SUBMITTED WITH A REQUEST FOR ANONYMITY

Alternative Reference Rates Committee
Federal Reserve Bank of New York
New York
United States of America
Email: arrc@ny.frb.org

February 5, 2019

Re: ARRC Consultation regarding New Issuances of LIBOR Securitizations (the "Consultation Paper")

To Whom It May Concern:

We have the following response to the below question posed in the Consultation Paper.

Question 3(c): If you believe that the pre-cessation trigger in clause (6) (Asset Replacement Percentage) should not be retained, please note any specific concerns leading to this conclusion. If you believe that it should be retained, are there any changes you believe should be made to this trigger? Please explain.

The pre-cessation trigger in clause 6 as applied to collateralized loan obligation transactions ("CLOs") creates the potential for significant basis risk between a CLO's assets and a CLO's liabilities. For CLOs, if 50% or more of the underlying leveraged loans convert to a Replacement Benchmark (e.g., SOFR), the notes issued by the CLO (the "CLO Debt") will automatically convert to such Replacement Benchmark. Given that CLOs are actively traded vehicles in which the collateral manager can purchase new loans as part of the collateral pool during a reinvestment period, there is a risk that if a significant portion (but not all) of the loans in the portfolio or acquired during the reinvestment period has converted to the Replacement Benchmark, the CLO Debt will also convert to the Replacement Benchmark. The CLO holder will receive payments on the CLO Debt at a rate determined at the Replacement Benchmark, but the cashflows to make those payments will come from a portfolio of loans that may not have all converted to the Replacement Benchmark. The holder of CLO Debt faces significant basis risk since such holder's CLO Debt was issued at a fixed spread which cannot be re-negotiated once the CLO Debt is issued. A holder of CLO Debt in an existing CLO transaction cannot receive compensation for the basis risk caused by a conversion of the Replacement Benchmark similar to a buyer of a leveraged loan since the terms of the CLO Debt are fixed on the closing date of the relevant CLO. A buyer of a leveraged loan in the market, on the other hand, can receive compensation for a Benchmark Replacement in the form of a higher spread, OID (original issue discount), call protection, etc. In addition, the most subordinate tranche of a CLO (the "Equity

Class”), which does not receive a stated coupon but rather any residual cashflows after the CLO Debt is paid, will disproportionately benefit from any excess cashflows from a loan portfolio following conversion to a Replacement Benchmark.