IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

Resolutions to Public Consultation Comments on Application Paper on Liquidity Risk Management

19-Nov-19 to 21-Jan-20

IAIS

Organisation	Jurisdiction	Confidential	Answer	Resolution of comments
Q1 General Comment on Application Paper on Liquidity Risk Management				
1. Canadian Institute of Actuaries	Canada	No	This paper is a very useful addition to understanding the need for liquidity management by insurance companies. We commend the work that has been done on this subject.	Comment noted.
2. Insurance Europe	Europe	No	European insurers fully understand the importance of appropriate liquidity risk management in ensuring the safety and soundness of firms, policyholder protection and financial stability. Insurance Europe supports efforts to improve the qualitative management and reporting of liquidity risk, and efforts to leverage existing micro-prudential tools. The following comments therefore clarify the characteristics of the insurance business model in that context: - By nature, insurance companies can play a counter-cyclical role in financial downturns. - In fact, liquidity risks played a very limited role in the European insurance industry as a whole during one of the largest financial crises in modern financial history . A reference to Europe's historical experience in this context would therefore be useful and relevant. - In order to appropriately reflect the insurance business model, all sources of liquidity flows should be well understood and recognised. The paper correctly notes that in addition to the liquidity of certain assets, insurers can typically rely on a range of sources of liquidity including premiums, income from investments, as well as other sources. These include, for example, maturing debt instruments, surplus capital above liabilities, emerging profits, reinsurance cover and bank lines, intragroup liquidity support and off-balance sheet liquidity sources. However, in the application paper, the focus is almost entirely on whether or not liquid liabilities are covered by	Comment noted.

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			illiquid assets and little mention is made of all these sources of liquidity. The IAIS should consider the essential role these additional sources can play in overall liquidity management. - In addition, an insurance liquidity framework should include a proportionality assessment of activities that could generate unpredictable liquidity needs at short notice (eg, overnight). - The insurance business model in itself is the reason why any concepts such as prescriptive liquidity buckets and/or ratios would make no sense. Insurance Europe believes it is key that the IAIS avoids any such banking-like measures, even for the sake of exemplifying. In addition, the application paper should more appropriately reflect the scope of application of liquidity risk requirements, proportionality and a balanced level of prescriptiveness. Specifically: - Regarding the scope of application and proportionality: -- A large part of the requirements in the IAIS holistic framework only apply to insurers with unique liquidity risk profiles and to internationally active insurance groups (IAIGs). The application paper should recognise the structure of the holistic framework regarding liquidity risk and should further emphasise proportionality as an overarching principle. Specifically: --- Basic liquidity risk management requirements according to insurance core principle (ICP) 16.8 for the majority of insurers with traditional business models. --- More detailed liquidity risk management according to ICP 16.9 for unique liquidity risk profiles. --- Additional group liquidity risk management requirements for IAIGs according to CF 16.9 (a-d).	

			--- To further emphasise proportionality, Insurance Europe believes that existing liquidity management according to ICP 16.8 is generally sufficient, given the limited liquidity risk faced by traditional insurers. Whether it is necessary to apply more detailed liquidity risk management according to ICP 16.9 and CF 16.9 (a-d) should be assessed on a case-by-case basis and on the ground of a proportionality assessment, which should consider not only size, but also nature of the business. -- The liquidity management framework should be flexible enough to adapt to each insurer's business model and risk profile. For insurance groups, it should be up to the companies to determine at which level (group, sub-group or legal entity) it makes more sense to apply each part of the liquidity framework. It should be made clear that several requirements like stress testing or certain reporting requirements only make sense at group level and should only be required in case the liquidity management of a group relies on the transfer of liquidity between entities or if a central liquidity pooling is in place. In general, the paper reads as if a central liquidity pooling and management is assumed, and this should be avoided. - Regarding the illustrative nature of the paper: -- There are a number of sections in the paper which are too prescriptive. Language such as "the insurers should" is inappropriate for an application paper that is intended to provide examples and case studies to help the practical implementation of the standards that are set out in the ICPs. -- Too prescriptive an approach is currently outlined in respect of eligible assets that can be included in the liquidity portfolio (eg, the ban on instruments issued by financial institutions is highly constraining) as well as liquidity time horizons (this needs to be specific to the insurer's business model). -- The final version of the application paper should set the proper tone, in line with its role. -- The paper does incorporate a good amount of sound practices and in many places	

			the provisions align with the policies and practices that relevant European insurance companies have already adopted. However, it is too prescriptive in certain aspects and, more broadly, requires some changes.	
3. Institute of International Finance	Global	No	The IAIS notes in the Introduction to the Draft Application Paper that, consistent with longstanding practice, the purpose of the Paper is to provide further guidance to supervisors in their application of the standards in the Insurance Core Principles (ICPs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame), particularly ICP standards 16.8 and 16.9 and ComFrame 16.9.a - 16.9.d., by providing additional detail on that supervisory material and suggesting examples of good practice. We have noted in this comment letter a number of instances where the Draft Application Paper diverges from the IAIS' stated purpose and approach through its inclusion of unnecessarily prescriptive recommendations, which we believe could have negative macroprudential repercussions. While microprudential supervisory tools can be helpful in addressing macroprudential concerns, caution needs to be taken in the selection and use of those tools to avoid unintended consequences. We believe that the avoidance of prescriptive recommendations in favor of a more flexible and proportionate approach would better recognize the varying nature of liquidity risk across companies and jurisdictions, differences in corporate structure and the degree of centralization of liquidity risk management. For example, Paragraph 52 would exclude from the liquidity portfolio instruments other than demand deposits issued by other financial institutions. We believe that the blanket exclusion of these instruments could contribute to system-wide liquidity pressures, incent insurers to assume larger single-name non-financial exposures (which may be riskier holdings particularly in an economic downturn), and possibly incent hoarding behaviors if there are supply-side pressures on alternative instruments. We would caution against the adoption of prescriptive or "hard-wired" liquidity metrics or restrictions on the types of assets that may be included in a liquidity portfolio, as these could have negative macroprudential ramifications (e.g. hoarding) and could give rise to inappropriate incentives for insurers (e.g. asset concentrations). The Draft Application Paper should better acknowledge that the design of a	Comment noted.

			company's liquidity risk management and governance framework is the responsibility of the insurer's senior management, with direction from the board of directors as to the company's risk appetite (as reflected in Paragraph 25). The design of liquidity stress tests, the composition of a company's liquid assets, and the range of options in a contingency funding plan are the responsibility of senior management, with oversight from the board of directors and consistent with the board-established risk appetite. The language of Paragraph 22 better reflects this division of responsibilities, as well as a proportional approach, than does the language of Paragraph 14. Accordingly, we would suggest the substitution of Paragraph 22 for Paragraph 14 and the deletion of Paragraph 14. With respect to reporting, supervisors should consider whether and to what extent information on liquidity risk and liquidity risk management is available in existing data and reports before issuing new requirements. This point is appropriately acknowledged in Paragraph 81, which recognizes that elements of an insurer's liquidity risk management may be incorporated in a variety of materials based on senior management's judgment or the corporate structure. This emphasis on substance over form should be more consistently acknowledged throughout the Draft Application Paper. More broadly, the Draft Application Paper should clarify how the guidance to supervisors contained therein forms is intended to support the Holistic Framework for Systemic Risk in the Insurance Sector (Holistic Framework), including the Global Monitoring Exercise, ICP 24 and relevant provisions of ComFrame. Paragraph 12 of the Holistic Framework discusses the key elements of the Framework, but it is not clear how each of those elements relates to the other elements and how the elements, individually and collectively, should be implemented by supervisors.	
4. The Geneva Association	International	No	Dear Vicky, Jonathan and Alberto Thank you for the opportunity to provide comments on the draft Application Paper on liquidity risk management (the "Application Paper"). This Application Paper will form part of the Holistic Framework for Systemic Risk. As you know, The Geneva Association ("GA") has, in broad terms, been supportive of the Holistic Framework	Comment noted.

			and agrees with the importance of robust liquidity risk management. As such, we welcome the draft Application Paper as an important element of the framework. However, we would like to highlight several issues, which are of concern to the GA membership. We are available to provide further clarity on these issues, if needed, and look forward to our continued cooperation with you on the implementation for the Holistic Framework to Systemic Risk more generally. We have forwarded our comments through the template tool provided by the IAIS, however, we also enclose them in the form of this letter. We remain broadly supportive of the IAIS initiative to establish a Holistic Framework to Systemic Risk and, hence, to the development of an Application Paper on the important issue of liquidity risk management. However, we have some concerns with the messaging in the draft Application Paper, which we hope will be addressed by the IAIS before its finalization. In general, the draft Application Paper is overly prescriptive. In several areas, it appears to be more prescriptive than the ICPs, such as in the exclusion of liquidity facilities, specifically limiting asset categories generating liquidity, coupon-paying assets and unclear regulatory reporting requirements. An overly prescriptive approach to liquidity allocation (e.g., disallowing certain reasonably-liquid assets, irrespective of price or haircut) could inadvertently result in both herding and hoarding. If insurers herd into the same narrow bucket of instruments, the correlations across these instruments could in turn increase (effectively reducing the diversity of liquid resources), while also exacerbating "fire sale" risks for instruments that are deemed ineligible. Hoarding could result from expectations that insurers must satisfy static, hard-wired liquidity thresholds, if they respond by either selling or not investing in (and thereby impairing the liquidity of) instruments that are not recognized as liquid assets within a given time horizon. The high degree of prescriptiveness could also inadvertently result in errors of	

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			omission, to the extent that existing or future forms of high-quality liquid assets are not explicitly delineated in the draft Application Paper. Within the draft Application Paper, a clearer positioning of how the micro-prudential nature of liquidity risk management fits within the overall holistic framework for systemic risk in the insurance sector, as set out in paragraphs 12 and 48 of the holistic framework document (November 2019), is needed. This is required to help avoid confusion over its intended scope, and disproportionate application of the ICPs that might lead to: - Unintended macro-prudential consequences; and - Overlap and/or duplication of controls that already exist as part of financial firm's enterprise risk management For example, disproportionate restrictions of assets, such as corporate debt securities of financial institutions as indicated in paragraph 49 could inappropriately incentivise investment into lower grade, higher yield and higher risk assets classes. Also, the focus on counterparty exposure as indicated in paragraph 32 will be duplicative of other aspects of counterparty risk management under financial firm's existing enterprise risk management frameworks. In general, we believe an activities-based approach should be taken to ensure that measures are implemented in a proportionate manner recognising insurers differing liquidity risk profiles. The draft Application Paper tries to "enhance ERM" to address systemic risk. However, systemic risk should not be the focus of entity specific regulation. While it is, for example, reasonable to request companies to think about the feasibility of their assumed mitigation tools and validity of liquidity sources in stress situations - which should be part of prudent risk management anyway - it is inappropriate to preclude certain measures due a speculative potential impact on the financial system. The draft Application Paper appears to be somewhat influenced by considerations on liquidity risk management in the banking sector, where liquidity is a key risk driver.	

			Examples of banking inspired guidelines relate to, for instance, the reference to Liquidity Coverage Ratios and the rather asset-oriented approach to dealing with liquidity risk.	
5. The Life Insurance Association of Japan	Japan	No	General Comment The Life Insurance Association of Japan (hereafter the LIAJ) appreciates the opportunity to comment on the Application Paper (hereafter the Paper) on Liquidity Risk Management. However, the LIAJ respectfully asks the IAIS and participating supervisors to take into account by reconsidering the points in the Paper in which we believe still do not properly reflect the reality of life insurers' businesses and may be overly prescriptive in light of the actual businesses conducted by life insurers. There are descriptions in the Paper that seem to have referred to banking regulation. However, there is a need to thoroughly consider the various features of an insurer's liquidity risk being different from a bank's business model, such as stable inflow of cash generated through level premium payment or long-term nature. Therefore, we would like to ask for revisions as indicated in the following individual comments. While assuming that the purpose of the Paper is to "provide examples of good practice," we would like to ask the IAIS to take a proportional approach since there are certain jurisdictions where the majority of a life insurer's business may be subject to the proposed liquidity risk regulation.	Comment noted.
6. Aegon NV	The Netherlands	No	Aegon NV welcomes the opportunity to respond to the IAIS Public Consultation Document, Draft Application Paper on Liquidity Risk Management. Aegon's purpose is to help people achieve a lifetime of financial security. We fulfil this purpose by providing insurance protection, lifetime income, and other financial services products to customers across the globe. Based in the Netherlands, Aegon's largest operations are in the United States, where we operate under the Transamerica brand. Aegon also has significant	Comment noted.

			operations in Europe and Asia. We believe that the paper generally reflects sound liquidity management practices. In most places the provisions align with the policies and practices that our organization has adopted. We appreciate the acknowledgement that "liquidity risk is very much company and scenario specific" (paragraph 29), and we agree that it is appropriate for supervisors to "review an insurer's stress test design and results" (paragraph 18). At the same time, certain elements of the paper are unnecessarily restrictive or intrusive. Our most significant concern is that the paper seems to discredit contingent liquidity facilities in stress testing exercises. Not only does this deviate from the approach that many leading insurers–including Aegon–take in liquidity stress testing, it also fails to promote a regulatory incentive for insurers to have such arrangements. Other unnecessary restrictions include limitations in the liquidity portfolio, including encumbered assets, securities issued by financial institutions, and coupon paying assets. Generally speaking, these situations merit a more refined and nuanced analysis rather than the blanket prohibition the application paper proposes. To avoid unintended macroprudential consequences, we encourage the IAIS not to preclude reasonable and prudent liquidity management practices. In addition, the role of the supervisor is also described in an overbearing manner, as the paper appears to encourage supervisors to micromanage stress testing details and the construction of the portfolio of liquid assets, among other things. While supervisory review and oversight is appropriate, we caution against an intrusive supervisory approach in a highly technical area such as liquidity. With those caveats in mind, we nevertheless find the paper is likely to contribute positively to further improvements in the industry's liquidity risk management. We hope our comments will help further strengthen the paper.	

7. American Council of Life Insurers	U.S.	No	ACLI welcomes the Application Paper on Liquidity Risk Management and appreciates the opportunity to comment as well as the emphasis that regulators in many jurisdictions are placing on liquidity risk management. ACLI strongly supports the Holistic Framework and its success. While the Application Paper contains useful material, we do have some concerns and suggestions as to how the Application Paper might be improved. Our overarching concern is that it is overly prescriptive in a number of areas–especially given that, as the Application Paper correctly acknowledges, liquidity risk is very much company and scenario specific. We believe the objectives of the Application Paper and liquidity risk management could be better achieved through more principles-based suggestions and examples that emphasize substance--what insurers and supervisors should focus on and prioritize--over form. Below, we offer our specific areas of concern and elaborate with more detailed comments: - ACLI believes it is misguided to exclude or limit asset categories that typically generate liquidity (example - full principal of coupon-paying assets). - We believe the blanket restrictions to sell financial institution holdings, which can constitute a significant portion of investment-grade corporate bond indexes, would impose a harsh and unrealistically conservative haircut on firms' internal stress testing results. Over the long term, this counter-productive standard would incentivize insurers to assume larger single-name credit exposure in their non-financial corporate portfolios or to shrink their product offerings and balance sheets in response to lower profitability. - ACLI believes the guidance on liquidity buckets is overly prescriptive and that the table on page 15 is an inappropriate carry-over of a banking perspective of liquidity. - We believe it is overly conservative and prescriptive to suggest a blanket assumption that off-balance sheet sources of funding, such as lines of credit, are not available in a stress scenario. - Similarly, we also believe it is overly conservative and prescriptive to promote blanket assumptions that fungibility of assets within the group would cease under	Comment noted.

			stress or that material portions of reinsurance arrangements would be uncollectible. - ACLI objects to the prescriptive governance and reporting requirements. For example, we believe a Board of Directors should be given the autonomy to evaluate the nature of liquidity risk in its organization, determine its appropriate involvement, and delegate authority, as it sees fit, to subcommittees of the Board and/or management. In several places, the Application Paper dictates the Board's involvement, including what it must specifically approve, review and the form the liquidity reporting should take. We identify several areas where less prescriptive expectations in regulatory and internal reporting would be appropriate. There is also a clear tension between the granular suggested requirements for insurers and the proportionality and jurisdictional diversity principles in the Application Paper. The Application Paper's stated intention is to provide guidance for supervisors rather than to establish standards or expectations for the insurers' implementation of a liquidity risk management framework. Yet the paper outlines an abundance of practices the IAIS believes insurers should incorporate in order to have an adequate liquidity risk management framework. Some of the practices may be appropriate in some cases, depending on the risks presented, but they certainly are not appropriate for every insurer or group, regardless of size. ACLI believes that it is appropriate for supervisors to communicate with insurers about liquidity risk management and to ensure that appropriate processes are in place to protect policyholders. However, these processes will necessarily differ among insurers and also across jurisdictional boundaries. The Application Paper should recognize these realities and reinforce them throughout the paper. To the extent granularity remains in the final paper, it should be made clear that it is meant to illustrate what a supervisor may consider appropriate after a full consideration of the insurer's liquidity risk profile and its liquidity management framework. While we recognize the intent of the Application Paper is to provide additional guidance on relevant portions of the ICPs and ComFrame, which are in turn components of the Holistic Framework, the document does not sufficiently explain how the IAIS envisions microprudential liquidity risk management dovetailing with	

			macroprudential objectives. These objectives are seemingly intermingled at times in the Application Paper. ACLI is concerned this may lead to confusion, including between jurisdictional and group level expectations and may create the potential for duplicative or conflicting requirements. We understand micro and macro regulatory approaches are not divorced from one another and that sound micro regulatory oversight should contribute to better macro regulatory results. However, micro and macro are different constructs for the application of regulatory authority, and in some cases, macro objectives may conflict with micro objectives. It follows, then, that standard setters should articulate clearly whether a given regulatory tool or requirement serves a micro purpose, a macro purpose, or both, and maintain the two concepts as conceptually distinct and, when appropriate, practically separated. Finally, we believe jurisdictional flexibility and funding innovation are key concepts that support macro-level liquidity surveillance. The ultimate objectives of liquidity risk management in the context of the Holistic Framework are going to be best served by permitting a variety of funding sources--available and tailored to the individual liquidity risk profiles of individual companies and groups--supervised by a regulatory system that reflects local market and legal conditions.	
8. Association of British Insurers	United Kingdom	No	The Association of British Insurers (ABI) and its members understand the vital importance of liquidity risk management for the safety and soundness of firms, policyholder protection and financial stability. We therefore welcome the IAIS focus on liquidity risk. In particular we support efforts to improve the qualitative management and reporting of this risk and the leveraging of existing micro-prudential tools. We would ask the IAIS to consider rewording sections of this Application Paper that appears to encourage supervisors to take an overly prescriptive approach. Throughout the paper prescriptive language such as "the insurers should …' is used which is inappropriate for an Application Paper that is intended to provide examples and case studies to help the practical implementation of the standards as set out in the IAIS Insurance Core Principles (ICPs) and not develop new standards in and of itself. In general we would suggest that the language used in the draft Application Paper should be less prescriptive than the language used in the ICP guidance, which	Comment noted.

			is not currently demonstrated by this draft. Furthermore, insufficient prominence is given within the paper to consideration of the appropriateness of liquid assets in the context of the individual liquidity profile of an insurer's liabilities. Insurers' liabilities are generally not immediately callable in the same manner as bank deposits, but rather depend on the occurrence of contractual events. Given this, insurers are able to manage their liquidity needs according to when they are expected to fall due. This ability to plan for the largest part of their withdrawals means that a broader range of assets can be used for an insurer's liquidity needs, as acknowledged in part in section 4.2 of the draft Application Paper on the composition of an insurer's liquidity portfolio in discussing liquidity buckets. However, it should be for an insurer to determine the composition of its liquidity portfolio as part of its enterprise risk management and be able to demonstrate its appropriateness to its supervisor. It should not be the role of the supervisor to specify what assets an insurer may hold in its liquidity portfolio, and the guidance is inappropriately prescriptive in this respect.	
9. American Academy of Actuaries	United States	No	The American Academy of Actuaries' Solvency Committee appreciates the opportunity to comment on the Application Paper on Liquidity Risk Management. We acknowledge and congratulate the IAIS on their effort to compile guidance reflecting liquidity risk management best practices. Material legal entity is not defined but it should be noted that in some situations it would make sense to treat an internal quota-share pool in total as a "material legal entity". This would reflect a common situation for US property/casualty groups where such internal pools are common. We also have some suggestions on how this paper could be enhanced which are detailed in the balance of our submission.	Comment noted.
10. American Property	United States	No	APCIA appreciates the specific reference to proportionality in the Introduction to the paper. When applying the principle of proportionality, it is critical for supervisors to	Comment noted.

Casualty Insurance Association			consider the lines of insurance, types of activities, and business models for which liquidity has historically been an issue. Such discussion would be an important addition to this paper, particularly for property-casualty insurers. Property-casualty insurers have little liquidity risk because claims are payable only when due to claimants under the underlying insurance policy after investigation and, for liability claims, after settlement negotiations; claimants have no right to be paid on demand. Moreover, covered events triggering significant property-casualty insurance liabilities (e.g., hurricanes, wildfires, etc.) are rarely, if ever, correlated to risks in the broader financial system, with the resulting claims payments occurring over months, quarters, and for the largest events, years. It is also important to recognize that the cash flows of property-casualty insurers are not significantly impacted by macroprudential factors such as changes in interest rates and yield curves. Furthermore, any supervisory measures related to liquidity risk management must be appropriately tailored and flexible. In several instances throughout the paper, these measures would require companies to develop highly prescriptive and detailed plans. In practice, however, these plans would often not be executable as originally conceived since they are developed and tested in a non-stress environment. As a result, prescriptive and detailed action plans required to be followed in case of an emergency could cause unnecessary delay in a company's response. In addition, the paper provides limits on liquid asset categories that are unnecessarily prescriptive. Supervisory requirements related to asset allocations should be flexible enough to allow companies to hold safe and liquid assets for periods of stress. Similarly, the paper is overly focused on raising new sources of cash, rather than allowing companies the flexibility to evaluate its existing uses and sources of funds in order to raise its cash levels. With regard to stress testing, references throughout the paper seem to imply all insurers are required to conduct stress testing by supervisors. However, ICPs 16.2.24 and 16.9 make clear that supervisors should not automatically require insurers to perform stress testing. The application paper should merely provide interpretive guidance based on the ICPs, rather than going beyond those standards. Accordingly,	

			the paper should reflect the stress testing requirements in the ICPs and incorporate the principle of proportionality. Before requiring stress testing, a supervisor should consider factors such as the nature, scale and complexity of an insurer, its activities, business model and products.	
11. AIG	USA	No	American International Group, Inc. (AIG) appreciates the opportunity to offer comments on the "Application Paper on Liquidity Risk Management" Public Consultation Document dated November 19, 2019. We commend the decision by the International Association of Insurance Supervisors (IAIS) to adopt the Holistic Framework for the assessment and mitigation of systemic risk in the global insurance sector, whose implementation promises a more effective, efficient, and tailored approach to addressing systemic vulnerabilities. To this end, we believe that the efficacy of the Holistic Framework - and the corresponding decision to move away from entity-based designations - requires that its implementation be coherent and credible. We look forward to continuing engagement with both the IAIS and with our implementing jurisdictional authorities in the US to help ensure that the Holistic Framework will, in practice, achieve its public policy objectives. The Financial Stability Board (FSB) has appropriately recognized both the extent of post-crisis reforms, as well as the enhancements finalized in the Holistic Framework, by suspending the process for annually designating global systemically important insurers (G-SII). G-SII designations provided a crude stop-gap to addressing systemic risk in the aftermath of the financial crisis, but have in application proven to be opaque, unwieldy, and diversionary, by misallocating supervisory attention to only a handful of insurance groups without due consideration of either mitigating factors, nor of broader risk trends across the sector. A credibly-implemented Holistic Framework effectively remedies this shortcoming. We therefore look forward to engaging with regulatory authorities to build out, where relevant, tools for group-wide supervision and sectoral monitoring, as we work towards our shared goal of eliminating the G-SII designation process altogether upon	Comment noted.

			the FSB's review of the Holistic Framework's implementation in November 2022. AIG provides our comments on the Application Paper with our overarching support for the transition to the Holistic Framework, as well as for its emphasis on liquidity risk as the primary focal point for addressing potential systemic vulnerabilities. In this vein, the Application Paper emphasizes two important framing points that we strongly concur with: (i) insurer liquidity risk, in the normal course of business, is mitigated by structural factors (recurring inflow of premiums and investment income) and the discipline of asset-liability management (ALM); and (ii) liquidity risk management is distinct from - and a more relevant consideration than - group capital in mitigating the potential for shocks to amplify or accelerate across the financial system. These points imply that the purpose of the Application Paper is to support and reinforce well-established insurer liquidity management and ALM processes, and that the role of group capital standards (such as the insurance capital standard, or ICS) is limited as a macro-prudential tool. Overarching themes At a high level, we would emphasize the following themes as essential to the successful finalization and implementation of the Application Paper. Our more specific feedback on the individual paragraphs within the Application Paper are largely anchored in these themes: - Delineation between micro-prudential vs. macro-prudential objectives and tools: The IAIS has appropriately included micro-prudential standards for liquidity risk management within both the Insurance Core Principles (ICPs) and ComFrame, as liquidity management is an important component of an insurer's broader enterprise risk management and governance. That said, the primary purpose of the more detailed guidance laid out in this Application Paper, as well as the recently-adopted IAIS enhancements to the ICPs and ComFrame, is to achieve macro-prudential objectives for addressing and mitigating potential systemic risks.	

			While micro-prudential tools (aimed at the prudent management of individual firms) generally support and reinforce macro-prudential objectives, there are risks and potential unintended consequences of conflating the two concepts. The Application Paper, in certain respects, delves too deeply into firm-specific, micro-prudential considerations, which can distract from the overarching macro-prudential objective of identifying and mitigating potential adverse correlated behaviours across companies, such as "fire sale" risks. Indeed, under stress conditions, an individual company's effort to satisfy micro-prudential regulatory targets (e.g., maintaining liquidity thresholds) can exacerbate existing tendencies to hoard liquidity and, in turn, amplify systemic pressures. - Primacy of jurisdictional/tailored approaches vs. global consistency The IAIS Application Paper necessarily seeks to achieve a degree of consistency in how liquidity risk is managed across jurisdictions. A globally credible approach should enable local supervisors to trust the oversight provided by the group-wide supervisors and, in turn, obviate the need for potentially duplicative and overlapping standards applied at the entity-level. Additionally, as the financial crisis demonstrated, systemic risks can transmit across financial markets globally. Nevertheless, the Application Paper, in certain respects, provides such granular specificity on the design, implementation, and governance of liquidity management frameworks, that it could impose uniform assumptions that are not pertinent to local product attributes and markets. Uniformity could also stifle jurisdictional innovation and flexibility. As an example, the NAIC has made significant progress in developing a macro-prudential approach to liquidity stress testing, focused on potentially correlated asset sales under stress. We are concerned that the excessive granularity, and over-reliance on a micro-prudential approach, might distract from, or even conflict with, this initiative. Guidance should optimally promote sufficient consistency to promote cross-jurisdictional trust and to produce a coherent and integrated assessment of potential cross-border risks. However, the pursuit of consistency has resulted in a level of prescriptiveness that could impose a "one-size-fits-all" approach not suitable for the	

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			nuances of local markets, product attributes, and ALM practices. - Anchoring to an activities-based approach to systemic risk vs. an entity-based approach The essential innovation within the Holistic Framework is to focus on activities that might give rise to systemic vulnerabilities - whether these activities are evident across many institutions or are concentrated in a handful of individual companies. Therefore, the scope of application of the Holistic Framework - including the underlying policy measures - should be tailored to the relative intensity of (potential) systemically-risky activities at each entity. Put differently, we collectively need to channel our analytical resources on the most material potential risks. A core flaw of the entity-based G-SII framework is that it misallocated energy and resources on parts of a designated company that did not pose systemic risks, while largely ignoring potentially risky activities across the rest of the sector. In terms of the Application Paper, entities that do not engage in systemically-risky activities should be subject to proportionately less restrictive standards, provided that there is limited potential for risks to be transmitted across the group. As an example, entities engaged in property and casualty underwriting typically present limited liquidity risk, given their short-duration assets, recurring premium inflow, and the lag between the occurrence of an insured event and the ultimate claims pay-outs. - Ensuring the standards are coherent and instrumental to the goal of addressing potential systemic risk Finally, an important filter in assessing the appropriateness and relevance of the proposed guidance is whether (i) the elements of the guidance, in totality, provide a coherent approach, meaning that the underlying components work together in an integrated, coordinated, and complementary manner; and (ii) each element is instrumental to the overarching public policy goal of identifying and mitigating potential liquidity-driven systemic risks. While much of the proposed framework seems coherent and instrumental, we found	

			that certain aspects of the Application Paper could result in inconsistencies, tensions, or unintended consequences. For example, a stated goal is to promote diversity of funding; however, the Application Paper lays out highly prescriptive parameters for the definition of liquid assets, which could drive concentrated exposure to a sub-set of instruments deemed fit for inclusion. Likewise, defined liquidity ratios or prescribed metrics could lead to a hoarding of liquidity, which if applicable during stress conditions, could exacerbate "fire sale" risks. Another issue is that many of the implications of a given liquidity stress event (e.g., asset liquidity, liability liquidity, contingent funding, time horizons, management actions) are highly scenario-dependent. Therefore, blanket assumptions will not hold true across all potential scenarios. Put differently, stress testing is a tool for assessing sensitivities and varying market conditions, not a planning exercise for an expected future state of the world. To treat a stress scenario as an end unto itself creates an unhelpful form of anchoring bias. Finally, an important element of coherence is that the framework should address both asset and liability liquidity in an integrated and symmetric manner. We are concerned, however, that the IAIS proposal is primarily asset-focused, without sufficient consideration of the corresponding liabilities backing those assets. The potential liquidity of an asset under stress depends not only on its own contractual features and market sensitivities, but also on the characteristics of the associated liabilities in the context of an insurer's ALM.	
12. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Before finalizing, formatting and wording of the paper should be reviewed to ensure consistency with other IAIS material and style guides. In various parts of the paper, it needs to be clearer when the text is focusing on groups only versus all insurers. Some specific comments provided address this. Suggest reviewing the use of "any" and "all" as in some instances it may not be feasible or helpful to assess/review/consider/report/etc. any or all things. It may work	Comment noted.

			to simply delete these words in certain places without changing the intended meaning.	
Q2 Comment on Section 1: Introduction				
Q3 Comment on Paragraph 1				
13. Canadian Institute of Actuaries	Canada	No	This introductory paragraph notes that liquidity risk management is part of Enterprise Risk Management (ERM) in ICP 16.8 and 16.9. It also states that it is part of the holistic framework for systemic risk in the insurance sector. However, the paper concentrates on liquidity issues and gives the reader the impression that liquidity should be looked at in isolation from other risks. The paper should note that assumptions, reporting, governance, etc., should be consistent across all risk management functions, and not be developed in isolation for liquidity. This recommendation is mentioned in the detailed comments for applicable paragraphs. The purpose of application papers is to provide advice, illustrations, recommendations or examples of good practice to supervisors. We find that this paper demonstrates some degree of being overly prescriptive. Instead of recommending some alternative practices or giving examples of good practice, the paper seems to mandate a single set of rules for the requirements and exclusions in liquidity risk management for the supervisors. Emphasis on the precise details for insurance company practices may inappropriately restrict the liquidity risk management practices that are considered acceptable, which instead should be variable depending on the circumstances of particular companies or jurisdictions. It thus may discourage the use of judgement by supervisors.	The Application Paper on Liquidity Risk Management focuses on ICP standards 16.8 amd 16.9 and ComFrame 16.9.a – 16.9.d. Comment noted.
14. International Actuarial Association	International	No	This introductory paragraph notes that liquidity risk management is part of Enterprise Risk Management (ERM) in ICP 16.8 and 16.9. It also states that it is part of the holistic framework of assessing systemic risk in the insurance sector. However, the paper concentrates on liquidity issues and gives the reader the impression that liquidity should be looked at in isolation from other risks. The paper should note that assumptions, reporting, governance, etc. should be consistent across all risk	Please see previous answers.

			management functions, and not be developed in isolation for liquidity. This recommendation is mentioned in the detailed comments for applicable paragraphs. The purpose of application papers is to provide advice, illustrations, recommendations or examples of good practice to supervisors. The IAA find that this paper demonstrates some degree of being overly prescriptive. Instead of recommending some alternative practices or giving examples of good practice, the paper seems to mandate a single set of rules for the requirements and exclusions in liquidity risk management for the supervisors. Emphasis on the precise details for insurance company practices may inappropriately restrict the liquidity risk management practices which should be variable depending on the circumstances of particular companies or jurisdictions.	
15. General Insurance Association of Japan	Japan	No	An Insurer's liquidity risk management should be implemented according to the nature of its business models and products, among other considerations. In addition, the method by which the necessary risk management is undertaken at a sufficient level to meet the objective of "mitigating systemic risk" will differ from insurer to insurer. As liquidity risk in traditional insurance is not closely associated with systemic risk, this AP is too detailed for insurers and insurance groups that mostly deal with traditional insurance products. We would like to request that the proportionality principle be applied appropriately (as described in paragraph 13 and ICP16.9.3) to the various measures stated in the AP, so that they will not be exorbitant and excessive.	Comment noted. Please note section 1.4 Proportionality.
Q4 Comment on Paragraph 2				
16. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Suggest deleting the first sentence as it repeats the first paragraph. Start the second sentence with, "This Paper does not…"	Agree.

Q5 Comment on Paragraph 3				
17. Canadian Institute of Actuaries	Canada	No	The second bullet in this paragraph has four sub-bullets which are taken from ICP 16.9. However, the second sub-bullet is not shown in full, since ICP 16.9 reads: "maintenance of a portfolio of unencumbered highly liquid assets in appropriate locations." The word "portfolio" is used 46 times in this paper, but it is not defined in this paper or in the ICP Glossary. As used in this paper, the word portfolio could be interpreted as meaning a separate block of assets that is held solely for liquidity risk purposes and not available for asset-liability management (ALM) purposes (as suggested by paragraph 53). We strongly suggest that this paper should include a definition of "portfolio" at the start of the paper. The words "…in appropriate locations" are of importance in interpreting the requirements of this paper since this shows that the liquid assets do not have to be in a block of assets that is held separately from other operational assets and is only to be used for liquidity purposes. This subject is mentioned further in the comments for paragraph 46 (Q59).	Second bullet under second bullet text amended accordingly. Text amended accordingly
18. International Actuarial Association	International	No	The third bullet in this paragraph has four sub-bullets which are taken from ICP 16.9. However, the second sub-bullet is not shown in full, since ICP 16.9 reads: "maintenance of a portfolio of unencumbered highly liquid assets in appropriate locations." The word "portfolio" is used 46 times in this paper, but it is not defined in this paper or in the ICP Glossary. As used in this paper, the word portfolio could be interpreted as meaning a separate block of assets that is held solely for liquidity risk purposes and not available for ALM purposes (as suggested by Paragraph 53). The IAA strongly suggest that this paper should include a definition of "portfolio" at the start of the paper. The words "…in appropriate locations." are of importance in interpreting the requirements of this paper since this shows that the liquid assets do not have to be in a block of assets that is held separately from other operational assets and is only to be used for liquidity purposes. This subject is mentioned further in the comments for paragraph 46.	Please see previous answers.

IAIS

Q6 Comment on Section 1.1: Rationale				
Q7 Comment on Paragraph 4				
Q8 Comment on Paragraph 5				
Q9 Comment on Paragraph 6				
19. American Council of Life Insurers	U.S.	No	ACLI commends the IAIS for acknowledging the difference between liquidity and capital in the Application Paper. Though beyond the scope of this consultation, we believe it is important that the IAIS and its members remain cognizant of this distinction and a need for the range of policy measures and tools under development to work in concert. The goal should be to avoid duplicative or potentially contradictory regulatory requirements and/or unintended consequences.	Comment noted.
20. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	As readers of this paper are not necessarily native English speakers, suggest finding other wording to replace "sudden death" that may better describe the intended point.	Text amended accordingly
Q10 Comment on Paragraph 7				
21. American Council of Life Insurers	U.S.	No	The first sentence–"This Paper is intended to be particularly useful for supervisors that require more detailed liquidity risk management processes"–should be deleted, as it: (1) assumes that the guidance, which ACLI believes is too detailed in numerous instances, reflects only a narrow range of tools supervisors should consider and the form with which they should be deployed; and (2) creates unwarranted pressure on or expectations for supervisors to adhere to the guidance, particularly in light of forthcoming implementation assessments for the Holistic Framework.	Please observe definition of Application Papers on page 2.

22. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Last sentence, to be clearer on what "this" refers to, suggest rewording to: "Having such a view may assist the supervisor…"	Text amended accordingly.
Q11 Comment on Section 1.2: Terms				
Q12 Comment on Paragraph 8				
Q13 Comment on Section 1.3: Scope				
Q14 Comment on Paragraph 9				
Q15 Comment on Paragraph 10				
23. Insurance Europe	Europe	No	Insurance Europe welcomes the reference to proportionality, which should indeed consider the nature, scale and complexity of undertakings when assessing proportionate application. In fact, not all IAIGs should, by default, be subject to detailed liquidity risk requirements.	Comment noted.
24. AIG	USA	No	The scope of application appropriately focuses on "activities" that "increase exposure to liquidity risk by generating unexpected liquidity needs" and then notes several pertinent examples of potential liquidity mismatches. By the same token, however, this section should also explicitly point out that activities which pose limited liquidity risk should consume relatively less focus in the analysis. Likewise, the Application Paper should give examples, such as within the property and casualty business, of activities that could largely be de-emphasized within the exercise, given the presence of risk-mitigating attributes and factors. The cost of casting an overly broad net is that attention and analysis that should be dedicated to potentially risky activities would unnecessarily be diverted to businesses that do not bear material liquidity risk.	Please observe para 14 under section 1.4 Proportionality.

			The language in paragraph 11 provides examples of drivers of liquidity risk that are included in section 3.1. Our recommendation would be to update the language in paragraph 11 to either cover all liquidity risk drivers included in section 3.1 or have paragraph 11 refer to section 3.1 for details on liquidity risk drivers.	Text amended accordingly
Q16 Comment on Paragraph 11				
25. Canadian Institute of Actuaries	Canada	No	The second bullet is entitled "securities lending transactions." There is a possibility that readers may interpret the entry, which is about a mismatch between assets and liabilities where the assets are illiquid and the liabilities are liquid, does not pertain to "securities lending." Suggest reconsidering this wording.	Comment noted.
26. International Actuarial Association	International	No	This paragraph notes that "timing is a critical dimension to liquidity risk." The IAA suggest that the importance of timing could be enhanced in this paper by recognizing that there is a difference between a day-to-day cash management function and the very infrequent emergence of a material adverse liquidity need event. The first requires appropriate administrative systems to function well operationally. Companies typically manage such day-to-day liquidity over 30, 90, 120, etc. day periods. It is the infrequent large liquidity events that should be the purpose of this paper. The IAA also notes that sometimes insurers rely on clauses in contracts to delay payment of claims to avoid liquidity issues, for example in property funds. Whilst this may diminish the absolute liquidity risk it can cause reputational risk, or trigger claims of mis-selling / conduct risk, if policyholders were not made aware of the possibility of delays to fund withdrawals. (this is referred to in para 33)	Comment noted.

27. The Life Insurance Association of Japan	Japan	No	Liquidity Risk In the third bullet point of paragraph 11, "Backing liquid liabilities with illiquid assets" is mentioned as an example of an activity having liquidity risk. While we do not have any objection in this example itself, there is a sentence that says "some products containing provisions where a policyholder can withdraw cash from the policy with little notice or penalty" have high liquidity, and hence should be subject to policy measures. We disagree with this statement, as we believe it does not capture reality. If such a way of thinking is applied, the scope of the substantial liquidity risk may be overly expanded to include such risks which in reality should not be included. EIOPA's document titled "Report on insurers' asset and liability management in relation to the illiquidity of their liabilities" (published December 16, 2019) reports that obviously, there is no strong connection between surrender rates and the existence of disincentives to surrender. Under paragraph 4.24 of the IAIS document titled "Systemic Risk from Insurance Product Features," it is implied that various potential mitigating and/or exacerbating factors should be taken into account when assessing substantial liquidity risk, such as the "purpose of the policy," "the existence of economic penalties" for example in policies with high assumed interest rate, different characteristics of individual and group insurance products, and the existence of "policyholder protection schemes and mechanisms." We believe such a holistic approach on liquidity risk should be maintained.	The Application Paper provides examples that may be taken into consideration by supervisors.
28. American Academy of Actuaries	United States	No	We agree that an activity-based approach is appropriate and that each insurer should be evaluated based on its products, services, investment and risk management strategy.	Comment noted.
Q17 Comment on Paragraph 12				

Q18 Comment on Section 1.4: Proportionality				
29. The Life Insurance Association of Japan	Japan	No	Paragraph 13 states that "this Application Paper should be read in the context of the proportionality principle." The LIAJ acknowledges and appreciates such stance on proportionality. However, on the other hand, paragraph 14 states that "the supervisor may, as per ICP 16.9.4 and CF 16.9.b.2, increase or decrease the intensity of the requirements set out in ICP 16.9 for example by varying the frequency, scope and granularity of liquidity stress testing, the proportion and quantity of various types of highly liquid assets allowed in the portfolio of liquid assets or the form and level of detail in the contingency funding plan and liquidity risk management report." This could be read as if the supervisor can solely decide on the design of the liquidity stress test and details such as frequency of stress testing, etc. However, we would like to confirm that basically, such decisions are made by insurers based on their respective risk preference, etc. This is also covered in the IAIS's "Main public consultation comments received and resolution to holistic framework supervisory material" published on November 14, 2019, which states that "ICP 16 is meant to provide minimum requirements for the ERM Framework, including the use of tools such as stress testing, while noting that ultimately it is the responsibility of the insurer itself to carry out the ERM." Therefore, paragraph 14 should be revised according to the statement in paragraph 22, so that supervisors may impose supervisory measures only when it deems that an insurer's liquidity risk management is not conducted appropriately. However, as the actual implementation of policy measures are largely dependent on the discretion of the supervisors, we would like to ask the IAIS to continue to encourage proportional application of policy measures among its member supervisors.	While it is the insurers' responsibility to carry out the ERM requirements, the Application Paper provides guidance to supervisors on how to apply the supervisory guidance and standards set out in ICP and ComFrame.

30. American Council of Life Insurers	U.S.	No	In line with ACLI's overarching comment that the Application Paper should emphasize substance over form, we believe the IAIS should acknowledge that insurers may address liquidity risk management through a variety of policies, reports and/or tools and that supervisors should be open to/allow for such alternatives as is done in paragraph 81.	Comment noted.
31. American Property Casualty Insurance Association	United States	No	Please see our comments regarding proportionality in Q1. Proportionality is also critically important in the context of the holistic framework for systemic risk in the insurance sector because traditional non-life insurance activities are not a source of systemic risk. Therefore, the paper should make clear that supervisory requirements related to addressing any perceived systemic risk should be directly related to particular risk exposures that can realistically have a negative impact on financial stability and the broader economy through an identified transmission channel. Otherwise, this paper would go beyond what is necessary to achieve its purpose.	Comment noted.
Q19 Comment on Paragraph 13				
Q20 Comment on Paragraph 14				
32. Insurance Authority (IA)	China, Hong Kong	No	It appears that the reference in the first sentence should be made to ICP 16.9.5 instead of ICP 16.9.4.	Text amended accordingly.
33. Institute of International Finance	Global	No	The Draft Application Paper should better acknowledge that the design of a company's liquidity risk management and governance framework is the responsibility of the insurer's senior management, with direction from the board of directors as to the company's risk appetite (as reflected in Paragraph 25). The design of liquidity stress tests, the composition of a company's liquid assets, and the range of options in a contingency funding plan are the responsibility of senior management, with oversight from the board of directors and consistent with the board-established risk appetite. The language of Paragraph 22 better reflects this division of responsibilities,	Comment noted.

			as well as a proportional approach, than does the language of Paragraph 14. Accordingly, we would suggest the substitution of Paragraph 22 for Paragraph 14 and the deletion of Paragraph 14.	
34. Aegon NV	The Netherlands	No	The wording in this paragraph inappropriately appears to invite supervisors to exert authority over virtually every aspect of the insurer's liquidity management. The related ICP and ComFrame language generally describes how supervisors should provide oversight to the insurer's liquidity risk management. This paragraph, in contrast, implies that the supervisor is directly managing the risk. We suggest that the paragraph be re-worded to clarify that liquidity risk management continues to be the direct responsibility of the insurer.	Comment noted.
35. American Council of Life Insurers	U.S.	No	An insurer's management, not the supervisor, should initially decide the level of intensity at which the insurer performs the elements of liquidity risk management described in this paragraph, reflecting good internal risk management processes on the basis of the nature, scale and complexity of the insurer and its liquidity risks. We suggest this paragraph be revised to give the insurer the ability to increase or decrease the intensity of these requirements. Paragraph 22 already grants the appropriate supervisory intervention powers if the insurer's liquidity risk management is not appropriate to its nature, scale and complexity.	Comment noted.
36. American Academy of Actuaries	United States	No	While testing of contingency fund plans can illustrate tactics and strategies it is important to note that simulation in a non-stressed environment does not "ensure that plans will be executed" in a stressed environment .	Comment noted.
Q21 Comment on Section 1.5: Supervisory Review				
37. American Council of Life Insurers	U.S.	No	ACLI believes liquidity risk, in general, is very low for the insurance sector and guidance tools should focus on application of an activity-based approach that is tailored to the unique nature of the insurer and jurisdictional risk exposures as opposed to blanket, one-size-fits-all recommendations for practices and assumptions.	Comment noted.

38. American Property Casualty Insurance Association	United States	No	The references to liquidity stress testing in this section and throughout the paper seem to imply all insurers are required to conduct stress testing by supervisors. However, ICPs 16.2.24 and 16.9 make clear that supervisors should not automatically require insurers to perform stress testing. The application paper should reflect the stress testing requirements in the ICPs and incorporate the principle of proportionality. Before requiring stress testing, a supervisor should consider factors such as the nature, scale and complexity of an insurer, its activities, business model and products. As explained in Q1, property-casualty insurers have little liquidity risk and traditional non-life insurance activities are not a source of systemic risk. We thus believe that mandated stress testing for non-life insurers will have very limited value to supervisors. In the context of addressing any perceived systemic risk, supervisors would be better served to understand and asses the stress testing that is already performed by the insurer itself, summarized in ORSAs, to gauge any likelihood of a risk that could rise to the level of systemic importance for a firm. Should a scenario modelled by an insurer result in such a finding, it could then be assessed on a sectoral basis. However, and again, we strongly believe that this will not be the case for non-life firms. More broadly, any supervisory measures related to liquidity management must focus on a company's activities regardless of its legal form or corporate structure. Supervisory measures must also be flexible and focus on outcomes, rather than stringent and unnecessary details. Additionally, supervisors should seek to limit duplicative requirements on companies operating in multiple jurisdictions. Companies should not be subject to regulatory requirements from multiple jurisdictions if the jurisdictions have comparable regulations on liquidity risk management.	Please observe section 1.4 on Proportionality.
Q22 Comment on Paragraph 15				
39. National Association of	USA, NAIC	No	Editorial suggestion: "…presented in this Paper can support the supervisor's review of an insurer's framework."	Text amended accordingly.

Insurance Commissioners (NAIC)				
Q23 Comment on Paragraph 16				
40. Canadian Institute of Actuaries	Canada	No	This paragraph notes that "timing is a critical dimension to liquidity risk." We suggest that the importance of timing could be enhanced in this paper by recognizing that there is a difference between a day-to-day cash management function and the very infrequent emergence of a material adverse liquidity need event. The first requires appropriate administrative systems to function well operationally. Companies typically manage such day-to-day liquidity over 30, 90, 120, etc., day periods. It is the infrequent large liquidity need events that should be the focus of this paper.	Comment noted.
41. International Actuarial Association	International	No	Supervisors need also to consider the appropriateness of liquidity facilities with third parties - particularly if the supervisor is aware of more than one insurer relying on the same third party for liquidity - in the same way as they would consider the adequacy of liquidity within groups.	Comment noted.
42. The Geneva Association	International	No	The principles set out for the liquidity risk management framework covering time horizons and fungibility implicitly cover considerations for elements such as currency. As such, an explicit reference to currencies should be removed.	Comment noted. The IAIS believes exposure across currencies remains an important issue to explicitly mention in this context.
43. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	First sentence, it is unclear what "general guidelines" refers to. Is the intention more "the supervisor may follow its usual approach for the review of ERM." Second sentence, as it is not the role of the supervisor to "ensure" the insurer does something itself, suggest: "…the supervisor should assess whether the insurer's framework adequately considers…"	Text amended accordingly. Text amended accordingly.

Q24 Comment on Paragraph 17				
44. Insurance Authority (IA)	China, Hong Kong	No	It appears that the reference in the first sentence should be made to ICP 16.9.6 instead of ICP 16.9.5.	Text amended accordingly.
45. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Suggest making the last sentence a new paragraph as it is not related to the rest of the paragraph.	Text amended accordingly.
Q25 Comment on Paragraph 18				
46. Canadian Institute of Actuaries	Canada	No	The last part of this paragraph mentions the time horizons and the assumptions used for cash flow projections. It should specifically add that these assumptions should be consistent with the company's total ERM framework, as required by ICP 16.8. Liquidity testing is a subset of the total ERM framework and not a separate exercise with its own cash flow assumptions. The paper should include specific reference to the need for consistency in this section. The paper currently does mention the need for consistency between capital stress testing, liquidity testing, recovery testing, resolution plans and ORSA in paragraph 81 which deals with reporting to the supervisor. Such a reference to consistency with other risk management functions should also be specifically included in this paragraph.	Appropriateness within the context of ERM is implied.
47. International Actuarial Association	International	No	There also needs to be consideration of key judgements/assumptions in underlying models - in particular, consideration given to the potential volatility of modelled cash flows, particularly if the liability cash flows do not consider short term fluctuations because of using (for example) quarterly or even annual time-steps. The IAA suggest adding "where applicable" to the language in this paragraph after "particularly". Several of those items listed as "particularly" important to the analysis are not relevant to non-life products in the markets the IAA is familiar with (e.g.	Comment noted. Please see previous answers.

			references to "lapse sensitivity" and "mortality"). The last part of this paragraph mentions the projections and the assumptions used for cash flow projections. It should specifically add that these assumptions should be consistent with the company's total ERM framework, as required by ICP 16.8. Liquidity testing is a subset of the total ERM framework and not a separate exercise with its own cash flow assumptions. The paper should include specific reference to the need for consistency in this section. The paper currently does mention the need for consistency between capital stress testing, liquidity testing, recovery testing, resolution plans and ORSA in paragraph 81 which deals with reporting to the supervisor. Such a reference to consistency with other risk management functions should also be specifically included in this paragraph.	
48. American Council of Life Insurers	U.S.	No	Paragraphs 18-21 are far too prescriptive to be appropriate or useful. For example, paragraph 19 seems to encourage the supervisor to independently construct the insurer's portfolio of liquid assets (e.g., inviting the supervisor to "vary the proportion of assets in different liquidity buckets"). In contrast, we believe the supervisor's proper role is to ensure that the insurer has taken appropriate measures in its construction of the portfolio of liquid assets. Additionally, it is somewhat unclear as to whether the Paper is recommending that insurers hold a separate, custodial portfolio of liquid assets (paragraphs 19 and 46). We would oppose such a concept and would appreciate clarification that this is not being proposed. A "liquidity portfolio" should refer to a set of liquid assets within a broader set that would be available to cover the excess of cash outflows over cash inflows under stressed conditions. We believe these paragraphs could be improved simply be prefacing each with a phrase such as: "to the extent the liquidity risk and circumstances warrant…" This would make clear that not every insurer (even a very large one) necessarily must be subject to all these reviews and assessments. Performing each of the reviews and assessments contemplated in paragraphs 18-21 would be extremely onerous and could divert insurer and supervisory resources from more meaningful measures and analysis.	Comment noted. Para 19 expands on the notion that an Application Paper provides a guidance on applying ICPs and ComFrame and provides a framework for allowing flexibility and judgement as opposed to a purely prescriptive method. The Liquid Portfolio is not envisaged as a “separate, custodial” portfolio but rather a balance sheet portfolio assessed against their total liquidity needs. Insurers should maintain adequate stock of liquid assets to cover any liabilities as they fall due, under business-as-usual and stressed circumstances.

49. American Academy of Actuaries	United States	No	It would be helpful to clarify that "should" does not override the concept of proportionality. In addition we suggest adding the words "where applicable" following "particularly" so that the sentence reads, "In considering stress scenarios, the supervisor should also consider the appropriateness of the time horizons used by the insurer in its liquidity risk assessments, the key assumptions used in cash-flow projections and stress testing, particularly where applicable economic variables, capital markets conditions, differences in lapse sensitivity, debt issuance and refinancing, new business and mortality."	As stated in section 1.4, the principle of proportionality governs all ICPs and ComFrame and implicitly this Application Paper.
50. American Property Casualty Insurance Association	United States	No	Many of the items listed as "particularly" important to the supervisor's analysis are not applicable to non-life insurers (e.g., differences in lapse sensitivity and mortality). Therefore, we recommend adding the phrase "where applicable" after "particularly" in this paragraph. See also our response to Q21 regarding supervisory review.	This flexibility is captured under “should”.
51. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Use dot bullets and add "whether" to the chapeau so the repetition can be deleted from each bullet.	Text amended accordingly.
Q26 Comment on Paragraph 19				
52. Insurance Europe	Europe	No	Intervention by supervisors, for example, changes in the liquidity structure (paragraph 19) or other remedial actions (paragraph 20) should only be permitted in clearly justified exceptions or crisis situations and should be subject to a transparent supervisory framework with clearly defined triggers. It is crucial that supervisors appropriately recognise that the investment portfolio of insurers is balanced between liquidity, return and security. Intervention in favour of liquidity can lead to difficulties in the other investment objectives. A comprehensive impact assessment of any	Comment noted.

			potential intervention should routinely be performed, taking into account both expected benefits and direct as well as indirect costs arising from the intervention.	
53. International Actuarial Association	International	No	The contingency funding plans for infrequent large adverse liquidity events should be the same as, or at least consistent with, the plans used in the company's recovery plans (ICP 16.15). The third sentence of this paragraph implicitly assumes that the supervisor has the authority to dictate what is "allowed in an insurer's liquidity portfolio". the IAA question whether such authority would exist in many cases. The IAA note that ICP 16.9.5 has a similar statement, but it is at a lower level in the ICP hierarchy such that it does not require supervisory authority to so dictate.	As per the Application Paper the role of the supervisors is to assess appropriateness. The Application Paper does not intend to set new standards but it may use ICP language for explanatory purposes.
54. Aegon NV	The Netherlands	No	Paragraph 19 seems to effectively encourage the supervisor to independently construct the insurer's portfolio of liquid assets (e.g. inviting the supervisor to "vary the proportion of assets in different liquidity buckets"). We believe the supervisor's proper role is to ensure that the insurer has taken appropriate measures in its construction of the portfolio of liquid assets.	Comment noted. Please see previous answers.
55. American Property Casualty Insurance Association	United States	No	The third sentence of this paragraph implies that supervisors have the authority to mandate what is allowed in an insurer's liquidity risk portfolio. However, it is unclear that supervisors possess this authority in many instances. This sentence should be rephrased to omit the implication that supervisors possess this authority in all cases.	Comment noted. Please see previous answers.
Q27 Comment on Paragraph 20				
56. Canadian Institute of Actuaries	Canada	No	The contingency funding plans for infrequent large adverse liquidity events should be the same as, or at least consistent with, the plans used in the company's recovery plans (ICP 16.15).	Comment noted. Contingency funding plans are discussed here from a liquidity risk management perspective.

57. Insurance Europe	Europe	No	Intervention by supervisors, for example, changes in the liquidity structure (paragraph 19) or other remedial actions (paragraph 20) should only be permitted in clearly justified exceptions or crisis situations and should be subject to a transparent supervisory framework with clearly defined triggers. It is crucial that supervisors appropriately recognise that the investment portfolio of insurers is balanced between liquidity, return and security. Intervention in favour of liquidity can lead to difficulties in the other investment objectives. A comprehensive impact assessment of any potential intervention should routinely be performed, taking into account both expected benefits and direct as well as indirect costs arising from the intervention.	Comment noted.
58. International Actuarial Association	International	No	The second-to-last sentence requires regular testing of contingency funding plans "to ensure that plans can be executed". While well-intentioned, this requirement is not effective (and hence is not useful). Such testing can be useful, but the paragraph should point out that it is not a panacea. The reason is that any such testing would be performed in a non-stressed environment, and there may be additional issues arising in a stressed environment.	Stress testing is an integral part of the liquidity risk management framework.
59. General Insurance Association of Japan	Japan	No	The necessity of a contingency funding plan should be decided depending on the level of liquidity risk. For example, this could be reviewed by considering the results of liquidity stress testing.	Comment noted.
60. American Property Casualty Insurance Association	United States	No	APCIA recommends the removal of this paragraph's second-to-last sentence, which requires supervisors to ensure companies' contingency funding plans are regularly tested in order to "ensure that plans can be executed." In practice, this requirement would not be effective or useful because the testing would be performed in a non-stress environment, and the ability to execute a plan in a non-stress environment is not informative as to its feasibility in a stressed environment.	Comment noted. Pease see previous answers.
61. National Association of Insurance	USA, NAIC	No	Penultimate sentence, as it is not the role of the supervisor to "ensure" the insurer does something itself, suggest "The supervisor should assess whether the insurer…" Last sentence, what type of coordination and which stakeholders should be included	Text amended accordingly.

Commissioners (NAIC)			in testing aspects of the plan? Assume these would be relevant stakeholders, not all. Suggest clarifying.	Text amended accordingly.
Q28 Comment on Paragraph 21				
62. General Insurance Association of Japan	Japan	No	The necessity and level of detail of the liquidity risk management report should be decided depending on the level of liquidity risk in line with the insurer´s distinctive features of business (e.g. its asset portfolio, in-force contracts) and size.	Comment noted.
Q29 Comment on Paragraph 22				
63. Insurance Europe	Europe	No	Intervention by supervisors, for example, changes in the liquidity structure (paragraph 19) or other remedial actions (paragraph 20) should only be permitted in clearly justified exceptions or crisis situations and should be subject to a transparent supervisory framework with clearly defined triggers. It is crucial that supervisors appropriately recognise that the investment portfolio of insurers is balanced between liquidity, return and security. Intervention in favour of liquidity can lead to difficulties in the other investment objectives. A comprehensive impact assessment of any potential intervention should routinely be performed, taking into account both expected benefits and direct as well as indirect costs arising from the intervention.	Comment noted.
64. Institute of International Finance	Global	No	The Draft Application Paper should better acknowledge that the design of a company's liquidity risk management and governance framework is the responsibility of the insurer's senior management, with direction from the board of directors as to the company's risk appetite (as reflected in Paragraph 25). The design of liquidity stress tests, the composition of a company's liquid assets, and the range of options in a contingency funding plan are the responsibility of senior management, with oversight from the board of directors and consistent with the board-established risk appetite. The language of Paragraph 22 better reflects this division of responsibilities,	Comment noted.

			as well as a proportional approach, than does the language of Paragraph 14. Accordingly, we would suggest the substitution of Paragraph 22 for Paragraph 14 and the deletion of Paragraph 14.	
65. General Insurance Association of Japan	Japan	No	In terms of ensuring the predictability of regulation in effect, it is advisable that supervisors show insurers, in advance, the key aspects of their viewpoints regarding intervention. This is directly related to the statement, "additional quantitative requirements should only be applied in appropriate circumstances and be subject to a transparent supervisory framework".	Comment noted.
66. American Council of Life Insurers	U.S.	No	We believe this paragraph should be refined. Currently, it seems to suggest that supervisors have open-ended authority to take actions related to liquidity. Supervisors certainly have powers they can exercise, but they are limited to the laws of each jurisdiction.	Comment noted. The Application Paper provides guidance in applying the ICPs 16.8 and 16.9 and ComFrame integrated therein 16.9.a-16.9.d.
67. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	For consistency with other IAIS material, suggest: "…it should require the insurer to take effective and timely action."	Text amended accordingly.
Q30 Comment on Section 1.6: Structure				
Q31 Comment on Paragraph 23				
Q32 Comment on Section 2: Governance				
68. National Association of Insurance	USA, NAIC	No	To the extent the guidance in this section refers to governance in general and points covered in existing standards or guidance, it would be helpful to include cross	Section 2 indeed refers to Governance, however, it focuses on

Commissioners (NAIC)			references. Otherwise this paper on liquidity risk management should not provide new or potentially contradictory guidance on governance in general.	the liquidity risk management framework in particular.
Q33 Comment on Paragraph 24				
69. Canadian Institute of Actuaries	Canada	No	The comments for paragraph 18 (Q25) also apply to paragraphs 24 and 25. The governance of liquidity risk should not be in isolation but should be part of the company's total ERM framework, as required by ICP 16.8. The current wording in these paragraphs suggests that the governance of liquidity risk is a separate function.	Comment noted. Please see previous answers.
70. International Actuarial Association	International	No	The comments for Paragraph 18 above also apply to Paragraphs 24 and 25. The governance of liquidity risk should not be in isolation but should be part of the company's total ERM framework, as required by ICP 16.8. The current wording in these paragraphs suggests that the governance of liquidity risk is as separate function.	Comment noted. Please see previous answers.
Q34 Comment on Paragraph 25				
71. Canadian Institute of Actuaries	Canada	No	See answers to Q25 and Q33.	Comment noted. Please see previous answers.
72. General Insurance Association of Japan	Japan	No	As the liquidity risk of traditional insurance business is limited, the proportionality principle should be applied to the necessity and the level of control of the insurer's Board of Directors.	Comment noted.
73. American Council of Life Insurers	U.S.	No	As noted elsewhere in our comments, typically, liquidity risk management is a responsibility of an insurer's management. Reporting to and approval by the Board of Directors or a designated Board Committee may occur, particularly if liquidity challenges are identified by management. But we believe describing Board activities	Comment noted. Please see previous answers, in particular with respect with role of Application Papers.

			with this specificity is unnecessary and not in keeping with the oversight structure of many supervisory jurisdictions.	
74. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Last sentence, as it may not necessarily be the Board that does such a review, suggest: "The insurer should also periodically review its liquidity risk practices…"	Comment noted. While it may not be the Board's specific responsibility, it falls under the Boards ultimate approval. In other words, it's not the Board in isolation who "should periodically review"
Q35 Comment on Paragraph 26				
75. Insurance Authority (IA)	China, Hong Kong	No	We consider that an insurer should immediately report to its Board of Directors or its Board committee if there are any material adverse changes in the insurer's current or prospective liquidity position. Accordingly, we suggest to add this measure (in quotation) in paragraph 26 as follows: -Extract of paragraph 26- Senior Management should report periodically to the Board of Directors or the Board committee on the insurer's current liquidity risk profile both at a group level and for material legal entities "and report immediately if there are any material adverse changes in the insurer's current or prospective liquidity position".	While Senior Management has is advised to report to the Board as per para 26, the immediateness of such reporting relies with an insurer's internal policies.
76. The Geneva Association	International	No	The paragraph includes the following passage: "Senior Management should report periodically to the Board of Directors or the Board committee on the insurer's current liquidity risk profile both at the group level and for material legal entities. Senior Management should also review the insurer's stress testing methodology and results and periodically report them to the Board of Directors, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action." We agree that information on liquidity risk should be shared periodically with the Board. However, Senior Management should have full discretion on the scope and	Comment noted. Please see previous answers.

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			type of information that is presented. We therefore suggest rewording this passage as follows: "Senior Management should also review the insurer's stress testing methodology and results. Periodically, Senior Management should provide the Board of Directors or the Board committee an update on the insurer's current liquidity profile, specifically highlighting any vulnerabilities and proposed remedial action."	
77. General Insurance Association of Japan	Japan	No	As the liquidity risk of traditional insurance business is limited, the proportionality principle should be applied to the level of control of the insurer's Senior Management.	Comment noted. Please see previous answers, in particular with reference to the principle of proportionality.
78. Aegon NV	The Netherlands	No	Together, paragraphs 26, 30, and 76 encourage liquidity analysis at both the group level, for functional subgroups of entities, and for significant legal entities. We consider the benefits of a group-level liquidity analysis to be limited due to the fungibility considerations described in the paper, and we therefore believe that the application paper should emphasize the importance of liquidity at more granular levels rather than at the group level.	Comment noted. Group perspectives are based on ICPs 16.8.4 and 16.8.5.
79. American Council of Life Insurers	U.S.	No	ACLI believes that this paragraph is overly prescriptive and recommends modifying it to better acknowledge the role senior management should play in determining the level of detail that may be presented to the Board.	Comment noted. Please see previous answers.
80. American Property Casualty Insurance Association	United States	No	The fifth sentence in this paragraph states, "Senior Management should report periodically to the Board of Directors or the Board committee on the insurer's current liquidity risk profile both at the group level and for material legal entities." APCIA recommends replacing the reference to the group level because the liquidity risk profile at the group level can be misleading for stock companies. Therefore, we suggest replacing the fifth sentence in this paragraph with the following: "Senior Management should report periodically to the Board of Directors or the Board committee on the insurer's current liquidity profile for material legal entities, including significant holding companies where applicable."	Comment noted. Please see previous answers.

81. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	As this is an Application Paper, appropriate wording should be used: "The insurer's Senior Management should be responsible for applying the insurer's risk appetite in pursuit of its strategic objectives. In doing so, Senior Management should be responsible for several key liquidity risk management functions. Most importantly, Senior Management should be responsible for integrating the insurer's risk appetite into day-to-day operations." Suggest making the two sentences in the middle of the paragraph on groups a separate paragraph: "In a group situation, group-wide Senior Management should receive clear and timely information from all material legal entities on the entities' liquidity position and emerging liquidity stress events. The group-wide Senior Management should report periodically to the group Board or the relevant Board committee on the group's current liquidity risk profile both at a group level and for material legal entities."	Text amended accordingly.
Q36 Comment on Paragraph 27				
82. Insurance Authority (IA)	China, Hong Kong	No	We view that this section may benefit to include the responsibilities of the control functions with respect to liquidity risk management. Responsibilities of control functions as per ICP 8 may include: 1. Risk management function to set policies and processes for liquidity risk management and monitor and report on liquidity risk; 2. Actuarial function to provide advice on matters including asset liability management with regard to the adequacy and sufficiency of assets and future revenue to cover the insurer's obligations to policyholders, as well as other obligations or activities which may create significant and unanticipated demands for liquidity; 3. Internal audit function to conduct an audit/review on liquidity risk management.	Text amended accordingly.

83. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	For consistency with other IAIS material, suggest: "…the insurer's Board or relevant Board Committee, Senior Management and other appropriate personnel. Reports to the insurer's Board or relevant Board Committee…"	Text amended accordingly.
Q37 Comment on Section 3: Liquidity stress testing				
84. Insurance Europe	Europe	No	Insurance Europe would ask for explicit clarification that stressed outflows occurring over a prolonged time period are not in scope for this requirement, since these would not give rise to a liquidity concern. The current wording suggests the liquid assets need to be held to cover stresses of any type. However, stressed cash outflows for life underwriting risks (eg, longevity) occurs over a very prolonged period of time considering, for example, longevity stress scenarios and insurance companies have time to adapt their liability portfolio over the period.	Comment noted.
85. Institute of International Finance	Global	No	Paragraph 30 of the Draft Application Paper provides that, through stress testing, the insurer should assess the impact of its chosen scenarios on cash inflows and outflows, liquidity resources, profitability and solvency. We encourage the IAIS to elaborate on the need to analyze the impact of liquidity scenarios on profitability, which is beyond the scope of the liquidity risk management-related ICPs. Paragraph 32 states that, generally, stressed cash inflows should not assume borrowings from off-balance sheet sources such as lines of credit. We believe that the Draft Application Paper should refrain from promoting excessively prudent assumptions and instead include text that focuses on the importance of a careful review of the availability of off-balance sheet sources of cash in times of stress to ensure that assumptions are appropriate. More broadly, we note that it is important that due consideration be given to the role of other risk management tools and requirements - particularly those pertaining to the management of counterparty risk - to avoid redundant or conflicting guidance that could result in unintended consequences.	Profitability is directly linked with claim paying ability, which may give rise to liquidity concerns. An Application Paper provides detailed guidance and examples on how to apply ICPs and ComFrame. An Application Paper should not be read as a set of prescriptive measures.

			Stress testing horizons and assumptions should be governed by the liquidity risk profile and risk appetite of the company and not determined by the supervisor. If a supervisor considers that an insurer is not implementing a robust liquidity risk management program, it may ask for additional stress tests to be conducted but, in the ordinary course of supervision of a well-managed company, management should have the responsibility for the construction and implementation of stress tests.	Comment noted.
86. International Actuarial Association	International	No	In several places the term "material legal entity" is used. In some situations, it would make sense to treat an internal quota-share pool in total as a "material legal entity". This would reflect a common situation for US property/casualty groups where such internal pools are common. The beginning of this section seems to be overly prescriptive as it presumes material liquidity risks. This is not always appropriate and violates the principle of proportionality mentioned in Section 1.4, Paragraphs 13-14.	Comments noted.
87. American Property Casualty Insurance Association	United States	No	Much of this section is overly prescriptive since there is a presumption of material liquidity risks. The paper should incorporate the principle of proportionality by acknowledging this presumption is not always appropriate. See also our response regarding proportionality in Q1 and Q18. In several places the term "material legal entity" is used. In some situations, it would make sense to treat an internal quota-share pool in total as a "material legal entity". This would reflect a common situation for US property-casualty groups where such internal pools are common.	Comments noted.
Q38 Comment on Paragraph 28				
88. International Actuarial Association	International	No	This paragraph seems to require robust stress testing for everybody, regardless of proportionality issues. This seems to be overly prescriptive and in conflict with the proportionality principle stated earlier. The IAA recommend replacing "comprehensive, robust" with "appropriate".	Comments noted. Please observe Section 1.4 Proportionality.

89. American Academy of Actuaries	United States	No	Recommend replacing "comprehensive robust" with "appropriate" so that it lessens the implied prescription and does not create any proportionality issues	Please see previous answers.
90. AIG	USA	No	The scope of stress testing in Section 3 appears to emphasize insurer-specific stress testing (i.e. primarily micro-prudential); however, we believe that, in implementing the Holistic Framework, the emphasis of financial stability regulators should be on macro-prudential assessments. A macro-prudential stress test would (i) assess scenarios more consistently across a relevant cohort of insurers and (ii) focus on potential correlated activities or "fire sale" vulnerabilities, rather than on compliance with an insurer-specific threshold.	Please refer to ICP 24 Macroprudential Supervision.
Q39 Comment on Paragraph 29				
91. Insurance Europe	Europe	No	Paragraph 29 acknowledges that stress testing is company and scenario specific, therefore Insurance Europe agrees that there should be no prescribed scenarios, frequency and reporting proposals from the IAIS. Paragraph 29 requires "a range of severe, but plausible scenarios". Insurance Europe suggests requesting a limited number of scenarios for selected vulnerabilities and deleting the phrase "a range of". Paragraph 29 provides that "stress scenarios should be chosen to reveal vulnerabilities in the insurer's liquidity profile". Insurance Europe considers that it should be amended to a more neutral wording (eg, "to assess vulnerabilities" or at least "reveal potential vulnerabilities"). Indeed, the objective is to assess the impact of a severe but plausible scenario, and not to choose a scenario which will necessarily lead to vulnerabilities.	Comment noted. While vulnerabilities and risks are inherent to any financial activity and institution, this Application Paper tries to provide a framework for liquidity risk management to capture those in advance of them materializing.
92. The Geneva Association	International	No	The draft Application Paper states that "stress scenarios should be chosen to reveal vulnerabilities in the insurer's liquidity profile". We consider that it should be amended	Comment noted. Please see previous answers.

			to a more neutral wording (e.g. "to assess vulnerabilities" or at least "reveal potential vulnerabilities").	
93. General Insurance Association of Japan	Japan	No	As insurers should individually decide which scenario to use depending on their risk level and size, the proportionality principle should be applied to each scenario choice.	Please see previous answers.
94. Aegon NV	The Netherlands	No	Paragraph 29 seems to encourage companies to test an extensive range of "severe, but plausible [stress] scenarios." We believe it is preferable to tailor a limited number of scenarios to areas of vulnerability rather than to run many scenarios that are unlikely to yield meaningful insights. Deleting the phrase "a range of" in the second sentence would sufficiently address this concern.	Please see previous answers.
95. American Council of Life Insurers	U.S.	No	Paragraph 29 seems to encourage companies to test an extensive range of "severe, but plausible [stress] scenarios." We believe it is preferable to tailor a limited number of scenarios to areas of vulnerability rather than run scenarios that are unlikely to yield meaningful insights. Deleting the phrase "a range of" in the second sentence would sufficiently address this concern. Although this paragraph recognizes that "Liquidity risk is very much company and scenario specific," it should also recognize that both centralized and decentralized liquidity management are possible and acceptable. The reference to "material legal entities" confuses the situation and fails to acknowledge the diversity of approaches.	Please see previous answers.
96. American Academy of Actuaries	United States	No	It would be helpful to make clearer that the prescription in this paragraph does not supersede proportionality considerations	Please see previous answers.
97. American Property Casualty	United States	No	Although this paragraph recognizes that "liquidity risk is very much company and scenario specific", it should also recognize that both centralized and decentralized	Comment noted.

Insurance Association			liquidity management are possible and acceptable. The reference to "material legal entities" confuses the situation and fails to acknowledge the diversity of approaches.	
98. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Third sentence, to better distinguish that this is group related: "In a group situation, for material legal entities, this includes, where appropriate, locally developed stresses that reflect local business vulnerabilities and market conditions.."	Text amended accordingly.
Q40 Comment on Paragraph 30				
99. Insurance Europe	Europe	No	Insurance Europe believes that liquidity stress testing should focus on liquidity related components and not expand to other areas like solvency or profitability, which do have a different view and are already analysed under different constructs. IAIS itself states in paragraph 6 that liquidity fundamentally differs from capital since liquidity has a "real time dimension" and can cause a "sudden death" while still being well-capitalized. In addition, care must be taken to avoid imposing unreasonably strict specifications for stress testing.	Text amended accordingly.
100. Institute of International Finance	Global	No	Paragraph 30 of the Draft Application Paper provides that, through stress testing, the insurer should assess the impact of its chosen scenarios on cash inflows and outflows, liquidity resources, profitability and solvency. We encourage the IAIS to elaborate on the need to analyze the impact of liquidity scenarios on profitability, which is beyond the scope of the liquidity risk management-related ICPs.	Comment noted. Please see previous answers.
101. International Actuarial Association	International	No	When choosing scenarios on cash inflows and outflows, the time lag should be considered. For instance, a reinsurance recovery will normally take place a few months after claim payments, which means that the reinsurance effect should not be included for such period.	Comment noted.
102. The Geneva Association	International	No	The paragraph includes "profitability and solvency' within the assessment of liquidity stress testing. We believe these items are less relevant from a liquidity perspective	Comment noted. Please see previous answers.

			and best addressed through other means and thus these references should be removed from the Application Paper. Should the IAIS retain the references a fulsome explanation of their potential relevance in a liquidity context should be added. The IAIS states in paragraph 6 that liquidity fundamentally differs from capital since liquidity has a "real time dimension" and can cause a "sudden death" even to still well-capitalized financial firms. Therefore, assessing the liquidity position should be the main focus in this context.	
103. General Insurance Association of Japan	Japan	No	We would like to confirm that assessment "at a group level" allows for the implementation level to vary according to materiality by considering each insurer's stress test results. For example, where hurricanes in the U.S. are risk scenarios for a certain subsidiary within a group, and it can be confirmed that their impact on the scenarios on insurers in other regions is relatively small, assessment of their impact on cash flow at the group level might be considered unnecessary.	Principle implied and confirmed by current paragraph.
104. Aegon NV	The Netherlands	No	Together, paragraphs 26, 30, and 76 encourage liquidity analysis at both the group level, for functional subgroups of entities, and for significant legal entities. We consider the benefits of a group-level liquidity analysis to be limited due to the fungibility considerations described in the paper, and we therefore believe that the application paper should emphasize the importance of liquidity at more granular levels rather than at the group level.	Comment noted. Please see previous answers.
105. American Council of Life Insurers	U.S.	No	Paragraph 30 should recognize that profitability and solvency analysis are distinct from liquidity stress testing. We suggest that the references to "profitability" and "solvency" be rephrased to be limited "to the extent material to liquidity risk."	Please see previous answers.
106. Association of British Insurers	United Kingdom	No	This paragraph outlines expectations for firms to assess "profitability' and "solvency' for cash inflow and outflow scenarios as part of stress testing. However, profitability	Please see previous answers.

			and solvency are not relevant considerations in the assessment of liquidity risk and so we suggest these references are removed.	
107. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The first sentence is group-specific but it is not clear if the rest of the sentences in this paragraph are as well or else relevant to all insurers. Suggest clarifying.	Text amended accordingly.
Q41 Comment on Paragraph 31				
108. The Geneva Association	International	No	Reference is made to insurers considering several relevant time horizons (such as one month, three months or longer term horizons like one year). It should be explicitly clear that these are only examples and the time horizons used should be relevant to the liquidity profile of the insurer. Paragraph 31 also refers to supervisors suggesting other planning horizons where applicable. This would be inappropriate as liquidity stress testing will form part of insurers risk management framework, testing should therefore be consistent with the insurers' liquidity profile and appetite and not subject to supervisory overlay.	Comment noted.
109. General Insurance Association of Japan	Japan	No	Rather than increasing patterns indiscreetly, time horizons for stress scenarios of groups and insurers with low systemic risk should be narrowed down to within the necessary range. It is sufficient to set a time horizon that corresponds to stress events with peak risks.	Comment noted.
110. American Council of Life Insurers	U.S.	No	ACLI believes management of the insurer is best positioned to determine the relevant time horizons for scenario planning as opposed to the supervisor. We therefore request that the following sentence be deleted: "Where applicable, the supervisor may also suggest any other planning horizons relevant to the insurer's liquidity risk profile."	The supervisors may ask for additional time horizons should those used by the insurers are not sufficient. Text amended accordingly.

111. Association of British Insurers	United Kingdom	No	The IAIS refers here to insurers considering several relevant time horizons such as one month, three months or longer-term horizons like one year. It should be explicitly made clear in the Application Paper that these are only examples and that the time horizons used in practice should be relevant to the liquidity profile of the individual insurer. The IAIS also refers to supervisors suggesting other planning horizons where applicable. This would be inappropriate since liquidity stress testing will form part of insurers' own risk management and risk appetite framework. Testing should therefore be consistent with the insurers' liquidity profile and appetite and therefore not subject to a supervisory overlay.	Please see previous answers.
Q42 Comment on Paragraph 32				
112. Canadian Institute of Actuaries	Canada	No	This paragraph states that lines of credit should not be assumed to continue to be available in stressed situations. A total exclusion of lines of credit is not appropriate since at least some may be committed lines from very strong companies. This restriction on lines of credit would also depend on whether the stress is systemic or idiosyncratic. For the latter, lines of credit should still be available. The assumptions for the availability of lines of credit should also be consistent with those in the company's recovery plans.	The Application Paper provides an example in terms of practically applying ICP 16. Text amended accordingly.
113. Insurance Authority (IA)	China, Hong Kong	No	ICP 16.8.1 set outs that insurers should consider the availability of contingent sources of liquidity (including committed line of credit or future premium income) when in stressed condition. To this, we are of the view that the application paper elaborates this principle that generally, stressed cash inflows should not assume borrowings from off-balance sheet sources such as lines of credit. We suggest that the application paper can provide guidance or criteria for supervisors in considering acceptability of different sources of off-balance sheet liquidity when in stressed scenario.	ICP 16.8.1 does mention that an insurer when analysing its liquidity profile should consider contingent sources of liquidity such as committed lines of credit. However, the current paragraph provides examples on liquidity stress testing.

114. Insurance Europe	Europe	No	The suggestion that stress-testing exercises should not assume borrowings from off-balance sheet sources (paragraph 32) is overly limiting. The IAIS should distinguish between uncommitted and committed lines of credit in this respect. It is appropriate to allow consideration of committed lines of credit within an insurer's stressed cash flows and so Insurance Europe would ask that the IAIS amend its guidance accordingly.	Text amended accordingly.
115. Institute of International Finance	Global	No	Paragraph 32 states that, generally, stressed cash inflows should not assume borrowings from off-balance sheet sources such as lines of credit. We believe that the Draft Application Paper should refrain from promoting excessively prudent assumptions and instead include text that focuses on the importance of a careful review of the availability of off-balance sheet sources of cash in times of stress to ensure that assumptions are appropriate. More broadly, we note that it is important that due consideration be given to the role of other risk management tools and requirements - particularly those pertaining to the management of counterparty risk - to avoid redundant or conflicting guidance that could result in unintended consequences.	Please see previous answers.
116. International Actuarial Association	International	No	This paragraph states that lines of credit should generally not be assumed to continue to be available in stressed situations. The IAA agree that a total exclusion of lines of credit is not appropriate since at least some may be committed lines from very strong companies. This restriction on lines of credit would also depend on whether the stress is systemic or idiosyncratic. For the latter, lines of credit should still be available. The assumptions for the availability of lines of credit should also be consistent with those in the company's recovery plans.	Please see previous answers.
117. The Geneva Association	International	No	We believe it is unduly conservative and unreasonable to suggest a blanket assumption that off-balance sheet sources of liquidity are not available in a stress scenario. These sources were providing liquidity to the system during the 2008 crisis. Rather than blanket assumptions, supervisors should seek comfort from insurers over the appropriateness of off balance sheet sources of liquidity. More generally, supervisory tools should encourage insurers to secure contingent	Please see previous answers.

			liquidity arrangements by offering appropriate "credit". More broadly, we believe the IAIS should consider and analyse the practicality and potential consequences of imposing such a restriction or others that would narrow investment and funding options for the insurance sector. A potential way forward may be to differentiate between facilities which have already been committed and additional facilities that would need to be secured under a liquidity stress scenario. Consideration could also be given to applying haircuts.	
118. General Insurance Association of Japan	Japan	No	Making overly conservative assumptions is unnecessary even in stress testing, and the utilization of borrowing via lines of credit should be allowed in scenarios where it is considered reasonable.	Please see previous answers.
119. Aegon NV	The Netherlands	No	The guidance in paragraph 32 suggests that stress testing exercises should not assume borrowings from off-balance sheet sources. We consider this approach to be overly limiting, given that facilities such as the Federal Home Loan Bank were providing liquidity to the system during the 2008 financial crisis. More generally, regulators should ensure that their tools encourage contingent arrangements by giving appropriate "credit." A potential way forward may be to differentiate between facilities which have already been committed and additional facilities that would need to be secured under a liquidity stress scenario. Consideration could also be given to applying haircuts.	Please see previous answers.
120. American Council of Life Insurers	U.S.	No	As noted in our general comments, ACLI believes it is overly conservative and prescriptive to suggest a blanket assumption that off-balance sheet sources of funding, such as liquidity facilities, are not available in a stress scenario. Such guidance ignores the ability and expectation of insurers to effectively manage counterparty exposure and broadly assumes that the other party to such transactions is mismanaging risk exposures. Further, imposing such restriction (as well as others in the Application Paper) would narrow investment and funding options for the insurance sector and may give rise to unintended consequences.	Please see previous answers.

			In our view, this paragraph provides an example of confusing and inappropriate intermingling micro and macro regulatory purposes. The guidance suggests that stress testing exercises should not assume borrowings from off-balance sheet sources. We consider this approach to be limiting, given that sources such as the Federal Home Loan Bank were providing liquidity to the system during the 2008 financial crisis. The paragraph suggests that insurers should not count their lines of credit because "that may amplify shocks to the financial system by transmitting insurer's liquidity demands to other financial counterparties." We submit that this is an overbroad and unrealistic inhibition on the insurer's internal liquidity risk management practices, which is the focus of this Paper. More generally, regulators should ensure that their tools encourage insurers to procure a variety of funding sources as opposed to limiting recognition to a more limited universe of tools. Finally, it should be noted that insurers are customers of banks like any other person or business. Insurers should not be penalized simply because they are highly regulated. Shocks to the financial system can originate from anywhere, and insurers will have access to some sources of liquidity under almost any circumstances. It would be misplaced for insurance supervisors to shift responsibility for the protection of banks from insurers' rightful access to their credit facilities.	
121. Association of British Insurers	United Kingdom	No	Paragraph 32 notes that "generally, stressed cash flows should not assume borrowings from off balance sheet sources such as lines of credit'. We consider this to be unnecessarily restrictive and the IAIS should distinguish between uncommitted and committed lines of credit in this respect. It is appropriate to allow consideration of committed lines of credit within an insurer's stressed cash flows and therefore we believe the IAIS should amend its guidance accordingly.	Please see previous answers.
122. American Property Casualty Insurance Association	United States	No	The last sentence of this paragraph states, "For example, a spike in interest rates may make alternative savings products more appealing, reducing the inflow of new premiums." While a spike in interest rates may affect the inflow of life insurance premiums, this concern is not applicable to non-life products. This paragraph should make that clear.	While not directly affected, non-life-related financial instruments may be impacted as well (i.e. Cat Bonds). Moreover, para 32 explicitly talks about "savings" products, which

				generally fall under the “life products” umbrella.
123. AIG	USA	No	The exclusion of lines of credit and bank-provided sources of funding is problematic in several respects. First, this exclusion runs counter to the broader goal of promoting diverse sources of funding. Second, it is not the responsibility of insurance regulators to ensure that banks have adequate liquidity under stress; indeed, the more direct policy remedy is to stress test banks' capacity to meet its financial obligations to customers, including insurers, across market illiquidity scenarios. A core and pivotal function of the banking system is to serve as a liquidity provider to the broader economy, including during periods of stress. Third, the more direct and instrumental mechanism for managing counterparty risk is through limits and other exposure management tools, not indirectly through liquidity restrictions. Finally, the mitigation of single-name risk concentrations (e.g., multiple insurers accessing liquidity from the same bank) could more effectively be addressed by promoting the use of syndicated lending facilities. We also think it is important that the IAIS not exclude access to U.S. Federal Home Loan Bank (FHLB) lines of credit as a source of liquidity under stress. The FHLB system was created by the FHLB Act as a government sponsored enterprise (GSE) to support mortgage lending and related community investment. Lines of credit with FHLB are fully collateralized and stable sources of funding that have proven to remain accessible through previous stresses. During the 2008 financial crisis, FHLB did not require government support; in fact, as other sources of funding evaporated, FHLB increased their lending. FHLB raises funding through the issuance of bonds and discount notes. While these bonds and notes are not explicitly guaranteed by the U.S. Federal government, the status of FHLB as a GSE accords them certain privileges and enables FHLB to raise funds at rates that are only slightly above comparable obligations issued by the U.S. Department of Treasury. Thus, FHLB provides a demonstrably reliable funding source during stress, and its provision of liquidity dampens (and does not exacerbate) financial market stresses.	Please see previous answers.
Q43 Comment on Paragraph 33				

124. The Geneva Association	International	No	We agree with the principle of ensuring that actions do not damage the reputation or franchise value of an insurer. However, we do not believe that including the example provided is necessary or adds value. We therefore propose rewriting the paragraph as follows: "The supervisor should assess an insurer's assumed actions to respond to a liquidity stress including consideration of whether assumed actions could significantly damage the insurer's franchise or reputation and thereby send inappropriate signals to policyholders and markets more broadly. Anticipated management actions should be consistent with the insurer's contingency funding plan."	Text amended accordingly.
125. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	First sentence, it is not clear what an "insurer's franchise" refers to. Second sentence, it is not clear what assumption is being referred to. Suggest clarifying both.	An insurer’s franchise is defined as the monetary value of its brand and its ability to do business and turnaround profit. Text amended accordingly.
Q44 Comment on Paragraph 34				
126. AIG	USA	No	While we fully agree that capital vs. liquidity management are distinct exercises, we also think it important to consider how capital and liquidity pressures might interact in a given scenario. Notably, if an individual entity were to experience capital-related challenges within an otherwise solvent insurance group, then the group, depending on the circumstances, might need to access some form of liquidity to fund the capital call at the subsidiary. Put simply, financial stresses do not discriminate between "capital" and "liquidity" events, and it is important to consider both independent and joint impacts, where relevant.	Comment noted.
Q45 Comment on Paragraph 35				

127. American Council of Life Insurers	U.S.	No	ACLI believes this paragraph should be simplified to read as follows: "Where the insurer is required to submit a liquidity risk management report to the supervisor, the scenarios and assumptions, alongside the results, should be discussed in the report."	Comment noted. The degree of conservatism may provide important insights in the choice of scenarios and assumptions.
Q46 Comment on Section 3.1: Liquidity risk drivers				
128. Institute of International Finance	Global	No	Paragraph 37 states that the supervisor should consider the insurer's dependence on reinsurance and the possibility that a material portion of reinsurance recoverables is uncollected or not funded in a timely manner. We do not believe that this statement reflects actual practice in the timely recovery of reinsurance payments, nor does it reflect the common practice of netting reinsurance recoverables. As noted above, we believe the Draft Application Paper should refrain from promoting excessively prudent assumptions and instead include text that focuses on the importance of a careful review of the appropriateness of assumptions, in this case as they pertain to reinsurance. This could be achieved through deletion of the second sentence of Paragraph 37. Paragraph 38 discusses policyholder withdrawals and surrenders without considering common contractual provisions and non-contractual factors that disincent withdrawal or surrender. A more balanced discussion of withdrawals and surrenders is recommended. For example, the Paper could note that withdrawals or surrenders may be disincented by adverse tax consequences to policyholders. Paragraph 40 is unnecessary in light of Paragraph 39 and we suggest its deletion or the addition of the phrase, "or deterioration in the insurer's credit rating" at the end of Paragraph 39. Paragraph 41 presents another instance of overly prescriptive guidance on	The case discussed in the second sentence of para 37 is paramount for an effective liquidity risk management. Comment noted. As an Application Paper provides examples on applying ICPs and ComFrame, para 40 describes in more detail supervisory assessment

			assumptions that supervisors should deem appropriate. Similar to our comments above, we do not believe that it is appropriate to recommend adherence to an assumption that liquidity becomes non-transferable. Rather, we believe the focus should be on calling for a careful review of assumptions that include reliance on intra-group assets to satisfy liquidity needs. With respect to Paragraph 45, we agree that asset concentrations can be a driver of liquidity risk. Asset concentrations can be exacerbated by an overly restrictive definition of liquid assets that inhibits an insurer's ability to diversify its liquidity portfolio.	regarding the impact of insurer's credit rating deteriorating. Comment noted. Comment noted.
Q47 Comment on Paragraph 36				
129. General Insurance Association of Japan	Japan	No	We do not think that all the elements described in paragraph 37 to 45 are necessary for uniform consideration. In addition, as the content of CF16.9. a.4 is similar to this paragraph in that it states that "The IAIG may consider", "should" should be replaced with "may" in this paragraph as well. Therefore, the sentence, "The following liquidity risk drivers should be considered when designing and assessing stresses:" should be revised as follows: "When designing and assessing stress tests, the following liquidity risk drivers, for example, may be considered depending on the materiality of each element:"	As this is an Application Paper "should" will not be read as a requirement but rather in an exemplifying manner.
Q48 Comment on Paragraph 37				

130. Insurance Europe	Europe	No	In addition to the current text, a reference to the limited history of failures of reinsurance undertakings should be made to allow the supervisor to make a correct assessment of the risk related to the insurer's dependence on reinsurance. In fact, even in the case where a failed reinsurer was in breach of its capital requirements, the assets would generally be sufficient to cover reinsurance clients' claims.	Comment noted.
131. Institute of International Finance	Global	No	Paragraph 37 states that the supervisor should consider the insurer's dependence on reinsurance and the possibility that a material portion of reinsurance recoverables is uncollected or not funded in a timely manner. We do not believe that this statement reflects actual practice in the timely recovery of reinsurance payments, nor does it reflect the common practice of netting reinsurance recoverables. As noted above, we believe the Draft Application Paper should refrain from promoting excessively prudent assumptions and instead include text that focuses on the importance of a careful review of the appropriateness of assumptions, in this case as they pertain to reinsurance. This could be achieved through deletion of the second sentence of Paragraph 37.	Please see previous answers.
132. International Actuarial Association	International	No	Even if there are collateral arrangements, these assets need to be sufficiently liquid and reinsureds need to consider the possibility that the collateral is inadequate.	Comment noted.
133. The Geneva Association	International	No	We believe it is unduly conservative and unreasonable to suggest a blanket assumption that a material portion of a reinsurance receivable is uncollectible or not funded in a timely manner. Such an assumption fails to account for other risk management tools employed by insurers and supervisors to assess and manage counterparty exposures and risks - including via reinsurance arrangements. Further, similar to other assumptions proposed by the IAIS, we believe the practicality and potential consequences of imposing such a restriction should be thoughtfully considered and analysed before being codified into IAIS guidance.	Please see previous answers. An Appication Paper is not an IAIS guidance. Please refer to ICPs and ComFrame for IAIS supervisory material.

134. American Council of Life Insurers	U.S.	No	As noted in our general comments, ACLI believes it is overly conservative and prescriptive to suggest that a material portion of a reinsurance receivable is uncollectible or not funded in timely manner. Such guidance ignores the ability and expectation of insurers to effectively manage counterparty exposure and broadly assumes the reinsurer on the other end of the transaction is mismanaging its exposures. Further, imposing such restriction would limit the value reinsurance offers from a risk management perspective and may give rise to unintended consequences.	Please see previous answers.
135. AIG	USA	No	While providing for a delay in receipt of some reinsurance recoverables (or non-receipt of some non-reinsurance recoverables) is a reasonable assumption under stress conditions, it is implausible to posit that a "material" portion is not collectible. Instead, regulators should ensure that reinsurers (e.g., through stress testing) maintain sufficient liquidity and capital resources (including reinsurance collateral) to continue to meet their obligations to customers during adverse periods.	Please see previous answers.
Q49 Comment on Paragraph 38				
136. Institute of International Finance	Global	No	Paragraph 38 discusses policyholder withdrawals and surrenders without considering common contractual provisions and non-contractual factors that disincent withdrawal or surrender. A more balanced discussion of withdrawals and surrenders is recommended. For example, the Paper could note that withdrawals or surrenders may be disincented by adverse tax consequences to policyholders.	Text amended accordingly.
137. International Actuarial Association	International	No	The IAA note that policyholder behaviour often does not have a material impact on liquidity for non-life products. The IAA recommend that this requirement be changed to a requirement to reflect materiality, perhaps by adding "(where material to the analysis)" at the end of the first sentence.	Comment noted.
138. The Geneva Association	International	No	We believe it is equally important to recognize and account for considerations that serve as disincentives to policyholder withdrawals such as tax incentives, loss of coverage, etc.	Please see previous answers.

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139. The Life Insurance Association of Japan	Japan	No	In paragraph 38, as an example of a driver triggering liquidity risk, "policyholder behavior" is mentioned, and that it includes "an assessment of the possible withdrawals from different product types, taking into account features such as guarantees, surrender penalties, maturity dates, interest rate sensitivity and customer type." The LIAJ welcomes this statement as it is in line with the LIAJ's position, as well as the statement in paragraph 4.24 of the IAIS's "Systemic Risk from Insurance Product Features" that mentions various potential mitigating and/or exacerbating factors to be taken into account when assessing substantial liquidity risk, such as the "purpose of the policy," "the existence of economic penalties" for example in policies with high assumed interest rate, different characteristics of individual and group insurance products, and the existence of "policyholder protection schemes and mechanisms." We would like to reconfirm that "an insurance product that has a provision where a policyholder can withdraw cash from the policy with little notice or penalty" does not translate immediately to having high liquidity risk. Rather, we would like to confirm that the spirit of paragraph 38 stating that a holistic approach should be taken when assessing insurance product liquidity is an overarching principle that covers the entire Paper. In addition, as a factor that discourages policyholders from surrendering their policies, we ask that the issue of tax disincentive and lack of alternative protection (specifically, the difficulty of repurchasing the same coverage due to health conditions or age) to be added for consideration.	Comment noted. Please see previous answers.
140. American Council of Life Insurers	U.S.	No	We support this paragraph's recognition that there are a variety of factors influencing the liquidity risk of various insurance products that go beyond the insurance contract itself (e.g., "customer type'). Additional factors include the insurance purpose for which the product was purchased, loss of coverage/insurability and potential tax penalties on surrender. We urge that the embrace of diversity reflected in this paragraph be extended to other sections of the paper.	Please see previous answers.

141. American Academy of Actuaries	United States	No	We suggest that a materiality element be added to balance the prescription within paragraph 38, possibly by amending as follows "…and should also include liquidity needs arising from both life and non-life products where material to the analysis"	Please see previous answers.
142. American Property Casualty Insurance Association	United States	No	Policyholder behavior rarely, if ever, impacts the liquidity of non-life insurers. Non-life products have little liquidity risk because insurers' claims are payable only when due to claimants under the underlying insurance policy after investigation and, for liability claims, after settlement negotiations; claimants have no right to be paid on demand. Moreover, covered events triggering significant property-casualty insurance liabilities (e.g., hurricanes, wildfires, etc.) are rarely, if ever, correlated to risks in the broader financial system, with the resulting claims payments occurring over months, quarters, and for the largest events, years. It is also important to recognize that the cash flows of property-casualty insurers are not significantly impacted by macroprudential factors such as changes in interest rates and yield curves. Therefore, the reference to non-life products should be omitted from this paragraph. Alternatively, it should be made clear that non-life products should be considered only where it is material to this analysis.	Please see previous answers.
143. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Suggest including "borrowing costs" in the list of features to be taken into account since this may influence policyholders in their decision whether to take a policy loan.	Text amended accordingly.
Q50 Comment on Paragraph 39				
144. Insurance Europe	Europe	No	As not all reinsurance arrangements involve collateral, the following sentence should be amended to reflect this: "The insurer should also consider additional collateral needs that could arise from [certain] reinsurance arrangements"	Comment noted.
Q51 Comment on Paragraph 40				

145. Institute of International Finance	Global	No	Paragraph 40 is unnecessary in light of Paragraph 39 and we suggest its deletion or the addition of the phrase, "or deterioration in the insurer's credit rating" at the end of Paragraph 39.	Please see previous answers.
146. International Actuarial Association	International	No	This should include consideration of debt repayments or reinsurance re-capture being triggered where appropriate.	Comment noted. Para 40 does not try to provide an exhaustive list but an well-encompassing example.
Q52 Comment on Paragraph 41				
147. Insurance Europe	Europe	No	Insurance Europe strongly disagrees with the statement that "a prudent assumption is that, under stress, liquidity may become non-transferrable, so it is expected that the insurer will demonstrate that the assumptions it makes regarding fungibility are realistic". The IAIS does not qualify "under stress" but seems to imply a liquidity stress that would affect equally all geographies, subsidiaries and single name assets at the same time and in the same range of magnitude, such that there would be no room for Group support. It is up to each insurer to determine what type of stresses are most relevant and plausible for them and how these would impact different entities in the group. The IAIS should redraft the paragraph as follows: "The insurer may need to assess the intragroup liquidity transferability. This may include considerations of existing legal, regulatory and operational limitations to transfers of liquidity and unencumbered assets between entities, business lines and countries. The insurer is invited to note that, depending on the actual needs for liquid assets that would occur under the relevant market stress and on where they would arise within the group, liquidity might not be freely transferable between and within group entities, or across national borders and the potential for affiliates to default on intragroup obligations. The insurer may apply, where relevant and depending on the stresses being tested, prudent assumptions about the non-transferability of part or the whole of intragroup liquidity".	Comment noted.

148. Institute of International Finance	Global	No	Paragraph 41 presents another instance of overly prescriptive guidance on assumptions that supervisors should deem appropriate. Similar to our comments above, we do not believe that it is appropriate to recommend adherence to an assumption that liquidity becomes non-transferable. Rather, we believe the focus should be on calling for a careful review of assumptions that include reliance on intra-group assets to satisfy liquidity needs.	Comment noted.
149. The Geneva Association	International	No	The IAIS notes that in periods of stress, capital might not be freely transferable between and within group entities. We believe the proposed "prudent assumption" that liquidity becomes non-transferable is overly conservative and prescriptive and recommend the paragraph be rewritten as follows to better align with the role application papers are intended to serve: "The insurer should assess the availability of intragroup fungibility in establishing its assumptions. This should include consideration of legal, regulatory and/or operational limitations to transfers of liquidity and unencumbered assets between entities, business lines and countries that could impact the transferability of liquidity during periods of market stress, depending on which actual liquidity needs would occur in such periods of stress and where within the group." We suggest that the IAIS considers a reference here to the possibility that supervisors' actions may inadvertently exacerbate liquidity risks. As illustrative examples, supervisors quantitatively increasing or making other changes to local trust funding/collateral requirements in the event of a major catastrophe, or delays to the release of collateral from trust accounts in a timely manner after underlying claims have been paid, could cause material liquidity strains for a firm trading cross-border into a jurisdiction despite the firm's overall solvency on a worldwide basis. With this in mind, it would be appropriate for the Application Paper to recommend that supervisors consider the liquidity risk implications of their own measures and avoid where possible actions which could negatively impact the liquidity position of either domestic or foreign firms active in that jurisdiction.	Comment noted.

150. American Council of Life Insurers	U.S.	No	The IAIS notes that in periods of stress, capital might not be freely transferable between and within group entities. ACLI believes it is overly conservative and prescriptive to call for an assumption that liquidity becomes non-transferable among a group. We recommend the paragraph be rewritten to better align with the role application papers are intended to serve and suggest the following text: "The insurer should assess the availability of intragroup fungibility in establishing is assumptions. This should include consideration of legal, regulatory and/or operational limitations to transfers of liquidity and unencumbered assets between entities, business lines and countries that could impact the transferability of liquidity during periods of market stress." Historically, failures of reinsurance undertakings are rare, especially in the case of large globally diversified reinsurers. Even in the case where a failed reinsurer would be in breach of its capital requirement, the assets should usually be sufficient to cover reinsurance clients' claims. The liquidity risk as mentioned in paragraph 37 is thus regarded as very low or even absent.	Comment noted.
151. Association of British Insurers	United Kingdom	No	The IAIS asserts that in periods of stress, capital may not be freely transferable between and within group entities. This risk is overstated and it should not be assumed that in a stress scenario, no capital could be transferred between group entities. It is not appropriate to use the word "fungibility' here and this should be replaced with "transferability'. This is because "fungible' strictly refers to a single item in a pool that is able to be substituted for the original item in the pool, which has no relevance in this context. It should also be recognised that assets may not be freely transferable even if liquid due to, for example, solvency constraints or other regulatory requirements. This then becomes more a question of capital transferability and not of liquidity.	Text amended accordingly.

152. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	If this paragraph is addressing intragroup fungibility, assume the use of "insurer" should be "group". Last sentence, to avoid confusion with too many assumptions, suggest: "…will demonstrate that its approach to fungibility is realistic."	Current paragraph addressed more appropriately transferability rather than fungibility.
Q53 Comment on Paragraph 42				
153. Canadian Institute of Actuaries	Canada	No	This paragraph states that: "…with-profits funds or matching adjustment portfolios…should only be included as cash flow sources to back cash flow needs arising from these same accounts." We agree that this should be the case for day-to-day cash flow management and ALM. However, in the event of a large adverse liquidity event it is the entity as a whole that could face insolvency. Therefore, to avoid this, cash and liquid assets available in any asset blocks should be considered to be available to meet an unexpected event. An exception to this is if such a transfer is not legally allowed in a jurisdiction. Such exceptional transfers between blocks could result in a temporary mismatch of assets and liabilities contrary to the company's ALM policy, and would need to be subsequently rectified forthwith.	Comment noted.
154. International Actuarial Association	International	No	This paragraph states that: "…with-profits funds or matching adjustment portfolios…should only be included as cash flow sources to back cash flow needs arising from these same products." The IAA agree that this should be the case for day-to-day cash flow management and ALM. However, in the event of a large adverse liquidity event it is the entity as a whole that could face insolvency. Therefore, to avoid this, cash and liquid assets available in any asset blocks should be considered to be available to meet an unexpected event. An exception to this is if such a transfer is not legally allowed in a jurisdiction. Such exceptional transfers between blocks could result in a temporary mismatch of assets and liabilities contrary to the company's ALM policy and would need to be subsequently rectified forthwith. The IAA also note that ICS 2.0 ignores the impact of such ring-fencing - the IAA see the impact of ring-fencing as more than just a liquidity issue.	Comment noted.

155. Aegon NV	The Netherlands	No	Paragraph 42, footnote 2 defines a "closed block" as a pool of assets that is set aside to support "dividend expectations" of certain policies. The definition should be expanded to include anticipated policy benefits, not just dividend expectations.	Text amended accordingly.
156. American Council of Life Insurers	U.S.	No	Paragraph 42, footnote 2 defines a "closed block" as a pool of assets that is set aside to support "dividend expectations" of certain policies. This definition should be expanded to include anticipated policy benefits, not just dividend expectations.	Please see previous answers.
157. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Footnote 2, as "closed blocks" can also refer to closed blocks of business, suggest making the footnote less definitional: "Here, "closed blocks" refers to discreet pools of assets…"	Text amended accordingly.
Q54 Comment on Paragraph 43				
Q55 Comment on Paragraph 44				
158. The Geneva Association	International	No	The paragraph refers to wholesale liabilities and how they would behave under stressed conditions. It is unclear what the IAIS means by wholesale liabilities. Traditionally, "wholesale liabilities" has been a banking-related term. Consideration should be given to deleting this paragraph.	Text amended accordingly.
159. American Council of Life Insurers	U.S.	No	We question the assumptions regarding funding. If the assumption is made that the insurer will be shut out, the corollary assumption that the insurer can stop its funding flows should also be made. It is not realistic to assume that only the insurer will be negatively affected with no recourse vis a vis its counterparties.	Comment noted.
160. Association of British Insurers	United Kingdom	No	The IAIS refers to "wholesale liabilities' and how they would behave under stressed conditions. It is unclear what the IAIS mean by wholesale liabilities and clarification is therefore required.	Please see previous answers.

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Q56 Comment on Paragraph 45				
161. Institute of International Finance	Global	No	With respect to Paragraph 45, we agree that asset concentrations can be a driver of liquidity risk. Asset concentrations can be exacerbated by an overly restrictive definition of liquid assets that inhibits an insurer's ability to diversify its liquidity portfolio.	Comment noted.
162. AIG	USA	No	We fully agree with the principle of promoting a diversity of funding sources, but note that other elements of the guidance apparently contradict this objective by imposing hard-wired constraints on both the definition of liquid assets and the ability of insurance companies to use their committed unsecured credit facilities from banks. As noted above, the recognition of bank-provided sources of liquidity is premised on the banking sector being subject to comprehensive regulatory stress testing of its capital and liquidity positions.	Comment noted.
Q57 Comment on Section 4: Liquidity portfolio				
163. Institute of International Finance	Global	No	Paragraphs 46 and the following Paragraphs define the liquidity portfolio in an overly conservative and restrictive manner that is inconsistent with ComFrame 16.9.b.2 and 16.9.b.3 and that may lead to an insurer holding assets that do not necessarily align with the liquidity profile of its liabilities and, as noted above, may lead to asset concentrations. Importantly, an overly conservative approach to an insurer's liquidity portfolio may give rise to unintended macroprudential consequences, including impacting the pricing and supply of assets and incenting hoarding behaviors. Insurers match their assets to their liabilities as part of their asset/liability management strategies and practices. As such, the concept of the liquidity portfolio should not be construed as requiring a segregated account of liquid assets. Paragraph 46 provides that "[a]ny assets that the insurer includes in the [liquidity] portfolio should be documented with an appropriate level of granularity." Paragraph 54 appears to provide some guidance as to the appropriate level of granularity by stating that, "the insurer should assess the diversity of its liquid assets by	Insurers are generally expected to invest in assets that ensure portfolio liquidity while also take into consideration the degree to which these can meet obligations as they fall due. An insurers should thus maintain appropriate levels of liquidity to ensure liabilities can be met as they are due. As per ICP 16.8 and 16.9, ComFrame 16.9.a-16.9.d and the current Application Paper, an insurer is expected to hold a liquid stock of assets, or a Liquidity Portfolio. Sufficient to cover liabilities as they fall due. Said Liquidity Portfolio is expected to be

			counterparty, including groups of related counterparties, counterparty jurisdiction, and instrument both with regard to its own asset portfolio, and also considering the broader market (i.e. the insurer does not hold a substantial share of the market for a particular counterparty or asset class) to ensure that the market will be able to bear the insurer's sales without adversely impacting its ability to monetize its liquid assets as planned." While we agree that the insurer should assess the diversity of its liquid assets, this level of granularity (i.e. down to the instrument level) should not be necessary if the insurer can, as expected, demonstrate a well-diversified portfolio. The statement in Paragraph 47 that assets in the liquidity portfolio should be "easily and immediately convertible into cash, either through repo or outright sale, at little or no loss in value" does not recognize that insurers keep assets with a range of liquidity attributes. Indeed, some assets are immediately saleable while others could be liquidated, as needed, over time (this is recognized in Paragraph 50). Some assets may be sold at a loss as well and insurers' use of prudent haircuts can address this possibility, as is acknowledged in Paragraph 55. The sale or hypothecation of assets is a decision for management that is informed by a range of factors that reflect the unique circumstances of the firm at a particular point in time and the nature of the stress to which the firm is subject. The statement in Paragraph 47 that assets included in the liquidity portfolio have low credit and market risk is inconsistent with the recognition in Paragraph 49 that the liquidity portfolio can include publicly traded equity securities. Rather, the Paper should provide that assets included in the liquidity profile should include an adequate volume of assets with relatively low levels of credit and market risk. The grouping of assets into liquidity buckets indicates that the IAIS accepts the inclusion of less liquid assets in a liquidity portfolio. While liquidity bucketing may be a useful tool for some insurers but the decision to adopt a bucketing approach and the assignment of assets to specific buckets should be at management's discretion and not imposed by supervisors. A prescriptive bucketing approach may give rise to supervisors viewing the range of liquid assets too narrowly or not considering new types of assets that may be developed over time. It is also inconsistent with ComFrame 16.9.b, which provides that the head of the insurance group (rather than	constructed and held under business-as-usual and stressed circumstances. The Liquidity Portfolio should bridge the asset-liability mismatch at any time horizon and should be closely following the insurer's liquidity risk appetite. An insurer is expected to tailor its Liquidity Portfolio to its business needs and liquidity risk drivers and the Application Paper provides examples on how this may be achieved. The insurer is expected to be able to immediately monetize assets held in the Liquidity Portfolio to cover any cash flow needs at any time horizons. The IAIS recommends grouping (i.e. "bucketing") assets in the Liquidity Portfolio according to their usability in stress by offering an example on how such a hierarchy may look like (para 50). When and if the need arise for an insurer to monetize its Liquidity

			the supervisor) is responsible for determining what constitutes highly liquid assets. Supervisors should look to management to demonstrate the liquidity of the company's portfolio in light of the composition of its liabilities and the risk appetite set by the board. We do not agree with the statement in Paragraph 52 that instruments issued by other financial institutions generally are not appropriate for inclusion in the insurer's liquidity portfolio, with the exception of demand deposits. Insurers do consider counterparty exposures and the marketability of individual assets and they accordingly adopt counterparty limits and haircuts. They also consider whether an instrument issued by a financial institution can be sold and under what conditions, taking into account market conditions and the nature of any market-wide stress. It is estimated that instruments issued by financial institutions can constitute a significant portion of investment-grade corporate bond indices. An outright prohibition of these instruments would be excessive and could lead to liquidity pressures and incent insurers to assume larger and riskier single-name credit exposure in their non-financial corporate portfolios. A blanket restriction on the inclusion of instruments issued by other financial institutions may be more appropriate for the banking industry where wrong-way risk is considerably higher. (With respect to risk arising from the insurance sector, we note that a pure insurance-driven liquidity event, such as a natural catastrophe, has limited potential to transmit stress to other financial sector markets.) These considerations also apply to Paragraph 57, which provides that assets held at regulated entities should be included in the portfolio only up to the amount of their net cash outflows plus any additional amounts that would be available for transfer to all other entities within the group without statutory, regulatory, contractual or supervisory restrictions. Insurers do consider restrictions on transferability in assessing the liquidity of their portfolios and, provided that these liquidity analyses are robust and limits and haircuts are appropriate, there is no need to unduly restrict the inclusion of certain types of assets in the liquidity portfolio. We would suggest the revision of the fourth and fifth sentences of Paragraph 57, as follows:	Portfolio, it is expected this should not affect its current business or other risk management strategies. As such, funds committed to future payments or investments used for income generation (fees, dividends, interest) should not be part of the Liquidity Portfolio.

			Assets held at regulated entities should be assessed in terms of the ability of the insurer to transfer those assets in times of stress and in light of any applicable statutory, regulatory, contractual or supervisory restrictions on transfer. Funds held in regulated legal entities that would not be transferable within the group should not be considered fungible assets for purposes of assessing group liquidity and they should be included in the liquidity portfolio with appropriate haircuts and limits. We find the second sentence of Paragraph 53 confusing and do not understand why assets generating cash flows should not be allocated to the liquidity portfolio. If, as we assume, this is an admonition against double counting, it should be presented as such. Requiring the exclusion of the principal amount of cash-generating assets is inappropriately restrictive. We would replace the language of Paragraph 53 with the following: When assessing the liquidity of assets in the liquidity portfolio, the insurer should consider its ability and willingness to sell assets generating cash flows. We disagree with the suggestion in Paragraph 56 that an insurer should periodically monetize a portion of its portfolio. Insurers have the capability to assess portfolio liquidity without recourse to practices that may negatively impact or destabilize its liquidity risk management. Moreover, insurers can rely on sales in the ordinary course of business or conduct simulated sales to assess portfolio liquidity based on readily available market data, providing insights into market access and the effectiveness of its operational processes without actually liquidating assets. Paragraph 57 provides another example of overly prescriptive guidance on assumptions that supervisors should deem appropriate. As noted in our comments on Paragraph 41, which also deals with fungibility, we believe that the text should be elevated to focus on calling for a careful review of assumptions that include reliance on intra-group assets to satisfy liquidity needs. We offer the following proposed rewrite of this Paragraph for your consideration: The insurer should consider fungibility in determining the magnitude of the required liquidity portfolio and the location of the portfolio. To facilitate policyholder protection,	

			insurers may be restricted from transferring liquidity out of insurance underwriting entities. As such, insurers should adequately assess the availability of intercompany assets to cover potential liquidity shortfalls elsewhere in the group. Assets held at regulated entities that the insurer determines would not be available for transfer to other entities within the group should not be included in the liquidity portfolio.	Comment noted.
164. The Life Insurance Association of Japan	Japan	No	On Liquidity Portfolio In order to have a realistic understanding of an insurer's actual liquidity risk, liquidity assessment needs to be based on both asset side and liability side. Hence, with regard to the Global Monitoring Exercise, we expect that the Liquidity Risk Metrics that is currently being developed by the IAIS as risk monitoring measure will include both the asset and liability sides for consideration, so that it will better reflect the reality of an insurer's actual liquidity risk.	Comment noted.

165. American Council of Life Insurers	U.S.	No	We recommend that this section be reworked as described in our following comments, to allow for a diversity of approaches to ensure that insurers maintain sufficient liquid assets to meet their expected and unexpected liquidity demands.	Comment noted.
Q58 Comment on Section 4.1: Scope of liquidity portfolio				
Q59 Comment on Paragraph 46				
166. Canadian Institute of Actuaries	Canada	No	The wording in this paragraph suggests that the liquid assets should be in a separate block of assets maintained by the company solely for the purpose of meeting a material liquidity event. This type of conclusion could result from the use of the term "liquidity portfolio" throughout this paper. In practice, liquid assets could be operationally held in separate asset segments to facilitate asset-liability matching under a company's ALM policy. These liquid assets from separate segments are all available to meet unexpected liquidity needs at the total company level. To clarify this, the paper should include a definition of the term "liquidity portfolio" at the start of the paper.	Text amended accordingly.
167. International Actuarial Association	International	No	The wording in this paragraph suggests that the liquid assets should be in a separate block of assets maintained by the company solely for the purpose of meeting a material liquidity event. This type of conclusion could result from the use of the term "liquidity portfolio" throughout this paper. In practice, liquid assets could be operationally held in separate asset segments to facilitate asset-liability matching under a company's ALM policy. These liquid assets from separate segments are all available to meet unexpected liquidity needs at the total company level. To clarify this, the paper should include a definition of the term "liquidity portfolio" at the start of the paper.	Please see previous answers.
168. General Insurance Association of Japan	Japan	No	Based on the level of liquidity risk, the proportionality principle should be applied to the documentation of assets that an insurer includes in its portfolio.	Please see previous answers.

169. Aegon NV	The Netherlands	No	When initially reviewing the paper some of our internal experts interpreted the term "liquidity portfolio" to refer to a separate, custodial portfolio of liquid assets. We would oppose the concept of a separate portfolio. If this is not intended, it would be helpful for the paper to clarify that the liquidity portfolio is not a separate, custodial portfolio; rather it is a group of liquid assets within a broader asset portfolio that would be available to cover the excess of cash outflows over cash inflows under stressed conditions.	Please see previous answers.
170. Association of British Insurers	United Kingdom	No	The liquidity profile of liabilities need to be considered when assessing the liquidity profile of assets. The IAIS describes the need to hold liquid assets to cover stressed cash outflows. Stressed cash outflows for life insurers are likely to occur over a very prolonged period of time considering, for example, longevity stress scenarios. We would therefore ask for explicit clarification that stressed outflows occurring over a prolonged time period are not in scope for this requirement since these would not give rise to a liquidity concern. The current wording suggests the liquid assets need to be held to cover stresses of any type.	Please see previous answers. Appropriate time horizons are discussed in relevant parts of the Application Paper.
171. AIG	USA	No	The discipline of identifying and assessing an insurer's liquidity resources - i.e., highly marketable assets of sufficient quantity and quality to meet potential cash shortfalls under stress - is an important element of insurer liquidity risk management practices. However, the IAIS should clarify that the "Liquidity Portfolio" is not a separately demarcated and segregated pool and is primarily managed at each of the material legal entities. It should not be defined as a distinct external portfolio held at the parent holding company. As a general principle, the focal point for liquidity risk management should be on the operating insurance entities (and on other material liquidity risk-bearing entities, as relevant), anchored in the corresponding liability profile and ALM, with the parent providing an additional supplemental buffer of fungible financial resources.	Please see previous answers.
172. National Association of	USA, NAIC	No	Last sentence, for clarity, "…includes in the liquidity portfolio…"	Text amended accordingly.

Insurance Commissioners (NAIC)				
Q60 Comment on Section 4.2: Composition				
173. Insurance Europe	Europe	No	It should be for an insurer to determine the composition of its liquidity portfolio as part of its enterprise risk management and be able to demonstrate its appropriateness to its supervisor. It should not be the role of the supervisor to specify what assets an insurer may hold in its liquidity portfolio, and the guidance is inappropriately prescriptive in this respect. Insufficient prominence is given within the paper to consideration of the appropriateness of liquid assets in the context of the individual liquidity profile of an insurer's liabilities. Insurers' liabilities are generally not immediately callable in the same manner as bank deposits, but rather depend on the occurrence of contractual events. Given this, insurers are able to manage their liquidity needs according to when they are expected to fall due. This ability to plan for the majority of their withdrawals means that a broader range of assets can be used for an insurer's liquidity needs, as partly acknowledged by section 4.2 of the application paper on the composition of an insurer's liquidity portfolio in discussing liquidity buckets.	Comment noted.
Q61 Comment on Paragraph 47				
174. Canadian Institute of Actuaries	Canada	No	This paragraph and paragraph 49 state that the liquid assets should have a "low market risk." We believe this requirement should not be included. If a liquid asset has a market risk, it should still be available to meet liquidity needs. For example, take the case of a 20-year government bond that has a ready liquid market and thus meets the criteria for a liquid asset. If the liquidity event is triggered by a large sudden increase in interest rates, the market value of the bond will decrease. However, it is still readily cashable, but for a lower market value than before the event. The stress testing should include this decrease in value when testing for the effects of the	Assets in general, including even highly liquid, may have be realized at different velocities, particularly during stressed market conditions.

			adverse scenarios. These comments are consistent with the guidance in paragraph 55.	
175. Institute of International Finance	Global	No	The statement in Paragraph 47 that assets in the liquidity portfolio should be "easily and immediately convertible into cash, either through repo or outright sale, at little or no loss in value" does not recognize that insurers keep assets with a range of liquidity attributes. Indeed, some assets are immediately saleable while others could be liquidated, as needed, over time (this is recognized in Paragraph 50). Some assets may be sold at a loss as well and insurers' use of prudent haircuts can address this possibility, as is acknowledged in Paragraph 55. The sale or hypothecation of assets is a decision for management that is informed by a range of factors that reflect the unique circumstances of the firm at a particular point in time and the nature of the stress to which the firm is subject. The statement in Paragraph 47 that assets included in the liquidity portfolio have low credit and market risk is inconsistent with the recognition in Paragraph 49 that the liquidity portfolio can include publicly traded equity securities. Rather, the Paper should provide that assets included in the liquidity profile should include an adequate volume of assets with relatively low levels of credit and market risk. The grouping of assets into liquidity buckets indicates that the IAIS accepts the inclusion of less liquid assets in a liquidity portfolio. While liquidity bucketing may be a useful tool for some insurers but the decision to adopt a bucketing approach and the assignment of assets to specific buckets should be at management's discretion and not imposed by supervisors. A prescriptive bucketing approach may give rise to supervisors viewing the range of liquid assets too narrowly or not considering new types of assets that may be developed over time. It is also inconsistent with ComFrame 16.9.b, which provides that the head of the insurance group (rather than the supervisor) is responsible for determining what constitutes highly liquid assets. Supervisors should look to management to demonstrate the liquidity of the company's portfolio in light of the composition of its liabilities and the risk appetite set by the board.	Please see previous answers. Text amended accordingly.

176. International Actuarial Association	International	No	This paragraph and Paragraph 49 state that the liquid assets should have a "low market risk". The IAA believe this requirement should not be included. If a liquid asset has a market risk, it should still be available to meet liquidity needs. For example, take the case of a 20-year government bond that has a ready liquid market and thus meets the criteria for a liquid asset. If the liquidity event is triggered by a large sudden increase in interest rates, the market value of the bond will decrease. However, it is still readily cashable, but for a lower market value than before the event. The stress testing should include this decrease in value when testing for the effects of the adverse scenarios. These comments are also recognized in paragraph 55 later in the paper.	Please see previous answers.
177. The Geneva Association	International	No	It is noted that assets in the liquidity portfolio should be easily and immediately convertible into cash either through repo or sale at no loss in value. This is inappropriately restrictive on the nature of assets that may be held; hence this requirement should be deleted from the guidance. The guidance should appropriately recognise that assets should be an appropriate match for the liquidity profile of the liabilities. Less liquid assets may be adequate in some circumstances subject to appropriate haircuts. Reference is made to liquid assets typically having active repo markets at all times. We believe it is excessive to include "at all times" and request this portion of the sentence be removed. The used statement of "active outright sale or repo markets at all times" is too strict and fully proving it hardly possible, since there will always be a hypothetical scenario one can come up with for which this would not be the case. Assets included in the portfolio should not be limited to low credit or market risk assets. If assets are ´readily marketable´ and demonstrate realisable value in base and stress conditions, allowance should be made for inclusion in the portfolio. Also, mentioning that assets eligible for the "liquidity portfolio" should have low credit and market risk is inconsistent with paragraph 49, which states that also common equity shares are generally eligible which clearly do bear market risk.	Please see previous answers. Comment noted.

178. General Insurance Association of Japan	Japan	No	Even though assets may lose value, as long as they are immediately convertible into cash, they should be included in the portfolio given the amount of loss. We propose revising "at little or no loss in value" to "generally at little or no loss in value", for example.	Comment noted.
179. The Life Insurance Association of Japan	Japan	No	In paragraph 47, it states that "assets included in the portfolio should be easily and immediately convertible into cash, either through repo or outright sale, at little or no loss in value." However, this is inappropriate as it does not reflect the fact that insurers own diverse liquid assets. For example, in paragraphs 50 and 55, it is indicated that there are various types of liquid assets ("Primary," "Secondary" and "Tertiary" Liquidity Buckets) that may be monetized over a certain period of time, as well as accommodation for "appropriate haircut to the fair market value of assets" in an event of loss incurred. Moreover, while paragraph 47 states that "such assets generally have low credit risk and low market risk," paragraph 49 states that "common equity shares" can be included in liquidity portfolio, which seems to be contradictory. The Paper should have a provision that explicitly allows an appropriate amount of assets with relatively low credit and market risks in the liquidity portfolio.	Please see previous answers.
180. American Council of Life Insurers	U.S.	No	ACLI believes the expectation for assets to have active outright sale or repo markets "at all times" to be excessive. "At all times" should be deleted.	Please see previous answers.
181. Association of British Insurers	United Kingdom	No	The IAIS notes that assets in the liquidity portfolio should be easily and immediately convertible into cash either through repo or sale at no loss in value. This is inappropriately restrictive on the nature of assets that may be held and should be deleted from the guidance. The guidance should recognise that assets should be an appropriate match for the liquidity profile of liabilities. Less liquid assets may be adequate in some	Please see previous answers.

			circumstances subject to appropriate haircuts. The IAIS also refers to liquid assets as typically having access to repo markets at all times as an indication of them being "readily marketable'. It is therefore unclear why in paragraph 32 the IAIS indicate that stressed cash inflows should not assume borrowings from off balance sheet sources (if they are assumed to be liquid in paragraph 47).	
182. AIG	USA	No	The characteristics describing liquid assets are all meaningful and appropriate. However, in practice, the type and form of liquidity will vary according to the circumstances of a particular scenario. For example, a stress might impact only a particular sector (e.g. mining; oil and gas, etc.) and not as severely impact other sectors or asset classes. In practice, some sectors and asset classes might actually benefit from a flight-to-quality under a given stress scenario. The Application Paper should therefore specify that liquidity attributes will be scenario-dependent, rather than suggesting blanket assumptions irrespective of market environment.	Comment noted. Please refer to para 46.
Q62 Comment on Paragraph 48				
183. The Geneva Association	International	No	This paragraph requires assets in the liquidity portfolio to be unencumbered. We think this is unnecessarily restrictive, particularly if an insurer has the right and ability to "encumber" less liquid assets if needed to access the more liquid encumbered assets for liquidity purposes. We acknowledge that this requires a nuanced analysis, but a strict prohibition seems excessive.	Comment noted.
184. Aegon NV	The Netherlands	No	Paragraph 48 requires assets in the liquidity portfolio to be unencumbered. We think this is unnecessarily restrictive, particularly if an insurer has the right and ability to "encumber" less liquid assets if needed to access the more liquid encumbered assets for liquidity purposes. We acknowledge that this requires a nuanced analysis, but a strict prohibition seems excessive.	Comment noted.

185. American Council of Life Insurers	U.S.	No	Paragraph 48 requires assets in the liquidity portfolio to be unencumbered. We think this is unnecessarily restrictive, particularly if an insurer has the right and ability to "encumber" less liquid assets if needed to access the more liquid encumbered assets for liquidity purposes. We acknowledge that this requires a nuanced analysis, but a strict prohibition seems excessive.	Comment noted.
Q63 Comment on Paragraph 49				
186. Canadian Institute of Actuaries	Canada	No	An overly prescriptive list does not permit the future innovation of capital markets and may not fully recognize specific assets held by companies which are not on this list but which offer good liquidity.	Comment noted.
187. Autorité de Contrôle Prudentiel et de Résolution (ACPR) (Prudential Supervision and Resolution Authority)	France - ACPR	Yes	We consider that the first sentence of this para is too prescriptive for an Application Paper and we suggest the following amendment : As a result, assets generally eligible for inclusion in the portfolio may include:	Text amended accordingly.
188. International Actuarial Association	International	No	With regard to item viii, the IAA note that common equity shares may typically be liquid but often cannot be sold without a loss of value in a liquidity crisis. So, the IAA suggest there is a caveat in this paragraph as well as that given in Paragraph 51.	Text amended accordingly.
189. The Geneva Association	International	No	This section is too prescriptive. Assets that would be generally eligible for inclusion are listed, but the prescriptiveness goes beyond the guidance in the ICPs (CF16.9.b.2 & CF16.9.b.3) which essentially put the onus on the insurer to consider the quality of assets and be able to demonstrate their appropriateness to the supervisor.	The Application Paper provides examples and best practices in applying ICPs and ComFrame.

190. General Insurance Association of Japan	Japan	No	As for vi and viii, vanilla corporate debt securities and common equity shares issued by a financial institution, or any of its affiliated entities, should not be uniformly excluded because there could be cases where systemic risk such as banking does not emerge, and debt securities issued by these entities are still considered to be available. Insurers, in particular, do not have cross-holdings of lines of credit like other financial sectors such as banking, so they are not affected significantly in terms of systemic risk. Therefore, debt securities issued by insurers can be included in the insurer's liquidity portfolio. For example, imposing a haircut after inclusion in a portfolio, as stated in paragraph 55, could be a way.	The Application Paper and ICP 16.8 and 16.9 and ComFrame integrated therein 16.9.a-16.9.d go beyond systemic risk analysis. Instruments issued by financial institutions are more likely to become illiquid in stress. They may also exacerbate stress at the insurer and in the system through its interconnectedness. Current guidelines provide examples to limit interconnectedness.
191. Aegon NV	The Netherlands	No	Paragraph 49 lists various types of assets that are generally eligible for inclusion in the liquidity portfolio. It would be helpful for the paper to note that, under certain circumstances, illiquid assets can meet certain liquidity demands, e.g. if they are eligible to be posted as collateral. A supervisory framework should both permit and encourage such realities to be taken into account. In addition, Paragraphs 49 and 52 effectively prohibit corporate debt securities issued by a financial institution (except for demand deposits). We think this is unnecessarily restrictive and that instruments issued by financial institutions should be considered a legitimate part of a liquidity portfolio, provided that the stress test incorporates the wrong-way risk noted in paragraph 52.	Comment noted. Please see previous answers. In stress, as financial institutions' financial condition is correlated with the broader economy, counterparties may be less willing to trade, which may make such securities relatively illiquid.

				Also, for the avoidance of doubt, as a time deposit generally cannot redeemed before maturity, it is unsuitable as a source of liquidity. A demand deposit, however, can be withdrawn at short notice to satisfy liquidity needs.
192. American Council of Life Insurers	U.S.	No	The liquid assets portfolio in this paragraph includes "Vanilla corporate debt securities, including commercial paper, not issued by a financial institution or any of its affiliated entities." We strongly urge the striking of the parenthetical "… not issued by a financial institution or any of its affiliated entities." Removing an important supply of funding is likely to promote an opposite result from that being sought, namely more risk and the threat of a liquidity run in the event of an unexpected crisis. Paragraph 49 (vi.) lumps together commercial paper with corporate debt securities. We think this is inappropriate, as commercial paper held by an insurer is typically far more liquid than corporate debt. We believe that commercial paper should be considered a primary liquidity source.	Comment noted. Credit ratings may affect counterparties' willingness to purchase an asset and, therefore, impact its ability to be realised in stress.
193. Association of British Insurers	United Kingdom	No	This paragraph lists assets that would be generally eligible for inclusion in the liquidity portfolio. This is too prescriptive and goes beyond the guidance in the ICPs (CF16.9.b.2 & CF16.9.b.3) which essentially put the onus on the insurer to consider the quality of assets and be able to demonstrate their appropriateness to the supervisor. We would therefore ask that this paragraph is updated to better reflect the adopted ICPs which foster a less prescriptive approach.	Please see previous answers.

194. American Property Casualty Insurance Association	United States	No	Item (vi) would exclude from the liquidity portfolio vanilla corporate debt securities that are issued by a financial institution or any of its affiliated entities. APCIA is concerned with this exclusion since financial companies account for approximately 30% of the investment-grade corporate bond index. As a result, this exclusion would disallow a substantial amount of highly rated debt securities. Therefore, APCIA recommends removing the clause in item (vi) that disallows vanilla corporate debt securities that are issued by a financial institution or any of its affiliated entities from the liquidity portfolio.	Please see previous answers.
195. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	First sentence, for clarity, "…inclusion in the liquidity portfolio include…"	Text amended accordingly.
Q64 Comment on Paragraph 50				
196. Canadian Institute of Actuaries	Canada	No	This paragraph makes the point that there are limits on the ability to monetize even those assets designated as being "liquid." This depends on the nature of the scenario that leads to an adverse liquidity event. For instance, there is a significant difference between the effects on liquidity in a systemic scenario and an idiosyncratic scenario. The key issue is whether there is a ready market available in which to monetize the assets. We recommend the table with this paragraph be removed from the paper. The table, which classifies types of assets as Primary, Secondary and Tertiary, is overly restrictive and can be misleading depending on the adverse scenario. For instance, in the 2008-2009 financial crisis, some asset types that the chart shows as rated AA and primary were actually frozen and not available to liquify. The key should not be the type or rating of an asset before an adverse event, but whether there will likely continue to be a readily available market for an asset after the event. The emphasis should be on deciding whether an asset could still be liquid given the circumstances of the adverse event and the company's specific situation.	Text amended accordingly.

197. Insurance Europe	Europe	No	While this is meant to be merely an example, Insurance Europe advises against such a level of prescriptiveness to be included, which is not only against the nature of this paper and its scope of application, but can also be misleading, as it is not an appropriate reflection of insurers' assets and their liquidity features. - As an example, the blanket exclusion of assets issued by FIs is flawed in many respects and, in particular, by failing to see that a significant part of the insurance market is made up of non-life insurers for which liquidity needs relate to the occurrence of events which have no correlation with the financial cycle. - Another example is the exclusion of sovereign assets which do not back liabilities in the sovereign's jurisdiction. The right criterion should not be the location of underwriting risks but the currency, to account for currency unions like the Euro or for global currencies (especially the dollar). Second, the IAIS should recognise that it is insurers who best understand the relevance of scenarios deemed as severe but plausible for their own businesses (including the assumptions regarding the cross-border transferability of liquidity). - A third example is the prescribed use of credit rating thresholds which would prove pro-cyclical, let alone the restriction of the primary bucket to AA signatures or above whose result would only be to increase common exposures across the system (considering the lack of AAA and AA+ signatures in the post-crisis sovereign and corporate markets).	Please see previous answers.
198. Autorité de Contrôle Prudentiel et de Résolution (ACPR) (Prudential Supervision and Resolution Authority)	France - ACPR	Yes	We suggest the deletion of both the para and the table Table under § 50 may be read as linking the usability of assets in stress, to their rating. However, such linkage is not demonstrated, nor is it observed on all markets, nor for all assets. Furthermore, the classification of asset is disputable as the paper does not show evidence of the unavailability of high quality corporate debt and commercial paper for short-term insurance liquidity needs as compared, for example, to government bonds that are included in the primary bucket. The paper does not explain how such a tiering approach - which is derivated from banking regulation - could be reconciled with the specificities of insurance companies' liquidity needs. Overall, the table is based on assumptions that are neither demonstrated nor backed	Text amended accordingly.

			by an impact assessment and may thus be misleading; consequently, we have strong reservations about maintaining this table and prefer to have it deleted.	
199. International Actuarial Association	International	No	This paragraph makes the point that there are limits on the ability to monetize even those assets designated as being "liquid". This depends on the nature of the scenario that leads to an adverse liquidity event. For instance, there is a significant difference between the effects on liquidity in a systemic scenario and an idiosyncratic scenario. The key issue is whether there is a ready market available in which to monetize the assets. The IAA think the chart with this paragraph should be removed from the paper. The chart in this paragraph which classifies types of assets as Primary, Secondary and Tertiary is overly restrictive and can be misleading depending on the adverse scenario. For instance, in the 2008-2009 financial crisis, some asset types that the chart shows as rated AA and primary were actually frozen and not available for liquidity purposes. The key consideration should not be the type or rating of an asset before an adverse event, but whether there continues to be a readily available market for an asset after the event. The emphasis should be on deciding whether an asset could still be liquid given the circumstances of the adverse event and the company's specific situation.	Please see previous answers.
200. The Geneva Association	International	No	While we agree conceptually with having liquidity buckets with differing characteristics depending on the profile of an insurers liabilities, the construct and number of any such liquidity buckets should be a matter for the insurer to determine in accordance with its liquidity profile, incorporating a market-based view where possible, and should not be predetermined in supervisory guidance. We believe that the table sets out guidance which is much too prescriptive at a level of details which goes too far. Hence, we suggest that the table be deleted from the Application Paper.	Please see previous answers.
201. Dirección General de	Spain	No	We come back to the comment already made by us under the consultation phase of the MPC related to the classification given by the proposal to the securities issued or	Credit rating my affect the ability of a security to be monetize in a timely

Seguros y Fondos de Pensiones			guaranteed by sovereign, supranational or other nonsovereign public sector entities backed by their full faith and credit. Where under other considerations it´s said: used to back liabilities in the sovereign´s jurisdiction. As we are considering liquidity risk and Sovereigns are one of the most liquid assets of the market, no difference should be applied among ratings. All of them must be considered in the Primary liquidity bucket . In order to consider them as illiquid, irrefutable evidences must be presented. It is difficult to assert that Sovereign bonds not baking liabilities in the sovereign´ s jurisdiction with rating below A are not liquid at all, and therefore they are less liquid tan equity share. Assets are liquid or illiquid, independently of the liabilities they are backing. Completing the previous and related the classification given to Securities issued by a Goverment Sponsored Enterprise senior to preferred equity, we reiterate the comment made under the consultation phase of the MPC as well. There are not reason to distinguish among ratings. We are dealing with liquidity risk.	fashion and under stressed conditions. Securities guaranteed by sovereign entities bear different credit ratings which may affect their liquidity, and such differences should be taken into account. There is more likely to be higher demand for a sovereign's securities in domestic markets relative to foreign markets, which would make these assets more likely to be realisable in stress. Credit ratings may affect counterparties' willingness to purchase an asset and, therefore, impact its ability to be realised in stress.
202. Aegon NV	The Netherlands	No	Although we acknowledge that the chart accompanying paragraph 50 is an illustrative example, it may be appropriate to list separately money market funds, which are a major ("primary") liquidity source in a number of jurisdictions.	Text amended accordingly.
203. American Council of Life Insurers	U.S.	No	ACLI sees no value in the bucketing of asset classes and would urge its removal from the Application Paper. The list is overly prescriptive and excluding entire categories of asset-backed securities, loans and non-public equities from the permissible list is far too conservative. A prescriptive list that does not permit any future innovation in asset markets is not constructive. Accordingly, we believe the table on page 15 of the Application Paper, which we consider an inappropriate carry-over of a banking perspective of liquidity, should be removed.	Please see previous answers. Please refer to "Other assets" in the table under the current paragraph.

204. Association of British Insurers	United Kingdom	No	With regards to the table of asset classes and their respective liquidity buckets on page 15, while the ABI agrees conceptually with having liquidity buckets with differing characteristics depending on the profile of an insurer's liabilities, the construct and number of any such liquidity buckets should be a matter for the insurer to determine in accordance with their liquidity profile and should not be predetermined in supervisory guidance.	Comment noted. Please see previous answers.
205. American Property Casualty Insurance Association	United States	No	The list of permissible assets provided in this paragraph's liquidity portfolio is overly conservative and prescriptive. For example, the list completely excludes entirely appropriate categories of asset-backed securities, loans, and non-public equities. The liquidity portfolio should be flexible enough to allow companies to include safe and liquid assets. As currently drafted, this overly prescriptive list can also discourage future innovations in the asset market.	Please see previous answers.
206. AIG	USA	No	We agree that it may be useful to provide high-level guidelines about the relative liquidity of various assets, in order to promote some consistency across insurers. However, we are concerned that the granularity specified in the Application Paper could pose unintended consequences. As noted above, the quality of liquidity provided is a function of market conditions and varies, in practice, according to the context and conditions of a given scenario. Additionally, the concept of primary, secondary, and tertiary liquidity buckets implies a false precision about the relative liquidity of the delineated asset classes. This artificial and uniform bucketing also creates cliff effects and an "all-or-nothing" approach to asset liquidity. From a macro-prudential standpoint, insurers will be incentivized to herd into certain assets, potentially increasing their correlations, while elevating the "fire sale" risk of assets deemed less liquid or unacceptable. The reliance on external credit ratings, while a convenient shorthand for asset quality, could create pro-cyclicality during a mass downgrade scenario. Credit ratings are intended to assess relative creditworthiness, and are not designed as measures of liquidity risk. Moreover, insurers typically have internal ratings that could provide more appropriate indicators of asset quality.	Comment noted. Please see previous answers.

			We therefore recommend the removal of the table specifying the granular buckets by asset type and credit rating.	
Q65 Comment on Paragraph 51				
207. Canadian Institute of Actuaries	Canada	No	The comments in Q64 (paragraph 50) also apply here.	Comment noted.
208. Insurance Europe	Europe	No	While this is meant to be merely an example, Insurance Europe advises against such a level of prescriptiveness to be included, which is not only against the nature of this paper and its scope of application, but can also be misleading, as it is not an appropriate reflection of insurers' assets and their liquidity features. - As an example, the blanket exclusion of assets issued by FIs is flawed in many respects and, in particular, by failing to see that a significant part of the insurance market is made up of non-life insurers for which liquidity needs relate to the occurrence of events which have no correlation with the financial cycle. - Another example is the exclusion of sovereign assets which do not back liabilities in the sovereign's jurisdiction. The right criterion should not be the location of underwriting risks but the currency, to account for currency unions like the Euro or for global currencies (especially the dollar). Second, the IAIS should recognise that it is insurers who best understand the relevance of scenarios deemed as severe but plausible for their own businesses (including the assumptions regarding the cross-border transferability of liquidity). - A third example is the prescribed use of credit rating thresholds which would prove pro-cyclical, let alone the restriction of the primary bucket to AA signatures or above whose result would only be to increase common exposures across the system (considering the lack of AAA and AA+ signatures in the post-crisis sovereign and corporate markets).	Please see previous answers.

209. International Actuarial Association	International	No	The comments shown for paragraph 50 also apply to paragraph 51.	Comment noted.
210. The Geneva Association	International	No	- The blanket exclusion of assets issued by financial institutions is overly prescriptive as it assumes for instance that the stress to be applied affects all geographies and asset classes, whatever its characteristics. For instance, excluding those assets when testing a catastrophe event does not make sense. - It is also overly restrictive to exclude sovereign assets which do not back liabilities in the sovereign's jurisdiction. First, the right criterion should not be the location of underwriting risks but the currency. Further, it assumes a global shock (with a lack of transferability) which is a too prescriptive assumption. - Finally, the use of ratings as a liquidity criterion, as recommended by the IAIS, could prove pro-cyclical	Please see previous answers.
211. AIG	USA	No	We broadly support the underlying concept of differentiating the relative liquidity of various instruments, including by time horizon and duration of the stress event. Although it is impossible ex ante to ascertain whether a stress will be short-lived or protracted, we generally agree that sudden, unanticipated shocks should rely more on the highest-quality instruments that retain their liquidity across a range of market scenarios. That said, an overly prescriptive approach to liquidity allocation (e.g., disallowing certain reasonably-liquid assets altogether, irrespective of price or haircut) could inadvertently result in both herding and hoarding. If insurers herd into the same narrow bucket of instruments, the correlations across these instruments could in turn increase (effectively reducing the diversity of liquid resources), while also exacerbating "fire sale" risks for instruments that are not eligible. Hoarding could result from requirements to maintain hard-wired liquidity thresholds, if insurers respond by either selling or not investing in (and thereby impairing the liquidity of) instruments that aren't recognized as liquid assets within a given time horizon.	Comment noted.

IAIS

Q66 Comment on Paragraph 52				
212. Canadian Institute of Actuaries	Canada	No	The restriction on instruments issued by other financial institutions appears to borrow guidance from the bank supervisors and may not fully reflect the long-term nature of life insurance liabilities. In Canada financial institutions represent 30% of the investment grade corporate bond index. Excluding this category of liquidity will introduce greater risk since it would result in more single-name concentration in alternative available assets.	Comment noted.
213. Insurance Europe	Europe	No	While this is meant to be merely an example, Insurance Europe advises against such a level of prescriptiveness to be included, which is not only against the nature of this paper and its scope of application, but can also be misleading, as it is not an appropriate reflection of insurers' assets and their liquidity features. - As an example, the blanket exclusion of assets issued by FIs is flawed in many respects and, in particular, by failing to see that a significant part of the insurance market is made up of non-life insurers for which liquidity needs relate to the occurrence of events which have no correlation with the financial cycle. - Another example is the exclusion of sovereign assets which do not back liabilities in the sovereign's jurisdiction. The right criterion should not be the location of underwriting risks but the currency, to account for currency unions like the Euro or for global currencies (especially the dollar). Second, the IAIS should recognise that it is insurers who best understand the relevance of scenarios deemed as severe but plausible for their own businesses (including the assumptions regarding the cross-border transferability of liquidity). - A third example is the prescribed use of credit rating thresholds which would prove pro-cyclical, let alone the restriction of the primary bucket to AA signatures or above whose result would only be to increase common exposures across the system (considering the lack of AAA and AA+ signatures in the post-crisis sovereign and corporate markets).	Comment noted.

214. Institute of International Finance	Global	No	We do not agree with the statement in Paragraph 52 that instruments issued by other financial institutions generally are not appropriate for inclusion in the insurer's liquidity portfolio, with the exception of demand deposits. Insurers do consider counterparty exposures and the marketability of individual assets and they accordingly adopt counterparty limits and haircuts. They also consider whether an instrument issued by a financial institution can be sold and under what conditions, taking into account market conditions and the nature of any market-wide stress. It is estimated that instruments issued by financial institutions can constitute a significant portion of investment-grade corporate bond indices. An outright prohibition of these instruments would be excessive and could lead to liquidity pressures and incent insurers to assume larger and riskier single-name credit exposure in their non-financial corporate portfolios. A blanket restriction on the inclusion of instruments issued by other financial institutions may be more appropriate for the banking industry where wrong-way risk is considerably higher. (With respect to risk arising from the insurance sector, we note that a pure insurance-driven liquidity event, such as a natural catastrophe, has limited potential to transmit stress to other financial sector markets.)	Please see previous answers.
215. International Actuarial Association	International	No	The restriction on instruments issued by other financial institutions appears to borrow guidance from that for bank supervisors and may not fully reflect the long-term nature of life insurance liabilities. In Canada, for example, financial institutions represent 30% of the investment grade corporate bond index. Excluding this category of liquidity will introduce greater risk since it would result in more single-name concentration in alternative available assets.	Please see previous answers.
216. The Geneva Association	International	No	Paragraphs 49 and 52 effectively prohibit corporate debt securities issued by a financial institution (except for demand deposits). We think that a blanket exclusion is unnecessarily harsh and that instruments issued by financial institutions should be considered a legitimate part of a liquidity portfolio. Insurers manage counterparty exposures through other aspects of their enterprise risk management and it is not appropriate to overlay that with additional requirements	Please see previous answers.

			through liquidity management. We also note that a significant proportion of corporate indices are made up of financial institutions and therefore excluding these would constrain available liquidity and may cause systemic risk. Similar to other assumptions proposed by the IAIS, we believe the practicality and potential consequences of imposing such a restriction should be thoughtfully considered and analysed before being codified into IAIS guidance. Financial services obligations can constitute a significant proportion of investment-grade corporate bond indices. Over the long term, a blanket exclusion would inadvertently incentivize insurers to increase allocation of their investment portfolio to low grade, high yield and high risk asset classes. An alternative preferable to blanket restrictions is for insurers to factor the behaviour of financial institutions (and the values of instruments issued by financial institutions) in a liquidity stress event into stress and scenario testing through appropriate haircuts. If this is the case, the liquid asset portfolio can be tailored to the insurer's profile and markets	
217. General Insurance Association of Japan	Japan	No	Uniformly excluding instruments issued by financial institutions from an insurer's liquidity portfolio is inappropriate for the following reasons: - Vanilla corporate debt securities and common equity shares issued by a financial institution, or any of its affiliated entities, should not be uniformly excluded because there could be cases where systemic risks such as banking do not emerge, and debt securities issued by these entities are still considered to be available. Insurers, in particular, do not have cross-holdings of lines of credit like other financial sectors such as banking, so they are not affected significantly in terms of systemic risk. Therefore, debt securities issued by insurers can be included in the insurer's liquidity portfolio. -We are concerned that the wording of this paragraph may cause insurers to sell products issued by financial institutions and purchase those issued by entities other than financial institutions, and that this may lead to unintended effects on markets.	Please see previous answers.

			For example, imposing a haircut after inclusion in a portfolio, as stated in paragraph 55, could be a way.	Please refer to page 2 on the definition and scope of IAIS Application Papers.
218. The Life Insurance Association of Japan	Japan	No	In paragraph 52, it is stated that it is "generally not appropriate" to include financial instruments issued by other financial institutions in an insurer's liquidity portfolio, "except for demand deposits." However, this sentence should be deleted since prohibiting such products is excessive and may negatively impact the maintenance of appropriate liquidity. Insurers consider exposure to counterparties and marketability of each individual asset when setting risk limit according to each counterparty.	Please see previous answers.
219. Aegon NV	The Netherlands	No	Paragraphs 49 and 52 effectively prohibit corporate debt securities issued by a financial institution (except for demand deposits). We think this is unnecessarily restrictive and that instruments issued by financial institutions should be considered a legitimate part of a liquidity portfolio, provided that the insurer's stress testing incorporates the wrong-way risk noted in paragraph 52.	Please see previous answers.
220. American Council of Life Insurers	U.S.	No	ACLI believes it is inappropriate to call for excluding instruments issued by other financial institutions. Such guidance ignores the ability and expectation of insurers to effectively manage counterparty exposure and broadly assumes the other party to such transactions is mismanaging risk exposures. Further, imposing such restriction (as well as others in the Application Paper) would narrow investment and funding options for the insurance sector and may give rise to unintended consequences.	Please see previous answers.
221. Association of British Insurers	United Kingdom	No	The IAIS notes that "instruments issued by other financial institutions are not generally appropriate for inclusion in the insurer's liquidity portfolio, except for demand deposits'.	Please see previous answers.

			This statement should be removed from the guidance. Insurers will manage counterparty exposures through other aspects of their Enterprise Risk Management (ERM) and it is therefore not appropriate to overlay this with additional requirements through liquidity management. The ABI would like to highlight that a significant proportion of corporate indexes are made up of financial institutions and therefore excluding these would constrain available liquidity and may itself be a cause of systemic risk.	
222. AIG	USA	No	From a macro-prudential cross-sectoral standpoint, the strict prohibition on recognizing instruments issued by financial institutions could exacerbate systemic-wide pressures during a liquidity crunch. Insurers, as a significant investor in corporate bond markets, would be dis-incentivized from acting as a potential stabilizing force to purchase temporarily illiquid but otherwise sound financial institution obligations. If the purpose of this restriction is to mitigate potential "domino' risks (i.e., a financial institution's failure cascading to otherwise sound insurers which hold its obligations), then the more direct policy mechanism would be to promote syndicated exposure and to apply counterparty exposure restrictions. We also caution against a uniform treatment of financial institutions. In practice, financial institutions encompass a broad range of sectors and issuers, whose liquidity attributes can vary significantly. This blanket, undifferentiated prohibition on what is a large and diverse asset class could both unnecessarily constrain internal liquidity management practices and also undermine the prudential objective of having diversified funding sources.	Please see previous answers.
Q67 Comment on Paragraph 53				
223. Canadian Institute of Actuaries	Canada	No	We do not agree with this paragraph saying liquidity testing should disallow considering any bonds paying coupons which are used in the company's ALM cash flow management. If there is a liquidity event, all liquid assets should be considered to be available to meet this immediate need in order to avoid company insolvency. Maintaining an asset-liability match is secondary in this event and can be corrected	Text amended accordingly.

			when normal conditions return. There may be a cost for temporarily not maintaining a desired ALM position, but this should be reflected in scenario testing.	
224. Insurance Europe	Europe	No	While this is meant to be merely an example, Insurance Europe advises against such a level of prescriptiveness to be included, which is not only against the nature of this paper and its scope of application, but can also be misleading, as it is not an appropriate reflection of insurers' assets and their liquidity features. - As an example, the blanket exclusion of assets issued by FIs is flawed in many respects and, in particular, by failing to see that a significant part of the insurance market is made up of non-life insurers for which liquidity needs relate to the occurrence of events which have no correlation with the financial cycle. - Another example is the exclusion of sovereign assets which do not back liabilities in the sovereign's jurisdiction. The right criterion should not be the location of underwriting risks but the currency, to account for currency unions like the Euro or for global currencies (especially the dollar). Second, the IAIS should recognise that it is insurers who best understand the relevance of scenarios deemed as severe but plausible for their own businesses (including the assumptions regarding the cross-border transferability of liquidity). - A third example is the prescribed use of credit rating thresholds which would prove pro-cyclical, let alone the restriction of the primary bucket to AA signatures or above whose result would only be to increase common exposures across the system (considering the lack of AAA and AA+ signatures in the post-crisis sovereign and corporate markets).	Comment noted.
225. Institute of International Finance	Global	No	We find the second sentence of Paragraph 53 confusing and do not understand why assets generating cash flows should not be allocated to the liquidity portfolio. If, as we assume, this is an admonition against double counting, it should be presented as such. Requiring the exclusion of the principal amount of cash-generating assets is inappropriately restrictive. We would replace the language of Paragraph 53 with the following:	Please see previous answers.

			When assessing the liquidity of assets in the liquidity portfolio, the insurer should consider its ability and willingness to sell assets generating cash flows.	
226. International Actuarial Association	International	No	The IAA do not agree that liquidity testing should disallow considering any bonds paying coupons which are used in the company's ALM cash flow management. While it makes sense not to double-count something, the second sentence in this paragraph could be better worded. If there were a liquidity event, all available liquid assets would be available to meet this immediate need in order to avoid company insolvency. Maintaining an asset-liability match is secondary in this event and can be corrected when normal conditions return. There may be a cost for temporarily not maintaining a desired ALM position, but this should be part of the costs in scenario testing.	Please see previous answers.
227. The Geneva Association	International	No	It is stated that "To avoid double-counting, assets generating cash-flows used as cash inflows, for example through coupon or interest payments or maturities, should not be allocated to the portfolio as the insurer may not be willing or able to sell them without impacting its existing business or risk management strategies". This sentence is unclear and, in the extreme, could be interpreted to mean that assets backing liabilities cannot be taken into account in liquidity stress testing. Although we acknowledge that actual liquidity actions will incorporate profitability and risk management considerations (as well as future liquidity impacts), we consider a blanket prohibition to be unduly restrictive. We recommend deleting this sentence. At a minimum, the phrase - "as the insurer may not be willing or able to sell them without impacting its existing business or risk management strategies" - should be replaced with "if the insurer is not willing or able to sell them due to the impact this would have on its existing business or risk management strategies."	Where an insurer is relying on the coupons to meet cash outflows, the asset would not realizable without the loss of those cash flows and therefore, overstate the amount of available liquidity.
228. Aegon NV	The Netherlands	No	Paragraph 53 notes that assets generating cash flows (e.g. coupon paying assets) should not be allocated to the liquid asset portfolio. Although we acknowledge that actual liquidity actions will incorporate profitability and risk management considerations (as well as future liquidity impacts), we consider a blanket prohibition to be unduly restrictive.	Please see previous answers.

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229. American Council of Life Insurers	U.S.	No	ACLI believes it is inappropriate to disallow consideration of any bonds paying coupons. We recognize that this recommendation may be motivated by a concern over the possibility of "double counting," but excluding the full principal from sale is excessively conservative. The IAIS, in conjunction with the industry, should elaborate on the development of more appropriate mechanisms to avoid double counting coupon payments, if that is, in fact, the concern that is being addressed. In the absence of an appropriate alternative ACLI believes this sentence or paragraph should be deleted from the Application Paper.,	Please see previous answers.
230. Association of British Insurers	United Kingdom	No	The IAIS refers to efforts to avoid double counting by not allowing the allocation of assets generating cashflows that insurers may not be willing or able to sell without impacting existing business or risk strategies. The intention and rationale here is not clear and we would ask for clarification.	Comment noted.
231. American Academy of Actuaries	United States	No	We agree with the need to avoid double counting in liquidity stress testing, however the wording in this paragraph would benefit from clarification. For example, it would make sense to avoid including future cash from an asset which had been previously sold in a given scenario. Thus an examination of cash uses and sources would be preferable to a prescribed omission of coupon paying assets from the liquidity portfolio.	Comment noted.
232. American Property Casualty Insurance Association	United States	No	APCIA recommends clarifying this paragraph. As currently drafted, the second sentence would disallow from the liquidity portfolio any asset other than cash, because nearly all the assets listed in paragraph 50 generate positive cash flows. If the intent of this paragraph is to exclude only the future cash flows from assets intended to be sold in a stress scenario, we recommend making that intention clear. Similarly, this paragraph is overly prescriptive as it assumes insurers cannot or would not sell assets generating cash-flows in a stress scenario. The rationale for this limitation is to avoid double counting these assets. However, double-counting coupon or other payments can be avoided without excluding the full principal of these instruments from the liquidity portfolio. Insurers should have the flexibility to develop	Comment noted.

			liquidity portfolios with these instruments that appropriately avoids double counting coupon or other payments.	
233. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	First sentence, suggest deleting "and supervisors" as the supervisor does not decide what is in an insurer's liquidity portfolio. Additionally, is this paragraph supposed to be under subheading 4.3? The first sentence says there are a "number of additional considerations" but then only mentions double counting. It seems this would make more sense starting off the subsection on "Other portfolio considerations".	Text amended accordingly.
Q68 Comment on Section 4.3: Other portfolio considerations				
Q69 Comment on Paragraph 54				
234. Autorité de Contrôle Prudentiel et de Résolution (ACPR) (Prudential Supervision and Resolution Authority)	France - ACPR	Yes	At the end of the para, we suggest adding the following sentence: To ensure the fulfillment of these objectives, the insurer may find it appropriate to establish, in its risk management policy, quantitative limits on (certain types of) assets and exposures	Text amended accordingly.
235. International Actuarial Association	International	No	The IAA note a portfolio entirely of government bonds is not "diversified" even though it would be highly liquid and highly unlikely to overwhelm any market for such bonds when sold. (That is assuming a government bond of an industrialized country such that those bonds are highly rated.)	Comment noted.
236. The Geneva Association	International	No	The paragraph states that "the insurer should assess the diversity of its liquid assets by counterparty, including groups of related counterparties, counterparty jurisdiction, and instrument both with regard to its own asset portfolio, and also considering the broader market (i.e. the insurer does not hold a substantial share of the market for a	Comment noted.

			particular counterparty or asset class) to ensure that the market will be able to bear the insurer's sales without adversely impacting its ability to monetize its liquid assets as planned." It should be sufficient to prove the existence of a well-diversified portfolio as it then can be assumed that sufficiently diversified instruments are available to ensure tradability. It should not be necessary to make assessments from countless highly granular perspectives.	
237. Dirección General de Seguros y Fondos de Pensiones	Spain	No	On diversification we come back to our following previous comment as well. Concentration should be dealt in capital. An asset that is liquid has the same liquidity disregarding the amount of the investment, eg. if an asset is liquid, its liquidity remains no matter if you have 1 euro invested in that issue or 1000 euros. Futhermore, the requirement of diversification can affect ALM strategies of the undertakings with an important prejudice to policyholders. Many portfolios of undertakings are invested in a hold to maturity strategies that allows undertakings to face problems like low yield enviroment. The requirement of diversifcation could lead to a forced sales of assets, with undesirable secondary effects on the market. In Basel III for example when dealing with the diversification aspect- Basel III (LCR 30) art. 30.29 a series of exceptions are considered in relation with the diversification rule.	Concentration risk in the context of liquidity risk management risk refers to concentrations relative to the insurer's own portfolio which may become illiquid as well as the share of said assets within the market which can be thinly traded and unable to being monetize in an efficient manner and under stress conditions.
238. AIG	USA	No	We strongly endorse the principle of diversity in liquidity resources, but note that the constraints imposed by other aspects of the Application Paper could undermine this worthwhile goal. Further, concentrations in the most liquid assets, for example in sovereign bonds (such as US Treasuries held by a US-domiciled insurer), should not be discouraged. Similarly, if a company's outflows are primarily in a specific currency, then a concentration of liquid assets held in that currency should not be dis-incentivized.	Comment noted.
239. National Association of Insurance	USA, NAIC	No	The second sentence is quite long and rather complex so it is hard to follow. Suggest revising to make it easier to understand.	Text amended accordingly.

Commissioners (NAIC)				
Q70 Comment on Paragraph 55				
240. The Geneva Association	International	No	We believe the suggestion that haircuts should account for different time horizons of stresses adds unwarranted complexity and thus recommend the second sentence be rewritten as follows: "Elements to consider in developing haircuts include credit quality and market volatility across asset types."	The time dimension of an insurer's liquidity regime is paramount for an efficient liquidity risk management.
241. American Council of Life Insurers	U.S.	No	ACLI believes the recommendation to vary haircuts by time horizons of stresses adds unnecessary complexity and suggests rewriting the paragraph as follows: "Elements to considerations in developing haircuts include credit quality and market volatility across asset types."	Please see previous answers.
Q71 Comment on Paragraph 56				
242. Canadian Institute of Actuaries	Canada	No	We disagree that an actual sale is required as a test, as suggested by this paragraph. The extra expense is not justified.	Text amended accordingly.
243. Insurance Europe	Europe	No	Insurance Europe believes that the following sentence should be deleted: "the insurer should also consider the impact of its actions on the wider market and on financial stability". As opposed to micro-prudential risks, it is nearly impossible for a company to assess the systemic risk that it represents to the wider financial system, as it lacks access to other confidential financial institutions data, reported only to supervisors, to estimate its own contribution to systemic risk. Only central competent authorities, eg, central banks can combine cross-sectorial data at scale to monitor systemic risk and the contribution of a particular entity to it (gathering relevant data for the insurance, banking, asset management, derivative markets and so forth).	Text amended accordingly.

244. International Actuarial Association	International	No	The IAA disagree that an actual sale is required as a test, as suggested by this paragraph. The extra expense is not justified.	Please see previous answers.
245. The Geneva Association	International	No	The paragraph refers to insurers periodically monetising a portion of the liquidity portfolio to test how liquid it is. This is inappropriately prescriptive given the liquidity risk of insurers is not the same as the liquidity risk of banks. A principles-based approach should be adopted where it is up to the insurer to categorise its assets in buckets such as highly liquid, liquid and less liquid; and to reasonably justify the categorisation. Testing of monetisation under stress is neither appropriate nor possible since an insurer cannot replicate stress scenarios. The explicit requirement is unreasonable and should be removed. Sales or repos in the normal course of business can be used to justify the convertibility of the portfolio into cash. Selling or repoing just for the purpose of assessing the ability to convert assets into cash on a short time horizon as suggested by paragraph 56 does not make sense. The draft states that "The insurer should also consider the impact of its actions on the wider market and on financial stability". This sentence should be deleted. As opposed to micro-prudential risks, it is nearly impossible for a company to assess the systemic risk that it represents to the wider financial system as it lacks access to other confidential financial institutions data, reported only to supervisors, to estimate its own contribution to systemic risk. Only central competent authorities, e.g. central banks can combine cross-sectorial data at scale to monitor systemic risk and the contribution of a particular entity to it (gathering relevant data for the insurance, banking, asset management, derivative markets and so forth).	Please see previous answers.
246. The Life Insurance	Japan	No	In paragraph 56, it is stated that insurers should "periodically monetize a representative portion of their liquidity portfolio" to assess their ability to convert liquidity portfolio into cash in a short time frame. However, this is overly prescriptive	Please see previous answers.

Association of Japan			and may destabilize liquidity risk management, which could lead to a negative impact. Therefore, it is not appropriate and should be deleted. An insurer's ability to monetize liquidity could be assessed through the routine sales of assets as part of its normal asset management. In addition, the ability to monetize liquidity can be assessed without actually selling assets by conducting a simulation of when and at what price they can monetize such assets.	
247. American Council of Life Insurers	U.S.	No	ACLI disagrees with the suggestion that insurers should periodically monetize a portion of their portfolio. Insurers have the capability to assess portfolio liquidity without needing to execute trades.	Please see previous answers.
248. Association of British Insurers	United Kingdom	No	The IAIS refers to insurers periodically monetising a portion of the liquidity portfolio to test how liquid it is. This is inappropriately prescriptive given the insurers' liquidity profile is not comparable to that of banks. We are not convinced that there would be any additional value in selling off a portion of the portfolio in non-stressed market conditions and do not believe this would prove anything. Instead, simulation of the portfolio through stress testing and scenario analysis would be significantly more insightful. We would therefore suggest that the guidance to periodically monetise a portion of the portfolio is removed.	Please see previous answers.
Q72 Comment on Paragraph 57				
249. Insurance Europe	Europe	No	In line with comments on paragraph 41, Insurance Europe believes the proposed guidance on assumptions for transferability across the group is overly conservative and prescriptive. Insurance Europe recommends the paragraph be rewritten as follows to better align with the role application papers are intended to serve: "The insurer may, where relevant, consider transferability in determining the magnitude of the required liquidity portfolio and the location where the portfolio is held. Insurers may, where relevant, assess the availability of group assets to cover potential liquidity shortfalls where they could arise in the group".	Comment noted. Please see previous answers.

250. Institute of International Finance	Global	No	These considerations also apply to Paragraph 57, which provides that assets held at regulated entities should be included in the portfolio only up to the amount of their net cash outflows plus any additional amounts that would be available for transfer to all other entities within the group without statutory, regulatory, contractual or supervisory restrictions. Insurers do consider restrictions on transferability in assessing the liquidity of their portfolios and, provided that these liquidity analyses are robust and limits and haircuts are appropriate, there is no need to unduly restrict the inclusion of certain types of assets in the liquidity portfolio. We would suggest the revision of the fourth and fifth sentences of Paragraph 57, as follows: Assets held at regulated entities should be assessed in terms of the ability of the insurer to transfer those assets in times of stress and in light of any applicable statutory, regulatory, contractual or supervisory restrictions on transfer. Funds held in regulated legal entities that would not be transferable within the group should not be considered fungible assets for purposes of assessing group liquidity and they should be included in the liquidity portfolio with appropriate haircuts and limits.	Comment noted.
251. International Actuarial Association	International	No	Agree with this paragraph, although the IAA note that ICS 2.0 currently ignores fungibility issues. The lack of access to funds is not just a liquidity issue, it is also a capitalization issue. The ICS 2.0 treats all funds as fully fungible within the group and as such it can overlook a material solvency issue within the group.	Comment noted.
252. The Geneva Association	International	No	In line with our comments on paragraph 41, we believe the proposed guidance on assumptions for fungibility across the group is overly conservative and prescriptive. We recommend the paragraph be rewritten as follows to better align with the role application papers are intended to serve: "The insurer should consider fungibility in determining the magnitude of the required liquidity portfolio and the location where the portfolio is held. To facilitate policyholder protection, insurers may be restricted from transferring liquidity out of insurance underwriting entities. As such, insurers should adequately assess the availability of intercompany assets to cover potential liquidity shortfalls elsewhere in the group. Assets held at regulated entities that the insurer determines would not be available for transfer to other entities within the group should not be included in the liquidity portfolio.	Comment noted.

253. American Council of Life Insurers	U.S.	No	As noted in ACLI's comments on paragraph 41, the proposed guidance on assumptions for fungibility across the group is overly conservative and prescriptive. We believe a more appropriate paragraph would read as follows: "The insurer should consider fungibility in determining the magnitude of the required liquidity portfolio and the location where the portfolio is held. To facilitate policyholder protection, insurers may be restricted from transferring liquidity out of insurance underwriting entities. As such, insurers should adequately assess the availability of intercompany assets to cover potential liquidity shortfalls elsewhere in the group. Assets held at regulated entities that the insurer determines would not be available for transfer to other entities within the group should not be included in the liquidity portfolio."	Comment noted.
254. Association of British Insurers	United Kingdom	No	The IAIS states that: "Assets held at regulated entities should be included in the portfolio only up to the amount of their net cash outflows as calculated under the relevant internal liquidity stress tests plus any additional amounts that would be available for transfer to all other entities within the group during times of stress without statutory, regulatory, contractual, or supervisory restrictions. Funds held in regulated legal entities that have cash flow surpluses during the stress test and that would not be transferrable within the group should not be included in the liquidity portfolio.' These lines are difficult to understand and clarification is required.	Comment noted.
255. American Academy of Actuaries	United States	No	We agree that fungibility should be considered for purposes of liquidity assessment. We also note that fungibility is also a consideration for capitalization assessment, however, ICS 2.0 treats all funds as fungible.	Comment noted.
256. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Penultimate sentence, additional amounts could be available for transfer to some entities, but transfer to all entities may not necessarily be helpful - suggest deleting "all".	Text amended accordingly.
Q73 Comment on Paragraph 58				

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257. The Geneva Association	International	No	We believe access to conversion of major currencies is unlikely to be problematic and thus propose rewriting the paragraph as follows: "In times of stress, access to foreign exchange markets for less frequently traded currencies may be impaired. When determining the appropriate location and currency of assets in its portfolio, the insurer should be aware of the risk of non-convertibility of such currencies, particularly over short time horizons."	Para 58 provides an overarching example of when currency markets may be impaired irrespective of investment currency. Foreign exchange markets, even those for major or heavily traded currencies, do not pose a virtually insignificant risk and thus this should be recognized and taken into consideration within the insurer's liquidity risk management.
258. General Insurance Association of Japan	Japan	No	We would like to confirm that "short time horizons", i.e. the timeframe under which insurers should be aware of the risk of non-convertibility of foreign currencies, refers to a few days.	As defined in paragraph 52, short-term horizons may be defined as one week or less.
259. American Council of Life Insurers	U.S.	No	ACLI recommends narrowing the scope of the paragraph to recognize that conversion is likely to be a non-issue for major currencies. We propose rewording it as follows: "In times of stress, access to foreign exchange markets for less frequently traded currencies may be impaired. When determining the appropriate location and currency of assets in its portfolio, the insurer should be aware of the risk of non-convertibility of such currencies, particularly over short time horizons."	Please see previous answers.
Q74 Comment on Section 5: Contingency funding plan				
260. Institute of International Finance	Global	No	The second and third sentences of Paragraph 59 contemplate a more or less automated process for contingency planning when, in fact, it is very scenario-dependent, as is recognized by the fourth sentence of that Paragraph. The execution of a contingency plan needs to provide for flexibility and iteration as the stress event unfolds and ultimately is resolved. Therefore, the reference in the second sentence to "the actions that the insurer would take" should be revised to read, "the actions that the insurer could take" and the reference in the third sentence to "all existing	Text amended accordingly.

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			strategies, policies and procedures" should be revised to read, "a range of strategies, consistent with the insurer's policies and procedures." After providing some needed flexibility in the fourth sentence of this Paragraph, the fifth and sixth sentences revert to a more inflexible process - the words "can and should" in the fifth sentence should be revised to read "could" and the reference in the sixth sentence to "the clear steps" should be revised to refer to a range of potential steps. Similarly, Paragraph 62 reflects a rigid approach to contingency planning that is at odds with the need for flexibility during a stress event. While we agree with the need for clear processes and well- articulated roles and responsibilities, the expectation that the plan would "clearly set out a process on what actions to take at what time, who can take them, and what needs to be escalated and prioritized" does not reflect the fluid nature of a stress event and the need for management to be nimble and flexible in its response. The first sentence of this Paragraph could be deleted, retaining the key messages. The location of any liquidity contingency plan within the overall liquidity risk management framework of the insurer should be a matter for senior management discretion, reflecting the company's liquidity risk governance.	Para 62 provides a framework to the supervisor in assessing preparation by the insurer. Comment noted.

261. American Council of Life Insurers	U.S.	No	We agree there is value in planning for what could occur and what steps could be taken. However, we feel this planning can be documented in a variety of ways and perhaps inherent in pre-existing risk documentation such as policies, procedures, ORSA, liquidity reports, etc. To say that documentation must be maintained in a separate specific contingency funding plan is too prescriptive.	Please refer to para 64.
Q75 Comment on Paragraph 59				
262. Canadian Institute of Actuaries	Canada	No	The contingency funding plan in this paragraph should be consistent with the company's recovery plan under ICP 16.15.	Comment noted. Please also refer to para 64.
263. Insurance Authority (IA)	China, Hong Kong	No	It appears that the reference in the first sentence should be made to ICP 16.9.3 instead of ICP 16.9.2.	Text amended accordingly.
264. Insurance Europe	Europe	No	While indeed, there are cases where it may help, contingency funding planning should not be systematically required and, where it is required, its value added should be assessed against the proportionality principle so as to not unduly increase the burden on insurance companies.	Comment noted.
265. Institute of International Finance	Global	No	The second and third sentences of Paragraph 59 contemplate a more or less automated process for contingency planning when, in fact, it is very scenario-dependent, as is recognized by the fourth sentence of that Paragraph. The execution of a contingency plan needs to provide for flexibility and iteration as the stress event unfolds and ultimately is resolved. Therefore, the reference in the second sentence to "the actions that the insurer would take" should be revised to read, "the actions that the insurer could take" and the reference in the third sentence to "all existing strategies, policies and procedures" should be revised to read, "a range of strategies, consistent with the insurer's policies and procedures." After providing some needed flexibility in the fourth sentence of this Paragraph, the fifth and sixth sentences revert to a more inflexible process - the words "can and should" in the fifth sentence should	Please see previous answers.

			be revised to read "could" and the reference in the sixth sentence to "the clear steps" should be revised to refer to a range of potential steps.	
266. International Actuarial Association	International	No	This paragraph is overly prescriptive and does not recognise the reality that conditions that occur during emergencies may be very different to those considered when the plan was conceived. Emergency situations frequently are accompanied by a disruption of normal markets and relationships. As such, any plan that outlines "clear steps" that would be taken in an emergency is unlikely to be executable as originally conceived. Detailing possible options in an emergency situation, including the chain of responsibility (and backups) is useful. Specific detailed action plans required to be followed in case of an emergency may cause delay in responding to the emergency due to attempt to fulfil plans that are no longer feasible or optimal (due to a change in the underlying conditions). Consequently, the IAA would suggest changing "would" to "could" in the second sentence. The IAA also suggest that it would be worth stating that the contingency funding plan in this paragraph should be consistent with the company's recovery plan under ICP 16.15.	Please see previous answers. Text amended accordingly.
267. The Geneva Association	International	No	We support contingency funding planning but note that the Application Paper, and this paragraph in particular, should better acknowledge that plans should serve as a reference point or guide to inform actions the insurer may take as it is likely any stress scenario ultimately encountered will vary from that assumed. In its current form the paragraph calls for an overly broad and exhaustive range of information that over emphasizes form over substance. A similar acknowledgment should be made in subsequent paragraphs within this section, which include a greater degree of detail or prescriptiveness that we believe is warranted for an application paper.	Text amended accordingly.
268. General Insurance	Japan	No	The proportionality principle should be applied to the level of detail of contingency funding plan documentation.	Comment noted.

Association of Japan				
269. The Life Insurance Association of Japan	Japan	No	In paragraph 59, it is stated that the contingency funding plan should include "the actions that the insurer ´would´ take" to ensure that liquidity sources are sufficient to maintain normal operations. However, when a stress event occurs, it is important to have a certain degree of flexibility when the insurer executes its solution. Therefore, the second sentence in paragraph 59 should be revised to "the actions that the insurer ´could´ take". In addition, the third sentence in this paragraph states that "(contingency funding) plan should describe all existing strategies, policies and procedures for addressing liquidity shortfalls in emergency situations in a timely manner and at a reasonable cost." Instead, this sentence should be revised to reference "´a wide range of´ strategies, policies and procedures" for the same reason.	Please see previous answers.
270. American Council of Life Insurers	U.S.	No	ACLI believes the Application Paper should recognize that it is likely that a stress scenario ultimately encountered will align with that assumed and thus contingency funding plans should serve as a reference point or guide to inform actions of the insurer rather than a manual that must be followed. We believe the IAIS should redraft this paragraph and those that follow on this topic to place greater emphasis on substance over form.	Comment noted.
271. American Academy of Actuaries	United States	No	Detailing possible options in an emergency situation, including the chain of responsibility (and backups) is useful. Specific detailed action plans required to be followed in case of an emergency can cause delay in responding to the emergency due to attempt to fulfill plans that are no longer feasible or optimal (due to a change in the underlying conditions).	Comment noted.
272. American Property Casualty	United States	No	This paragraph is overly prescriptive and does not take into account likely conditions that occur during emergencies. Since these situations are often accompanied by a disruption of normal markets and relationships, a plan outlining "clear steps" to be taken in an emergency is unlikely to be executable as originally conceived. A	Comment noted.

Insurance Association			description of "when and how" each action in the plan will be activated will likely be more detrimental than helpful. Moreover, detailed action plans required to be followed in case of an emergency may cause delay in a company's response, as the company attempts to fulfill plans that are no longer feasible or optimal due to a change in the underlying conditions. APCIA believes detailing possible options in an emergency situation, including the chain of responsibility and backups, would be more useful for companies.	
Q76 Comment on Paragraph 60				
273. Insurance Authority (IA)	China, Hong Kong	No	We view that in assessing and testing the adequacy of a contingency funding plan, the insurer should consider any dependencies and/or barriers to executing such actions as this may delay the insurer's access to funding sources.	Comment noted.
274. The Geneva Association	International	No	There may be practical challenges to regularly test various aspects of contingency plans, so we support the application of the proportionality principle in this context.	Comment noted.
275. American Academy of Actuaries	United States	No	While testing can illustrate tactics and strategies it is important to note that simulation in a non-stressed environment does not "ensure that plans will be executed" in a stressed environment .	Comment noted.
276. American Property Casualty Insurance Association	United States	No	Like the concern addressed in Q27, the requirement for regular testing of contingency funding plans is not useful in practice. Since testing would be performed in a non-stress environment, it would not inform the plan's feasibility in a stressed environment.	Comment noted.
277. National Association of Insurance	USA, NAIC	No	As the guidance under Section 5 could suggest a rather complex and complicated contingency funding plan, suggest moving up the first sentence of para 60 that notes the use of proportionality given its importance. Suggest to add this sentence after the	Comment noted.

Commissioners (NAIC)			sentence in para 59 beginning "Such a plan should describe all existing strategies…" and then the subsequent existing sentences remain in para 60.	
Q77 Comment on Paragraph 61				
278. American Council of Life Insurers	U.S.	No	It should be acknowledged somewhere in paragraph 61 that an asset may lose value without presenting any liquidity risk. An insurer may have significant leeway, for example, as to when an asset is sold, obviating liquidity risk even in the event of significant market mark-down. And the act of selling does not create additional loss.	Text amended accordingly.
279. American Academy of Actuaries	United States	No	The requirement for the contingency funding plan to "define a variety of circumstances in which it would be executed" should be modified to require action (in general) or heightened evaluation rather than a specific set of actions. Forcing action based on a plan developed in a non-stress situation will prevent consideration of how the environment has been modified by the stress. As such, the forced action might make the situation worse (based on the particular facts & circumstances surrounding the stress).	Comment noted.
280. American Property Casualty Insurance Association	United States	No	APCIA recommends modifying the requirement that contingency funding plans "define a variety of circumstances in which it would be executed". Instead of mandating a specific set of actions, action in general or heightened evaluation should be required. Requiring specific action based on a plan developed in a non-stress situation will prevent consideration of how the environment has changed. As a result, the forced action could make the situation worse based on the unique facts and circumstances surrounding the stress.	Comment noted.
281. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	To help with readability and clarity, suggest splitting the last sentence into two: "…liquidity stress. For instance, with an idiosyncratic liquidity stress the insurer…"	Text amended accordingly.

IAIS

Q78 Comment on Paragraph 62				
282. Institute of International Finance	Global	No	Similarly, Paragraph 62 reflects a rigid approach to contingency planning that is at odds with the need for flexibility during a stress event. While we agree with the need for clear processes and well- articulated roles and responsibilities, the expectation that the plan would "clearly set out a process on what actions to take at what time, who can take them, and what needs to be escalated and prioritized" does not reflect the fluid nature of a stress event and the need for management to be nimble and flexible in its response. The first sentence of this Paragraph could be deleted, retaining the key messages.	Please see previous answers.
283. International Actuarial Association	International	No	While the IAA agree with the section of the paragraph describing overall governance issues (e.g., responsibilities, lines of communication), the IAA disagree with the first sentence requiring a set of specific actions to take at specific times. Such a dictate would impair the ability of management to reflect the particular facts and circumstances of the emergency (which generally cannot be fully anticipated). the IAA recommend deleting the first sentence of this paragraph or that the plan may include a range of actions and criteria for when action should be considered, recognising that the specific action may need to be amended depending on the specific circumstances.	Please see previous answers.
284. American Academy of Actuaries	United States	No	While we agree with the section of the paragraph describing overall governance issues (e.g., responsibilities, lines of communication), we disagree with the first sentence requiring a set of specific actions to take at specific times. Such a dictate would impair the ability of management to reflect the particular facts & circumstances of the emergency (which generally cannot be fully anticipated). We recommend deleting the first sentence of this paragraph.	Please see previous answers.
285. American Property Casualty	United States	No	APCIA recommends deleting the first sentence, which requires a set of specific actions to be taken at specific times. This prescriptive mandate impairs the ability of management to act on the particular facts and circumstances of the emergency, which generally cannot be fully anticipated.	Please see previous answers.

Insurance Association				
Q79 Comment on Paragraph 63				
Q80 Comment on Paragraph 64				
286. The Geneva Association	International	No	The paragraph suggests that the insurer due to overlapping focus may integrate the contingency funding plan into its recovery planning. The contingency funding plan could, however, be integrated into the liquidity risk management report, as this report is focused on liquidity risk and already contains liquidity stress scenarios, whereas the recovery plan focuses on solvency and therefore by definition looks at different scenarios.	Comment noted.
Q81 Comment on Section 6: Liquidity risk management report				
287. Insurance Europe	Europe	No	Liquidity risk management should not be encumbered by an overly prescriptive supervisory reporting. It would otherwise become more a compliance exercise than a meaningful and agile tool for the senior management and board of insurance companies. In addition, it should also have flexibility to allow jurisdictions to reflect local frameworks; for example, when a jurisdiction has in place macroprudential liquidity stress circuit breakers (eg, when national supervisory authorities have the ability to temporarily freeze policyholders' redemption rights), it should be allowed to appropriately reflect them in the stress tests. The proportionality principle should be adhered to when designing (including costs and benefits assessment), performing and reporting the liquidity stress testing. Requiring prior information on cash flows, liquidity resources, profitability and solvency for all material entities in the group is disproportionate. Only entities that turn out to be highly-exposed to liquidity constraints should be tested.	Comment noted.

288. Institute of International Finance	Global	No	The liquidity risk management report discussed in Paragraphs 65 through 67 may be required by supervisors but is not a mandatory element of liquidity risk management, per ComFrame 16.9. (Indeed, for many insurers, the ORSA can serve as a liquidity risk management report.) We would recommend that Paragraphs 65 through 67 reflect this for greater alignment with ComFrame. The report should be presented by senior management to the board of directors or an appropriate committee (as reflected in Paragraphs 26 and 27) but the board or committee should not be required to approve the report. Senior management with responsibility for liquidity planning has the appropriate in-depth expertise to design and implement a liquidity risk management plan and report to the board or its risk (or other appropriate) committee; specific liquidity risk expertise generally is not shared widely among the members of the board. Accordingly, it is not appropriate to ask board or committee members to be responsible for the report.	Please refer to ICP 16.9 and ComFrame 16.9.d. As a best practice, the report should be approved by the Board of Directors or Board Committee.
289. American Council of Life Insurers	U.S.	No	We agree with the value of documenting the elements outlined in this section, if the liquidity risk profile of an insurer warrants it. However, we feel this can be documented in a variety of ways and perhaps inherent in preexisting risk documentation such as policies, procedures, ORSA, liquidity reports, etc. To dictate that documentation must be maintained in a separate, specific liquidity risk management report is too prescriptive. Additionally, this section should be made clearer that an insurer would evaluate its risk profile in determining which of these elements are necessary (and to what depth) and the appropriate involvement level of the Board of Directors or Board Committee in reviewing this information. For example, providing procedural-level documentation to a Board-level audience would be very rarely necessary, but may be helpful within management-levels to review.	Please see previous answers. Please refer to ComFrame 16.9.d.1.
290. AIG	USA	No	The liquidity risk management report scope included here is too broad and in many ways impractical. The Application Paper should distinguish between a report that is received by management and regulators on a regular basis, versus what really are governance documents, methodology documents, operational procedure documents and contingency planning documents. The management report should focus on liquidity levels/adequacy under baseline and stress conditions and should include information about projected liquidity shortfalls, if any, including planned remedial	Please see previous answers.

			actions. Governance documents, methodology documents, procedure documents and contingency planning documents should be maintained separately and should have their own governance for management review and approval. These latter sets of documents could be made available when requested for review by the regulator/supervisor. However, requiring their submission as part of the liquidity management report seems impractical and may be counterproductive, as it could create inertia to defer making updates until the next regulatory submission is due.	
Q82 Comment on Paragraph 65				
291. Insurance Authority (IA)	China, Hong Kong	No	We view that it may be appropriate for the liquidity risk management report to include and demonstrate how the results of liquidity stress testing is used to inform its strategies, policies and processes to manage liquidity risk. Furthermore, the report should also include consideration of the insurer's liquidity risk management framework, the governance arrangements in place and the role of control functions in liquidity risk management.	Comment noted.
292. Institute of International Finance	Global	No	The liquidity risk management report discussed in Paragraphs 65 through 67 may be required by supervisors but is not a mandatory element of liquidity risk management, per ComFrame 16.9. (Indeed, for many insurers, the ORSA can serve as a liquidity risk management report.) We would recommend that Paragraphs 65 through 67 reflect this for greater alignment with ComFrame. The report should be presented by senior management to the board of directors or an appropriate committee (as reflected in Paragraphs 26 and 27) but the board or committee should not be required to approve the report. Senior management with responsibility for liquidity planning has the appropriate in-depth expertise to design and implement a liquidity risk management plan and report to the board or its risk (or other appropriate) committee; specific liquidity risk expertise generally is not shared widely among the members of the board. Accordingly, it is not appropriate to ask board or committee members to be responsible for the report.	Please see previous answers.

293. The Geneva Association	International	No	We believe the prescriptive list of items to include in the liquidity risk management report over-emphasizes form over substance. As acknowledged in paragraph 81, elements of the report or an insurer's liquidity risk management framework may be incorporated in other materials based on senior managements judgement or the corporate structure. Such emphasis on substance over form should be more consistently acknowledged throughout the Application Paper.	Comment noted.
294. American Council of Life Insurers	U.S.	No	The detailed requirements in the Liquidity Reporting Section could be interpreted as requiring specific regulatory reporting, such as ORSA. Since the Application Paper states that it is not creating any new requirements for insurers we believe this needs clarification. As acknowledged in paragraph 81, elements of the report or an insurer's liquidity risk management framework may be incorporated in other materials based on senior management's judgement or the corporate structure. We think the focus should be on general liquidity documentation, as appropriate and applicable, that is available for regulatory review.	Please see previous answers.
Q83 Comment on Paragraph 66				
295. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Second sentence, for consistency, "The report should set out…" Third sentence, if the report is for the insurer and supervisor, suggest "…so that a person familiar with the subject…"	Text amended accordingly.
Q84 Comment on Paragraph 67				
296. Institute of International Finance	Global	No	The liquidity risk management report discussed in Paragraphs 65 through 67 may be required by supervisors but is not a mandatory element of liquidity risk management, per ComFrame 16.9. (Indeed, for many insurers, the ORSA can serve as a liquidity risk management report.) We would recommend that Paragraphs 65 through 67 reflect this for greater alignment with ComFrame. The report should be presented by senior management to the board of directors or an appropriate committee (as	Please see previous answers. Text amended accordingly.

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			reflected in Paragraphs 26 and 27) but the board or committee should not be required to approve the report. Senior management with responsibility for liquidity planning has the appropriate in-depth expertise to design and implement a liquidity risk management plan and report to the board or its risk (or other appropriate) committee; specific liquidity risk expertise generally is not shared widely among the members of the board. Accordingly, it is not appropriate to ask board or committee members to be responsible for the report.	
297. American Council of Life Insurers	U.S.	No	ACLI believes this paragraph is too prescriptive and mischaracterizes the division of responsibility between management and the Board regarding liquidity risk management. Generally speaking, management, not the Board, is responsible for the form and content of liquidity reporting. It may be appropriate for the Board to periodically receive updates on the insurer's current liquidity profile, including any vulnerabilities and proposed remedial action. But it is excessive to require Board approval of liquidity reports as a matter of course. The last sentence should be revised to read: "Liquidity risk management reporting, at an appropriate level of granularity and frequency, should be shared with the Board of Directors or Board Committee." The Board may appropriately not be directly involved in the granular details of liquidity management.	Please see previous answers.
298. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	For consistency, "…approved by the Board or the relevant Board Committee."	Text amended accordingly.
Q85 Comment on Section 6.1: Risk appetite and risk limits				
299. National Association of Insurance	USA, NAIC	No	In the paragraphs in this section, it is sometimes unclear whether it is the insurer's overall risk appetite statement or the liquidity risk appetite statement that is being referred to. Suggest reviewing and revising as appropriate to clarify.	Text amended accordingly. ICP 16.4.5 refers to the risks included in the overall risk apetite statement.

Commissioners (NAIC)				
Q86 Comment on Paragraph 68				
Q87 Comment on Paragraph 69				
Q88 Comment on Paragraph 70				
300. International Actuarial Association	International	No	Item (iv) simply mentions the liquidity risk arising from insurance liabilities. This could be split out more into the different aspects of this e.g., ALM, fund switching, other policyholder optionality etc.	Comment noted.
301. The Geneva Association	International	No	The principle of setting and documenting limits in line with risk appetite is reasonable. However, the set examples and list are too prescriptive and should be removed.	Comment noted. Please see previous answers regarding the scope of Application Papers.
Q89 Comment on Paragraph 71				
302. General Insurance Association of Japan	Japan	No	Depending on the nature of the risk and the size of the insurer, the proportionality principle should be applied to the necessity of demonstration through use testing.	Comment noted.
303. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	"liquidity risk guidelines" is not used or described elsewhere - assume this is supposed to say "liquidity risk appetite statement"? Similarly, should "liquidity risk management policies" be "liquidity risk management framework"?	Text amended accordingly.
Q90 Comment on Paragraph 72				

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Q91 Comment on Section 6.2: Liquidity risk management framework				
304. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	The paragraphs under this subheading do not really address the framework - suggest considering a different subheading that would be more accurate.	Text amended accordingly.
Q92 Comment on Paragraph 73				
Q93 Comment on Paragraph 74				
Q94 Comment on Paragraph 75				
305. Insurance Authority (IA)	China, Hong Kong	No	It appears that the phrase "securities financing transactions" is duplicated in the first sentence of this paragraph.	Text amended accordingly.
306. International Actuarial Association	International	No	There is a typo here - the phrase "securities financing transactions" is repeated in the first sentence. One occurrence should be deleted. The first sentence presumes that all reinsurance results in collateral needs. This is incorrect, as many reinsurance contracts do not result in collateral requirements or needs. Suggest changing "reinsurance" to "certain reinsurance agreements".	Please see previous answers.
307. American Council of Life Insurers	U.S.	No	This paragraph requires certain systems and procedures to be detailed in the liquidity risk management report. As noted above in our response to Q81, we do not feel it should be dictated where certain documentation is maintained. Also, this level of detail provided to a Board of Directors or a Board Committee is likely not appropriate.	Please see previous answers.

308. American Academy of Actuaries	United States	No	The phrase "securities financing transactions" is repeated in the first sentence. One occurrence should be deleted. The first sentence presumes that all reinsurance results in collateral needs. This is not the case, and thus we suggest changing "reinsurance" to "certain reinsurance agreements".	Please see previous answers.
309. American Property Casualty Insurance Association	United States	No	The first sentence presumes that all reinsurance results in needed or required collateral, but that is not always the case. Accordingly, we recommend changing "reinsurance" to "certain reinsurance agreements".	Text amended accordingly.
Q95 Comment on Paragraph 76				
310. Insurance Europe	Europe	No	Insurance Europe would appreciate if the application paper be more objective and less biased against groups. Contrary to the first sentence of this paragraph, being part of a group does not equate to "additional challenges". The paper should recognize that being part of a group can prove beneficial to absorb local or asymmetric liquidity stresses and access market funding in a timely manner. Challenges to transfer liquidity within the group under certain limited circumstances does not rule out those advantages but may simply dampen their extent. Even though liquidity management is typically performed at a legal entity level, there is a bias in considering that as soon as a group is facing any type of liquidity stress, it would turn into a collection of ring-fenced local entities. In addition, the level of prescriptiveness of this paragraph does not suit the purpose of an application paper. Therefore, Insurance Europe would recommend the paragraph be rewritten as follows: "The liquidity risk management report may consider, where relevant, if and to what extent entities or sub-groups are self-sufficient or dependent on liquidity support from other parts of the group and whether such arrangements are sustainable in a stress scenario."	Text amended accordingly.

311. International Actuarial Association	International	No	The IAA suggest changing "challenges" to "considerations" in the first sentence. Groups may actually face fewer challenges due to greater operational flexibility and resources than single entity operations.	Text amended accordingly.
312. The Geneva Association	International	No	It is not sufficiently objective to consider that "insurers that are part of a group face additional challenges in their liquidity risk management". Groups can provide support to legal entities and therefore can effectively mitigate liquidity stresses. There is a bias in considering that a group facing a liquidity stress would turn into a collection of ring-fenced local entities.	Please see previous answers.
313. Aegon NV	The Netherlands	No	Together, paragraphs 26, 30, and 76 encourage liquidity analysis at both the group level, for functional subgroups of entities, and for significant legal entities. We consider the benefits of a group-level liquidity analysis to be limited due to the fungibility considerations described in the paper, and we therefore believe that the application paper should emphasize the importance of liquidity at more granular levels rather than at the group level.	Comment noted.
314. American Academy of Actuaries	United States	No	Suggest changing "challenges" to "considerations" in the first sentence. Groups may actually face fewer challenges due to greater operational flexibility and resources than single entity operations.	Please see previous answers.
315. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	For consistency with other IAIS material: "Insurance legal entities that are part of a group…". Additionally, need to review the use of "insurer" in the rest of this paragraph to be clear whether it is actually referring to a group, insurance legal entities or insurers overall.	Text amended accordingly.
Q96 Comment on Section 6.3: Analysis of the insurer's liquidity profile				

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316. International Actuarial Association	International	No	The IAA note that much of this section is not relevant to non-life policies. The IAA are concerned that overly broad guidance that applies even where not relevant may result in increased compliance costs that increase the price to consumers at no benefit to consumers.	Comment noted.
317. American Property Casualty Insurance Association	United States	No	Much of this section is not relevant to non-life insurance activities. We are concerned that overly broad guidance that applies even where not relevant may result in increased compliance costs that increase the price to consumers with no corresponding benefit.	Comment noted.
Q97 Comment on Paragraph 77				
318. International Actuarial Association	International	No	The insurer should also monitor hedging efficiency / basis risk.	Para 77 is intended to provide a list of examples which is nevertheless not exhaustive. Text amended accordingly.
319. The Geneva Association	International	No	The third bullet point refers to insurers being able to quantify, monitor and report to the supervisor all insurance contracts that could present funding draws due to policyholder decisions. Under the holistic framework the annual data call to IAIGs under the former GSII data collection exercise covers this. We think that the supervisor should make use of information which is already provided	Comment noted.
320. Association of British Insurers	United Kingdom	No	The IAIS refers to "bank or corporate owned life insurance (BOLI or COLI)'. This appears to be taken directly from liquidity requirements for banks and has no relevance in insurance. This bullet point should therefore be deleted. The third bullet point provides guidance that insurers should be able to quantify, monitor and report to their supervisor all insurance contracts that could present funding withdrawals due to policyholder decisions. Under the Holistic Framework for Systemic Risk, the annual G-SII data collection exercise already requires this.	Comment noted.

			Therefore, supervisors should make appropriate use of information that is already provided to them in this respect.	
321. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Third bullet, suggest deleting "all" and using "material" as is done in the fourth bullet.	Text amended accordingly.
Q98 Comment on Paragraph 78				
322. International Actuarial Association	International	No	The first sentence says "the supervisor should also require the insurer to consider means of raising cash". The IAA see this phrase as ambiguous and potential misleading (as liquidity management deals with both sources and uses of cash, and this phrase seems to imply a focus only on finding new sources). This phrase may also be read to imply that insurer's existing sources are inadequate. The IAA suggest instead that insurer's liquidity management plans be required to document the various ways they envision raising cash levels when needed, i.e., through some combination of reducing cash uses, increasing cash from existing sources or finding new sources. With regard to cash uses, a few ways insurers can raise cash levels are to delay or cancel stock buybacks, and to hold back on immediately investing premiums from new/renewal non-life policies. The latter strategy is very easily implemented for non-life companies with a geographic spread, as claims for many product lines are not paid until several months or years after the policy is initiated, and an imminent catastrophe typically only affects a limited portion of an insurer's geographic spread. The IAA recommend that the first half of this paragraph be rewritten to reflect this new focus on how cash levels can be raised (through a combination of actions reflecting both sources and uses of cash).	Text amended accordingly.

323. American Academy of Actuaries	United States	No	The first sentence says "the supervisor should also require the insurer to consider means of raising cash". We see this phrase as ambiguous and potentially misleading (as liquidity management deals with both sources and uses of cash, and this phrase seems to imply a focus only on finding new sources). This phrase could also be read to imply that insurer's existing sources are inadequate. We suggest instead that insurers' liquidity management plans be required to document the various ways they envision raising cash levels when needed, i.e., through some combination of reducing cash uses, increasing cash from existing sources or finding new sources. We recommend that the first half of this paragraph be rewritten to reflect this new focus on how cash levels can be raised (through a combination of actions reflecting both sources and uses of cash)	Please see previous answers.
324. American Property Casualty Insurance Association	United States	No	The first sentence provides that "the supervisor should also require the insurer to consider means of raising cash". APCIA believes this phrase is ambiguous and potentially misleading, since liquidity management deals with both sources and uses of cash. However, this phrase seems to imply a focus only on finding new sources of cash, and it may also be read to imply that insurers' existing sources are inadequate. Instead, we suggest requiring insurers' liquidity management plans to document the various ways they envision raising cash levels when needed (i.e., through some combination of reducing cash uses, increasing cash from existing sources, or finding new sources). For instance, insurers can raise cash levels by delaying or cancelling stock buybacks, or by holding back on immediately investing premiums from new or renewed non-life policies. The latter strategy is very easily implemented for non-life companies with a geographic spread, as claims for many product lines are not paid until several months or years after the policy is initiated, and an imminent catastrophe typically only affects a limited portion of an insurer's geographic spread. Therefore, APCIA recommends the first half of this paragraph be rewritten to focus on how cash levels can be raised through a combination of actions reflecting both sources and uses of cash.	Please see previous answers.
Q99 Comment on Paragraph 79				

325. International Actuarial Association	International	No	The insurer should consider different scenarios in the cash flow analysis particularly where there is significant uncertainty or volatility in the cash flow projections. The IAA recommend adding the phrase ", where relevant and material" after the word "incorporate". Some of the items in the list are not always relevant and may not be material. For example, non-life products typically do not have policy loans.	Comment noted. Text amended accordingly.
326. American Academy of Actuaries	United States	No	We recommend adding the phrase "where relevant and material" after the word "incorporate". Some of the items in the list are not always relevant and might not be material. For example, non-life products typically do not have policy loans.	Please see previous answers.
327. American Property Casualty Insurance Association	United States	No	Some items in the list are not always relevant or material for non-life insurers (e.g., policy loans). Therefore, APCIA recommends adding the phrase "where relevant and material" after the word "incorporate" in the first sentence.	Please see previous answers.
Q100 Comment on Section 6.4: Reporting to the supervisor				
328. Insurance Authority (IA)	China, Hong Kong	No	As indicated in ICP 16.9, the supervisor requires, as necessary, the insurer to submit a liquidity risk management report to the supervisor. We recommend that the following measure be included in this application paper in order to help supervisors review the liquidity risk management of their insurers. "Insurers should have an adequate system of internal controls over its liquidity risk management process, for examples, regular independent reviews and evaluations of the effectiveness of the system and, where necessary, ensuring that appropriate revisions or enhancements to internal controls are made. The results of such reviews should also be available to the supervisor upon request."	Creating new requirements and/or guidance falls outside the scope of this Application Paper.

329. Institute of International Finance	Global	No	Paragraph 83 states that the supervisor should collect additional information on the set of risks that may be relevant for a particular insurer as part of its monitoring of potential vulnerabilities arising from liquidity risk in the insurance sector. We encourage the IAIS to add additional language calling for an assessment of the costs and benefits of these additional information requests, in order to avoid burdensome data requests that could strain resources and systems for little added value. Beyond consistency, Paragraph 81 should encourage supervisors to leverage the ORSA in order to reduce duplication and avoid inconsistencies in other supervisory reporting. To facilitate consistency and integration with supervisory reports such as the ORSA, we encourage a broader reference to "risk exposures" rather than "liquidity exposures" in Paragraph 18.a.	Costs and benefits already covered under “set of risks that may be relevant”. Para 81 already address leveraging the ORSA. Amending para 18.a along the lines suggested falls outside the scope of this Application Paper.
330. American Property Casualty Insurance Association	United States	No	The reporting requirements in this section could be interpreted as mandating reporting in regulatory filings, such as an ORSA. Therefore, APCIA recommends the paper clarify where regulatory reporting is mandated, as opposed to reporting requirements for more generic liquidity documentation, including Board-approved policies, that are available for regulatory review.	Comment noted.
Q101 Comment on Paragraph 80				
Q102 Comment on Paragraph 81				
331. Institute of International Finance	Global	No	With respect to reporting, supervisors should consider whether and to what extent information on liquidity risk and liquidity risk management is available in existing data and reports before issuing new requirements. This point is appropriately acknowledged in Paragraph 81, which recognizes that elements of an insurer's liquidity risk management may be incorporated in a variety of materials based on senior management's judgment or the corporate structure. This emphasis on	Comment noted. Please see previous answers.

			substance over form should be more consistently acknowledged throughout the Draft Application Paper. Beyond consistency, Paragraph 81 should encourage supervisors to leverage the ORSA in order to reduce duplication and avoid inconsistencies in other supervisory reporting. To facilitate consistency and integration with supervisory reports such as the ORSA, we encourage a broader reference to "risk exposures" rather than "liquidity exposures" in Paragraph 18.a.	
332. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Editorial: "However, to the extent that elements of the report are incorporated in other material, the supervisor may allow the insurer to satisfy the reporting requirement by reference to those other risk management materials and/or the ORSA.	Text amended accordingly.
Q103 Comment on Paragraph 82				
333. International Actuarial Association	International	No	This requirement to report the ratio of the liquidity portfolio to net stressed cash outflows "under each time horizon, as produced by the stress test(s)" appears to be punitive and overkill for many types of non-life companies. Applying the proportionality principle - for non-life companies with liabilities that have no call provisions, have high levels of liquid assets, and are not exposed to high levels of possible immediate cash demands, such a requirement is inappropriate. The IAA recommend that the supervisor's judgement be relied upon for determining the level and extent (if any) of any stress test reporting.	Please see section 1.4 on Proportionality.
334. American Academy of Actuaries	United States	No	This requirement to report the ratio of the liquidity portfolio to net stressed cash outflows "under each time horizon, as produced by the stress test(s)" might be unnecessary for companies with liabilities that have no call provisions, have high levels of liquid assets, and are not exposed to high levels of possible immediate cash demands. We recommend that the supervisor's judgement be relied upon for determining the level and extent (if any) of any stress test reporting.	Please see previous answers.

335. American Property Casualty Insurance Association	United States	No	The requirement to report the ratio of the liquidity portfolio to net stressed cash outflows "under each time horizon, as produced by the stress test(s)" appears to be punitive and overbroad for many non-life companies. For non-life companies with liabilities that have no call provisions, high levels of liquid assets, and no exposure to high levels of possible immediate cash demands, such a requirement is inappropriate. Therefore, APCIA recommends incorporating the principle of proportionality into this paragraph by allowing the supervisor's judgement to be relied upon in determining the level and extent of any stress-test reporting.	Please see previous answers.
336. AIG	USA	No	We caution against over-reliance on liquidity ratios, given the inherent assumptions and potential unintended consequences of a formulaic approach. We would instead advocate for the quantitative component of liquidity assessment to focus on macro-prudential stress analysis of potential "fire sale" risks. To assess systemic risk, the focus should primarily be on the assets that might be sold en masse during a stress event, and not on firm-specific ratios that could be misleading or even pro-cyclical, depending on its design and implementation.	Please see previous answers. The Application Paper and ICPs 16.8 and 16.9 and ComFrame 16.9.a-16.9.d address a borader set of issues than assessing and mitigating systemic risk.
Q104 Comment on Paragraph 83				
337. Institute of International Finance	Global	No	Paragraph 83 states that the supervisor should collect additional information on the set of risks that may be relevant for a particular insurer as part of its monitoring of potential vulnerabilities arising from liquidity risk in the insurance sector. We encourage the IAIS to add additional language calling for an assessment of the costs and benefits of these additional information requests, in order to avoid burdensome data requests that could strain resources and systems for little added value.	Text amended accordingly.
338. International Actuarial Association	International	No	In the first bullet after Paragraph 83 there is a typo. "insures" should be "insurers".	Text amended accordingly.
339. The Geneva Association	International	No	The paragraph states that supervisors should collect additional information on the set of liquidity risks for particular insurers. The examples provided make the impression	Comment noted.

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			that such requirements might be very detailed in their nature, potentially similar to extensive QRTs under the European Solvency II framework. This may impose significant additional burdens while adding limited value to supervision.	
340. General Insurance Association of Japan	Japan	No	In terms of examining costs and benefits and ensuring efficiency of data collection, re-collecting data that has already been collected for the ICS or for jurisdictional regulatory purposes should be avoided. Also, the above gist should be added to the wording of this paragraph.	Comment noted. Please see previous answers.
341. The Life Insurance Association of Japan	Japan	No	In paragraph 83, it is stated that "the supervisor should collect additional information on the set of risks that may be relevant for a particular insurer as part of its monitoring of potential vulnerabilities arising from liquidity risk in the insurance sector." In the case of collecting such additional information, the cost and benefits should be assessed thoroughly and the scope and volume of information subject to collection should be strictly limited to the purpose of collection. The LIAJ would like to confirm that such additional data collection will not be imposed as a burden for insurers to collect disproportionately excessive amounts of information.	Comment noted. Please see previous answers.
342. American Academy of Actuaries	United States	No	Typo. "insures" should be "insurers" in the body of the illustration.	Please see previous answers.
343. National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	It is not clear why the text following this paragraph is in a blue box. As there are no other blue boxes in the paper, suggest this just be numbered para 84 and formatted normally.	Comment noted. Blue boxes (with a second one added following the revision) are indicative of illustrations/examples.