



Ad-hoc meeting

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NAIC NATIONAL ASSOCIATION OF
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Outline

1. What's new?
2. Comments
 - Scenario Suggestions
 - Discounting
3. Next Steps



What's new?

1. We have asked VOSTF to postpone implementation of CLO modeling to YE 2025.
2. Working closely with Academy C1 WG.
3. Posted a number of detailed results for our proxy deals:

<https://content.naic.org/sites/default/files/industry-ssg-clo-cashflow-20231208.xlsb>

4. We also posted detailed default scenarios:

<https://content.naic.org/sites/default/files/industry-ssg-clo-default-recovery-scenarios-20231107.xlsb>



Scenarios

Scenario	Default	Recovery	Notes	
1	Hist - 2 σ	Hist		
2	Hist - 1 σ	Hist		
3	Hist	Hist		
4	Hist + 1 σ	Hist		
5	Hist + 2 σ	Hist		
6	Hist	Stress		
7	Hist + 1 σ	Stress		The probability for these tail scenarios is expected to be < 2%
8	Hist + 2 σ	Stress		
9	Hist + 2 σ	[0.75] Stress	Prob < 25 bps	
10	Hist + 2 σ	[0.5] Stress	Prob < 10 bps	



Scenarios - Alternatives

- We have had many conversations regarding our scenarios.
- One participant provided detailed recommendations which we will try to implement and release the results.
- Another participant remarked that we do not have enough scenarios in the right tail to sample the required risk level. We will look into the possibility of adding more.
- Lastly, many (most?) parties have commented that they don't feel comfortable providing feedback without seeing the actual probabilities assigned to the scenarios. We will work on this.



Scenarios - Discounting

- A number of commentators remarked that the cashflows we provided are not discounted.
- This was done deliberately and just for matching. This will not be used for final designation setting.
- Recall that we want to match the risk of the pool to the tranches to match the shape of the underlying distribution of corporate losses. However, if different discount rates are used for this purpose - an absolute \$x loss will have a differential impact depending on the tranche it is allocated to.
 - This is a particular issue in the cases where losses are allocated non-linearly such as CLOs.
 - Because losses are discounted at lower rates as you move farther up the capital structure - this has the peculiar quality of increasing the total losses as they work their way up to better quality tranches.
- We believe that this is the most parsimonious approach to matching.
 - This is also analogous to using the risk-free rate for calculating options prices.



Next Steps

1. Run suggested scenarios and modifications.
2. Run all CLOs held by insurance companies through Scenarios 1 to 10 for our annual Stress Test.
3. Ongoing work with the AAA to align modeling with their C-1 work and to assist them with any modeling they may need to do.