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NAIC softens CLO stance with collaborative approach, but equity tranches come into focus

By Sayed Kadiri

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The National Association of Insurance Commissioners' summer meeting last week offered some rays of light that the institution is favouring a collaborative approach as it looks to model CLOs inhouse.

Paul Forrester, partner at Mayer Brown, says the general tone of the meeting was better than previous communications.

"There were repeated assurances of transparency and collaboration with the industry in a deliberative process," he says.

However, Chicago-based Forrester says there is a clear message that insurance companies' CLO equity investments are being closely reviewed and this could result in increased capital charges. The review of CLO equity holdings is separate to the NAIC's goal of developing a CLO modelling capability, he says.

Carrie Mears, chair of the valuation of securities task force, noted at the meeting that the process for creating a CLO modelling framework would be done through an iterative process with full transparency, deliberation and opportunity for industry input, Forrester says.

This stance appears more friendly than [previous disclosures made by the NAIC](#) on the matter. Previously its outline appeared to downplay CLO performance and the role that managers have in building par and adding value. Questions have also been raised on its approach to CLO modelling.

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