



## Insights

# Industry Participants Concerned Regarding Impact of Volcker Rule on CLOs

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Industry participants are concerned that the Volcker Rule's prohibition of banks acquiring or retaining "ownership interests" of CLO covered funds will prohibit banks from owning rated debt securities that include the right to replace the collateral manager for cause and appoint a replacement. The definition of "ownership interest" in the final rule includes the "right to participate in the selection or removal of a . . . investment manager . . . (excluding the rights of a creditor to exercise remedies upon the occurrence of an event of default or an acceleration event." Many CLO debt securities include the right to replace a collateral manager for cause, and if a manager termination event is not also an event of default under the CLO indenture, industry participants are concerned that such securities are ownership interests and that banks are prohibited from owning such CLO securities. These concerns have been raised with the regulators, and with members of Congress, but to date no guidance has been published. In the meantime, newly issued CLOs are either being structured to exclude bond buckets - and thereby ensure that the CDO would not be a covered fund - or crafting manager termination rights such that rated securities will not be ownership interests under Volcker. With respect to legacy CLOs, if no favorable guidance is received, banks holding such securities may need to divest by the end of the July 2015 compliance period.