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CLO
U.S.A.

U.S. CLO Indenture Features Explained

Variations Can Protect Against or Increase Credit Risk

CLO Indenture Features Explained

Fitch Ratings reviews collateralized loan obligation (CLO) documentation as part of its rating analysis. This report highlights typical CLO indenture terms, explains the impact of variances in these terms and notes Fitch's credit perspective on whether such items are positive, neutral or negative. As an update to our 2021 report, we have also included the frequency or omission of any items in recent documentation.

All Fitch-rated broadly syndicated loan (BSL) CLO data from January 2021 until May 2023 that have been tracked on our features list were analyzed. Of a sample of 279 Fitch-rated deals in this period, features that represent a credit risk are not common in U.S. BSL CLOs and some are decreasing in response to current market dynamics.

This report is in a question/answer format, with 14 different categories, answered with a yes/no/not applicable as to whether the item is relevant for each Fitch-rated CLO captured in the report. A Fitch credit view is included where the answer is yes.

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Evolution for Existing Terms, including ESG

Since the onset of the coronavirus pandemic, leveraged loans have been trading at a discount, thereby offering opportunities for managers to build par in CLO portfolios. In a limited window once the transaction becomes effective, managers can release excess par for the benefit of the equity holders but subject to certain conditions. These conditions have been expanding to include satisfaction of concentration limitations and collateral quality tests.

Also, with the increased adoption by entities of environmental, social and governance (ESG) principles, CLO documentation is increasingly restricting CLOs from investing in certain industries.

Focus on Distressed Issuer Exposure

This update to the 2021 report includes some of the items we consider when assessing a CLO's ability to participate in rescue financing and bankruptcy exchanges. The rescue financing analyses cover workout loans, restructured loans, loss mitigation loans, specified equity securities and uptier priming transactions.

Given the challenging economic environment and rise of distressed assets, CLO transaction terms are providing more clarity on how managers can participate in liability management transactions (LMTs). The type of proceeds and amounts vary from deal to deal. In general, the amount of principal proceeds used to purchase rescue financing remains small, typically between 1% and 3%. In addition, participation in such LMTs also has further increased overcollateralization (OC) haircuts for rescue financing assets.

Frequently Asked Question (FAQ) 1 — Senior Secured Loan Definition

CLOs primarily invest in senior secured loans of U.S. leveraged borrowers. Generally, at least 90% of collateral must be senior secured, and there are up to 10% limits on other types including second lien loans (junior secured), unsecured loans and, in certain transactions, bonds. The items in this category are to identify potential weaknesses in the definition of senior secured loans in a CLO indenture.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Does the senior secured loan (SSL) definition include: i. the value of the collateral securing the loan at the time of purchase and other attributes of the obligor adequate (in the commercially reasonable judgment of the collateral manager) to repay the loan in accordance with its terms and repay all other loans of equal seniority secured by a first lien or security interest in the same collateral; ii. not being secured solely or primarily by common stock or other equity interests; and/or iii. having a senior working capital facility that is higher in priority?	i and ii: These protect the senior-ranking secured status of a loan in the CLO. The value of the collateral and priority in the repayment waterfall are primary factors in recovery should an obligor default. A "no" to one of these features in the SSL definition could have negative implications on the expected recoveries in the event of an obligor's bankruptcy. Since Fitch uses generic recovery assumptions for issuers without a Fitch-assigned recovery rating, the generic recovery assumption could be overstating the actual expectation. iii: Having a more senior working capital facility could have implications, in which assets are treated as SSLs instead of as first-lien last-out loans (see FAQ 2).	Definitions	i. Positive ii. Positive iii. Negative	i. 50–75 ii. 0–25 iii. 0–25

Source: Fitch Ratings

FAQ2 — First-Lien Last-Out Loans

First-lien last-out loans would be considered senior-secured loans but do not satisfy the definition because they become subordinate to other first-lien senior-secured loans of the obligor upon a default.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Are first-lien last-out loans treated as second-lien loans for all purposes?	Treating first-lien last-out loans as second lien could result in weaker recovery compared with traditional first-lien senior-secured loans. The actual impact on expected recoveries for first-lien last-out loans would need to be determined on an asset-by-asset basis. Of note, excluding first-lien last-out loans from the provisions for second-lien loans could	Definitions; Schedules	Positive	75–100

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
	heighten issuer exposure to assets with weaker recovery prospects.			

Source: Fitch Ratings

FAQ3 — Swapped Non-Discount Obligations

Provisions for swapped non-discount obligations (SNDOs) allow the manager to reinvest the sales proceeds from a collateral obligation that was not considered a discount obligation at the time of purchase into a new obligation that meets the criteria for a discount obligation but is expected to ultimately perform better than the sold obligation, without having to classify the new obligation as a discount obligation. Since the sold obligation was included in the OC test calculations at par, the purchased SNDO is given the same treatment. Typically, the purchase needs to occur within a certain number of days of the sale and there is a point-in-time limit and/or a cumulative limit on classifying assets as SNDOs.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Does the rating of the SNDO have to be the same or better than the sold obligation?	Since the purchased obligation is expected to perform better than the sold obligation, how the ratings of the two collateral obligations compare to each other should be considered.	Definitions	Positive	75–100
Does the purchase price of the SNDO have to be the same or higher than the sale price of the sold obligation?	Price can be an indicator of how a loan is performing. Therefore, comparing the price of the purchased obligation to that of the sold obligation is another common indicator in classifying a loan as a SNDO.	Definitions	Positive	75–100

Source: Fitch Ratings

FAQ4 — Defaulted Obligations

Default exposure has been increasing, and as such, understanding when and how a CLO will report a default are important. A leveraged loan issuer can have pari passu, junior or unsecured debt in its capital structure. Understanding the priority of the loan held in the CLO as well as what debt may share in the collateral equally are important for recovery assumptions.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Is an asset considered a defaulted obligation if the obligor defaults on the payment of another obligation senior or pari passu to such asset?	Leveraged loan issuers can have more than one loan facility that ranks equally with the term loan held in a CLO, such as a revolving credit facility or another tranche of the term loan. Classifying a loan as a defaulted obligation for this reason is in line with Fitch's rating methodology for Long-Term Issuer Default Ratings. It reflects the viability of the obligor to continue making payments on its pari passu or junior obligations and eliminates the potential delay in labeling a loan as defaulted until after the obligor defaults on the payment of the loan held by the CLO.	Definitions	Positive	75–100
Is there a delay in when an asset is considered a defaulted obligation following the institution of bankruptcy proceedings?	If a delay occurs once an asset is reported as a defaulted obligation, tests and metrics will look artificially better until the default is reflected. This will affect many calculations, including concentration limitations, collateral quality tests and coverage tests, which could subsequently affect the investment criteria and priority of payments.	Definitions	Negative	75–100

Source: Fitch Ratings

FAQ5 — Concentration Limitations and Collateral Obligation Definition

In determining the rating for notes of an actively managed CLO transaction, Fitch starts with the initial "indicative" portfolio provided by the arranger and then adjusts to mimic certain concentration allowances in a Fitch stressed portfolio (FSP). Concentration limits are indenture specific. If breached, trading is generally limited to maintaining or improving the situation. 'CCC' herein may denote (S&P/Fitch's rating category of 'CCC' or Moody's 'Caa'.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Is the facility rating used for 'CCC' concentration limits?	More than which agency's rating is used for the concentration limits (and excess OC haircuts, as discussed later), it is important to understand whether it is an obligor or obligation rating. The senior-secured status of loans generally held in CLOs often results in a facility rating being higher than the obligor rating. Therefore, basing the concentration limitation on the facility rating may undercount the exposure in the portfolio to an issuer with a corporate family rating (CFR) of 'CCC+'/'Caa1' or lower. The three most common choices used in concentration limits are the S&P rating (S&P's Issuer Credit Rating [ICR]), the Moody's default probability rating (Moody's CFR) and the Moody's rating (Moody's facility rating). See CCCs in U.S. CLOs (Indenture-Specifics Provide Flexibility, Blur Comparisons) for more information.	Definitions	Negative	0–25
Are only collateral obligations currently rated 'CCC' that were also rated 'CCC' at the time of purchase included in the 'CCC' limitation?	This feature increases the amount of 'CCC' rated assets the manager may hold in the portfolio without breaching the limit, especially during weaker credit environments that experience high asset-level rating downgrades within the pool, as only those assets purchased by the manager at the 'CCC' rating level will be included in the concentration limitation calculation.	Definitions	Negative	0
Exclusions to 'CCC' limitations?	Excluding certain types of assets when calculating the 'CCC' concentration limitation helps the portfolio remain below the threshold. If the portfolio breaches the threshold, the manager would typically need to maintain or improve the metric with subsequent trades; in some transactions, it would prohibit the manager from all trading after the reinvestment period. The three types of exclusions are listed below.	Definitions	Negative	N.A.
Can deferring obligations be excluded from 'CCC' limitations?	Deferring obligations are assets that have been deferring the payment of accrued interest, which is permitted by the terms of their credit agreements, for the defined period. Deferrable loans are generally limited by the eligibility criteria or a separate concentration limitation, and some transactions include deferring obligations in their definition of "defaulted obligations" or will have a carveout for permitted deferrable obligations.	Definitions	Negative	75–100
Can current pay obligations be excluded from 'CCC' limitations?	Current pay obligations are assets that would otherwise be considered defaulted but have not missed any scheduled interest or principal payments or, if in a bankruptcy proceeding, the obligor has made payments approved by the bankruptcy court. This is not typically excluded from 'CCC' calculations but may be negotiated between the collateral manager and investors. Current pay obligations are typically limited to a small percentage of the portfolio and treated as defaulted if the percentage of current pay obligations held exceeds a defined threshold.	Definitions	Negative	0–25
Can discount obligations be excluded from 'CCC' limitations?	Excluding discount obligations could allow for a higher concentration of assets rated 'CC'C and below. Discount obligations are obligations purchased below a certain price threshold. This is not typically excluded from 'CCC' calculations but may be negotiated between the collateral manager and investors.	Definitions	Negative	0–25

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Are any industries prohibited?	More managers are embracing ESG requirements as investors are pushing toward limiting investments in certain industries such as tobacco, weapon manufacturers, palm oil productions, coal, etc. Typically, certain limits are allowed to generate revenues from companies in these industries but they vary for most of the transactions. Fitch views the prohibition in certain non-ESG permitted industries as a positive factor for the manager, but the credit impact on the transaction is considered neutral As mentioned in More US CLO Managers Considering ESG in Investment Decisions, ESG limitations are not materially limiting investment opportunities and, therefore, not resulting in a trade-off in terms of diversification.	Definitions	Positive/Neutral	75–100
Can the collateral manager request an exception on one or more limitations, subject to consent (or lack of objection) from certain noteholders?	If the collateral manager has the ability to change the concentration limitations, the risk profile could become materially different from what was initially evaluated. The indenture language varies on this; it could relate to only one specific limitation, such as on cov-lite loans, or it could be more depending on the collateral manager's judgment. Fitch views this as investor optionality and does not stress the portfolio differently if this feature is present.	Definitions	Negative	0–25
Is there an allowance for long-dated obligations?	Obligations with maturity dates after the legal maturity of the notes expose the CLO to market value risk since the manager would have to sell long-dated obligations prior to the maturity date of the notes.	Definitions	Negative	0–25
Is there a limitation on obligations from affiliates of the collateral manager?	This could generate conflicts of interests and lead to competing incentives between the issuer and the collateral manager's affiliates in the event an obligor enters bankruptcy.	Definitions	Positive	25–50
Is there a liquidity reserve feature that smooths the interest from non-quarterly pay assets?	Liquidity reserve mechanisms mitigate the timing mismatch between receiving interest from underlying loans that pay interest less frequently than quarterly and making quarterly interest payments to the CLO notes. This typically works in one of two ways: either a designated amount of interest from non-quarterly paying loans in excess of a specified threshold are deposited into an interest reserve account upon receipt or, before paying interest on any notes on each payment date, the reserved amount is deposited back in the interest collection account for distribution on the following payment date(s). If Fitch believes the liquidity reserve provisions sufficiently smooth the non-quarterly interest receipts, we will model non-quarterly paying assets up to the specified threshold in our stressed analysis.	Definitions; Priority of Payments	Positive	0–25
Can loans from obligors with a total potential indebtedness below $150 million be purchased?	Obligors with a total potential indebtedness below $150 million are likely to be middle-market issuers. Compared to BSL issuers, risks can be amplified due to their smaller size and limited diversity. These issuers tend not to have public ratings but, instead, credit opinions. Additionally, public information on the issuers of middle-market loans may not be as readily available compared to issuers of BSLs and the loans may not be as liquid.	Definitions	Negative	0–25
Are bonds permitted under the definition of collateral obligation?	Certain revisions to the Volcker Rule went into effect in October 2020 that, among other things, allow CLOs to hold bonds, generally up to 5% of portfolios. Transactions that closed in 3Q20 or later often have springing bond buckets, where bonds cannot be purchased until certain conditions are satisfied. The conditions may be contingent on consent from a majority of the controlling class, the original holders of the controlling class no longer holding their notes or a combination of these.	Definitions	Neutral	100

Note: 'CCC' may also be used to denote 'Caa'. N.A. – Not applicable.
Source: Fitch Ratings

FAQ6 — Collateral Quality Tests

Collateral quality tests are used to determine the flexibility a manager has to trade. During the reinvestment period, if a test level is breached, a manager generally would only be able to trade if the level is maintained or improved. However, there is some flexibility in tests, which could result in a CLO avoiding a test failure.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Can the collateral quality test be calculated based on a subset of the portfolio, so long as the subset is at least equal to the reinvestment target par balance (RTPB)?	This feature allows the issuer to manage the WAS/ WARF and WAL tests by entirely excluding assets with low spreads, longer maturity and/or poor credit quality from the calculation when the par balance of the portfolio is greater than the RTPB. Flexibilities in the WAS calculation can result in a CLO passing its test when it would have otherwise failed. As the feature requires excess par in the portfolio, Fitch views this as a limited risk and offset by the par build required to use it.	Definitions	Negative/Neutral	0–25
Are purchased discount obligations included at their spread over the purchase price?	Purchased discount obligations are commonly given additional credit in the WAS calculation to reflect the amount of interest received based on the amount of principal proceeds used to purchase the asset instead of its par amount. This could potentially result in the WAS test passing when it would have otherwise failed.	Definitions	Negative	0–25

WAS – Weighted average spread. WARF – Weighted average risk factor. WAL – Weighted average life.
Source: Fitch Ratings

FAQ7 — Par Reduction/Erosion

This section looks at flexibilities that could reduce the principal, which would weaken liability coverage.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Can the OC ratio for any class of notes be reduced as a result of an additional issuance (if secured notes are being issued outside of a risk retention issuance)?	If the OC ratio can be reduced as a result of an additional issuance of notes, the notes could be in a more vulnerable position compared to before the additional issuance; they could be supported by less collateral or riskier collateral that is haircut in the OC calculation.	Article II	Negative	0–25

Source: Fitch Ratings

FAQ8 — Par Flush

Par flushes allow CLO managers to take principal proceeds from the deal and funnel that cash to equity holders through the interest waterfall or, in some instances, by skipping the secured noteholders. The provisions relating to how much or when the collateral manager can flush excess initial principal proceeds are negotiated with investors. Typically, the collateral manager can designate a limited amount of principal proceeds as interest proceeds to flush shortly after the effective date. Fitch generally expects to see conditions requiring that the portfolio will continue to meet the transaction characteristics that investors initially agreed to after giving effect to the designation. Other ways to potentially flush par include if the CLO can designate trading gains as interest proceeds that will flow through to the subordinated notes or if excess par at the time of a refinancing can be distributed to the subordinated notes.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Do the collateral quality tests have to be satisfied after giving effect to principal proceeds designated as interest proceeds in order to affect the flush of initial principal proceeds?	This would restrict the collateral manager's ability to designate principal proceeds as interest if any collateral quality tests are or would be failing, which would make those proceeds available to purchase additional collateral to improve those tests.	Article X	Positive	75–100

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Do the concentration limitations have to be satisfied after giving effect to principal proceeds designated as interest proceeds in order to affect the flush of initial principal proceeds?	This would restrict the collateral manager's ability to designate principal proceeds as interest if any concentration limitations are or would be failing, which would make those proceeds available to purchase additional collateral to improve those tests.	Article X	Positive	50–75
Do the OC tests have to be satisfied after giving effect to principal proceeds designated as interest proceeds in order to affect the flush of initial principal proceeds?	OC tests are calculated based on the adjusted collateral principal amount, which includes principal proceeds in the collection and ramp-up accounts and applies haircuts to riskier types of assets such as discount obligations and excess 'CCC' collateral obligations. This requirement mitigates the risk that the portfolio was ramped with riskier collateral obligations since certain assets that are haircut in the OC test are counted at par when comparing the portfolio balance to the target initial par amount.	Article X	Positive	75–100
Can principal proceeds be designated as interest proceeds in connection with trading gains (not relating to risk retention)?	The ability to extract trading gains could limit the amount of par that would otherwise build up over time. It is important that such reclassification of trading gains is only permitted if the portfolio balance would still at least equal the RTPB after and the purchase price of the asset (if it was above par) is taken into consideration.	Definitions	Neutral	0–25

Note: 'CCC' may also be used to denote 'Caa'.
Source: Fitch Ratings

FAQ9 — OC Haircuts

OC haircuts are relevant to the rating because they affect the OC tests' effectiveness at diverting proceeds to the senior notes when collateral quality declines. Indentures typically provide that if a collateral obligation qualifies for more than one type of haircut, such as discount and deferring, it will be included in the category that results in the lowest value for that obligation.

Interest coverage (IC) test calculations are generally more consistent across transactions; however, some variations could reduce their effectiveness at diverting proceeds to redeem the notes.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
i. Is the 'CCC' haircut based on the Moody's default probability rating (CFR)? ii. Is the 'CCC 'haircut based on the Moody's rating (facility rating)?	Transactions generally include an OC haircut based on assets rated in the 'CCC' category or lower by S&P and/or Moody's. When based on Moody's ratings, the applicable rating could be the CFR or the facility rating depending on how the haircut is defined. Facility ratings are typically higher than CFRs. As such, basing the concentration limitation on the facility rating may underrepresent exposure to issuers with a CFR of 'CCC'/'Caa1' or lower.	Definitions	i. Neutral ii. Negative	i. 0–25 ii. 75–100
Are deferring obligations included in the amount of 'CCC' collateral obligations?	Deferring assets are typically haircut separately at the lower of market value or agency recovery rate while excess 'CCC' assets are haircut to market value. Haircutting deferring assets separately from 'CCC' assets ensures the haircut will apply even if the 'CCC' exposure is below the limit.	Definitions	Neutral	0–25
Are discount obligations included in the amount of 'CCC' collateral obligations?	Discount obligations are haircut separately to their purchase price and usually included in the amount of 'CCC' obligations. Therefore, in some instances, they could be treated at their market value if the 'CCC' excess threshold is exceeded and the market value is lower than the original purchase price.	Definitions	Positive	75–100
Is there a haircut on long-dated assets?	Long-dated assets pose additional risk to the notes related to the forced liquidation of collateral at the CLO's maturity. Forced liquidation exposes the notes to the market value risk of the collateral. OC haircuts on long-dated assets partially mitigate this price risk by recognizing a lower OC value on these assets through the life of the transaction.	Definitions	Positive	75–100

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Are there any other types of assets that could be haircut?	A CLO may include OC haircuts on other types of collateral obligations that are relatively unique to that transaction or are acquired in an atypical manner that introduce some additional risk. This provides more protection to the noteholders.	Definitions	Positive	50–75

Note: 'CCC' may also be used to denote 'Caa'.
Source: Fitch Ratings

FAQ10 — Amendments

The collateral manager's flexibility with amending the indenture is negotiated with investors prior to closing. Investors should understand their voting and/or objection rights concerning amendments. This section includes a few types of amendment variations in recent transaction documents.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Can concentration limitations or collateral quality tests be amended without active consent from the controlling class?	The manager could alter these limitations and tests or, in some instances, remove them. This could lead to the risk profile of the transaction becoming materially different from provisions originally agreed to by investors and what Fitch initially evaluated.	Article VIII	Negative	0–25
If certain noteholders object to an amendment or supplemental indenture, will they be required to sell their notes at the applicable redemption price (not relating to re-pricings)?	This could incentivize an investor to consent to an agreement that they would otherwise reject, because they do not want to be forced to sell their notes.	Article VIII	Negative	0–25
Can investment criteria be modified without controlling class consent?	The collateral manager could make the investment criteria easier to satisfy without consent from the controlling class. This could have an adverse effect on the portfolio's credit quality and performance over time. It could also result in a portfolio materially different from initial evaluation.	Article VIII	Negative	0–25

Source: Fitch Ratings

FAQ11 — Conditions to Reinvestment

Investment criteria generally appear similar, but variations could result in looser terms and multilayer optionality for trading ability after the reinvestment period; thus, some transaction are less conservative than others. The uneven amortization profile for CLOs out of reinvestment is evidence of variances. See our report, "Reinvestment in Amortization Period of U.S. CLOs (Multilayer Optionality Brings Wide Range of Deleveraging," for more information.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Do the 'CCC' concentration limitations have to be satisfied following the reinvestment period?	This is more restrictive than the typical language of all concentration limitations having to be satisfied or, if they are already failing, maintained or improved after a trade. Without this clause, the manager could continue to reinvest even with excess 'CCC' collateral in the portfolio.	Article XII	Positive	25–50
Does the rating of the new obligation have to be the same or better than the rating of the sold/prepaid obligation following the reinvestment period?	If this clause is excluded, the manager could buy riskier replacement assets and, thus, lower the overall portfolio credit quality. This risk can be partially mitigated by investment criteria relating to collateral quality tests and concentration limitations (e.g. WARF test, 'CCC' concentration).	Article XII	Positive	75–100
In the investment criteria par requirements, is the RTPB calculated in relation to a declining portfolio balance instead of the target initial par amount?	Typically, the investment criteria include three or four options relating to the portfolio balance before and after a trade, only one of which needs to be satisfied. Using a declining balance to calculate the RTPB makes it easier to satisfy the par maintenance requirements, which would allow collateral managers to continue trading even if it eroded par.	Definitions	Negative	0–25

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Is the RTPB calculated in collateral quality tests in relation to a declining portfolio balance instead of the target initial par amount?	Managers could artificially improve the results of certain collateral quality test calculations if a declining RTPB is used in the denominator.	Definitions	Negative	0–25

Note: 'CCC' may also be used to denote 'Caa'.
Source: Fitch Ratings

FAQ12 — Exchanges

Definitions and conditions relating to distressed exchanges and bankruptcy exchanges can vary significantly across transactions, and understanding the various conditions that need to be satisfied or not satisfied is important for investors. Generally, these types of transactions involve exchanging credit risk obligations or defaulted obligations for another obligation that may not adhere to the definition of a collateral obligation, but that the collateral manager believes will ultimately perform better. Recent transactions have also started to include other types of exchanges with relatively bespoke requirements to allow for additional flexibility in maximizing recoveries during a downturn.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Are there provisions for distressed exchanges and / or bankruptcy exchanges?	There may be specific conditions that would need to be met (e.g. better expected recovery, satisfy or maintain/improve certain tests) as well as point-in-time and/or cumulative limitations on the use. Investors should understand the various conditions that need to be satisfied or not satisfied with these types of exchanges.	Definitions	Depends	75–100
Are there provisions for any other types of exchanges (e.g. purchased defaulted obligations and swapped defaulted obligations)?	Generally, the purchase of a defaulted obligation would only be with proceeds from an already defaulted obligation and certain characteristics of the new defaulted obligation need to be better than those of the sold defaulted obligation. These swapped or purchased defaulted assets would continue be treated as defaulted obligations. Fitch assesses the conditions and requirements for each type of exchange and may stress for potential risks in its analysis, such as exposure to long-dated obligations.	Definitions; Article XII	Depends	0–25

Note: Fitch credit view depends on the type of provisions applicable to each CLO.
Source: Fitch Ratings

FAQ13 — Rescue Financing

More flexibility for CLOs to participate in workouts and restructurings became prevalent during 2020. Interest, principal and contribution proceeds can be used to participate in rescue financing. The questions below concern the terms of flexibility: loss mitigation loans, uptier priming transactions, workout loans, restructured loans and specified equity securities. These were the most common terms observed in indentures describing new securities that managers can acquire in connection with a workout, restructuring, etc. Some basic potential concerns are discussed below but are just some points that Fitch considers when assessing these rescue financing securities. The asset acquired in connection with a workout or restructuring may or may not need to satisfy the definition of a collateral obligation or all of its clauses, which could result in the addition of long-dated assets to the portfolio. Because every transaction is unique, these questions only address some acquisition parameters.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Can interest proceeds be used to acquire such asset if it would result in an interest shortfall on deferrable notes?	This would allow the portfolio manager to use available interest proceeds to participate in rescue financing/purchase assets that would not have to qualify as a collateral obligation rather than to pay due and accrued interest on all classes of notes.	Definitions; Article X; Article XII	Negative	0
If financed from principal proceeds, can any proceeds received from such asset be deposited in the principal collection account until at least the amount of principal	This prevents amounts received from the workout security as it repays or is sold from being treated as interest proceeds and leaking to the equity until at least the amount of principal proceeds used to acquire the workout security is recovered.	Definitions ; Article X; Article XII	Neutral	100

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
proceeds used to acquire such asset is repaid?				

Source: Fitch Ratings

FAQ 14 — Maturity Amendments

There are many variations on maturity amendment language across CLOs, giving collateral managers much flexibility to consent to such amendments. Many transactions have amendment provisions that include carveouts where certain restrictions do not apply to credit amendments, which do not have a standard definition. Another layer of flexibility can be provided where provisions do not apply to maturity amendments if the collateral manager intends to sell the amended loan within a set number of days. Amend and extend language may also only restrict conditions to which the manager is permitted to consent and may not state whether the CLO can continue to hold a loan amended without consent that does not satisfy the conditions.

Question	Fitch Interpretation	Where Found?	Fitch Credit View	Frequency of Observation (%)
Can the manager consent to maturity amendments not in connection with a bankruptcy, restructuring, reorganization or workout that result in long-dated obligations?	Under this situation, any collateral obligation can be extended to become a long-dated obligation without being considered defaulted. In this case, Fitch would expect a limit on such amendments and it may include a stress for long-dated obligations in its analysis to address the potential market value risk, unless mitigants disincentivize managers to use such provision opportunistically.	Article XII	Neutral	25–50

Source: Fitch Ratings

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