

# CLOs – Regulatory Uncertainty Continues...

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# Unfinished Regulatory Reforms Affecting CLOs

- Volcker Rule
- Risk Retention
- Conflicts of Interest
- FATCA
- FDIC 2012 Leveraged Lending Guidance
- FDIC “Large Bank” Insurance Assessment
- Regulatory Capital

## Volcker Rule – Dodd-Frank Section 619

Two “prongs”:

- Prohibition on proprietary trading
- Prohibition on the ownership of covered funds (except for required risk retention)

**And** separate “Super 23A” provisions

## Volcker Rule

- Securitizations of loans are expressly exempted under Dodd-Frank, but:
  - Bridge loans could be indirectly impacted because some securities that refinance bridge loans might be subject to the Volcker Rule
  - The status of equity and other assets received in connection with “debt previously contracted” is not clear under the proposed rule

## Prohibition on Ownership of Hedge Funds and Private Equity Funds

- Hedge funds and private equity funds are intended to be defined as “Covered Funds”
- Covered Funds are those funds that would be subject to the Investment Company Act of 1940 *but for* the exemptions provided by Sections 3(c)(1) and 3(c)(7)
- Many ABS (including CLOs) rely on those same exemptions and are swept in as covered funds under the proposed rule ***but there is no indication that ABS was targeted by Congress under the Volcker Rule***

## Savings for Loan Securitization

- There is an overriding savings provision in the Dodd-Frank Act mandating that **nothing in the rule limit or restrict the sale or securitization of loans**
- CLO market participants feel that the proposed Volcker Rule does not adequately give effect to this exclusion

# Savings for Loan Securitization

- The definition of “loan securitization” in the proposed Volcker Rule is drawn very narrowly – it does not cover CLOs as presently structured:
  - It may not allow for holding cash, short term liquidity instruments or other debt (i.e., bonds) or equity securities or workout property
- The efforts by the agencies to follow the rule of construction and exempt loan securitizations falls far short: they are still considered “covered funds”
- The statutory exemption is limited (perhaps unintentionally) to the sponsorship and ownership provisions of the Volcker Rule (i.e., not the so-called “super 23A” provisions about which more later)

## Proposed Volcker Rule's "Super 23A" Provisions

- Covered Funds – including loan securitizations, are subject to "Super 23A" provisions when sponsored or advised by banking entities or affiliates
- "Covered Transactions" between a sponsor or advisor and a covered fund are prohibited
- Structuring banks might be prohibited from making warehouse loans to CLOs or making markets in CLO assets or liabilities
- Extensive compliance requirements apply
- The backstop conflicts provisions also continue to apply to loan securitizations

## Volcker Rule's Effective Date Conundrum

- By its terms, the Volcker Rule goes into effect the **earlier** to occur of (i) one year after publication of final rules and (ii) July 21, 2012, **whether or not final rules are in place**
- The agencies issued “guidance” that banks would be permitted to engage in non-compliant activities for the duration of the 2-year “conformance” period (ending July 21, 2014), but must have a good faith “plan” for ultimate compliance

## LSTA's Comment Letter

- ABS was not the intended target of Volcker and should be completely exempted
- The definition of “loan securitization” is drafted too narrowly and should include **all** CLOs
- Conflicts should be covered under the SEC’s required rule for “Conflicts of Interest in Certain Securitizations” (more later)
- Securities that refinance bridge loans should be exempt from the proprietary trading provisions of Volcker
- Assets deriving from DPC should be exempt from Volcker

# Risk Retention

- Both European Rules (CRD Article 122a) and U.S. Rules (Dodd-Frank Section 941) generally contemplate that the sponsor or securitizer retain 5% of the face value of the CLO notes (but there are potentially important differences)
- The LSTA has argued that Dodd-Frank required Credit Risk Retention actually does not apply to CLO managers
  - Dodd-Frank requires credit risk retention by the “securitizer” – someone who initiates or originates an ABS by **selling** or **transferring** assets to the Issuer
  - In most CLOs, there is no single seller or transferor
  - In the Dodd-Frank proposed Credit Risk Retention rule, footnote 42 suggests that the CLO manager is the “sponsor” and must retain risk because the CLO manager **selects** the assets to purchase

# Risk Retention – LSTA’s “Open Market” CLO Proposal

- The LSTA has offered language to ring-fence so-called “Open Market CLOs”
  - 100% of investments in loans, cash and temporary liquidity investments and at least 90% in senior, secured syndicated loans
  - Loans are acquired in arm’s length syndications
  - Underlying obligors are commercial borrowers
  - No ABS investments
  - No derivatives investments
  - Managers registered investment advisers and management compensation incentives aligned with investor risks
- There has been **significant** pushback by regulators to this proposal

## Risk Retention – Premium Capture Cash Reserve Account

- One of the more controversial provisions of the Credit Risk Retention proposal was the requirement for the security issuance proceeds above the par value of the ABS interests to be held in a “premium capture cash reserve account” or “PCCRA” and held until final maturity in addition to other required risk retention
- Most CLOs issue securities for proceeds that are larger than the underlying assets’ par amount and would require PCCRA
- This PCCRA requirement would render CLOs economically infeasible
- The PCCRA provisions of the Credit Risk Retention proposed rule have been widely criticized

## Risk Retention: Timing

- European risk retention (CRD Article 122a) is effective for European credit institutions, and similar requirements for insurance companies are expected in Solvency II
- U.S. risk retention was supposed to have been finalized by April, 2011, but disagreement among regulators is reportedly delaying finalization
- After they are finalized, there likely will be a two-year implementation period
- Thus, in a worst-case scenario, CLOs can be likely issued through late 2014 without having to fully comply

## Conflicts of interest in Securitizations (Including CLOs) – Dodd-Frank Section 621

- Proposed Rule 127B prohibits material conflicts of interest in securitizations. Intended to address an Abacus CDO-type situation in which ABS were allegedly designed to fail and investors lost money, but the sponsor/dealer gained
- “Material” not adequately defined and the rule includes related “interpretative guidance” (the status and effect of which is unclear), which appears to prevent typical structuring and arranging activities for Open Market CLOs

# Conflicts of interest in Securitizations – LSTA Comment Letter

- The LSTA argued that:
  - Rule 127B should not apply to structuring of Open Market CLOs by structuring banks
  - Rule 127B should not prohibit a structuring bank or affiliate from having a short position for a loan in an Open Market CLO
  - Rule 127B should not apply to collateral managers (since they are not “sponsors” of CLOs that they manage)
  - Required investment adviser registration for CLO managers provides a robust regime and regulates conflicts of interest
  - Incentive management compensation is a strong disincentive to creation of Open Market CLOs that are designed to fail

# FATCA

- FATCA: Foreign Account Tax Compliance Act
- Attempts to reduce tax evasion by U.S. Accounts in Foreign Financial Institutions (FFIs)
- Requires FFIs to sign an FFI Agreement and provide information on U.S. Accounts to IRS
  - Information includes name, address, TIN, account number, account balance and – ultimately – income
- If FFI does not enter into the Participating FFI (PFFI) Agreement, it will suffer 30% withholding on U.S. Source Payments and, ultimately, “pass-thru payments”
- Grandfathering: FATCA applies to assets issued after Jan 1, 2013 (but material modifications may make many loans “deemed re-issuances”, and would not qualify for the grandfathering)

## FATCA and CLOs

- CLOs are FFIs
- Existing pre-FATCA CLOs (which pre-dated FATCA requirements) have little ability to enter into a PFFI Agreement and disclose information to the IRS
- However, as the rules are currently written, pre-FATCA CLOs are still required to enter into PFFI Agreements and provide information on U.S. Account holders
- If pre-FATCA CLOs do not do this, they will be subject to 30% withholding on interest payments, principal payments and, ultimately, sale proceeds on any new (**or deemed reissued**) loans

# FATCA and CLOs...and Material Modifications

- Loans that are “materially modified” will be “deemed re-issuances” under FATCA – and therefore lose their grandfathered status
- Material modification can include (but is not limited to):
  - A spread change of 25 bps
  - A 5% change in the annual yield
  - A material deferral or extension of payments
- In the S&P/LSTA Index (of 674 loans), there were amendments on 125 loans in the past 12 months
- To avoid inadvertently being in a “deemed re-issued” loan, an existing CLO would need to sell out of its loan before the amendment is complete

## Three Scenarios for CLOs

- Scenario # 1: CLOs that have exited their reinvestment period by Jan 1, 2013
  - Unlikely to buy new loans
  - Need to be careful about materially modified loans
- Scenario # 2: CLOs that are still in their reinvestment period on Jan 1, 2013
  - May be precluded from buying new loans
  - Need to be careful about being in materially modified loans
- Scenario # 3: New (post-FATCA) CLOs
  - Need to have flexible language that permits CLO to be compliant with FATCA

## LSTA's Arguments on FATCA for CLOs

- For existing CLOs (which are stuck between a rock and *two* hard places), the LSTA is advocating that the IRS should:
  - allow a CLO to treat debt and equity securities issued by it and held through clearing systems as held by the clearing systems for FATCA purposes
  - provide an exemption for non-cleared debt or equity, providing that the trustee will report on U.S. Accounts or withhold as appropriate
  - provide an exemption to allow an appropriate existing CLO to be treated as a Deemed Compliant FFI that is exempt from the requirement to enter into an FFI agreement, and that may certify its status as a DCFFI to applicable withholding agents
- The LSTA is also advocating for a modification of the “material modification” rule for syndicated loans
- However, post-FATCA CLOs will have to comply

## New CLOs Will Need Flexibility to Comply with the FATCA Regime

- New CLOs should incorporate appropriate provisions in their transaction documents to allow the CLO to comply with FATCA
- Flexibility to amend the Indenture if necessary or advisable
- A covenant by the Issuer to comply
- Deemed agreement by the Issuer to provide information
- Remedies if holders don't provide information, including compulsory sale of CLO securities (untested?)
- Treatment of FATCA-related expenses as recoverable administrative expense

## Leveraged Lending Guidance

- In March, the OCC, FDIC and Fed issued proposed Intra-Agency Guidance on Leveraged Lending
- This Guidance updates the 2001 Guidance
- Provides goalposts and recommendations for bank practices
- Guidance will be used in the supervisory and examination process

## 2012 Guidance Compared with 2011 Guidance

- 2012 Guidance:
  - Is far more detailed (23 pages vs. a couple of pages in 2001)
  - Reflects a more sophisticated view of the leveraged loan market
  - Reflects experiences over the past decade
    - Pipeline management
    - Cov-lite
    - Sponsor management

## 2012 Guidance (Cont'd)

- 2012 Guidance (cont'd):
  - Has a **big** issue with cov-lite loans
  - Introduces concept of legal or fiduciary responsibility
  - Appears to go beyond considering the safety and soundness of individual banks to considering the safety and soundness of the financial markets
  - Goes beyond loans, and offers recommendations for sub debt - arguing against PIK-toggle and requiring amortization of sub debt
  - Does not discriminate between “originate-to-hold” and “originate-to-distribute”

## 2012 Guidance (Still Cont'd)

- 2012 Guidance (cont'd):
  - Appears to be more prescriptive and has a number of bright line tests
    - Definitions of “leveraged finance” transactions commonly contain some combination of ...”
      - Borrower’s total debt/EBITDA > 4.0x, senior debt/EBITDA > 3.0x...
    - “...base cash-projections should show the ability over a five-to-seven year period to fully amortize senior secured debt or repay at least 50 percent of total debt”
    - “A leverage level in excess of 6x for Total Debt/EBITDA raises concerns for most industries”
    - “If the projected capacity to pay down debt from cash flow is nominal, with refinancing activity the only viable option, the credit will usually be criticized even if it has been recently underwritten”
  - ***And...* is only asking for comments on the reporting burden for banks**

# FDIC “Large Bank” Insurance Assessment

- Under Dodd-Frank, the FDIC was required to shift insurance assessments from deposits to assets
- In December 2011, the FDIC finalized its “large bank” pricing for banks with \$10 billion or more in assets
- The pricing included a greater insurance assessment for “higher risk” commercial and industrial (C&I) loans as well as securitizations that are backed at least 50% by higher risk assets
- The definition for “higher risk” C&I loans generally includes loans for M&A and recapitalizations that have a total debt/EBITDA ratio of more than 4x **OR** a senior debt/EBITDA ratio of more than 3x
- The rule “looks through” a securitization to the underlying assets and ignores the tranche rating, subordination or credit enhancement in the securitization
- The final rule is effective on and from April 1, 2013

## Basel III/Regulatory Capital – Recent NPRs

- June 2012: US regulators (1) adopt final rule implementing Basel 2.5 revisions and Dodd-Frank 939A compliance to the Market Risk Rule, and (2) issue 3 separate proposals:
  - NPR 1 – Basel III Minimum Capital Requirements, Definition of Capital and Capital Buffers (“Basel III NPR”)
  - NPR 2 – Standardized Approach for Risk-Weighted Assets (“Standardized Approach NPR”)
  - NPR 3 – Advanced Approaches and Market Risk (“Advanced Approaches NPR”)

## Basel III/Regulatory Capital – Still Remaining...

- Comment period and finalization of US regulators' comprehensive regulatory capital proposal of June 2012
- US capital surcharge for SIFIs under Dodd-Frank section 165
- Basel Committee and US “fundamental review” of trading book capital requirements
- Liquidity standards (Basel Committee revisions; US implementing proposals)

# Basel III/Regulatory Capital – Basel III NPR

- Would apply to all US banking organizations
- Minimum capital requirements consistent with international Basel III
  - 4.5% common equity tier 1 (CET1); 6% tier 1; 8% total capital (same)
  - 2.5% capital conservation buffer for all; and countercyclical capital buffer (initially set at 0 for exposures located in the United States) for Advanced Approaches banks
    - For countercyclical buffer, location of a securitization exposure is location of largest concentration of borrowers.
  - Capital conservation buffers used as a condition to payment of capital distributions and executive officer bonuses
  - Supplementary minimum tier 1 leverage ratio (including off-balance sheet) of 3% for Advanced Approaches banks effective 2018
  - Corresponding changes to prompt corrective action categories

## Basel III/Regulatory Capital – Basel III NPR (con't)

- Restrictive definitions of capital and stricter capital deductions also largely consistent with international Basel III (e.g., deductions from CET1 for MSR and most DTAs, inclusion of unrealized losses on AFS securities (including treasuries))
- Deduction of investments in unconsolidated financial institutions that exceed thresholds (including Volcker covered funds)

# Basel III/Regulatory Capital – Standardized Approach NPR

- Would apply to all US banking organizations
- Replaces US Basel I risk-based capital regime with one based in part on Basel II Standardized Approach (previously proposed but not adopted in the US)
- More granular risk-weight categories (e.g., residential mortgages subject to risk-weights from 35% to 200%)
- Potentially significant implications for securitization
- US Advanced Approaches banks would use the Standardized Approach to calculate Collins Amendment floor

# Basel III/Regulatory Capital – Advanced Approaches NPR

- Would apply only to US Advanced Approaches banking organizations
- Implements range of amendments to international capital standards adopted by Basel Committee
  - Higher counterparty credit risk capital requirement to account for CVA
  - Capital requirements for cleared transactions with central counterparties
  - Increased capital requirements for exposures to other financial institutions
- Would integrate the US Market Risk Rule (currently a separate appendix) into the agencies' comprehensive capital framework

# Standardized and Advanced Approaches NPRs Penalize “Resecuritizations”

- Generally “resecuritization” exposures are subject to 1250% risk weight for capital requirements (i.e., 100%)
- “Resecuritization” means a securitization in which one or more of the underlying exposures is a securitization position would be considered a resecuritization. A resecuritization position under the proposal means an on- or off-balance sheet exposure to a resecuritization, or an exposure that directly or indirectly references a resecuritization exposure
- CLOs with structured credit/CLO baskets are “resecuritizations” **IF** they hold such investments (i.e., disposition would change the treatment)
- Note that this treatment is **NOT** proportional to the amount/value of the triggering resecuritization investment

# Basel III/Regulatory Capital for CLO 2.0 vs. Legacy CLOs

Table 3: Differences in risk weighted capital and capital charges under ratings-based approaches for a new issue CLO with no CLO bucket

Tranche	Cumulative Loss	Delinq Rate	Kg	Ka	Attach Point	Detach Point	Risk Weight			Capital Charge		
							Basel I	Basel II	SSFA	Basel I	Basel II	SSFA
AAA	0%	0%	8%	8%	38%	100%	20%	7%	20%	1.6%	0.6%	1.6%
AA	0%	0%	8%	8%	28%	38%	20%	15%	20%	1.6%	1.2%	1.6%
A	0%	0%	8%	8%	20%	28%	50%	20%	27%	4.0%	1.6%	2.2%
BBB	0%	0%	8%	8%	15%	20%	100%	75%	124%	8.0%	6.0%	9.9%
BB	0%	0%	8%	8%	11%	15%	200%	425%	373%	16.0%	34.0%	29.9%

Source: BofA Merrill Lynch Global Research

# Basel III/Regulatory Capital for CLO 2.0 vs. Legacy CLOs

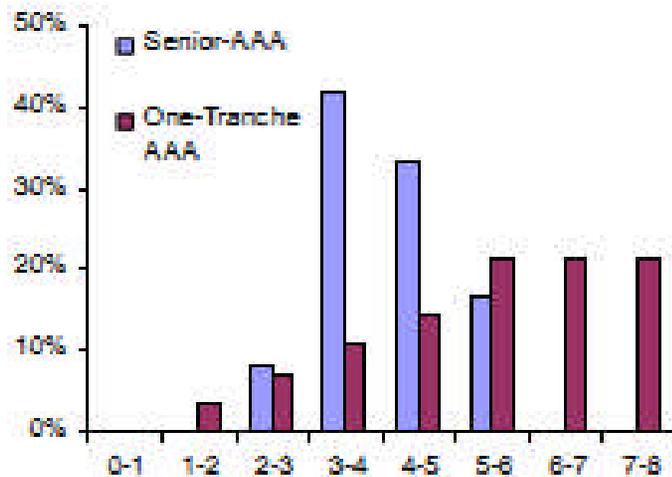
Figure 1. Attachment, detachment points, and capital under standardized Basel and under Fed rule for typical CLO 2.0 and CLO 1.0 (from 2007 vintage)

CLO 2.0						CLO 1.0					
Name	Current Attach	Current Detach	Rating	Basel Cap	KSSFA Cap	Name	Current Attach	Current Detach	Rating	Basel Cap	KSSFA Cap
A	33.8%	100.0%	Aaa	0.56%	1.6%	A	27.4%	100.0%	Aaa	2.4%	5.7%
B	29.8%	33.8%	Aa2	1.2%	1.6%	A-S	33.4%	100.0%	Aaa	2.4%	4.0%
C	20.7%	29.8%	A2	1.6%	1.7%	A-J	25.5%	33.4%	Aa1	3.2%	25.9%
D	16.1%	20.7%	Baa2	6.0%	7.9%	B	20.5%	26.2%	Aa2	3.2%	37.7%
E	11.2%	16.1%	Ba2	34.0%	25.9%	C	14.6%	20.5%	A2	8.0%	54.8%
						D	10.6%	14.6%	Baa2	28.0%	74.5%
						E	7.2%	10.7%	Ba2	52.0%	91.7%

Source: Citi Investment Research and Analysis

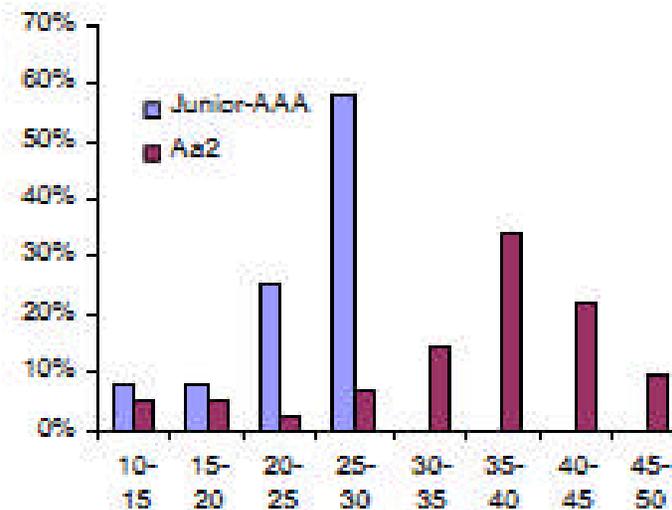
# Basel III/Regulatory Capital for CLO 2.0 vs. Legacy CLOs

Figure 2. Distribution of risk-weight KSSFA (x-axis,%) of 42 2007Q3-origin CLO seniors



Source: Citi Investment Research and Analysis

Figure 3. Distribution of risk-weight KSSFA (x-axis,%) of 42 2007Q3-origin CLO senior-mezz



Source: Citi Investment Research and Analysis

# Basel III/Regulatory Capital for CLO 2.0 vs. Legacy CLOs

**Figure 4. Spread and Return-on-regulatory capital (ROC) under standardized Basel and under Fed rule for typical CLO 2.0 and CLO 1.0 (from 2007 vintage)**

CLO 2.0					CLO 1.0				
Name	Rating	Spread, bps	Basel ROC	KSSFA ROC	Name	Rating	Spread, bps	Basel ROC	KSSFA ROC
A	Aaa	135	241%	84%	A	Aaa	180	75%	32%
B	Aa2	275	229%	172%	A-S	Aaa	150	63%	38%
C	A2	425	266%	250%	A-J	Aa1	315	98%	12%
D	Baa2	600	100%	76%	B	Aa2	350	109%	9%
E	Ba2	825	24%	32%	C	A2	575	72%	10%
					D	Baa2	775	28%	10%
					E	Ba2	1025	20%	11%

Source: Citi Investment Research and Analysis

# Basel RWA for Securitizations

**Table 7: Ratio: capital after securitisation / capital before securitisation**

	times			
	Current		Proposed	
	SA	RBA	RRBA	SSFA
UK Prime RMBS	0.87	0.46	4.36	3.33
UK NCF RMBS	0.92	0.50	5.43	7.27
Stronger Spanish RMBS	2.49	1.52	6.32	3.17
Weaker Spanish RMBS	3.21	2.35	6.93	4.94
Auto ABS	0.97	0.79	1.59	2.41
SME ABS	3.97	3.59	5.52	2.61
Italian Lease ABS	7.35	7.08	7.98	3.39
European CLO	2.08	2.00	2.75	2.50
US CLO	1.78	1.70	3.16	2.50

Source: BofA Merrill Lynch Global Research

# Basel RWA for Securitizations

Table 14: Required increase in capital for banks holding European SF by sector

Type	Outstanding (EURbn)	Rating	%	Amount (EURbn)	Standardised approach charge for underlying	Current standardised approach for securitisation	Current RBA for securitisation	Proposed revised RBA	Increase in capital switching from current SA/IRB RBA to proposed revised RBA, assuming 60% of assets are currently held in banks, 60% of which in current SA banks and 40% of which in current RBA banks, EURbn
RMBS	902.3	AAA	80%	721.8	2.80%	1.60%	0.56%	4.64%	15.0
		A	10%	90.2	2.80%	4.00%	1.60%	28.82%	14.0
		BBB	5%	45.1	2.80%	8.00%	6.00%	51.97%	12.1
		NR	5%	45.1	2.80%	100.00%	100.00%	100.00%	0.0
		<b>Total RMBS</b>							
ABS	122.8	AAA	80%	98.2	6.00%	1.60%	0.56%	4.64%	2.0
		A	10%	12.3	6.00%	4.00%	1.60%	28.82%	1.9
		BBB	5%	6.1	6.00%	8.00%	6.00%	51.97%	1.6
		NR	5%	6.1	6.00%	100.00%	100.00%	100.00%	0.0
		<b>Total ABS</b>							
CLO	75	AAA	73%	54.8	10.40%	1.60%	0.56%	4.64%	1.1
		AA	5%	3.8	10.40%	1.60%	1.20%	21.05%	0.4
		A	6%	4.5	10.40%	4.00%	1.60%	31.47%	0.8
		BBB	4%	3.0	10.40%	8.00%	6.00%	53.85%	0.8
		BB	3%	2.3	10.40%	28.00%	34.00%	100.00%	0.9
		Equity	9%	6.8	10.40%	100.00%	100.00%	100.00%	0.0
		<b>Total CLO</b>							
CMBS	90	AAA	75%	67.5	8.00%	1.60%	0.56%	4.64%	1.4
		AA	7%	6.3	8.00%	1.60%	1.20%	20.01%	0.7
		A	7%	6.3	8.00%	4.00%	1.60%	31.05%	1.1
		BBB	8%	7.2	8.00%	8.00%	6.00%	47.05%	1.7
		BB	3%	2.7	8.00%	28.00%	34.00%	100.00%	1.1
<b>Total CMBS</b>								<b>6.0</b>	
WBS	50	A	100%	50.0	4.00%	4.00%	0.96%	11.25%	2.5
		<b>Total WBS</b>							<b>2.3</b>
<b>Total</b>								<b>59.1</b>	

Source: BofA Merrill Lynch Global Research, Moody's, AFME

# Basel RWA for Securitizations

Table 19: Spreads and RAROC under current and proposed Basel capital charges

Asset	Tranche Rating	Capital charges					Spread (bps)	Expected annualised loss based on Moody's (%)	Expected return (bps)	RAROC					Spread needed to keep RAROC constant under new framework			
		Current standardised approach	Current RBA	Revised RBA	BBFA (p=0.5)	BBFA (p=1.5)				Current standardised approach	Current RBA	Revised RBA	BBFA (p=0.5)	BBFA (p=1.5)	Current to Revised RBA	Current RBA to Revised RBA	RBA to BBFA (p=1.5)	BBFA (p=0.5) to BBFA (p=1.5)
UK Prime RMBS - Granite Master Issuer 2007-1 (standardised approach for underlying pool)	AAA	1.60%	0.56%	4.64%	1.60%	1.60%	79	0.00%	79	49%	141%	17%	49%	49%	229	653	225	79
	AA	1.60%	1.20%	19.01%	1.60%	6.15%	111	0.17%	94	59%	79%	5%	59%	15%	1136	1509	499	379
	A	4.00%	1.60%	29.60%	1.60%	17.14%	162	0.28%	134	34%	84%	5%	84%	8%	1020	2507	1464	1464
	BBB	8.00%	6.00%	42.68%	23.29%	54.89%	231	0.78%	153	19%	26%	4%	7%	3%	896	1169	1481	439
UK NCF RMBS - RMAC 2005-NSP2	AA	1.60%	0.64%	7.76%	1.60%	1.30%	204	0.17%	187	117%	293%	24%	117%	104%	925	2288	543	227
	AA	1.60%	1.20%	15.25%	1.60%	12.27%	343	0.17%	326	204%	272%	21%	204%	27%	5127	4164	3352	2518
	A	4.00%	1.60%	22.92%	11.96%	44.06%	615	0.28%	587	147%	367%	26%	49%	13%	3391	8436	16191	2191
	BBB	8.00%	6.00%	45.31%	86.96%	94.90%	761	0.78%	683	85%	114%	15%	8%	7%	3948	5238	10887	823
Strong Spanish RMBS - Bankinter 13	A	4.00%	0.96%	11.25%	1.60%	1.33%	347	0.28%	319	90%	332%	28%	199%	175%	925	3767	635	392
	BBB	8.00%	6.00%	56.58%	6.51%	39.52%	529	0.78%	451	56%	75%	8%	69%	11%	5270	4334	3050	2819
	BBB	8.00%	6.00%	56.53%	28.47%	64.44%	613	0.78%	535	67%	89%	9%	19%	8%	3861	5122	5828	1290
Weaker Spanish RMBS - TOA CAM 9	A	4.00%	0.96%	11.25%	1.60%	5.68%	382	0.28%	354	89%	369%	31%	221%	62%	1024	4177	2121	1284
	BB	28.00%	34.00%	94.89%	67.40%	85.74%	772	2.69%	503	18%	15%	5%	7%	6%	1974	1673	1538	909
Auto ABS - Driver Ten	AAA	1.60%	0.56%	4.64%	1.67%	7.83%	25	0.00%	25	16%	44%	5%	15%	3%	72	206	347	116
	A	4.00%	1.60%	32.78%	83.38%	93.64%	77	0.28%	49	12%	31%	1%	1%	1%	430	1032	2896	83
SME CLO - PYMES Santander 4	A	4.00%	0.96%	11.25%	1.60%	1.60%	400	0.28%	372	93%	388%	33%	233%	233%	1075	4388	648	400
	BBB	8.00%	6.00%	38.54%	1.60%	10.27%	900	0.78%	822	103%	137%	21%	514%	80%	4039	5360	1486	5358
Italian Lease - UBI Lease Finance 5	A	4.00%	0.96%	11.25%	1.60%	2.77%	175	0.28%	147	37%	153%	13%	92%	53%	442	1751	451	282
European CLO - Cairn CLO II	AAA	1.60%	0.56%	4.64%	1.60%	3.87%	140	0.06%	134	84%	239%	29%	84%	35%	395	1116	932	330
	AA	1.60%	1.20%	18.92%	1.60%	20.97%	235	0.05%	230	144%	192%	12%	144%	11%	2727	3635	4028	3023
	A	4.00%	1.60%	31.22%	4.39%	34.76%	325	0.11%	314	73%	195%	10%	71%	9%	2459	6130	6825	2495
	BBB	8.00%	6.00%	54.44%	11.29%	48.11%	425	0.27%	398	50%	66%	7%	35%	8%	2734	3637	3217	1722
US CLO 2.0 - typical capital structure	AAA	1.60%	0.56%	4.64%	1.60%	1.69%	129	0.06%	123	77%	220%	27%	77%	73%	363	1025	377	136
	AA	1.60%	1.20%	19.09%	1.60%	13.29%	200	0.05%	195	122%	163%	10%	122%	15%	2334	3110	2166	1626
	A	4.00%	1.60%	31.05%	1.83%	25.84%	300	0.11%	289	72%	180%	9%	158%	11%	2252	5613	4637	4054
	BBB	8.00%	6.00%	51.97%	7.72%	41.99%	400	0.27%	373	47%	62%	7%	48%	9%	2449	3257	2636	2054
	BB	28.00%	34.00%	97.48%	26.96%	63.69%	585	0.86%	499	18%	15%	5%	18%	8%	1823	1516	1021	1264

Source: EofA Merrill Lynch Global Research, Market, Moody's

Note: expected losses are based on historical Moody's data. Losses for European and US CLOs are based on data for "Global CLO" while all other loss data is based on data for "EMEA ABS, RMBS and CMB5"

# Closing

Thanks for your time and interest.

Questions?