

April 16, 2026

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, Missouri 64106

Re: CLO C-1 Factors Modeling

Dear Chair Barlow:

The Structured Finance Association (the “SFA”) appreciates the opportunity that the Risk-Based Capital Investment Risk and Evaluation (E) Working Group (the “RBC IRE WG”) has provided for comments on the modeled C-1 factors for CLO debt tranches proposed by the American Academy of Actuaries (the “Academy”).¹

The SFA generally supports, for application to the debt tranches of broadly syndicated loan (“BSL”) CLOs, the C-1 factors that the Academy has recommended based on its modeling methodology. The Academy’s process for analyzing BSL CLO notes and the risk factors associated with them has been thorough and well-documented.

The SFA respectfully requests that for year-end 2026, the C-1 factors that the Academy has recommended be applied only to BSL CLO debt tranches. The reason is that the data analysis and modeling process used by the Academy to generate those C-1 factors were based exclusively on BSL CLO notes and did not include any middle market (“MM”) CLO notes.

We encourage the RBC IRE WG to ask the Academy to undertake a separate data-driven modeling process tailored to MM CLO debt tranches, with a goal of developing proposed C-1 factors for MM CLO debt tranches to become effective at year-end 2027.

I. The Academy’s Approach, Rather Than Deal-by-Deal Modeling, Is the Appropriate Methodology for CLO Debt Tranches

The SFA is of the firm view that the Academy’s “comparable attributes” methodology is more appropriate for assigning RBC factors to CLO debt tranches than the deal-by-deal modeling methodology developed by the NAIC’s Structured Securities Group, which is based on an assumption that the aggregate RBC charge for holding all of the securities issued by a CLO issuer should equal the aggregate RBC charge for the underlying loans—an assumption that the Academy has expressly stated that it did not follow.

¹ The SFA is a consensus-driven trade association with over 370 institutional members representing the entire value chain of the securitization market. By facilitating the responsible issuance of and investment in loans and securities, our members help to foster a market that provides trillions of dollars of capital to consumers and businesses in communities across the country. SFA members include issuers, investors (including insurance companies), broker-dealers, rating agencies, data analytics firms, law firms, servicers, trustees and accounting firms.

In their comment letter also being submitted on this date, LSTA, Inc. (the “LSTA”) and the Alternative Credit Council (the “ACC”), also support the Academy’s methodology. The LSTA and the ACC observe that the set of risk factors associated with CLO debt tranches is materially distinct from the risk factors associated with a CLO’s underlying loans. Additionally, the LSTA and the ACC point out that the Academy’s methodology is more operationally appropriate. We strongly agree. The Academy’s many months of analytical work carried out under the auspices of the RBC IRE WG have produced a far superior methodology for the RBC treatment of CLO notes.

II. The Principle That RBC Changes Should Rely on Data-Driven Methodologies Strongly Suggests That the Academy’s Factors Should Be Applied Only to BSL CLO Debt Tranches in This Initial Phase

While the SFA generally supports the Academy’s methodology, we respectfully request that for year-end 2026, the methodology be applied only to BSL CLO debt tranches.

In response to the Chair’s question at the March 2 meeting of the RBC IRE WG, Stephen Smith of the Academy confirmed that the Academy’s modeling process to date has only included BSL CLO notes, and not MM CLO notes. Mr. Smith explained that the Academy will need additional time to do the credit modeling of the MM loans serving as collateral for MM CLO notes. He also stated that the tranche thickness-based factors that the Academy has proposed as the second option for BSL CLO notes should not be used for MM CLOs, since those thickness-based factors are not based on empirical data derived from MM CLOs.²

Mr. Smith’s remarks regarding the need for further information and time to perform modeling calibrated for MM CLO notes are supported by the LSTA’s and ACC’s thorough analysis in their comment letter. We agree with the LSTA and ACC that MM CLO notes—which the Academy has not yet modeled—differ significantly from BSL CLO notes in multiple ways that impact the tail risk, including the nature of the underlying collateral and the structural features of the securitization.

One of the “Principles for RBC Requirements” adopted by the Risk-Based Capital Model Governance (EX) Task Force states that the process for “[m]aintaining and updating RBC requirements must adhere to model risk management standards, relying on data-driven methodologies”³ Based on that principle, we respectfully submit that a data-driven approach for determining RBC factors for MM CLOs calls for a modeling methodology that uses MM CLO data, rather than BSL CLO data.

At the March 2 meeting of the RBC IRE WG, Mr. Smith advised that the Academy will be able to use information from rating agencies to facilitate its credit modeling calibrated to MM CLO notes.

² NAT’L ASS’N OF INS. COMM’RS, *Risk-Based Capital Investment Risk and Evaluation (E) Working Group*, Minutes of the March 2, 2026 Meeting, 2-3 (Attachment A to the Agenda for the March 23, 2026 Meeting), https://content.naic.org/sites/default/files/national_meeting/RBCIREWG%2003-23-26%20SPGNM%20Agenda%26Materials.pdf.

³ NAT’L ASS’N OF INS. COMM’RS, *Risk-Based Capital Model Governance (EX) Task Force*, Principles for RBC Requirements, <https://content.naic.org/sites/default/files/inlinefiles/Dec%202025%20Adopted%20Principles.pdf>.

We are encouraged that leading rating agencies have indicated that they are prepared to provide such information.

It appears likely that the Academy will be able to model MM CLO notes in sufficient time to develop RBC factors that can be considered by the RBC IRE WG for implementation at year-end 2027. The SFA stands ready to assist with that process, whether through provision of information from our broad group of structured finance market participants or otherwise.

III. If the NAIC Determines that tranche thickness is an appropriate comparable attribute, the SFA supports its application to BSL CLOs only for year-end 2026.

As stated above, the SFA—aligned here with the LSTA and ACC—respectfully requests that the new RBC factors not be applied to MM CLO notes until the Academy has performed the appropriate modeling of MM CLO notes.

Further, if the NAIC chooses to apply the Academy’s Option 2 (which uses tranche thickness as an additional attribute for determining the RBC factor), the SFA supports the application of Option 2 solely to BSL CLOs as currently drafted in the blanks proposal.

As a threshold matter, there are concerns among some in SFA’s membership about applying a separate tranche thickness attribute to any CLO debt tranches. It has been noted that tranche thickness is already taken into account in at least one rating agency’s methodology, such that application of a stand-alone tranche thickness attribute may represent double-counting.

More generally, we believe there is substantial merit to the view expressed during the discussion at the March 2 meeting of the RBC IRE WG that the application of a separate tranche thickness attribute would be an imprecise approach given all of the variables, including differences in rating methodologies, tranche seniority, tranche sizes, and tranche ratings. We respectfully submit that more study of this aspect is warranted.

Furthermore, as noted above, the Academy made clear that the Option 2 tranche thickness is not appropriate apply to MM CLO notes, given that no analysis of MM CLO data has yet been performed, and that if such an analysis were performed, it may indicate that a different thickness threshold is appropriate for MM CLO notes. The SFA strongly agrees.

The SFA also welcomes the opportunity the RBC IRE WG has provided for comment, by April 17, on the structure proposal that would implement the new RBC factors that the RBC IRE WG decides to adopt for CLO notes. For now, we will express our firm view that if the NAIC determines to adopt Option 2 as a general matter, the RBC IRE WG should retain the structural features of the current blanks reporting form where the tranche thickness attribute applies only to BSL CLO notes rated Baa3 (or the equivalent rating of other rating agencies) or below.

IV. Conclusion

The SFA appreciates the deliberative process that the RBC IRE WG has undertaken with respect to RBC treatment of CLO notes. Importantly, we appreciate the process not only with respect to CLO notes, but as a prototype for an approach to asset-backed securities issued by other types of structured finance vehicles.

We respectfully request that the RBC IRE WG continue to employ an iterative, data-driven approach. Consistent with that principle, we urge the RBC IRE WG to take a phased approach to the application of new RBC factors to CLO notes. We support the application for year-end 2026 of the Academy's proposed new RBC factors to the BSL CLO notes that it has modeled but urge the RBC IRE WG to defer a change to RBC factors for MM CLO notes until the Academy has time to model such notes and develop factors that are calibrated to that asset class.

The SFA would welcome the opportunity to discuss our comments with the RBC IRE WG, the NAIC staff, and/or the Academy. This could include meetings with SFA members active in different roles in the CLO market and in the structured finance universe more broadly. Again, we are focused not only on the NAIC process for determining new RBC factors for CLO notes but also on any future NAIC development of adjustments to RBC treatment of other structured finance investments.

Sincerely,

Dallin Merrill

Head of Policy
Structured Finance Association