



# U.S. And European BSL CLOs:

## A Comparative Overview

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**S&P Global**  
Ratings

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*This report does not constitute a rating action*

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# The Differences Between U.S. And European BSL CLOs

## Key Takeaways

- The differences in structures and portfolios between European and U.S. BSL CLOs stem largely from the differences in their respective regional loan markets.
- The August 2023 par amount outstanding of the U.S. Leveraged Loan Index maintained by Morningstar was \$1.40 trillion, compared to €282.5 billion for the European Leveraged Loan Index\*.
- European BSL CLO notes offer more credit enhancement relative to U.S. BSL CLO notes at each rating category (i.e., median subordination for European CLO 'AAA' tranches is 39% compared to 36% for U.S. BSL CLO 'AAA' tranches).
- U.S. BSL CLO portfolios have higher obligor diversity, while European BSL CLO portfolios have higher regional diversity.
- While differences in regulation; environment, social, and governance (ESG); structural features; and documentation persist--such as European CLOs' adherence to risk retention rules and more advanced ESG considerations--convergence in structural features and documentation is evident as both regions face similar challenges that CLOs continue to adapt to.

Few instruments have demonstrated resilience and adaptability like collateralized loan obligations (CLOs), which have now faced several downturns such as the Global Financial Crisis of 2008-2009 and, more recently, the COVID-19 pandemic. Their resilience and attractiveness as a floating-rate instrument in today's rising rate environment has led to the European (EUR) and U.S. CLO investor bases broadening, as they continue to be a material source of funding for leveraged loans globally.

While the overarching principles of CLOs remain consistent across the EUR and U.S. markets, a closer look reveals some nuances that differentiate EUR and U.S. broadly syndicated loan (BSL) CLOs. (As there are no middle-market EUR CLOs, we are comparing only BSL CLOs from both regions. Henceforth, all "EUR CLO" and "U.S. CLO" references in this slide deck refer to only BSL CLOs.)

\*Source: Leveraged commentary and data (LCD).

# U.S. And European CLO Performance During The COVID-19 Pandemic

The leveraged loan markets from both regions were both impacted by the pandemic in 2020, when the lagging 12-month loan default rates peaked at 4.6% and 4.8% across the U.S. and EUR loan indexes maintained by LCD, respectively.

Due to the high volumes of downgrades on the loan issuers during this time, 'CCC' buckets for both U.S. and EUR CLOs increased sharply, while junior overcollateralization (O/C) cushions declined sharply, more so for U.S. CLOs.

Given the differences in the CLO structure and portfolios across the two regions, the impact to our ratings on CLO notes were notably different, as there were more downgrades across U.S. CLO ratings in 2020.

By 2021, several credit metrics of outstanding CLOs across both regions had improved to pre-pandemic levels, due to an extended period of positive corporate rating actions and high volumes of CLO new issuance activity; though by mid-2023, CLOs from both regions continue to have elevated levels of 'B-' exposure.

# Interactive Version | Compare U.S. And European CLOs Yourself

## U.S. And European BSL CLOs:

A Comparative Overview

[Click here to explore](#)

Primary analytical

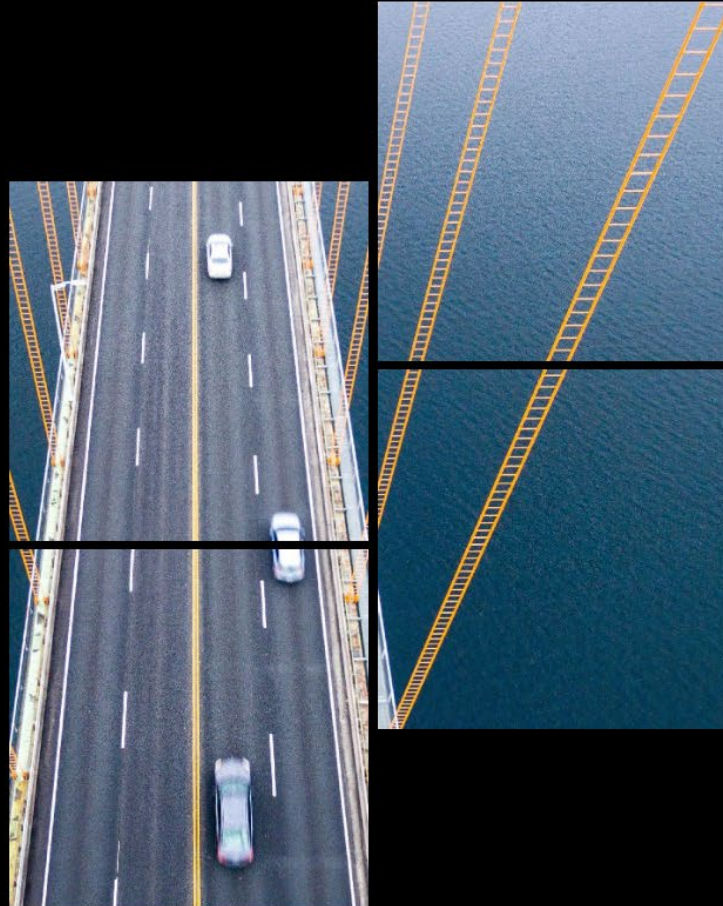
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# Structure

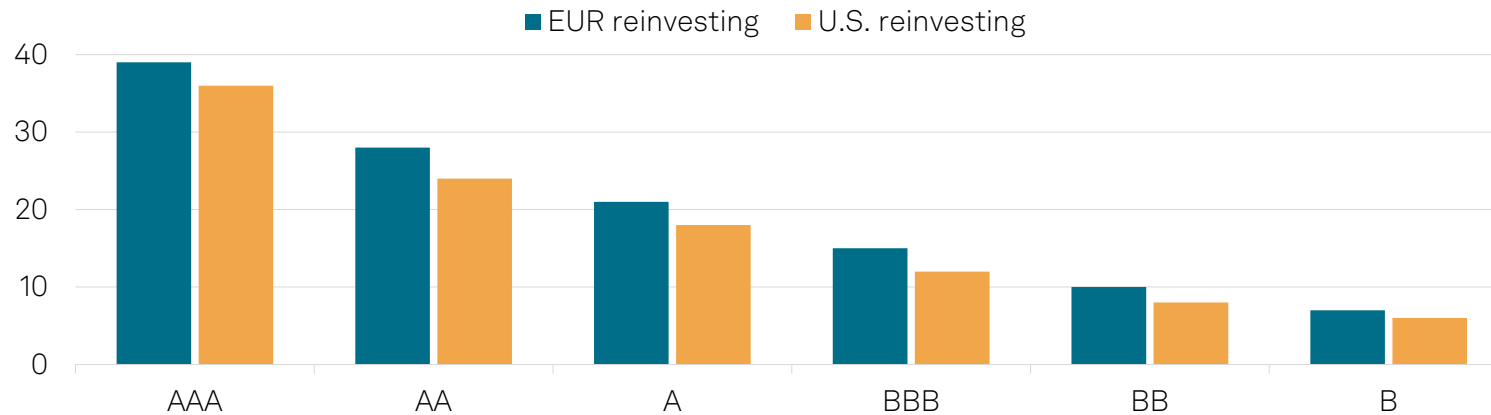
Differences In Credit Enhancement Levels



# Structure | Subordination

European CLOs have higher subordination.

Subordination at closing across rated reinvesting CLOs (%)\*



Typical O/C and trigger values for outstanding reinvesting transactions (%)\*

		AAA/AA	A	BBB	BB	B
<b>EUR</b>	O/C ratio	138.89	126.58	117.65	111.11	107.53
	O/C trigger	130.17	120.81	111.70	106.11	103.47
	Cushion	8.72	5.77	5.95	5.00	4.06
<b>U.S.</b>	O/C ratio	131.58	121.95	113.64	108.70	106.38
	O/C trigger	121.60	114.00	107.64	104.29	102.70
	Cushion	9.98	7.95	6.00	4.41	3.68

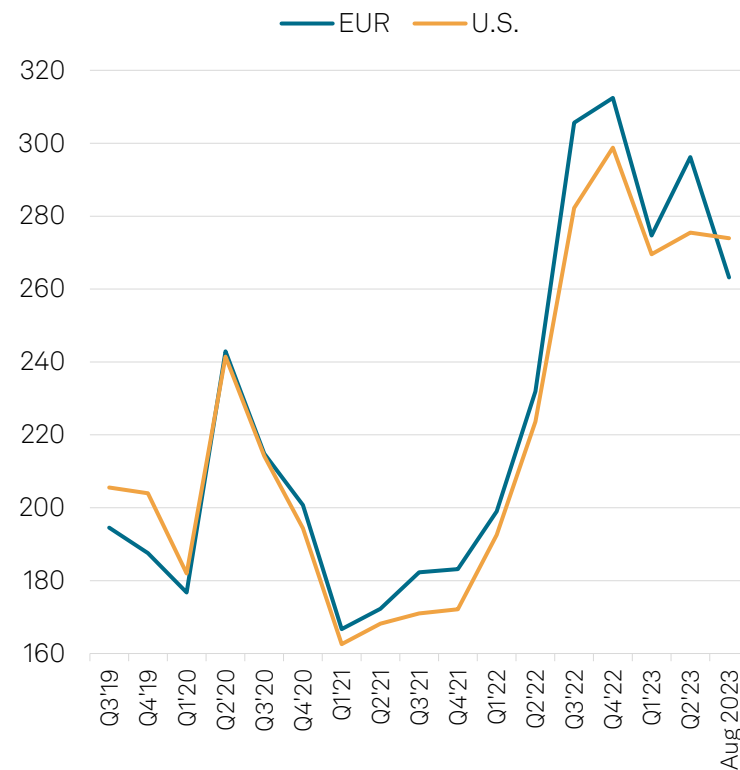
\*Data as of Aug. 1, 2023. O/C--Overcollateralization. Source: S&P Global Ratings.

- The typical EUR CLO offers higher credit enhancement at the ‘AAA’ tranche level at 39%, vs. 36% for a typical U.S. CLO.
- Similarly, O/C test triggers are set higher for EUR CLOs across each rating category.
- The difference in the levels of credit enhancement and structural protections reflects the difference in portfolio characteristics of EUR and U.S. CLO portfolios.
- A larger proportion of EUR transactions have a ‘B-’ rated CLO tranche.

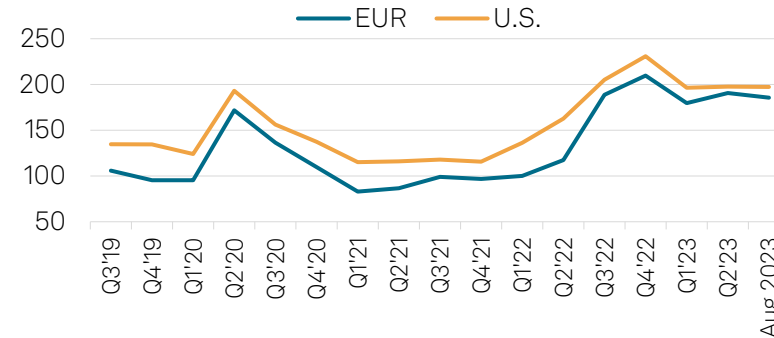
# Structure | Liability Spreads

Spreads are narrowing, but still remain elevated for both U.S. and EUR CLOs.

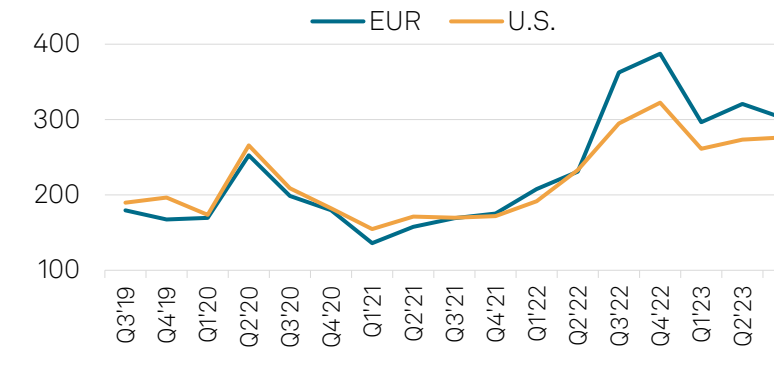
Weighted average cost of capital (bps)



'AAA' CLO spreads (bps)



'AA' CLO spreads (bps)



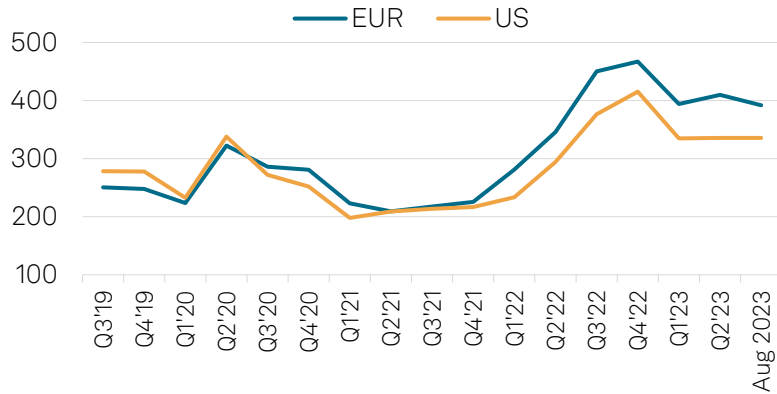
- The weighted average cost of capital (WACC) for both EUR and U.S. CLOs increased during the pandemic. The WACC fell during 2020, but started increasing from first-quarter 2021 to an all-time high in fourth-quarter 2022, reflecting the difficult arbitrage conditions for both EUR and U.S. CLOs.
- 'AAA' U.S. CLO spreads have been higher than EUR CLOs, with the spread differential narrowing by the middle of 2023.
- 'AA' U.S. CLO spreads have historically been slightly higher than 'AA' EUR CLO spreads although this reversed in Q3 2022 with the widening of 'AA' EUR CLO spreads following the U.K. Liability-Driven Investment (LDI) sell-off\* of Sept. 2022.

bps—Basis points. Note: To learn more about the impact of the U.K. Liquidity Crisis of Sept. 2022, see [“Corporate Defined Benefit Pension Schemes: U.K. Liquidity Crisis Masks A Positive Global Trend Thanks To Higher Discount Rates,”](#) published Nov. 14, 2022. Source: Leveraged Commentary & Data (LCD).

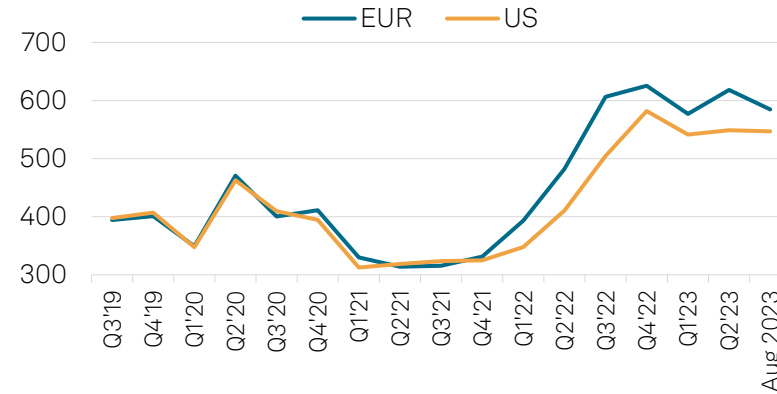


# Structure | Liability Spreads (Cont.)

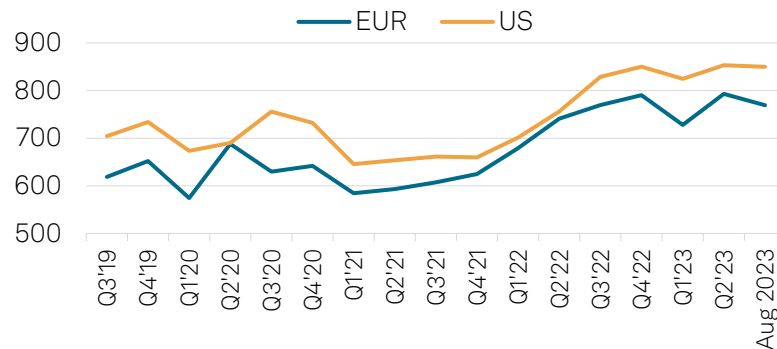
'A' CLO spreads (bps)



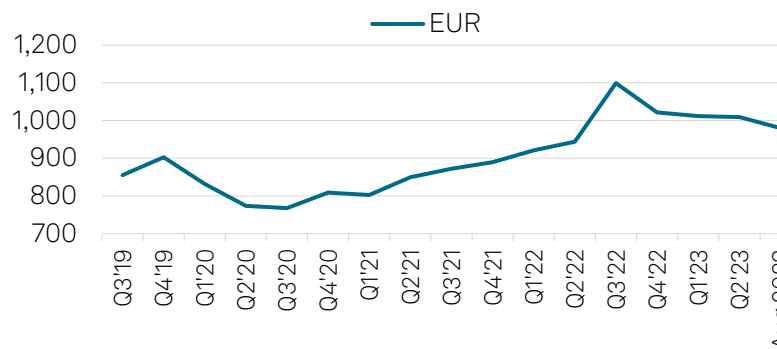
'BBB' CLO spreads (bps)



'BB' CLO spreads (bps)



'B' CLO spreads (bps)



- Spreads for EUR 'A' and 'BBB' tranches widened in 2022 and have remained modestly higher relative to U.S. CLO tranches since the LDI sell-off.
- U.S. 'BB' CLO spreads have historically been wider than EUR 'BB' CLO spreads; although we note that 'BB' CLO notes are generally sold with a discount.
- Only a small proportion of U.S. CLOs have recently issued 'B' tranches. Here, we see 'B' EUR CLO spreads reaching double-digit figures at the end of 2022.

bps—Basis points. Source: Leveraged Commentary & Data (LCD).

# Collateral

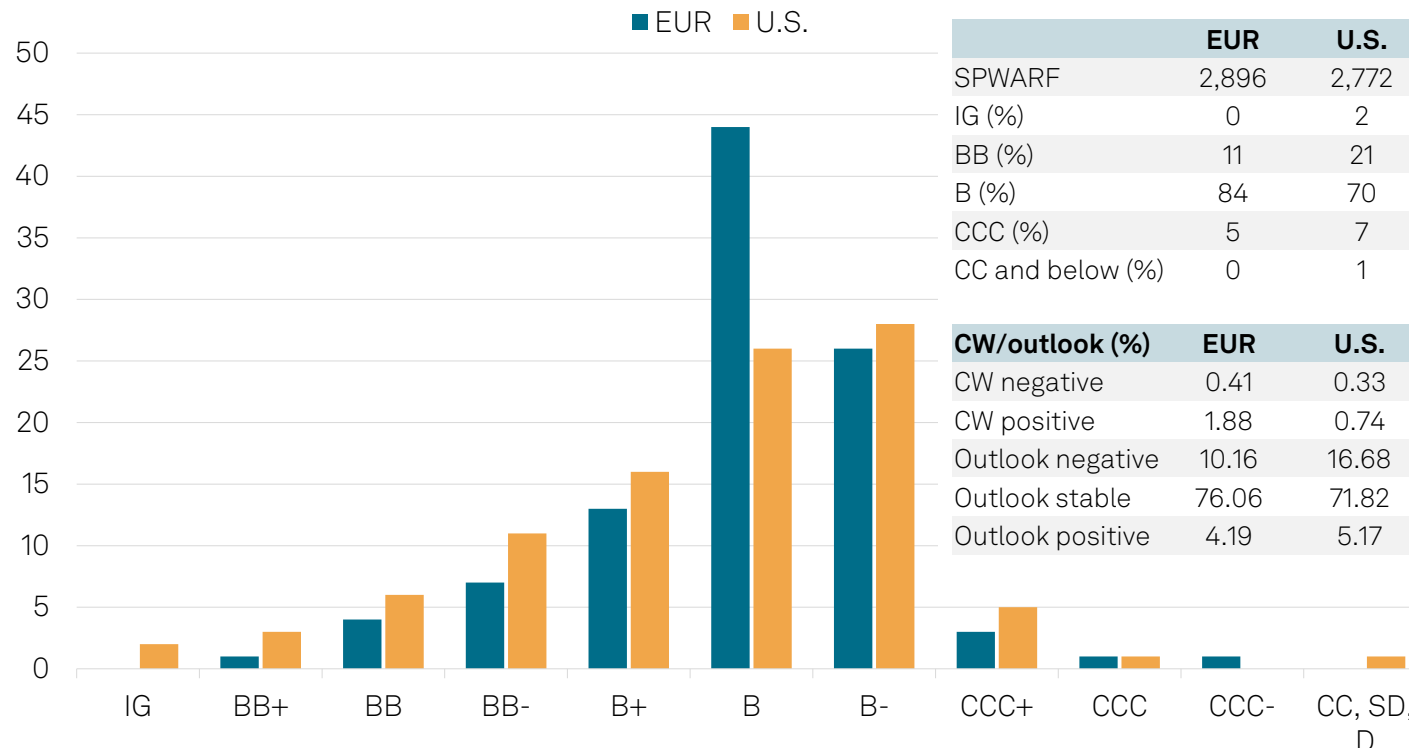
Reflects The Differences Between  
The European And U.S. Leveraged  
Loan Markets



# Collateral | Credit Quality

U.S. CLOs have higher 'B-' and 'CCC' category exposures, while EUR CLOs have more 'B'.

CLO asset rating distribution (%)



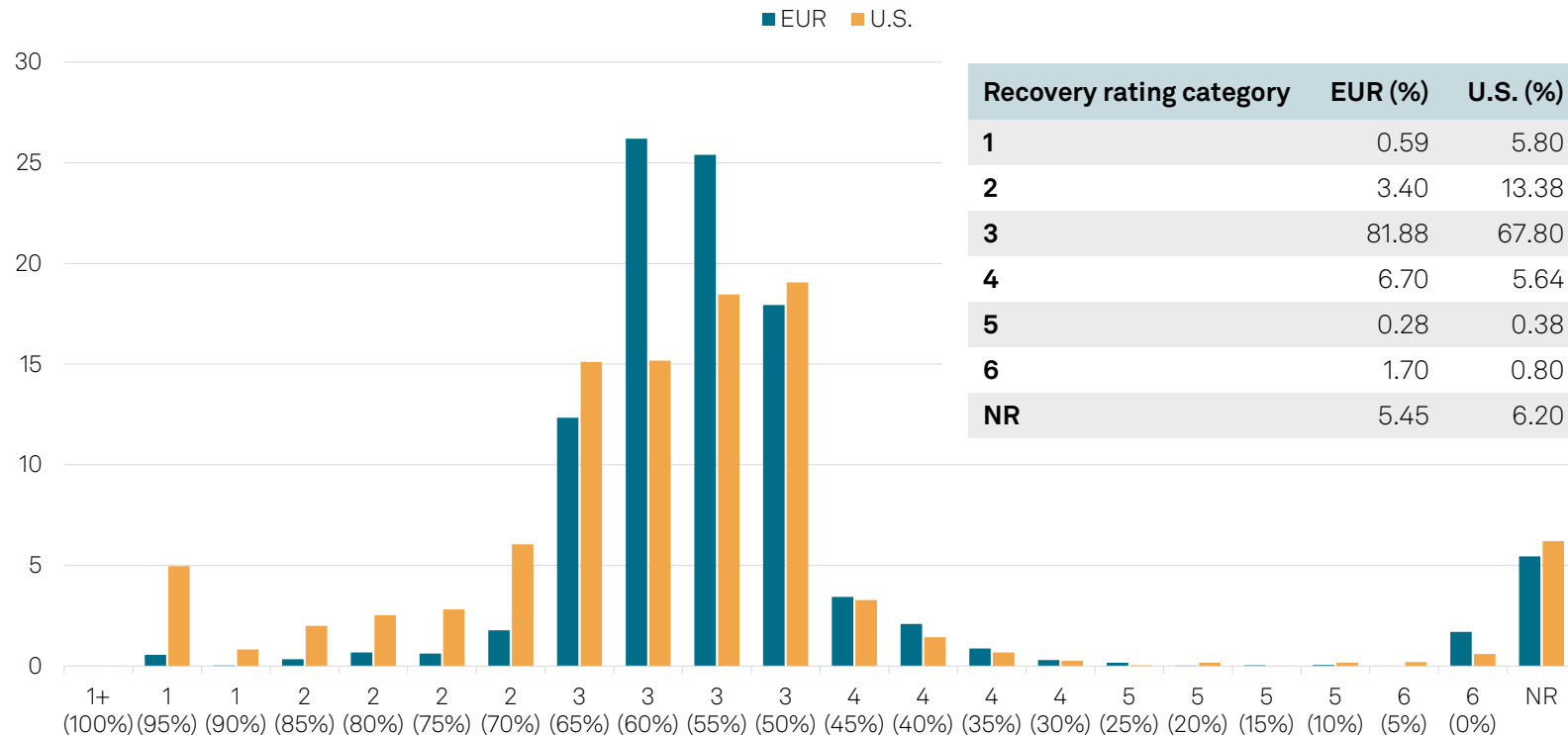
- EUR CLO portfolios are concentrated in the 'B' rating level (44% vs. 26% for U.S. CLOs).
- U.S. CLOs have more exposure to 'BB-' and above (23% vs. 11% in EUR CLOs); and more exposure to 'B-' and below (36% vs. 31% in EUR CLOs).
- U.S. CLOs have a higher concentration of asset ratings in the 'B-' (28% vs. EUR 26%) and 'CCC' and below category (7.5% vs. 5.0% in EUR CLOs).
- U.S. CLOs have higher exposure to assets with a negative outlook (16.7% vs. 10.2% in EUR CLOs).
- Assets on CreditWatch negative are low in both U.S. and Europe (<0.5%).

Data as of Aug. 1, 2023. SPWARF—S&P Global Ratings weighted average recovery factor. IG--Investment grade. CW--CreditWatch. SD--Selective default. Source: S&P Global Ratings.

# Collateral | Recovery

U.S. CLOs have higher recoveries compared to EUR CLOs.

CLO loan recovery rating distribution (%)



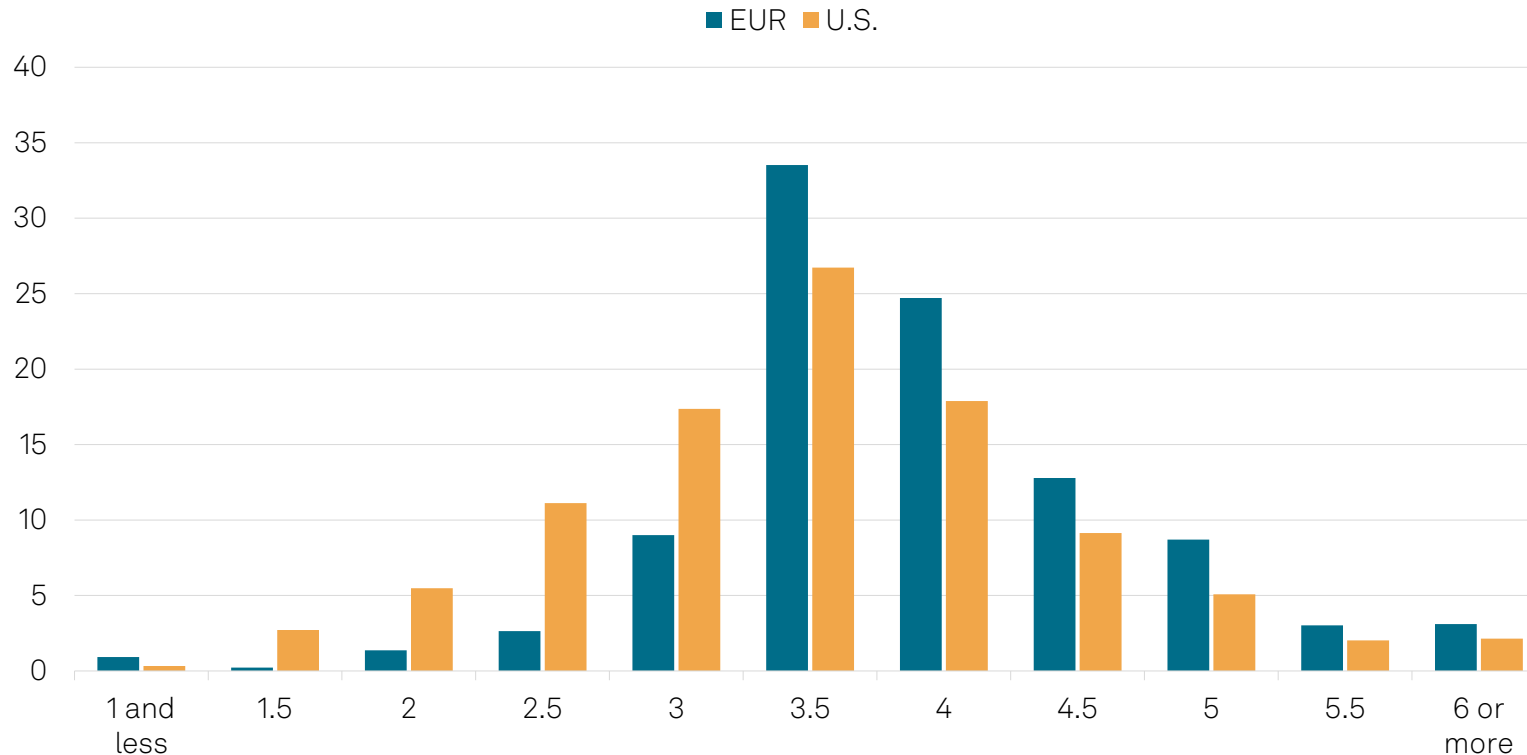
Data as of Aug. 1, 2023. NR—Not rated. Source: S&P Global Ratings.

- A large proportion of loans (~95%) in both EUR and U.S. CLOs have assigned S&P Global Ratings’ recovery ratings
- Most of the loans in both markets are in the ‘3’ recovery rating category; EUR CLOs have greater exposure (82% vs. 68% for U.S. CLOs).
- U.S. CLOs have a larger proportion of assets with a recovery rating of ‘1’ and ‘2’ (19% vs. 4% for EUR CLOs).

# Collateral | Spread

EUR CLOs have higher spread.

CLO asset spread distribution (%)



Data as of Aug. 1, 2023. Source: S&P Global Ratings.

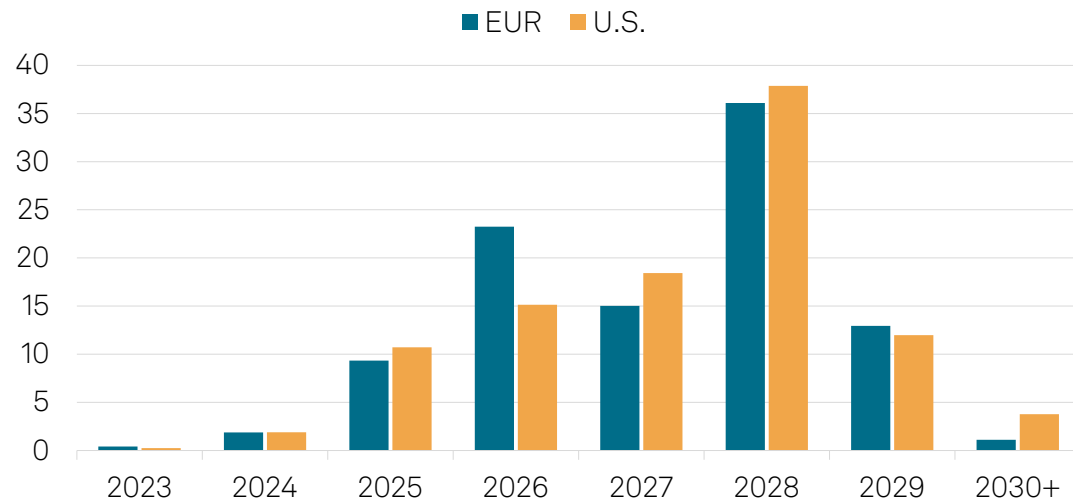
- EUR CLOs have more exposure to floating-rate assets that offer higher spreads.
- 20% of U.S. CLO floating-rate exposures offer spreads of less than 3%, vs. 5% in EUR CLOs.
- Over half of EUR CLO floating-rate exposures offer spreads of 4% and greater, vs. 36% in U.S. CLOs.

# Collateral | Maturity

Both EUR and U.S. CLO portfolios have maturity walls in 2028.

- Assets maturing in 2023 and 2024 remain limited for both EUR and U.S. CLOs; these exposures are from issuers with significantly lower credit quality (a large majority of the 2023 maturities are rated ‘CCC+’ and below for both EUR and U.S. CLOs).
- For both EUR and U.S. CLOs, most of the assets’ maturities are concentrated in 2028.
- Just under a quarter of EUR CLO assets mature in 2026, compared to 15% in U.S. CLOs.

## CLO asset maturity (%)



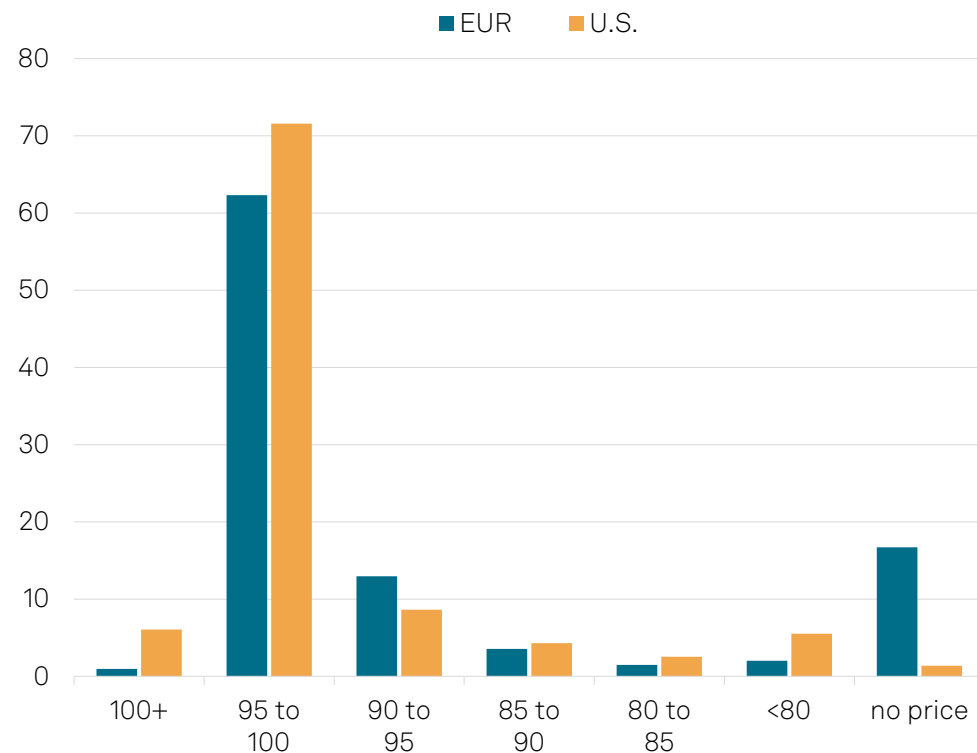
Data as of Aug. 1, 2023. Source: S&P Global Ratings.

(%)	2023	2024	2025	2026	2027	2028	2029	2030+
<b>EUR CLOs</b>								
BB- & up	5.2	13.1	5.2	11.0	17.1	10.2	10.9	30.4
B+	0.1	1.1	6.6	16.0	13.9	10.3	23.1	33.1
B	0.6	22.8	40.9	36.9	34.4	54.4	49.5	34.0
B-	4.3	29.0	37.6	30.2	29.1	23.4	15.1	0.0
CCC	67.2	34.0	8.6	5.7	5.1	1.6	1.3	1.4
Non-perf	22.7	0.0	1.1	0.2	0.5	0.0	0.0	1.0
<b>Grand total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>US CLOs</b>								
BB- & up	23.0	2.5	22.7	25.9	19.4	19.8	28.7	40.8
B+	0.2	6.0	6.5	15.2	11.5	17.6	15.5	36.9
B	0.0	10.5	27.8	19.6	28.9	27.8	28.8	15.9
B-	0.3	29.1	28.0	30.0	35.1	29.1	24.4	6.0
CCC	49.3	44.6	14.2	7.6	4.1	5.5	2.6	0.4
Non-perf	27.2	7.3	0.8	1.7	1.0	0.2	0.0	0.0
<b>Grand total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

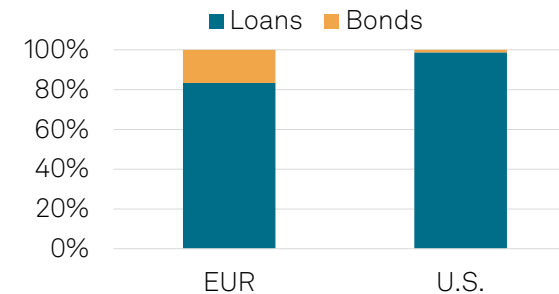
# Collateral | Other Characteristics

EUR And U.S. CLO asset prices are similar. EUR CLOs have more bonds.

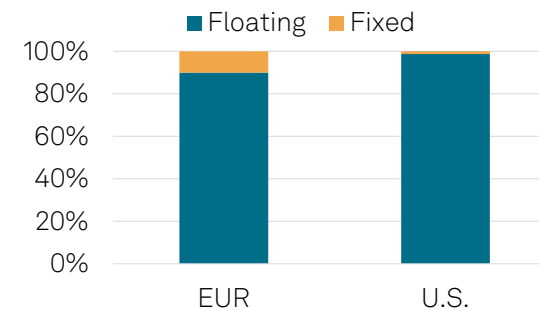
CLO asset price distribution (%)



Bond and loan distribution



Fixed and floating distribution



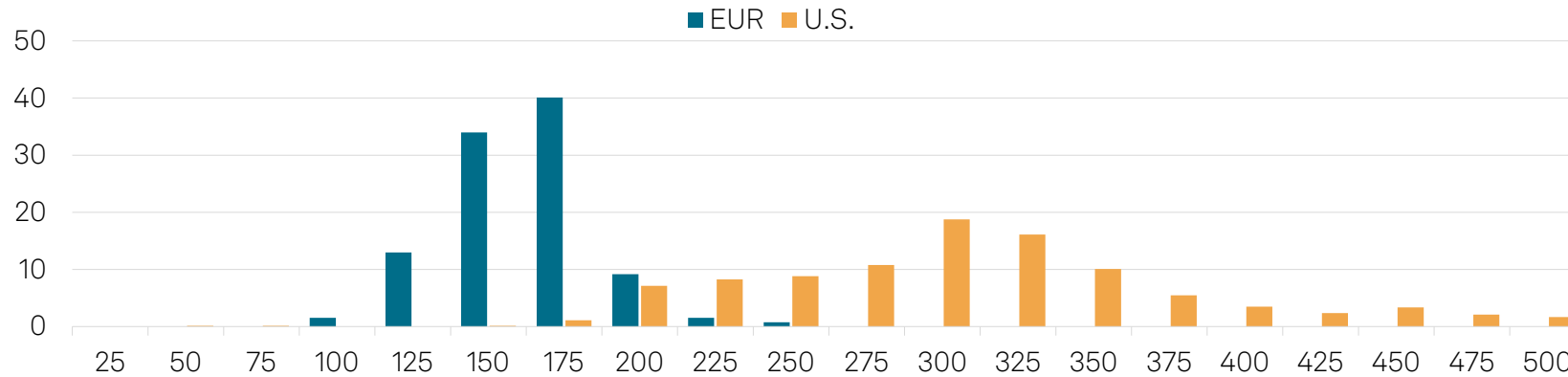
- Most of the assets in both EUR and U.S. CLOs have prices in the 95% to 100% range (62.3% in EUR vs 71.6% in U.S.).
- U.S. CLOs have a higher proportion of assets with a price below 80% (5.6% vs. 2% in EUR), but also a higher proportion of assets with a price above 100% (6% vs. 1% in EUR).
- Bond assets account for a higher proportion in EUR CLOs, at 17%, compared to U.S. CLOs, at 1%. Similarly for the float-fixed mix, EUR CLOs have about 10% in fixed-rate assets, compared to 1% for U.S. CLOs.
- To mitigate a potential mismatch in payments, some EUR and U.S. CLOs issue fixed-rate CLO tranches and some EUR CLOs enter into interest rate hedges.

Data as of Aug. 1, 2023. Source: S&P Global Ratings.

# Collateral | Diversity

There is greater diversity in U.S. CLOs compared to EUR CLOs.

Number of issuers across reinvesting transactions (%)



		Average obligor count (no.)	Obligor diversity measure	Industry diversity measure	Regional diversity measure
<b>Reinvesting</b>	Europe	151	109.77	21.5	1.25
	U.S.	297	207.36	22.63	1.18
<b>Amortizing</b>	Europe	136	95.06	21.97	1.27
	U.S.	250	162.74	21.01	1.2
<b>All</b>	Europe	148	107.15	21.58	1.25
	U.S.	286	197.29	22.26	1.18

- Reinvesting U.S. CLO portfolios have a larger obligor count (average about 300) relative to EUR CLOs (average about 150).
- Industry diversity is similar across the portfolios from both regions.
- EUR CLO portfolios have a broader regional/country diversity relative to U.S. CLOs (which are mostly concentrated across U.S. and Canadian issuers).

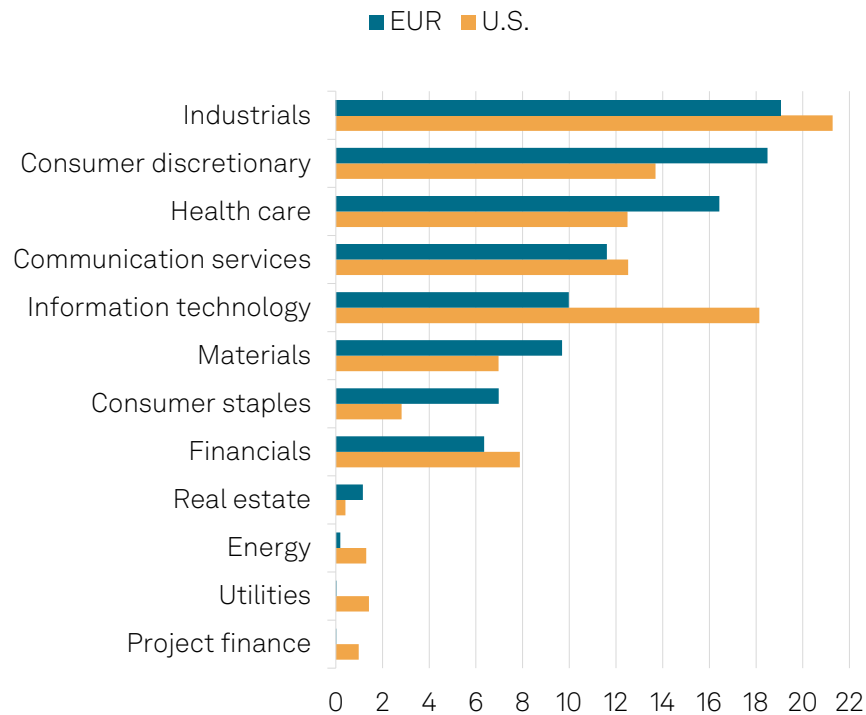
Data as of Aug. 1, 2023. Source: S&P Global Ratings.



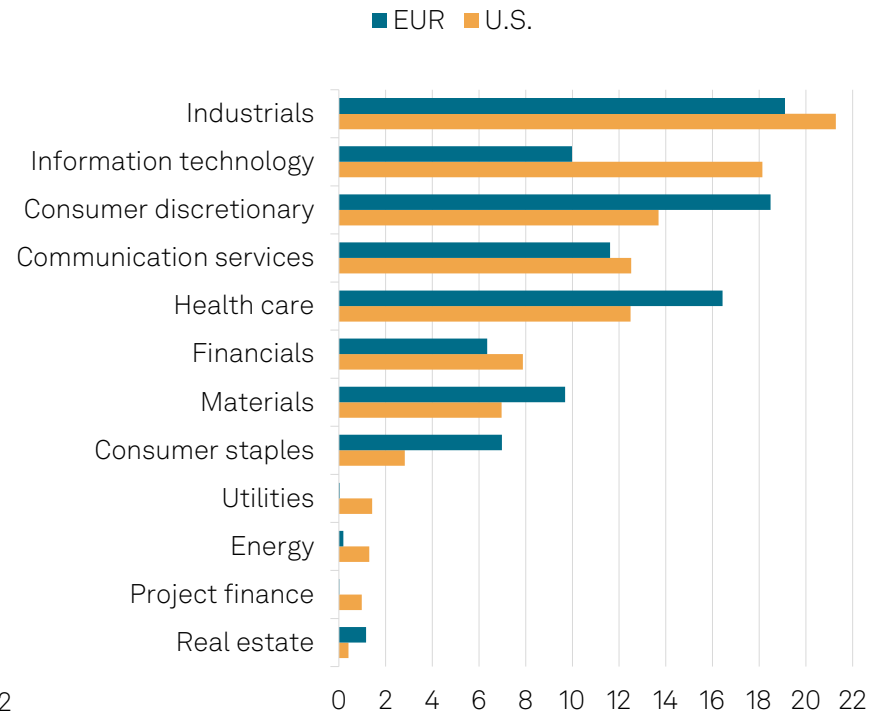
# Collateral | Sector Exposure

Industrials is the largest GICs sector across both EUR and U.S. CLOs, with a different mix of sectors following.

CLO asset sector (EUR ranked) (%)



CLO asset sector (U.S. ranked) (%)

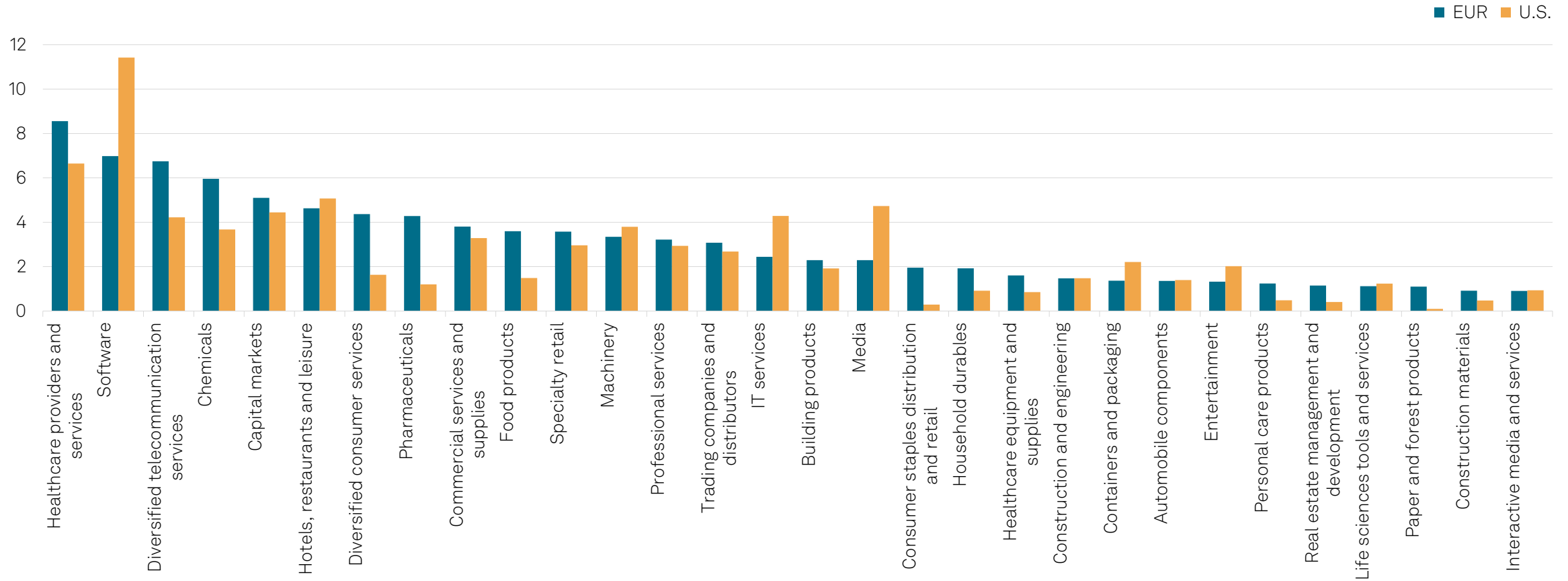


- Industrials account for the largest sector exposure for both EUR and U.S. CLOs.
- U.S. CLOs are more exposed to the information technology sector (18% vs. 10% EUR CLOs).
- EUR CLOs have greater exposure to the healthcare (16% vs. 12% in U.S.) and discretionary consumer sectors (18% vs. 14% in U.S.).
- U.S. CLOs have more exposure to issuers within the utilities, energy, and Project Finance sectors.

Data as of Aug. 1, 2023. Source: S&P Global Ratings.

# Collateral | Industry Exposure

Top 30 GICs industries (EUR ranked) (%)



Data as of Aug. 1, 2023. GIC--Guaranteed industry classification. Source: S&P Global Ratings.

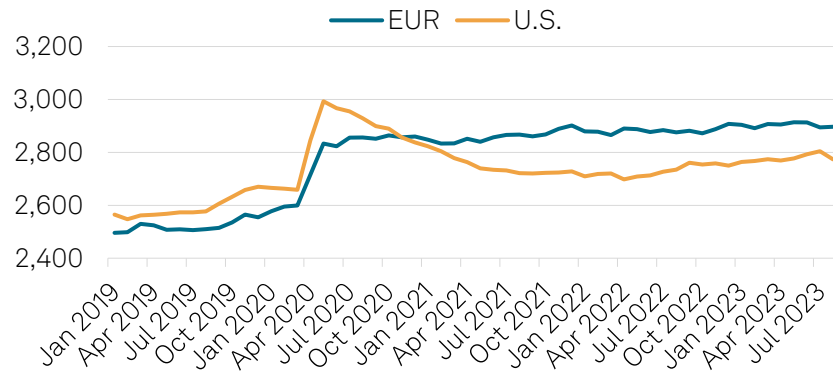
# Performance

Similar Trends With Some Differences

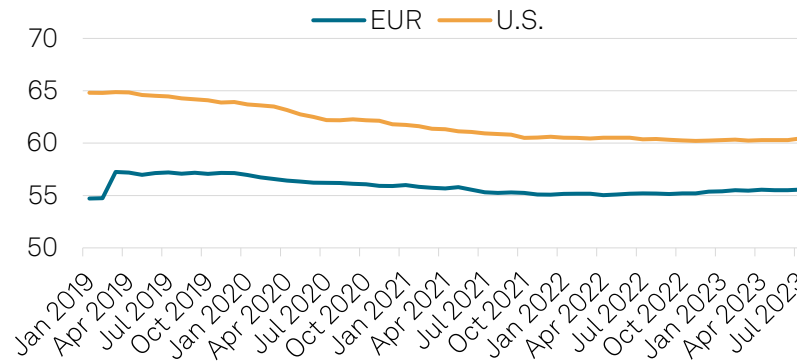


# Performance | Evolution Since 2019

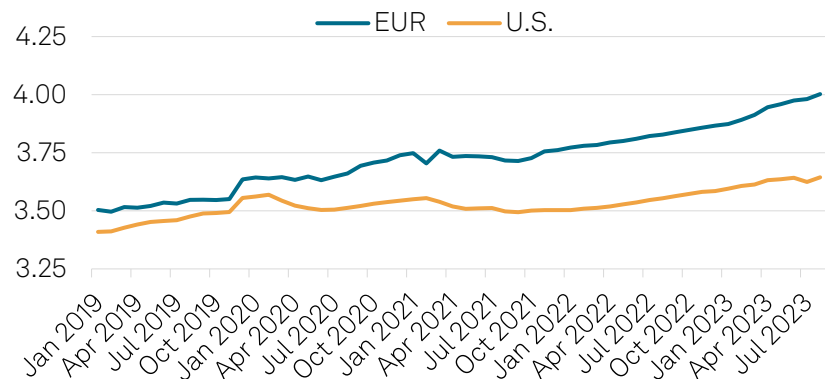
SPWARF (no.)



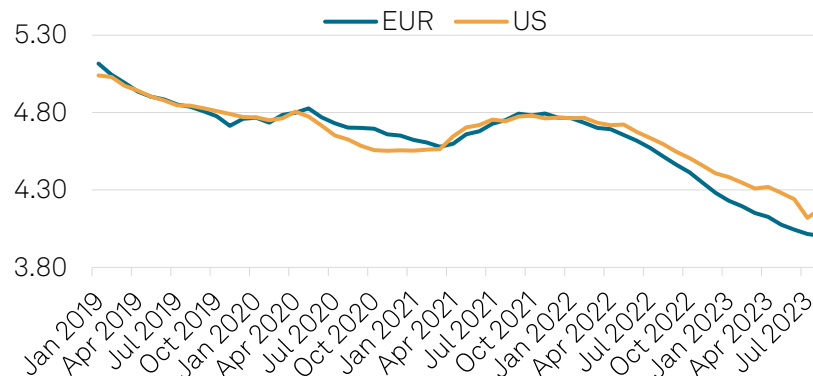
Weighted average recovery rate (%)



Weighted average spread (%)



Weighted average maturity (years)

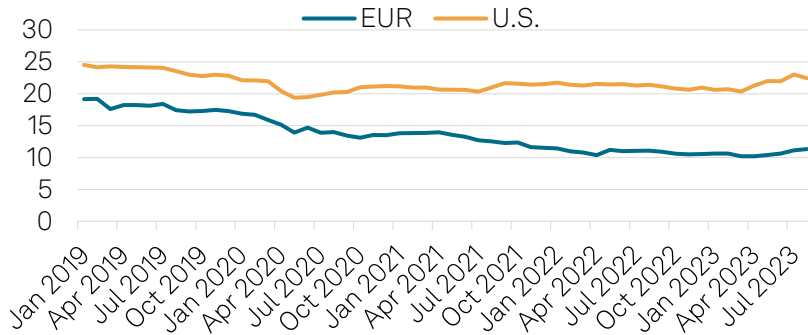


Source: S&P Global Ratings.

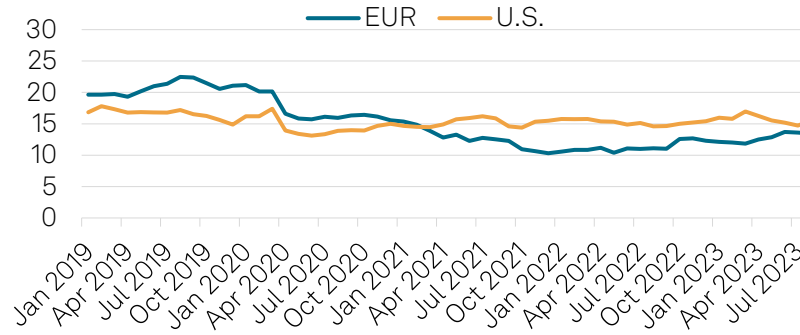
- The S&P Global Ratings' weighted average recovery factor (SPWARF) of U.S. CLO exposures increased sharply during the pandemic in 2020 and has declined notably due to high levels of new CLO issuance in 2021; after increasing in 2020, the SPWARF of EUR CLO exposures have remained elevated since. Both regions have experienced a slight increase so far in 2023.
- The weighted averaged recovery rates (WARR) of U.S. and EUR transactions had been declining since 2019, before holding steady since mid-2021.
- The weighted average spreads (WAS) have increased for both regions, especially since 2022; they increased more so for the EUR portfolios, which are 0.4% higher than U.S. portfolios.
- The weighted average maturities (WAMs) had gradually declined since 2019, before experiencing a small increase in 2021, a year of high new CLO issuance and reset volumes. They have then been declining notably since 2022. The proportion of CLO transactions that are outside their reinvestment periods have increased recently.

# Performance | Credit Rating Distribution Through Time ('B-' And Above)

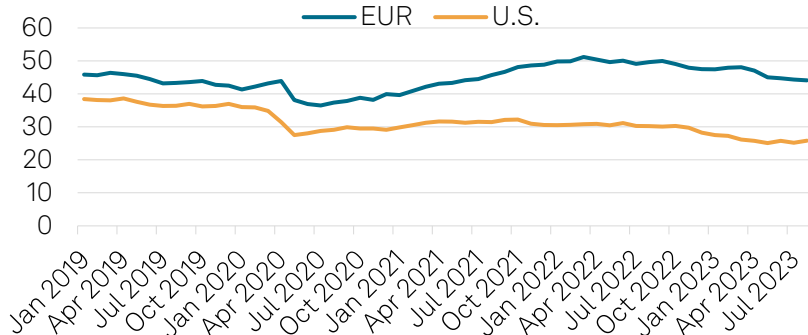
'BB-' and above (%)



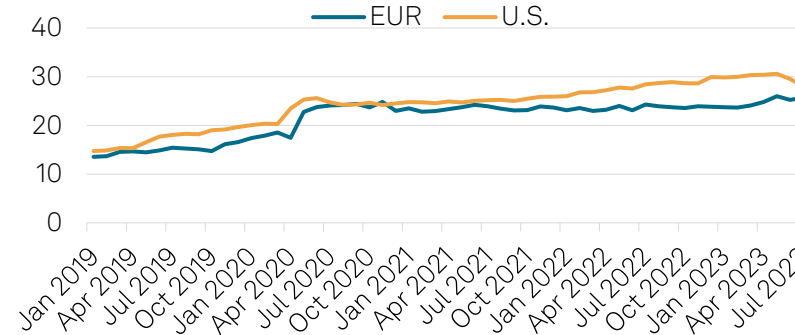
'B+' (%)



'B' (%)



'B-' (%)



U.S. CLOs have more exposure to loans from 'BB-' and above issuers compared to EUR CLOs where the exposure has been declining since 2019.

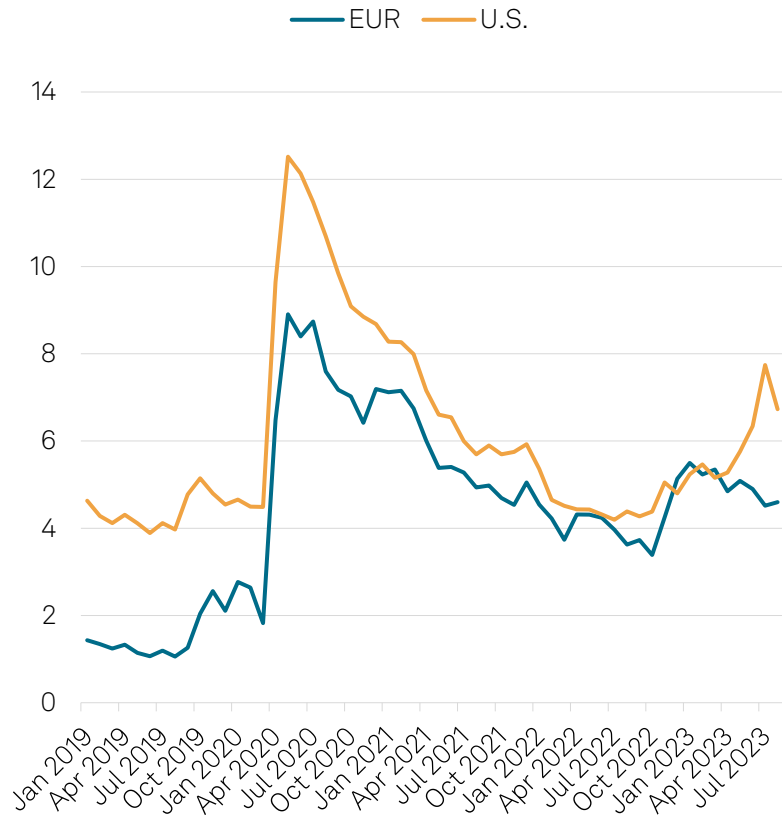
EUR CLOs have more exposure to loans from 'B' rated issuers compared to U.S. CLOs where the exposure has been on the decline. EUR CLOs' exposure fell up till mid-2020 and subsequently increased.

'B-' exposures in both EUR and U.S. CLOs have nearly doubled since 2019. 'B-' exposures in EUR CLOs have been stable since the pandemic with US CLOs seeing a gradual increase since the end of 2021.

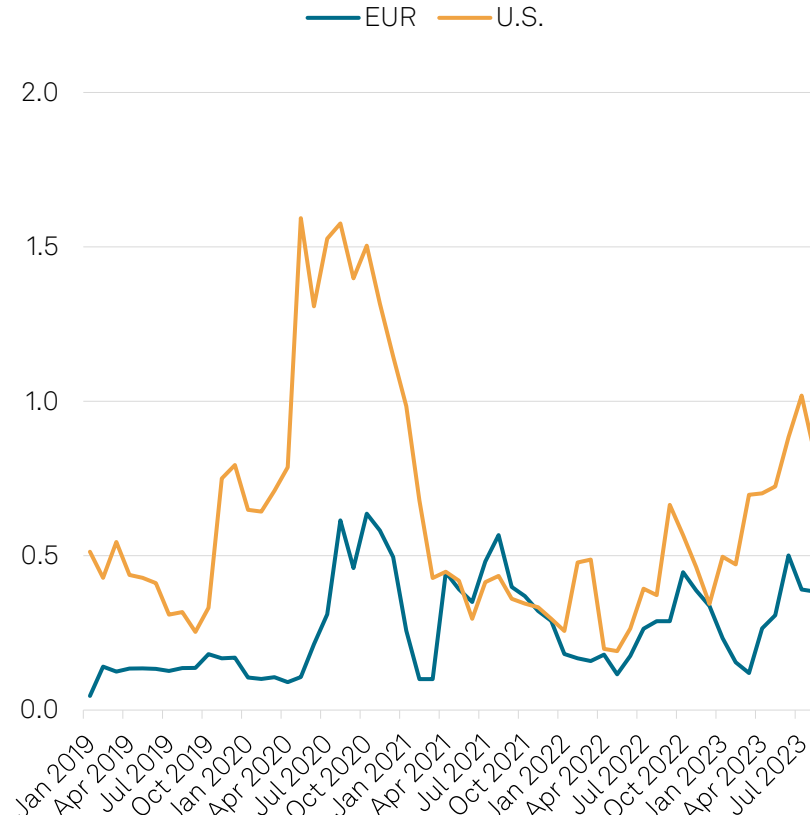
Source: S&P Global Ratings.

# Performance | Credit Rating Distribution Through Time ('CCC+' And Below)

'CCC' Bucket (%)



Nonperforming (%)



By early 2019, U.S. CLOs had higher exposures to loans from issuers rated 'CCC+' and below in 2019 (partly due to the energy and retail slowdown in 2016-2017).

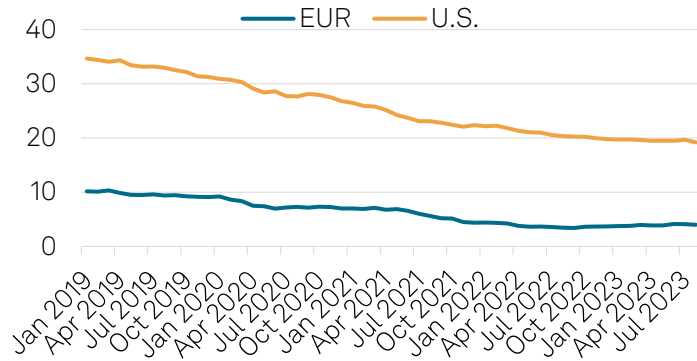
The 'CCC' bucket rose to 12.5% in U.S. CLOs and 8.9% in EUR CLOs at the height of the pandemic. 'CCC' buckets have come down significantly since but remain elevated (6.7% U.S. CLOs vs. 4.6% EUR CLOs) compared to pre-pandemic levels (4.5% U.S. CLOs vs. 2.6% EUR CLOs). U.S. CLOs have experienced an uptick since early 2023.

Similarly, nonperforming loans in U.S. CLOs increased to 1.6% in second-quarter to third-quarter 2020. After a decline in 2021, there has been an uptick since early 2023; it currently stands at 0.8%, vs. 0.4% in EUR CLOs.

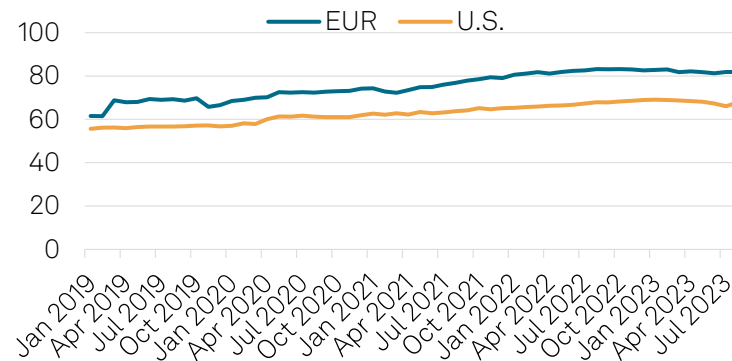
Source: S&P Global Ratings.

# Performance | Recovery Rating Distribution Through Time

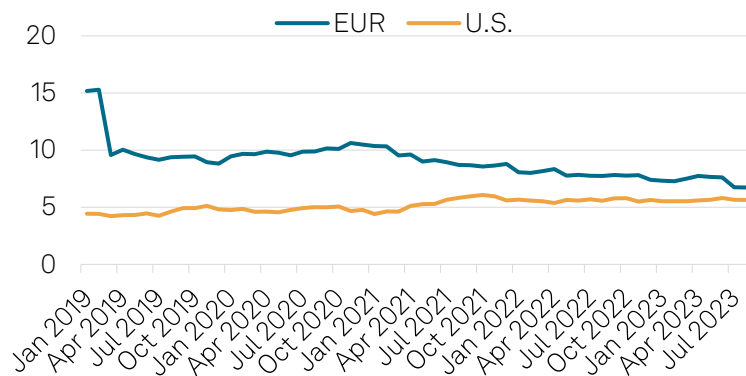
Recovery ratings '1' and '2' (%)



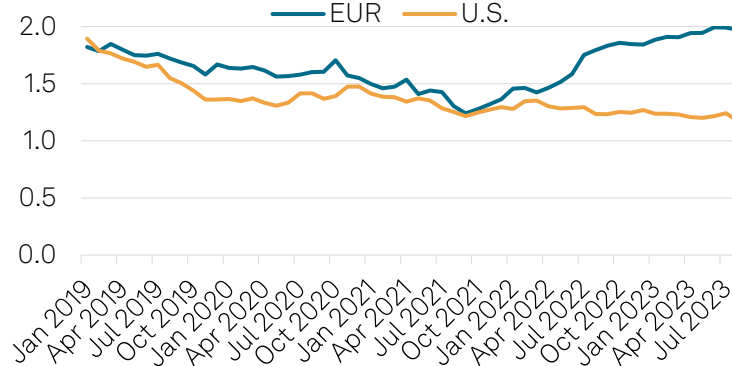
Recovery rating '3' (%)



Recovery rating '4' (%)



Recovery ratings '5' and '6' (%)

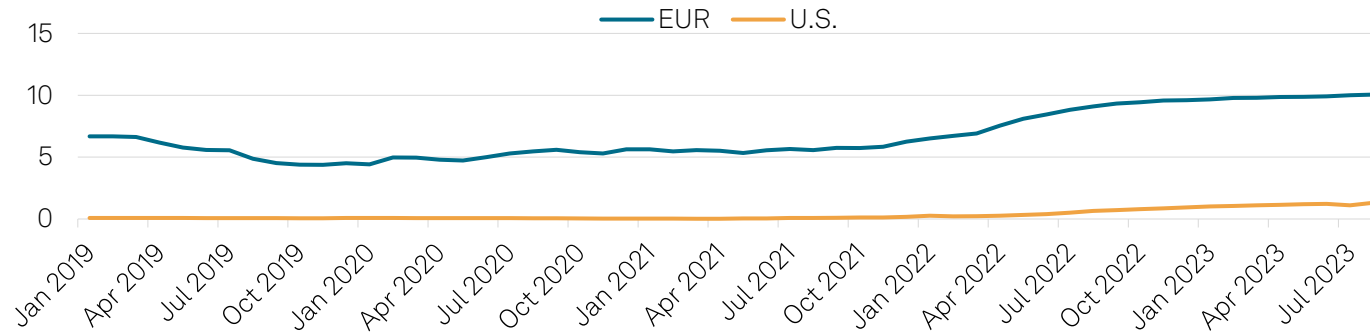


- Both U.S. and EUR CLO portfolios have experienced a gradual decline in their distribution of recovery ratings since 2019.
- U.S. CLOs have a higher proportion of loans with a recovery rating of '1' and '2'.
- EUR CLO loans are mostly concentrated in the recovery rating of '3', which have increased to 81.8% in 2023 from 61.6% in 2019. U.S. CLOs saw a smaller increase, to 67.8% from 55.6%.
- The exposure to loans with a recovery rating of '4' have been declining in EUR CLOs and stable in U.S. CLOs.
- Exposure to loans with a recovery rating of '5' and '6' (which have the lowest recoveries) remain low, at 2% for EUR CLOs and 1% for U.S. CLOs.

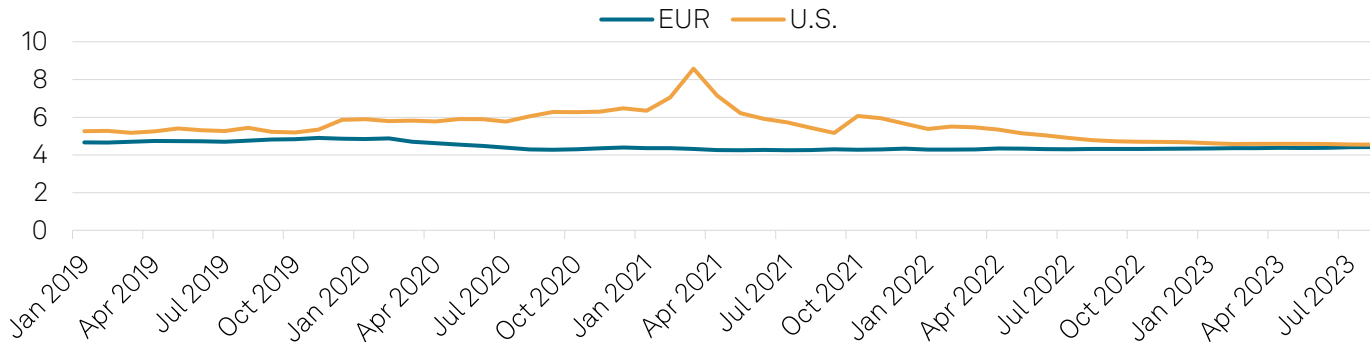
Source: S&P Global Ratings.

# Performance | Fixed-Rate Exposure And Coupon

## Fixed-rate exposure (%)



## Weighted average coupon (%)



Source: S&P Global Ratings.

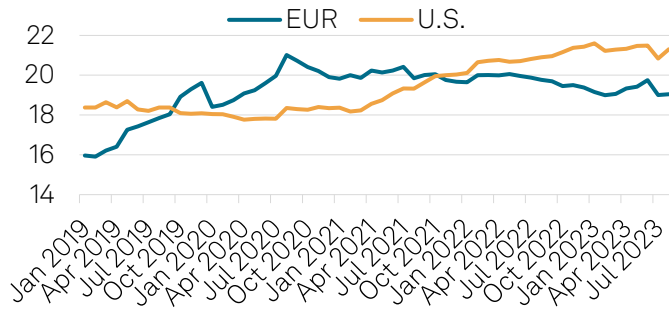
- EUR transactions have historically had more exposure to fixed-rate assets at around 5%, whereas U.S. transactions have had near zero exposure to fixed-rate assets until mid-2022.
- Both regions experienced an increase in fixed-rate exposure in 2022, as U.S. transactions just crossed the 1% mark in early 2023 and EUR transactions are approaching 10%.
- With rising rates, the market values of fixed-rate assets have declined, making them more attractive. Some CLO managers have built par by purchasing lower-yielding bonds at a discount.
- The weighted average coupon (WAC) across the EUR CLO fixed-rate exposures have remained notably lower since 2019. The WAC of U.S. CLO exposures has declined in 2022, as U.S. CLO managers purchased fixed-rate bonds from higher-rated issuers. The peak in the WAC of over 8.5% for U.S. transactions in early 2021 was not a trend, as there were near zero exposures back then.



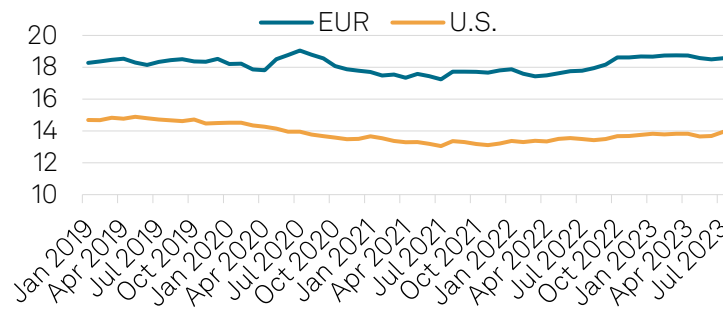
# Performance | Sectoral Composition

## EUR CLOs increase exposure to healthcare

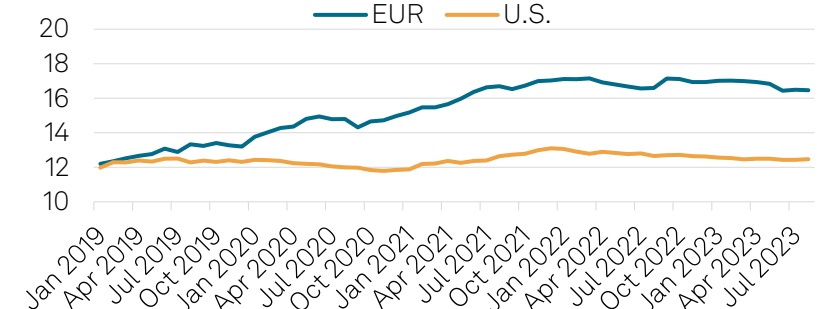
Industrials (%)



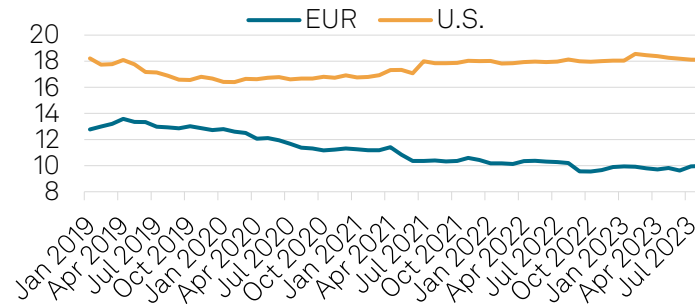
Consumer discretionary (%)



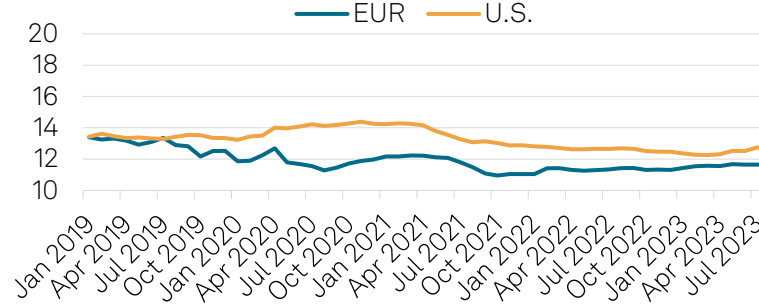
Healthcare (%)



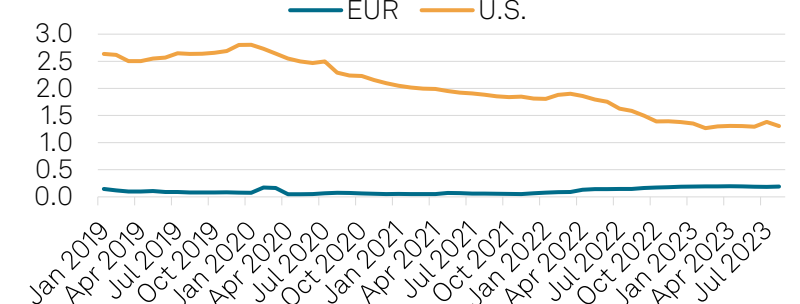
Information technology (%)



Communication services (%)



Energy (%)

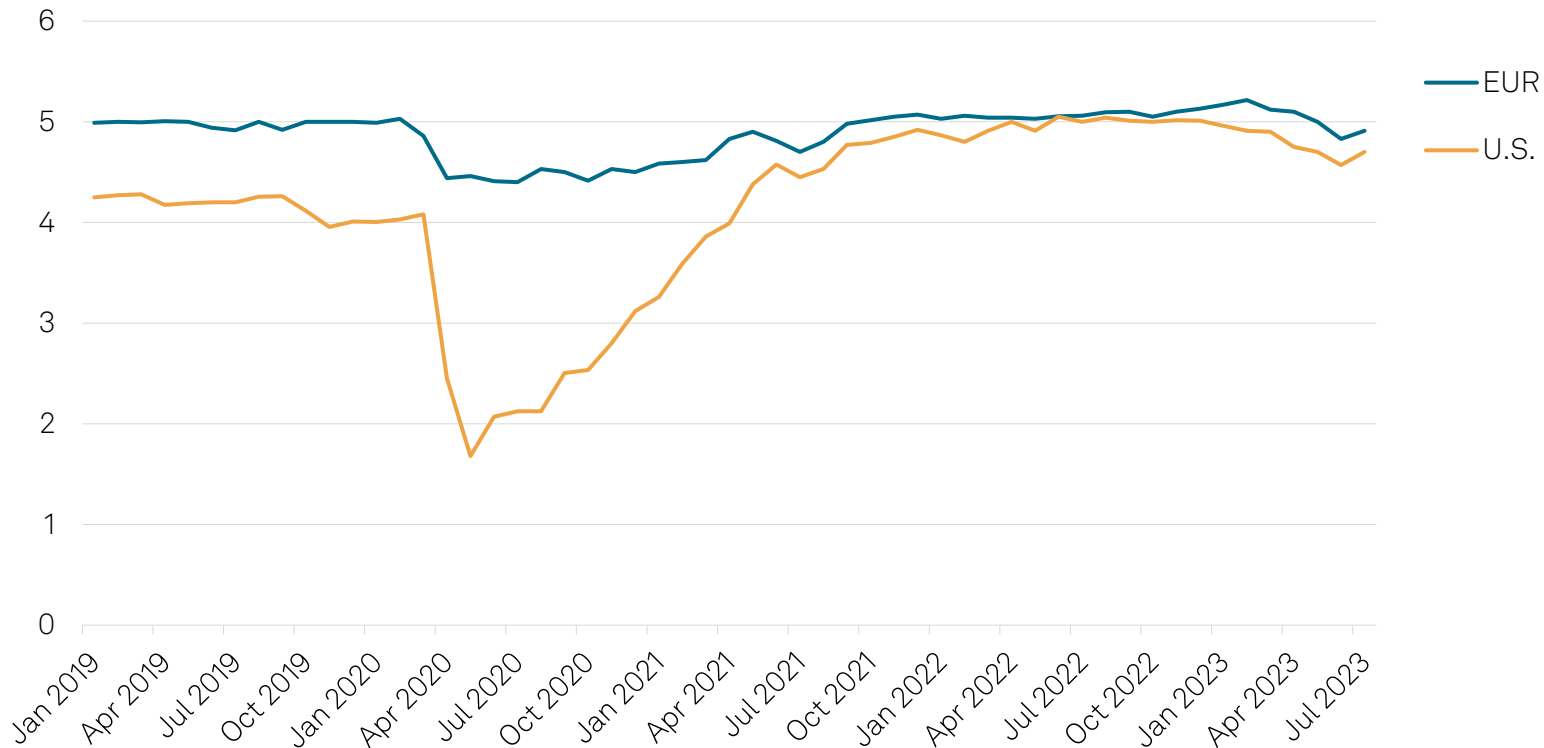


Source: S&P Global Ratings.

# Performance | 'BB' O/C Cushion

EUR CLOs have higher junior O/C cushions.

Median 'BB' O/C cushion across reinvesting BSL CLOs (%)



- As noted in prior slides, the difference in 'BB' median subordination between EUR and U.S. CLOs is 2% (10% vs. 8%, respectively).
- The difference between the EUR and U.S. 'BB' O/C triggers is also about 2% (the typical values are about 106.1% vs 104.3%, respectively).
- Right before the pandemic, median EUR CLO 'BB' cushions were about 5%, vs. about 4% for U.S. CLOs.
- During the pandemic, U.S. CLOs saw a 2.4% decline in their 'BB' cushions between March and May 2020, compared to a decline of 0.4% for EUR CLOs during the same time.

O/C—Overcollateralization. BSL--Broadly syndicated loan. Source: S&P Global Ratings.

# Performance | CLO Tranche Defaults

## Lifetime performance

CLO default summary by original rating (count)

	--CLO 1.0--			--CLO 2.0--		
	Original ratings	Default	Currently rated	Original ratings	Default	Currently rated
<b>Global</b>						
AAA	2,021	0	0	4,408	0	2,081
AA	843	1	0	3,792	0	1,976
A	1,039	5	0	2,985	0	1,560
BBB	1,079	13	0	2,737	0	1,528
BB	776	39	0	2,288	8	1,309
B	39	4	0	805	11	504
<b>Total</b>	<b>5,797</b>	<b>62</b>	<b>0</b>	<b>17,015</b>	<b>19</b>	<b>8,958</b>
<b>U.S.</b>						
AAA	1,540	0	0	3,639	0	1,626
AA	616	1	0	2,964	0	1,398
A	790	5	0	2,449	0	1,198
BBB	783	9	0	2,230	0	1,184
BB	565	22	0	1,818	8	975
B	28	3	0	389	11	187
<b>Total</b>	<b>4,322</b>	<b>40</b>	<b>0</b>	<b>13,489</b>	<b>19</b>	<b>6,568</b>
<b>Europe</b>						
AAA	481	0	0	769	0	455
AA	227	0	0	828	0	578
A	249	0	0	536	0	362
BBB	296	4	0	507	0	344
BB	211	17	0	470	0	334
B	11	1	0	416	0	317
<b>Total</b>	<b>1,475</b>	<b>22</b>	<b>0</b>	<b>3,526</b>	<b>0</b>	<b>2,390</b>

Source: S&P Global Ratings.

- S&P Global Ratings has rated over 22,000 CLO tranches since our first CLOs in the mid-1990s. Our CLO ratings history spans three recessionary periods: the dot.com bust of 2000-2001, the global financial crisis in 2008-2009, and the recent COVID-19-driven downturn in 2020.
- Across the 5,797 tranches rated across CLO 1.0s (transactions originated in 2009 or prior), only 62 tranches have defaulted.
- Across the 17,015 tranches rated across CLO 2.0 transactions (transactions originated in 2010 and after), to date, 19 tranches across early vintage U.S. CLO 2.0s have defaulted. There has been no defaults yet within EUR CLO 2.0s.

# Performance | CLO Rating Actions In Second-Half 2020

## Downgrades during the 2020 pandemic

### Actions taken in second-half 2020

Rating	Outstanding rating as of July 2020	Watch negative as of July 2020	Affirmation (off Watch negative) or no DG	One-notch downgrade	Two-notch downgrade	Three-notch downgrade	Four-notch downgrade	Five-notch downgrade	Total downgrades
<b>U.S. (count of CLO ratings)</b>									
AAA	904	-	904	-	-	-	-	-	-
AA	780	-	777	3	-	-	-	-	3
A	675	15	660	10	1	3	1	-	15
BBB	655	94	572	62	13	5	3	-	83
BB	577	289	324	145	46	40	14	8	253
B	181	174	72	78	22	9	-	-	109
CCC	13	11	5	4	4	-	-	-	8
CC	1	-	1	-	-	-	-	-	-
<b>Grand total</b>	<b>3,786</b>	<b>583</b>	<b>3,315</b>	<b>302</b>	<b>86</b>	<b>57</b>	<b>18</b>	<b>8</b>	<b>471</b>

### EUR (count of CLO ratings)

AAA	214	-	214	-	-	-	-	-	-
AA	242	-	242	-	-	-	-	-	-
A	169	-	169	-	-	-	-	-	-
BBB	147	4	144	3	-	-	-	-	3
BB	144	18	124	17	3	-	-	-	20
B	134	3	130	4	-	-	-	-	4
CCC	-	-	-	-	-	-	-	-	-
CC	-	-	-	-	-	-	-	-	-
<b>Grand total</b>	<b>1,050</b>	<b>25</b>	<b>1,023</b>	<b>24</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>27</b>

DG--Downgrade. Source: S&P Global Ratings.

- 583 U.S. CLO tranches and 25 EUR CLO tranches had their ratings on Creditwatch negative as of July 2020.
- 471 U.S. CLO tranches and 27 EUR CLO tranches were downgraded in the second half of 2020.
- Most of the rating downgrades were either in the 'BB' rating category or within a one-notch downgrade.
- No 'AAA' CLO ratings were placed on CreditWatch negative or downgraded in both regions.
- The rating actions taken for EUR CLOs only affected the 'BBB', 'BB', and 'B' rating categories, whereas those for U.S. CLOs affected the other rating categories as well.

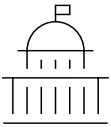
# Other Topics

Regulation, ESG, Structures,  
And Documentation



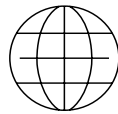
# Other Topics

EUR and U.S. CLOs are converging globally, with some differences.



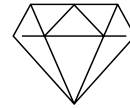
## Regulation

- EUR CLOs are subject to **risk retention** rules, whereas U.S. CLOs are not (unless EUR investors are targeted). Hence, U.S. CLO investors are mostly U.S.- or Asia-based, whilst investors in EUR CLOs are mostly European and some Asia-based.
- U.S. CLOs are subject to the **Volcker Rule**; hence, they historically have zero bond buckets. However, following rule changes, some U.S. CLOs now allow for a small bucket (e.g., 5%). In both regions, we have seen increasing bond bucket sizes, especially in Europe, where 10-15% is common.



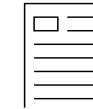
## ESG

- EUR CLOs are more developed in this area, driven by the regulatory framework and investor demand.
- Negative screening is predominant in U.S. CLOs, with an increasing number of industry exclusions.
- Almost all EUR CLOs have negative screening, with some CLOs also incorporating positive screening ESG language, which include ESG scores that could be included in the collateral quality tests.



## Structural Features

- Widening spread environment and liability management has led to similar structural innovations across EUR and U.S. CLOs.
- Delayed-draw tranches are now a common feature in both regions, although applicable only for 'B' tranches in Europe vs. 'B' and 'BB' tranches in the U.S.
- Turbo features where excess spread is used to pay down junior tranches rather than to equity are also in both EUR and U.S. CLOs. Limited to 'B' tranches in Europe, this feature is applicable to 'BBB' and lower tranches in some U.S. CLO transactions.
- Some features unique to U.S./Europe: The applicable margin reset (AMR) feature allowing re-pricing via auction process is limited to the U.S.; EUR CLOs have a bucket for non-EUR denominated assets and the ability to enter into cross-currency hedges.



## Documentation

- CLO documents in both regions are converging, with a number of similarities.
- Distressed asset flexibility provisions first introduced in U.S. CLOs are now common in EUR CLOs, as CLO docs look to further mitigate the loosening of loan documentation: asset exchanges, workout obligations, and more recently anti-priming provisions.
- Concerns over CLO test management mean that discount (and swapped non-discount) obligations, post-reinvestment period trading requirements, and weighted average life (WAL) test flexibility provisions/maturity amendment language are areas of focus for CLO managers in both regions
- Differences include LIBOR transition language in U.S. CLO docs, which is not applicable to EUR CLOs.

Source: S&P Global Ratings

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