The LIAJ comment on the IAIS Draft Development of Liquidity Metrics: Phase 2

Question	Comment
Q1. Do you agree with the IAIS' general objective and contemplated usage for the liquidity metrics? If not, please explain your rationale.	・The Life Insurance Association of Japan (hereafter the "LIAJ") appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (or the "IAIS") regarding the Development of Liquidity Metrics: Phase 2. ・Since the systemic risk of the insurance sector is relatively low, the development of liquidity metrics should not extend beyond what is required and should be based on the risk. ・We are concerned that excessively conservative and uniform calculation methods regarding the amount of risk associated with liquidity will become standardized through the development of liquidity metrics. Especially since, in the public consultation document, the factors for liquidity sources and liquidity needs are not presented with specific rationale, there are many sections for which it is difficult to judge their appropriateness. It is essential that the rationale for setting these factors be defined so that appropriate metrics can be developed in order to be used as supplementary indicators in the GME process. ・We do not agree with the development and implementation of the CPA, which may impose excessive burden on insurers due to its unclear effectiveness and additional data collection. In the public consultation document, the description of the CPA (pp. 17-26) does not clearly state the specific calculation method, which makes it impossible to effectively answer the IAIS' questions on the CPA from the perspective of insurers. Therefore, if the development of the CPA is to proceed in the future, when the specifications of the CPA-related data and specific calculation methods for the GME data collection become clearer, the LIAJ requests the IAIS to set another opportunity for stakeholders to submit their opinions, such as by holding a new round of consultations with the specifications clearly stated. ・As stated in the Introduction (p. 7), liquidity metrics are being developed as "an ancillary indicator in the context of the IIM". Therefore, in the development and management of metrics, the proportionality principle should be firmly maintained. In addition, maximum care should be taken not to deviate from the actual situations of each market and characteristics of insurers, and not to become a restraining factor on the liquidity risk management already being conducted by each insurer, and this should be clearly stated in the document.

Q4. Is there a need to develop supplementary liquidity metrics solely for separate accounts for both EA and CPA? If not, provide suggestions how the IAIS should monitor liquidity related to separate accounts (united-linked products) for both EA and CPA?	・We do not believe that there is a need to develop supplementary liquidity metrics solely for separate accounts. ・In the case of variable insurance handled in separate accounts, since the amount of insurance payments and cash surrender value are determined based on the price of the underlying assets held by the customer, the liquidity sources and needs are considered to be consistent so separate accounts can be excluded from the liquidity monitoring. ・In the case of variable insurance with minimum guarantees, when the minimum guarantee option is in-the-money, the guaranteed portion may be paid from the general account, but in order to define the liquidity metrics in this case, the method of combining the general account and the separate account together or the method of adding an item related to minimum guarantees of the separate account to the EA currently being developed may be considered. Since guarantees on the maturity value are not voluntary for customers and their impact is extremely minor, only "minimum guarantees on the cash surrender value" should be covered.
Q5. Do you prefer to collect data and calculate liquidity metrics using fungible liquidity pools approach instead of the current enterprise approach for both EA and CPA? If yes, please provide ideas on approaches to the group-wide aggregation of results.	・The fungible liquidity pools approach may have relatively high risk sensitivity, but in light of the low systemic risk in the insurance sector, the LIAJ does not see the need to change from the enterprise approach, which has many advantages such as simplicity and reduced reporting burden for insurers. Therefore, the LIAJ supports the enterprise approach.
Q7. Do you agree with the proposal to include capital instruments in the CPA and EA metrics calculations as described in this section? If not, please provide rationale and alternative suggestions.	・The capital instruments described in the public consultation document are all cashflow elements and should not be included in the EA, which is a balance sheet based indicator.
Q8. Do you prefer the detailed method for inclusion of capital instruments in the ILR calculation as described in this section? If not, please provide rationale.	・The capital instruments described in the public consultation document are all cashflow elements and should not be included in the EA, which is a balance sheet based indicator. ・If the detailed method is adopted, maximum care should be taken not to impose excessive burden on insurers in terms of additional data collection and calculation related to ILR, given that liquidity indicators

	are ancillary indicators in the GME process.
Q9. Do you agree with the above described CPA to calculate the baseline cash flow projection, to apply the liquidity stress test and then to evaluate its impact and potential application of haircuts on assets? If not, please explain and provide suggestions.	・Given that liquidity indicators are "an ancillary indicator in the context of the IIM", maximum care should be taken to avoid imposing excessive burden on insurers in terms of additional data collection and calculation related to the CPA. ・In the public consultation document, the description of the CPA (pp. 17-26) does not clearly state the specific calculation method, which makes it impossible to effectively answer the IAIS' questions on the CPA from the perspective of insurers. ・Therefore, when the specifications of the CPA-related data and specific calculation methods for the GME data collection become clearer, the LIAJ requests an opportunity for stakeholders to express their opinions, such as by holding a new round of consultations with the specifications clearly stated.
Q10. Do you agree with the proposal to perform the CPA at the holding company level? If not, please explain and provide suggestions.	・We do not agree. ・In the public consultation document, the description of the CPA (pp.17-26) does not clearly state the specific calculation method, which makes it impossible to effectively answer the IAIS' questions on the CPA from the perspective of insurers. ・Therefore, when the specifications of the CPA-related data and specific calculation methods for the GME data collection become clearer, the LIAJ requests an opportunity for stakeholders to express their opinions, such as by holding a new round of consultations with the specifications clearly stated.
Q13. Do you prefer to collect and analyse only high-level cash flow projections, ie. aggregate cash inflows and outflows of the three categories mentioned above? If yes, provide your clarification.	・It should be limited to high-level cash flow projections for the total of cash inflows and outflows of the three categories: operating, investing and financing. ・As stated in Q9, given the nature of liquidity metrics as an ancillary indicator, excessive burden on insurers should not be imposed. Based on the details provided by the IAIS at this time, the data collection and analysis of underlying cash inflows and outflows in Q14 would impose excessive burden on insurers.
Q14. Do you prefer to collect and analyse the underlying cash inflows and outflows as listed in Annex 2? Note that this option provides more accuracy at the cost of a higher reporting	・Based on the details provided by the IAIS at this time, it should be noted that the development of the metrics should not impose excessive burden on insurers. Therefore, we disagree with the implementation of data collection and analysis of underlying cash inflows and outflows, as they would impose excessive burden on insurers.

burden. If yes, explain your reasoning.	・There are two methods of preparing operating cash flows in the consolidated cash flow statement: (1) the direct method (whereby major classes of gross cash receipts and gross cash payments are disclosed) and (2) the indirect method (whereby profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows). While IFRS recommends the adoption of the direct method, Japanese GAAP treats the direct method and the indirect method as equals. Because of the preparation burden of the direct method, the indirect method is widely adopted in Japan. ・The data collection and analysis of underlying cash inflows and outflows are similar to the direct method since it is necessary to understand cash flows by major activities. As mentioned above, the indirect method is widely adopted because of the relatively lower practical burden, but when the data collection and analysis of underlying cash inflows and outflows are required, we need to conduct the data collection and analysis in a different framework from the existing one, which is considered to impose excessive practical burden. In addition, it would be contrary to the purpose of accepting the indirect method in practice. ・Therefore, we disagree with the implementation of the data collection and analysis of underlying cash inflows and outflows.
Q15. Do you have any suggestions for changes or additions to the inflows and outflows as listed in Annex 2?	・Based on the details provided by the IAIS at this time, we have no additional suggestions or changes. Please refer to Q14 for the reasons. ・If the data collection and analysis of underlying cash inflows and outflows are to be implemented, the metrics should be based on cash flows presented by using the indirect method, at least for operating cash flows, taking into account the practical burden on insurers. ・We would like to confirm the two points below regarding Annex 2 (pp.69-70): - Whether "Dividends from subsidiaries" and "Dividends to Parent" included in "Cash inflows" and "Cash outflows" should be treated as cash inflows and outflows associated with dividends among non-consolidated subsidiaries for accounting purposes (dividends among consolidated subsidiaries are not recorded in the cash flow statements). - Is it just a typographical error that "Financing inflows" and "Financing outflows" include two "Other

	Flows" each?
Q16. Do you agree with the proposed main types of cash outflows as specified in this section? If not, please provide clarification and suggestions for other outflows that should be considered.	・We do not agree. ・As with Q14, many Japanese companies prepare their cash flow statements using the indirect method, making it difficult to collect and analyse "Operating outflows" as described in Annex 2 (p. 70). ・As an alternative, collection and analysis using the figures in the income statement can be considered.
Q17. Do you agree with the three proposed time horizons (30 days, 90 days and 1- year) for the CPA? If not, please explain and provide your suggestions.	・We do not agree. ・For the CPA, which is based on the cash flows of insurers, the practical burden of having three time horizons is significant. Furthermore, it is practically difficult to collect cash flow data for 30 days or 90 days.
Q19. Do you think the operating section of the cash flow statement should be stressed in the LST? Would you add or subtract certain operating cash inflows or outflows as listed in Annex 2?	(1) Regarding whether there is any need to be stressed or not ・As noted in the public consultation document, unlike investment cash flow, operating cash flow remains stable even during financial crises. Therefore, operating cash flow should not be subject to stress under the LST (operating cash flow under stress should be managed under a different concept and indicator from liquidity indicators). (2) Additional or excluded items ・It is difficult to consider specific additions or exclusions at this stage when no specific calculation method for the CPA has been presented.
Q20. Do you think the financing section of the cash flow statement should be stressed in the LST? Would you add or subtract certain financing cash inflows or outflows as listed in Annex 2?	(1) Regarding whether there is any need to be stressed or not ・As with operating cash flow, financial cash flow is an item that remains stable even during financial crises, so there is basically no need to place it under stress. (2) Additional or excluded items ・It is difficult to consider specific additional or excluded items at this stage when no specific calculation method for the CPA has been presented.

Q21. Do you agree with the selected adverse liquidity stress scenario? If not, provide clarification.	・Since there is no mention of specific calculation methods, the LIAJ cannot comment on the question effectively (for example, should changes in the persistency rate due to changes in the unemployment rate be incorporated, and if so, what kind of correlation should the assumption be based on?). In particular, since the scenario for the adverse parameters for cash outflows related to insurance liabilities has not yet been determined, we request the IAIS to provide another opportunity to stakeholders to comment on this matter when calculation methods are defined. ・The stress scenario mentions "Underwriting and reserving", but there is no specific description of what these are, so we request clarification on this matter as well as the reasons why they involve liquidity risk. ・The "reserving" mentioned in the stress scenario is assumed to be a policy reserve, a claims reserve, a valuation reserve, etc. in Japan. However, we believe that since these reserves are funded from the current fiscal year's income from an accounting perspective and there is no need to collect cash, the need for reserves and their funding should not affect cash flows (liquidity). ・In addition, if stress scenarios for analysis are provided by the IAIS, we would like to be provided with models and calculation tools in order to incorporate the scenarios into cash flows.
Q22. Do you want to propose a different liquidity stress scenario? If yes, provide its detailed parameters.	・The LIAJ cannot comment on the question at this time since the current public consultation document does not provide details on how to apply the stress scenario. ・The LIAJ requests the IAIS to provide another opportunity to stakeholders to comment on this matter when the unclear points are clarified.
Q23. Do you agree with the proposed adverse GDP and market parameters? If not, provide clarification and suggestions.	・The LIAJ cannot comment on the question at this time since the current public consultation document does not provide details on how to calculate the indicators utilising the parameters. ・The LIAJ requests the IAIS to provide another opportunity to stakeholders to comment on this matter when the unclear points are clarified. However, we believe that it is inappropriate to apply the parameters uniformly to every jurisdiction with different economic conditions.
Q24. Do you agree that CPA adverse scenario should contain adverse parameters related to insurance liabilities? If yes, do you have any suggestions for adverse parameters for cash outflows related to insurance liabilities?	・The LIAJ cannot comment on the question at this time since the current public consultation document does not provide details on how to calculate the indicators utilising the parameters. ・The LIAJ requests the IAIS to provide another opportunity to stakeholders to comment on this matter when the unclear points are clarified.

	・In addition, as with the EA, if it is necessary to divide the calculation into certain segments, such as the surrender cash value for each economic penalty, there is a high possibility that detailed data cannot be obtained or that obtaining the data would lead to excessive burden (while it is possible to some extent to analyse data on the surrender cash value based on the balance sheet, it is very difficult to analyse the payment of the surrender cash value based on cash flow).
Q25. Do you want to add other variables and parameters into the adverse liquidity stress scenario? If yes, provide suggestions.	・The LIAJ cannot comment on the question at this time since the current public consultation document does not provide details on how to calculate the indicators utilising the parameters. ・The LIAJ requests the IAIS to provide another opportunity to stakeholders to comment on this matter when the unclear points are clarified.
Q26. Do you prefer to have several targeted stressed scenarios/projections (in comparison to the currently proposed one combined adverse scenario)?	・In order to measure liquidity risk under adverse conditions, it is not necessary to have several scenarios, as we believe that only the worst possible scenario should be analysed.
Q27. Do you believe the selected adverse liquidity scenario is relevant to the countries you operate in? If not, what would be the relevant stresses for the countries you operate in?	・The LIAJ cannot comment on the question at this time since the current public consultation document does not provide details on how to apply the stress scenario and calculation method/rationale for insurance liabilities. ・The LIAJ requests the IAIS to provide another opportunity to stakeholders to comment on this matter when the unclear points are clarified.
Q29.Do you agree with the consideration of differences in liquidity profiles of life insurers, non-life insurers and reinsurers in the ILR liquidity needs factors? If not, please explain and provide your suggestions.	・We agree since we believe that it is reasonable to consider the differences in the characteristics of different types of businesses. ・We hope that the IAIS will continue to consider this issue, taking into account the characteristics of different types of businesses.
Q30. Do you agree with the use of two time horizons for the EA: 1-year and 3-month time horizons? If not, please explain and provide your suggestions.	・We agree since the supplementary 3-month time horizon for the EA and managing liquidity risk on multiple time horizons (1-year and 3-month) are reasonable for insurers to manage liquidity risk. ・The public consultation document states that "the 3-month time horizon may better suit the circumstances of non-life insurers (whereas the 1-year time horizon fits the situation of life insurers)", but we would like to confirm whether the multiple time horizons (1-year and 3-month) apply to both life and non-life insurers.

Q32. Do you agree with the proposed approach to financials? If not, please explain and provide your suggestions.	・We welcome the inclusion of financial instruments issued by other financial institutions as liquidity sources.
Q33. Do you agree with the proposed approach to investment funds? If not, please explain and provide your suggestions.	・We welcome the inclusion of financial instruments issued by some investment funds, such as MMFs and ETFs, and other financial institutions as liquidity sources in the public consultation document. ・However, we cannot judge the appropriateness of the factors as the rationale for setting them is not provided. In general, the stickiness of insurance liabilities is higher than that of bank deposits. As developing an excessively conservative set of metrics would become an impediment to a life insurer's asset management from a long-term perspective, we propose the haircut ratio applied to the insurance sector be less stricter than the banking sector (as with Q34-40).
Q34. Do you agree with the proposed factors for sovereign/PSE/GSE debt instruments? If not, please explain and provide your suggestions.	・We welcome the inclusion of sovereign bonds with a rating of BBB- or higher as liquidity sources.
Q36. Do you agree with the proposed factors for financial corporate debt instruments? If not, please explain and provide your suggestions.	・We welcome the inclusion of investment grade corporate bonds issued by financial institutions as liquidity sources in the public consultation document. ・We ask the IAIS to continue to listen carefully to the views of the industry and to ensure that the liquidity metrics are in line with the actual conditions of the market and insurers.
Q37. Do you agree with the proposed factors for common equity (both financials and non-financials)? If not, please explain and provide your suggestions.	・We welcome the inclusion of common stocks (including financial institutions) as liquidity sources in the public consultation document. ・We ask the IAIS to continue to listen carefully to the views of the industry and to ensure that the liquidity metrics are in line with the actual conditions of the market and insurers.
Q38 Do you agree with the proposed factors for selected liquid investment funds? If not, please explain and provide your suggestions.	・We do not agree with the proposed factors since they are excessively conservatively defined compared to other liquidity sources. ・The BCBS' LCR, which is used as a reference by the ILR, has a wide range of factors for investment funds, from 0% to 70%, but the rationale for setting the factors for mutual funds and MMFs at 20% for a 1-year period, 15% for 3-month period, and 15% and 10% for ETFs is unclear and the reason behind this should be provided.

	・In the public consultation document, there is a description of ETFs as "liquid with slightly lower liquidity than mutual or MMFs", and the haircut ratio is set conservatively, but we would like to see the rationale for the assessment of liquidity and the setting of the haircut ratio. Since ETFs are traded in the market in the same way as common equity issued by financial institutions (9.5.6.F), and investment funds have high liquidity, we believe that the factors for ETFs should be set at least at the same level as common equity issued by financial institutions (9.5.6.F). ・In addition, we would like to see a more detailed definition of the funds to be included (e.g., whether only funds that can be redeemed on a daily basis or funds that can be redeemed within a certain period should be included).
Q40 Do you agree with the proposed factors for certificates of deposit and undrawn committed lines? If not, please explain and provide your suggestions.	・We welcome the inclusion of undrawn committed lines as liquidity sources. ・In countries and jurisdictions where committed line contracts are normally enforced, haircuts should not be set since as long as the committed line is secured in advance, it is possible to raise funds from the undrawn amount without any particular restrictions. Even if haircuts were to be set, both 3-month and 1-year haircuts are considered to be excessively conservative, and it would be more appropriate to set the haircuts at least equal to or higher than those for high quality bonds (sovereign bonds which have ratings of A- or higher).
Q43. Do you prefer to conduct a detailed recalibration of factors for surrender values based on historical surrender rates of participating insurers? Such a recalibration would be a substantial reporting burden.	・In the previous round of consultations (Phase 1), the LIAJ explained the surrender rates in the Japanese life insurance sector during an event of crisis based on specific and clear data, but no reconsideration of the ILR factors (as indicated in Tables 7 & 8) has been made. ・We strongly request to the IAIS that the ILR factors table to be reconsidered, taking into account the characteristics of each market, and that the document should clearly state and take into account the diverse characteristics of each jurisdiction and market when considering the liquidity of insurers' liabilities in actual supervision, and not just simply relying on the ILR factors matrix per se. ・The following is a reiteration of the comments made by the LIAJ on the liquidity assessment of insurers' liabilities in the previous round of consultations (phase 1). ➢ The liquidity assessment of insurance liabilities is based on economic penalty and time restraint metrics (Tables 7 and 8). However, this is too simplified. It should be comprehensively assessed based on a

	wide range of perspectives such as the purpose of the insurance policy, the existence of an actual economic penalty for policies with high assumed interest rates, the characteristics of insurance types and the existence of insurance policyholder protection schemes. ➢ We propose the following three perspectives in particular for consideration. ➢ i. Regarding the factor level, it should be considered that our actual surrender rate is much lower than 50% (for individual insurance). — In Japan, the highest mass surrender rate in the past was 25% (Toho Mutual Life Insurance Company's 1997 decrease ratio of individual insurance and annuity), which was far below 50%. — As demonstrated in the IAIS' ICS data collection, Japanese life insurance sector's surrender rate is stable and the 50% level is very atypical from reality. ➢ ii. Insurers run their business based on the characteristic of their national markets so the metrics should consider that reality. Specifically, we would like to propose that there should be a difference in factors between protection-based products and savings-based products, as well as the surrender penalty being market value based. For surrender penalty, since data related to "Row 33.A.5 disincentive" have been submitted in G-SIIs Data Collection Exercise, we would like to propose that these factors are reflected. —The consultation document states economic penalty is only the surrender penalty. However, the scale of economic loss, which is beyond the loss from the surrender penalty should be considered. In Japan, the economic loss of surrendering a high yielding product is large when comparing the past high yielding products (approximately 5%) to the current assumed interest rate (approximately 1%). —For protection-based products, it is less likely to be surrendered because the protection will be lost when cancelled. ➢ iii. For the time restraints of Japanese insurance policy surrender, we understand that it is possible to categorize it for three months or more during an event of crisis. For this consultation, only the surrender results during normal times are considered. However, we understand that liquidity metrics consider insurers' situation during a crisis; therefore, time restraints for surrenders should also consider situations during a crisis. —As for Japanese surrender results, time restraints are considered low (less than a week). But the reason is because of the early payment of normal times since if the payment of cash surrender value

	is not made by a certain time, the insurance company is required to pay overdue interest. On the other hand, since this payment period is not guaranteed to customers and if a lack of capital occurs, it is possible to extend the payment period after paying the overdue interest based on the policy's terms and conditions. Therefore, we propose the cash surrender value and overdue interest be considered as liquidity needs in terms of liquidity risk management, and the time restraints during an event of crisis to make it possible to categorize it for three months or more. －As for corporate policy, even if it historically experienced a short payment period after receiving the claim, the administrative process will occur by practice. Even if the surrender period is agreed to beforehand with the policyholder, the actual time restraints is generally longer than a week.
Q44. Do you agree with the proposed 3-month time horizon factors? If not, provide your explanation and suggestions.	・While we believe that it is reasonable to set the 3-month time horizon factors to be lower than the 1-year time horizon factors, the level of the factors for surrender values as mentioned in Q43 should be evaluated based on a wide range of perspectives, including the purpose of the insurance policy, the existence of an actual economic penalty for policies with high assumed interest rates, the characteristics of insurance types, and the existence of insurance policyholder protection schemes. ・In addition to the above, a holistic evaluation should also be made based on specific examples and past experience of surrender results in each country, such as the surrender rates in Japan illustrated in Q43.
Q46 Do you agree that life premiums, claims and expenses are currently not included in the ILR? If not, please provide clarification.	・We agree.
Q47. Do you agree with the proposed factors for reserving risk? If not, please explain and provide your suggestions.	・We do not agree. ・First, we would like to confirm the details of "reserving risk". ・We believe that liquidity needs will not arise if "under-reserving" is interpreted as follows. (1) If "under-reserving" refers to a situation where liabilities exceed assets (i.e., asset deficiency), reduced dividends and other measures could be considered, but these would not give rise to liquidity needs. (2) If "under-reserving" refers to a situation in which policy reserves are increased through revaluation, no liquidity needs arise because no cash is required to increase reserves. ・On the other hand, based on the statement in 3.1.1 of the public consultation, if reserving risk is interpreted as " their reserves are insufficient to cover the claims", this risk can be interpreted as a risk to which the

	non-life insurance business model is particularly exposed. In the case of this interpretation, the non-life insurance business model has a relatively short policy period, and it is conceivable that the risk could materialize during the 3-month or 1-year periods, which are subject to liquidity risk, so the implementation of the reserving risk is reasonable. ・However, since the life insurance business model has a longer policy period than the non-life insurance business model, the reserving scheme is conservatively set up to ensure payment over a long period of time, and the reserve level for insurance payments is more stable than that of non-life insurance. Therefore, the possibility of the risk materializing for short-term claims payments, which are subject to liquidity risk, is significantly lower, and therefore, we disagree with the application of this risk to life insurance. ・In the case of Japan, for example, there was no problem with the payment of insurance claims when the Great East Japan Earthquake occurred in 2011. ・In case if this risk were to be implemented, which is contrary to the LIAJ’s opinion, we propose the following changes to the statement. (1) As mentioned above, we strongly disagree with making this a risk exposure for life insurers. We propose changing the exposure of reserving risk, “Total net technical provision” to “Sum at Risk” and a reasonable inclusion rate should be used. Compared to P&C insurance, where the scope of reserves falls within the period of coverage, majority of life insurers reserve is beyond the subject period. (2) If the exposure is "Flat charge (on net provisions) for potential sudden liquidity needs related to under-reserving (Rows 69.1 and 69.2)", the factors should be changed to reflect the difference in reserve levels of insurance payments (i.e., the changes in factors for life insurers should be significantly lower than the factors for non-life insurers). (3) Reserving risk and the risk specified in "3.3.2.1 Liability Surrender" do not arise simultaneously since the reserving risk is expected to decrease if mass surrender occurs, and a simple aggregation of the risks would be excessively conservative, so a reasonable correlating factor reflecting the negative correlation should be introduced.

Q55. Do you agree with the inclusion of derivative assets into the ILR Liquidity Sources? If not, please explain and provide your clarification. If yes, provide your suggestions on factors for such derivative assets.	・We agree with the inclusion of derivative assets into the ILR Liquidity Sources. However, as the statement in the public consultation document does not clearly specify the types of derivative assets to be included in the liquidity sources, we ask the IAIS to clearly specify them. ・On the other hand, we do not agree with the inclusion of derivative liabilities into the ILR Liquidity Sources. If they are to be included, we propose that only derivatives to be settled within the next fiscal year be included as liquidity needs. ・In general, derivative liabilities held by life insurers have long settlement periods (not one year, but several years or even 10 years) so there are many that do not become liquidity needs. Therefore, it should be limited to derivatives that are to be settled within the next fiscal year.
Q56. Do you agree with the current IAIS proposal to include only cash collateral into the Eligible Cash Variation Margin? If not, provide your comments and suggestions.	・We do not agree. ・As long as securities are recognized as liquidity sources, the collateral used for these securities should also be included in the valuation as well.
Q57. Do you agree with the 3-month time horizon ILR treatment of and factors for derivatives? If not, provide your comments and suggestions.	・We agree with the factors for derivatives with the 3-month time horizon are lower than that of derivatives with 1-year time horizon. ・However, we do not agree that the exposure should be for all derivative liabilities. ・Therefore, we propose that only derivatives to be settled within the next fiscal year be included as liquidity needs. ・This is because the public consultation document is concerned with the liquidity needs for the next fiscal year's settlement. On the other hand, in general, derivative liabilities held by life insurers have long settlement periods (not one year, but several years or even 10 years) so there are many that do not become liquidity needs.
Q59. Do you agree with the proposed approach to securities lending transactions and repurchase agreements including the factors? If not, provide your comments and suggestions.	・We do not agree. ・Assets that were transferred to counterparties through repo trading and lending transactions are illiquid. In addition, those liabilities secured by those assets are considered to have the same grace period as the repo trading and lending transaction. Therefore, those assets should be excluded from liquidity sources and those liabilities should be excluded from liquidity needs. ・In Japanese accounting practices, securities lending is an off-balance sheet settled item for both assets

	and liabilities. ・We understand that Table 2 does not include off-balance sheet assets as well as collateral assets with disposition rights. Is our understanding correct that since the scope is within the general and special accounts, off-balance sheet liabilities are not included although liquidity needs are stated in Table 8 and Row 43.4 as “Gross fair value of recognised and non-recognised securities lending liabilities”? If this is not included as liquidity needs, it is consistent since the off-balance sheet assets and liabilities are not included as liquidity sources and liquidity needs and they are approximately the same amount. ・On the other hand, if this is not included as liquidity sources but is included as liquidity needs (Row 43.4), then it is not consistent so we propose that off-balance sheet liabilities be deleted from liquidity needs.
Q61. Do you agree with the proposed factors for operational and cyber risk? If not, please explain and suggest an alternative treatment.	・We do not agree. ・Cyber and operational risks should be managed separately from liquidity risk in the first place, and the rationale for calculating liquidity needs at 5% of the gross premiums written is not clear. If cyber and operational risks are to be included as liquidity risk, the IAIS should provide a rationale for the calculation based on specific examples from the past, such as the occurrence of liquidity needs related to natural disasters, man-made disasters, and cyber incidents involving insurers or financial institutions.