



Insights

House Members Write Letter to Volcker Regulators Supporting Relief for CLO Debt With Manager Removal Rights

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On February 12, 2014, 17 members of the House of Representatives Committee on Financial Services, including the chair, Maxine Waters, wrote a letter to the federal regulators implementing the Volcker Rule asking that interpretive guidance be issued with respect to the treatment of certain CLO debt securities. The implementing regulations prohibit any banking entity from maintaining an "ownership interest" in any covered fund. CLOs that hold securities will be considered covered funds under the rule. Banking entities holding debt securities in such CLOs could be required to divest those interests to the extent the interests are "ownership interests". The definition of "ownership interest" in the regulations includes any security where the holder has the right to remove or replace the investment manager, unless that right follows an event of default on the security. Many CLO debt securities provide the holder with the right to replace or remove a collateral manager for cause, but not necessarily in connection with an event of default. Under the implementing regulations, such rights could render the debt security a prohibited ownership interest in a covered fund. The House members who penned the letter state their view that an interpretation that the right to remove or replace a collateral manager in a CLO for cause should not, by itself, trigger an ownership interest, would be consistent with Congressional intent. The letter "urges" the agencies "to find a solution that . . . avoids the need for unduly disruptive, market-wide renegotiations of existing CLOs." A copy of the letter is provided below.