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Welcome to the Summer 2016 issue of *The Journal of Structured Finance*. Collateralized loan obligations/collateralized debt obligations (CLOs/CDOs) are the theme for this issue. CLOs were one of the more active areas of the structured finance landscape in 2015, although the sector encountered some bumps early this year. It recently seemed to be back on track for a year of solid issuance volume, perhaps exceeding $50 billion by year-end.

Auto loan asset-backed securities (ABS) are another area displaying a good flow of new deals so far this year. The sector produced roughly $51 billion of new issuance volume in the first half of the year, according to recent SIFMA data. That amount is slightly below 2015 volumes at the same point in the year, but it's still solid by any measure. By contrast, most other ABS asset classes are producing somewhat muted deal volumes compared with 2015.

Private-label residential mortgage-backed security (RMBS) issuance volume has been very light through the first half of the year, at just under $25 billion. As discussed in the Spring 2016 issue, the private-label sector is still waiting for a robust revival. By contrast, agency mortgage-backed security (MBS) issuance volume is nearly $650 billion for the first half of 2016.

This issue of the JSF starts with an article by Bernardo Pagnoncelli, associate professor at the Universidad Adolfo Ibanez in Chile, Francisco Hawas, a doctoral student in applied mathematics and statistics at Stony Brook University, and Arturo Cifuentes, director of the Financial Regulation Center of the University of Chile. They posit a tri-modal default distribution for a CDO's underlying assets and explore the implications. They conclude that the conventional analytic approaches (Gaussian copula and Monte Carlo simulation) provide misleading indications about risk.

The second article is by Craig Stein, a partner at Shulte Roth & Zabel. He compares pre-crisis and post-crisis structures of U.S. CLOs. The article explains how some of the evolution in CLO structures comes from changes in laws and regulations.

The issue's third article is by Joseph Pimbley of Maxwell Consulting. Pimbley explores the valuation of CLO equity. He examines the strengths and weaknesses of internal rate of return (IRR) as a valuation tool. He then proposes an alternative measure that addresses some of IRR's weaknesses.

The fourth article is by Jeffrey Stern, a partner at Winston & Strawn and co-chair of the firm's structured finance practice. He discusses proposed U.S. legislation (bill H.R. 4166) that would create a limited exemption from the general risk retention rules for certain CLOs.

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Stern explains the challenges of the risk retention rules in the context of CLOs and the nuances of the proposed legislation.

The fifth article, by me, examines inflated ratings on pre-crisis CDOs. I argue that the modeling approaches and analytic methodologies used for evaluating the securities before the 2008 financial crisis suffered from two key weaknesses: model risk and the absence of calibration to historical benchmarks. Those weaknesses were among the reasons that the models and analytic approaches failed to identify the true riskiness of the securities.

The sixth article is by Carlos Silva, head of the European structured credit team at DBRS in London, and Gordon Kerr, head of European structured finance research at DBRS in London. Silva and Kerr explain structural variations in small- and medium-sized enterprise CLOs in different countries. They explore the efficiency of different mechanisms for trapping spread and the overall effect on credit of the different mechanisms.

The seventh article is by Meredith Coffey, executive vice president of the Loan Syndications and Trading Association (LSTA). Coffey details LSTA's efforts to address the challenges of the risk retention rule through both legislative advocacy and litigation. In particular, the article explores possible inconsistencies between the language of the Dodd–Frank law and the risk retention regulations produced by the federal regulatory agencies.

The eighth article reports on selected sessions of the 5th Annual Investors Conference on CLOs organized by Information Management Network. The event was held in May in New York and included sessions on a wide range of CLO-related subjects.

Following the articles, the issue includes highlights from *GlobalCapital* and a selection of industry news items from the Structured Finance Industry Group (SFIG), in both cases covering Q2 2016.

As always, we welcome your submissions. Please encourage those you know who have good articles or have made good presentations on topics related to structured finance or project finance to submit them to us. Submission guidelines are available online at www.iijournals.com/page/jsf/submitanarticle. If you have comments or suggestions, email me directly at markadelson@nyc.rr.com.

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