level, while the debt instrument typically has an **issue** rating, which may be different. The issuer rating is used to calibrate the default rate, while the issue rating influences the recovery rate.
• We propose the following logic:
  o If an asset has an **issuer** rating available within our third-party software (generally those reported by Moody, Standard & Poor’s (S&P) or Fitch), that rating will be used to set the applicable default rating.
  o Otherwise, if an asset has an **issue** rating available within our third-party software (generally those reported by Moody, S&P or Fitch) that rating will be adjusted to set the applicable default rating as follows:
    ▪ Asset is reported as Senior Secured Loan or Senior Unsecured Bond: default rating = **issue** rating + 1 notch (i.e. higher default probability)
    ▪ Otherwise: default rating = **issue** rating
    ▪ This is different from our stress tests
  o If the Securities Valuation Office has assigned an NAIC Designation Category to the Issue, that NAIC Designation Category will be used, unadjusted.
• Once a default rating has been established, the loan will be assumed to “partially default” until its maturity.

**Recovery Rate**

• Principal is recovered 6 months (2 periods) after default

**Cash Flow Assumptions**

• **Interest Rates / Proceeds**
  o Forward Secured Overnight Financing Rate (SOFR) curve as of evaluation date
• Interest Proceeds for each period are based on the weighted average current portfolio spread plus the applicable base rate times the non-defaulting principal.

• Maturities and prepayments
  o Non-defaulting portions of each loan mature based on the legal maturity
  o No prepayments assumed

• Reinvestment
  o No post-reinvestment period reinvestment
  o Reinvestment collateral is purchased at par
  o Reinvestment occurs before payment date – i.e., there are no principal proceeds in the waterfall that can be used to pay interest or satisfy overcollateralization (O/C) tests. Reinvestment occurs on a monthly basis.
  o Reinvestment is assumed to have a rating equal to the transaction’s weighted average rating factor (WARF). If the WARF is not reported, then it is assumed to be 4.C (B3) and is defaulted as stated above.
  o Reinvested collateral is tracked per reinvestment bucket (e.g., all reinvested collateral in one time period is tracked separately from collateral reinvested in another time period).

• Event timing
  o Periodic payment on identified collateral – as per loan terms
  o Periodic payment on reinvested collateral – quarterly
  o Collateral defaults on its interest payment date (prior to paying interest or principal)