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Q1	The personnel costs necessary to calculate and verify the ICS ratio and related systems development costs are incremental costs associated with the changes that would have to be made solely for the adoption of the ICS as a PCR.
Q2	<p>Adoption of the ICS as a PCR and its implementation as a domestic solvency regulatory requirement will improve consistency and comparability among different regulatory capital regimes. It is also beneficial in that the ICS would share its basic concept with insurers' ERM practices and the IFRS.</p> <p>While the ICS is a consolidated group-wide standard, the group ICS ratio is composed of local entity figures. As such, the possibility remains that each country may implement the ICS to apply it on an entity basis.</p> <p>In such cases, IAIGs need to consider how to maintain and improve individual local entity contributions to the group ICS ratio. Such considerations could place the local entities of IAIGs at a competitive disadvantage against non-IAIGs in the same country/jurisdiction.</p> <p>Therefore, in order to ensure a level playing field among IAIGs and non-IAIGs, it is highly desirable that the rules to be applied to IAIGs and non-IAIGs, on both a consolidated and single entity basis, will achieve convergence based on an economic value-based approach.</p>
Q3	<p>We believe the role of the GWS during the monitoring period described here is appropriate.</p> <p>In addition, it should be clearly stated that part of the role of the GWS is to ensure internationally consistent implementation of the ICS as a PCR in terms of both contents and timing in each country/jurisdiction. The GWS should also be required to ensure transparency regarding the schedule of discussions to implement the ICS. Such roles are important to ensure a level playing field between the IAIGs headquartered in different countries/jurisdictions.</p> <p>Discussions regarding the rules to be applied to IAIGs and non-IAIGs on both a consolidated and single entity basis should also be forwarded.</p>
Q4	<p>We believe the role of the Working Group within the IAIS during the monitoring period described here is appropriate.</p> <p>Working Group discussions should avoid falling into too much technical detail and taking up issues which are difficult to implement. Communication between the Working Group and the IAIG is essential and should be encouraged, as was the case during the field testing exercise.</p>
Q5	<p>We believe the role of the forum of supervisors within the IAIS during the monitoring period described here is appropriate.</p> <p>In addition to discussing the implementation of ICS Version 2.0 in the monitoring period, the forum of supervisors could also be mandated to discuss the potential unintended consequences of the implementation of the ICS as a PCR.</p>
Q6	<p>We believe the role of supervisory colleges during the monitoring period described here is appropriate.</p> <p>The prescriptiveness of the assessment conducted by different supervisory colleges should be consistent. Either the forum of supervisors or the Working Group within the IAIS could provide guidance concerning their prescriptiveness.</p>
Q8	With regard to special purpose vehicles, consolidation approach for accounting and ICS purposes should be aligned to eliminate excessive burden on insurers.
Q9	While proportional consolidation is a way to capture risks, consolidation approach for accounting and ICS purposes should be aligned to eliminate excessive burden on insurers.
Q10	Please refer to our comments on Q8 and 9.

Q13	<p>While simplification is appropriate for short-term contracts, it is inappropriate for long-term contracts as it fails to reflect interest gains and losses.</p> <p>Also, the MAV insurance liabilities should allow the use of insurance liabilities based on the premium allocation approach (PAA). The validity of such an approach is audited for jurisdictional GAAPs which adopt IFRS 17.</p>
Q14	<p>We support the IAIS proposal. Any deduction from assets should be limited to those reflected in cashflow at the valuation of insurance liabilities.</p>
Q15	<p>From the viewpoint of ensuring the credibility of figures and minimizing workload, the valuation of insurance liabilities and assets under management should allow the use of figures based on the IFRS, except in cases where the effect of adjustments is significant, such as a change in the discount rate.</p> <p>Specifically, with regard to insurance liabilities, calculation of future cashflow based on the building block approach (BBA), and the use of figures using PAA should be allowed.</p>
Q22	<p>Taking into account the impact and the necessary workload associated with the use of Top and Middle Buckets, insurers may wish to use the General Bucket when calculating the ICS ratio. In such a case, the requirement to verify the applicability of Top and Middle Buckets, such as calculations related to the limit on the carry forward of cash generated from an excess of asset cashflow, comes with difficulties.</p> <p>Insurers should be able to use the General Bucket without verification even if the liabilities meet the Top and Middle Bucket criteria.</p>
Q24	<p>From the Technical Specifications, it is difficult to determine what is meant by “the assets and corresponding liabilities that are managed separately” and meet the eligibility criteria defined for the Middle Bucket. For example, it could mean assets managed separately in the special accounts and the reserve accounts. It could also include assets managed separately for ALM purposes under the internal rules to match the liabilities. The eligibility criteria defined for the Middle Bucket should be reviewed to clarify this point.</p>
Q25	<p>No. An adjustment based on own spreads should not be applied beyond LOT. This is because the yield of the assets beyond the LOT should require reinvestment.</p>
Q39	<p>No. With regard Catastrophe risk, Technical Specifications require calculation of the cost of capital based on the assumption that the required capital at the reference date needs to be maintained for a year. However, the cost of capital should be adjusted using as a proxy 50% of risk charge pre-diversification because the MOCE should be calculated based on the policies in-force.</p>
Q40	<p>Non-life insurers with significant long-term risks should be able to consider their long-term liabilities by using run-off patterns based on outgoing cashflow associated with the related insurance liabilities, as is the case with the life business.</p> <p>In order for projection patterns to reflect reality, we propose determining them based on data collected through the Data Collection exercise this year and last. The projection pattern provided includes a longer tail than what is actually observed in Japan, resulting in an excessive amount of MOCE.</p>
Q41	<p>The inherent uncertainties prescribed in ICP14.9 are captured in the ICS through premium and reserve risks. They cannot be captured by future cashflow of premium liabilities and the difference between claim liabilities before and after discount. Therefore, the current design of the non-life P-MOCE is inconsistent with ICP 14.9. It also lacks comparability with the design on life P-MOCE, which does not take into account future profits and differences although they exist in life liabilities as well.</p>

Q42	<p>As the current non-life P-MOCE is based on the future cashflow of premium liabilities and the difference between claim liabilities before and after discounting, we believe it should be totally redesigned to be similar to the life P-MOCE. We propose exploiting figures calculated using the ICS risk charges for Premium and Reserve Risks and Catastrophe (non-life) Risk, and reflecting the difference in confidence level, as the life P-MOCE does. As for Premium Risk and Catastrophe Risk, a proxy 50% of the risk charge should be applied in order to base MOCE on in-force contracts. More precisely, it should be in line with the life P-MOCE (using approx. 75 percentile = the presumption of a normal distribution + 0.667*standard deviation (+1σ))</p>
Q47	<p>As long as insurance liabilities are valued on a market adjusted basis, insurance obligations will be transferred above the current estimate with a premium (margin). When an insurer fulfils its obligations (run-off), it needs capital to meet uncertainties (risks) from its insurance obligations and the associated costs required to raise capital. Therefore, we believe it is necessary to include MOCE in the current estimate.</p> <p>We are aware of the discussion that even if an insurers' capital falls below the PCR and the supervisors intervene, insurers' capital above the MCR could be utilized as premium to cover the cost of transfer of insurance obligations, which renders MOCE unnecessary. However, since the ICS is a 'going-concern' standard, we do not think it is appropriate to conclude that MOCE is unnecessary based on the discussion which put winding-up as a premise.</p> <p>Nevertheless, the concept and calibration of MOCE should be decided reasonably. In particular, design alignment should be achieved between life and non-life risks, and calibration should be neither too high nor too low.</p> <p>As P-MOCE lacks consistency and comparability between life and non-life risks, we support C-MOCE which is consistent and comparable between life and non-life insurers.</p>
Q48	<p>The changes to the Tier 1 Unlimited capital resource criteria which newly include common shares are appropriate.</p>
Q49	<p>Please refer to our comments on Q48.</p>
Q50	<p>We do not think the change is appropriate. Allowing special treatment of dated products issued by mutual insurers (i.e., allowing such instruments to be included in Tier 1 Limited capital if their redemption at maturity can be deferred subject to supervisory approval or they have a lock-in feature, and if such instruments have an initial maturity of at least ten years) will distort fair competition with other IAIGs.</p>
Q51	<p>Please refer to our comments on Q50.</p>
Q55	<p>The proposed approach for recognition of structurally subordinated financial instruments will increase the burden on the IAIG and the GWS. They will be required to verify whether the amounts from instrument issuance have been properly down-streamed into an insurance subsidiary of the IAIG, and whether the insurance subsidiary is located in a jurisdiction whose regulatory regime proactively enforces structural subordination through appropriate regulatory/supervisory controls over distributions from insurance subsidiaries.</p> <p>Also, it should be made clear under what circumstances it would be deemed that the following requirement is met: "The IAIG and the supervisor have determined that the proceeds of the instruments, which have been down-streamed into insurance subsidiaries, are being tracked and reported appropriately".</p>

Q57	The changes which clarify the criterion on subordination to explicitly acknowledge that instruments with structural subordination will be considered for inclusion within Tier 2 Paid-Up capital resources are appropriate.
Q58	Please refer to our comments on Q57
Q59	Allowing particular instruments issued only by mutual insurers to be included in the capital will distort fair competition with other IAIGs and is therefore inappropriate.
Q60	<p>With regard to the changes to Tier 1 and Tier 2 capital elements other than financial instruments, the treatment of assets with encumbrance is not appropriate.</p> <p>Including all collateralised assets in encumbered assets and deducting them from Tier 1 capital resource altogether is too conservative. We believe the following assets should not be regarded as encumbered assets.</p> <ul style="list-style-type: none"> - An asset granted as collateral to the counterparty in finance market transactions, such as derivatives trading and call loan deals (i.e., the balance amount of coverage for a loss). These assets should not be treated as encumbered assets since they can be recovered by unwinding the position. - Other collateralised assets which can be recovered upon a unilateral request of the party pledging the collateral. For example, when the borrower grants collateral in excess of the transaction amount, such collateral can be recovered upon a unilateral request by the borrower. Therefore, the amount can be expected to be recovered with certainty and should be excluded from encumbered assets. <p>Also, apart from the issue of fungibility of capital to be discussed later, the collateral required by supervisory regulation with the purpose of securing a certain amount for policyholder protection (such as claim payments) as a contingency strategy, should be excluded from deductions from Tier 1 capital resources since such collateral has the characteristics of a resource to cover risk, which should be taken into account in solvency regulation.</p>
Q61	Please refer to our comments on Q60.

<p>Q62</p>	<p>We understand that the intent behind part “6.5.2 Recognition of capital resources arising from a consolidated subsidiary of an IAIG attributable to third party investors” is to calculate required capital (proxy) of the consolidated subsidiary using simplified assumptions (total liabilities of the subsidiary * Y%) and to cap addition of minority/non-controlling interest (Sheet FT18. BCR & ICS Balance sheet [88]) of the subsidiary capital elements on the capital resources of the IAIG only up to the third party capital limit, thereby, limiting the use of subsidiary capital held by the third party which does not absorb the losses of the IAIG.</p> <p>With regard to the above-mentioned proxy to calculate the required capital of the consolidated subsidiary, instead of using the factor (Y%), the amount of required capital of the consolidated subsidiary held by third party investors should be used when such a figure is available.</p> <p>Also, the reference to “capital elements of the subsidiary held by third parties as a % of total capital elements of the subsidiary” in paragraph 196 should be revised as follows to eliminate the possibility of any misunderstanding: <u>“qualifying capital elements of the subsidiary attributable to third parties (i.e. non-controlling interest (only the portion that qualifies as the criteria of ICS qualifying capital) related to the subsidiary) as a % of total qualifying capital elements of the subsidiary”.</u></p> <p>We understand that, for example, a subordinated debt (Tier 2 qualifying resource) issued by the subsidiary and held by a third party does not generate minority/non-controlling interests and is therefore not included in capital elements. On the other hand, retained earnings of the subsidiary generate minority/non-controlling interests and are therefore included in capital elements.</p> <p>However, the original draft is not clear on these points and should be revised.</p>
<p>Q65</p>	<p>Technical Specifications stipulate different treatment for joint stock companies and mutual companies depending on their characteristics. In order to maintain fair competition, it should be duly noted that one party does not enjoy competitive advantages over the other.</p>
<p>Q69</p>	<p>The associated expenses of reinsurance contracts which affect the net assets of an insurer when risks manifest should be taken into account. More specifically, reinstatement premiums apply. The impact of reinstatement premiums is especially important with regard to catastrophe risk. It is relevant that paragraph 628 of the Technical Specifications reflects its impact on catastrophe risk charges.</p>

<p>Q71</p>	<p><The approach currently used> There are cases where insurers set a target interest rate hedge ratio (interest sensitivity of asset/interest sensitivity of liability) to mitigate interest rate risks and continuously rebalance their investment so that the ratio falls within a certain range. In such cases, we reflect this interest rate hedge strategy by reflecting the rebalancing of hedge ratio to 1 year continuous interest rate change in Monte-Carlo simulation of the internal model.</p> <p><How the approach could be incorporated into the ICS> While we would like to reflect the effect of interest rate risk mitigation, it is difficult to incorporate such practices within the standard method. Therefore, ICS should allow the effect of interest rate hedging by reflecting the risk mitigation effect in risk factors if implementing this interest rate hedging strategy.</p> <p>< The approach currently used > There are cases where insurers apply dynamic hedging by using derivatives trading such as futures and swaps to hedge minimum guarantees of variable insurance products. In the case of optional risks, the main exposure before hedging is delta risk (risk of drop in stock prices in case of equity investment) and the main exposure will be converted to gamma risk (risk of suffering losses due to increased volatility) after hedging. Therefore, such insurers mitigate delta risks while measuring and calculating gamma risks using internal models. At the same time, they also measure vega risks.</p> <p><How the approach could be incorporated into the ICS > The ICS could allow offsetting Delta risks when hedged risks and the means are closely connected. As for gamma and vega risks, which cannot be mitigated by dynamic hedging, internal models and application of factors taking into account the period in force of the option liabilities may be considered.</p> <p><The criteria required to be met to allow the use> When the rules on dynamic hedging policies are properly set (related risks, the method of hedging, allowance of error, etc.) and documented, delta risks are converted to gamma and vega risks, so risk mitigation measures should be taken into account. As mentioned above, risks are converted into different risks as a result of hedging, which should not be overlooked.</p>
<p>Q73</p>	<p>It is difficult to implement a full look-through on all asset classes including investment funds. Therefore, a simplified approach should be applied. For example, a look-through of investment in trust funds could be evaluated in line with other asset classes, such as funds invested in bonds and common stocks. Also, the look-through approach could better reflect reality by categorizing such investments under new or relevant preexisting categories.</p>
<p>Q79</p>	<p>The simplification is relevant. From a workload point of view, segmentation based on contract terms should be simplified to the best extent possible.</p>

Q80	<p>With regard to policies which make benefit payments in multiple categories, it is practically difficult to use different uplift factors according to different components. Therefore, the approach prescribed in paragraph 561 of the 2018 FT Technical Specifications (*) should be maintained.</p> <p>Also, for insurers who have difficulties applying different segmentations to different benefit categories, we propose applying average uplift factors calculated for the whole medical insurance segment or for relevant sub-segments based on the policies in-force at the reference date. Such factors should be applied either to all policies or relevant sub-segments respectively.</p> <p>(*) However, if it is not feasible for the individual stresses to be applied to each component of the policy, the stress applied to a given policy should be based on the dominant component of that policy.</p>
Q84	<p>It is not relevant to consider that policyholder action could take place based on information that the policyholder does not know, such as the current estimate and surrender value of a policy. Therefore, it is not relevant to use the positive and negative surrender strain (comparison of current estimate and surrender value) to determine the surrender strain.</p> <p>Also, a rise in the surrender rate is unlikely for protection products. The surrender strain should take into account the characteristics of the policy (protection or savings products).</p> <p>If the ICS continues to determine surrender based on positive and negative surrender strains, we recommend making the following two corrections:</p> <p>(1) The current method to measure the level and trend component prescribed in the Technical Specifications, which assume that the surrender rate will always change negatively for every homogenous risk group (HRG), is too conservative. Instead, we recommend aggregating the total decreased amount of net asset values for all HRGs in upward and downward shock scenarios with a correlation factor of zero.</p> <p>(2) The method of measuring mass lapse components, which apply zero floor for each HRG, assumes that only those HRGs whose surrender strain is positive will face a rise in surrender rate. However, such an assumption is not a realistic scenario under mass lapse risk calculation. For example, reputational erosion should result in increased surrender regardless of the HRG. Therefore, we propose calculating the mass lapse component based on the total of life, or according to different geographical segments other than HRGs.</p> <p>Lastly, policyholder action is related to market characteristics and geographical segments. These levels should be set based on the historical data of the respective markets. In the case of Japan, the current surrender rate is too high compared with past results.</p>
Q85	<p>As the interest rate converges with the LTFR, its volatility decreases. Inflation rate volatility can also be considered as decreasing as well. Therefore, an approach that specifies expense inflation stresses grade down to 1% is consistent with the approach used to determine the LTFR.</p>
Q86	<p>Risks to the unit expense component and expense inflation component manifest due to different causes. Therefore, the correlation factor between the two components should be set at zero.</p>

<p>Q88</p>	<p>Simple aggregation is applied for risks within the same ICS category, property-like, liability like, and motor-like. However, each category includes diversified lines of business and covers different risks whose results do not necessarily move in the same way. Therefore, diversification should be applied within each category.</p> <p>The correlation factor could be set based on the 2018 FT data submitted and qualitative judgement. Alternatively, a single factor could be applied worldwide. In the latter case, the diversification benefits will be inconsistent between geographical segmentations since each region has different business segmentations within the categories. In order to deal with this issue, one idea is to set sub-categories within each category, align the number of sub-categories between different regions, and apply diversification between them.</p>
<p>Q89</p>	<p>Premium risk factor for Japan/Automobile is set at a much higher level than what we consider appropriate based on the reality and apply in our internal risk management.</p> <p>While we assume the IAIS set the risk factor at a higher level than the theoretical figure based on data collected, we think it should be set based on a theoretical figure that reflects the reality of the risk.</p> <p>The actual loss ratio results we provided in the data collection exercise fluctuate reflecting the revisions of “the standard policy conditions” and “the reference loss cost rates” provided by “the General Insurance Rating Organization of Japan (GIROJ)”. Due to such revisions, any assumptions regarding future loss ratios are inconstant. https://www.giroj.or.jp/english/pdf/Overview_RLCR.pdf</p> <p>While we do agree that the risk factor should be set based on assumptions about the level of future loss ratios and deviations from such assumptions, when such assumptions vary year-by-year due to the above mentioned revisions, it is not relevant to set risk factors based on the standard deviation calculated according to actual loss ratio results of previous years. Instead, the risk factor should be set based on the standard deviation calculated based on the difference of the projected loss ratio and the actual loss ratio results each year. (Supposing that the difference between the projected loss ratio and the actual loss ratio results follow normal distribution patterns, multiplying the standard deviation with a confidence factor of 2.58 to calculate a risk factor equivalent to 99.5% VaR, the resultant risk factor will be around 5 - 7%.)</p> <p>In countries where a particular body provides standard insurance rates and insurers are either required by law to comply with them, or standard market practice dictates use of such rates, then the risk factor should be calculated based on the difference between projected loss ratio and actual loss ratio results, as mentioned above, to eliminate the influence of rate revisions.</p> <p>With regard to projected loss ratios, there could be concerns that not all countries have such data and that the ratio might not be reliable, and be used in hindsight. We propose requiring IAIGs to submit relevant loss ratio data to the IAIS and accumulate relevant knowledge during the monitoring period, thereby maintaining reliability of the data. (We presume that ICS risk factors will not be fixed in the future.)</p>
<p>Q93</p>	<p>No. We think that the earned premium data collected in the data collection exercise includes the effect of surrender values, and that it is reflected in the calibration of the premium risk.</p> <p>Since non-life insurance loss ratios fluctuate year-by-year, introduction of profitability adjustments will result in fluctuation of the risk factor every year. Profitability adjustments will also interfere with the simplification applied to insurance liability valuations. In either of these cases, profitability adjustment will result in undue complexity. Therefore, we do not think profitability adjustment is necessary.</p>

Q96	Please refer to our comments on Q98.
Q98	<p>We are of the view that the ISF adds complexities to the current method. While the method may provide more precise insights into past data and may increase the accuracy of future assumptions based on past data, any change in circumstances underlying the business environment could mean that assumptions based on past experience may not necessarily be useful. Therefore, from the cost/benefit perspective, we do not think the ISF is an efficient method.</p> <p>In addition to the ISF, we believe a new framework allowing the use of ICS risk factors calculated by the IAIG and subject to supervisory review and approval should be added.</p>
Q99	<p>With regard to other catastrophe scenarios, IAIGs should be able to consider them based on materiality.</p> <p>With regard to terrorist attack, it should be included in the premium and reserve risks as is the case with latent liability risk. (Please refer to our comments on Q103 for details.)</p>
Q100	<p>The surety scenario is too conservative compared with the target confidence level and should be revised as follows:</p> <p>(1) It is not relevant to assume that the two largest net losses will occur simultaneously irrespective of their credit conditions (credit rating). When the two largest exposures to surety counterparties are rated ICS RC 3 or better (equivalent to Average 3-year CDR (0.35% or less)), then insurers should be able to assume that the counterparty with lower credit rating will fail.</p> <p>(2) Instead of a loss severity model 95% PML worst gross loss to exposure ratio for the past 10 years, net losses should be based on expectations.</p>

<p>Q101</p>	<p>Natural catastrophe is a risk unique to insurance that is not found in other financial institutions. Depending on their geographical and product portfolio mix, risks differ significantly between insurers. Natural catastrophe models, which can best reflect the characteristics of the risk of an insurer, must be part of the standard method and, subject to certain safeguards, be available for use without supervisory approval.</p> <p>It is relevant to incorporate certain safeguards to ensure a degree of comparability. We understand supervisors' concerns about the quality of the model and its use by IAIGs. In order to mitigate such concerns, the developer of the model could be required, for example, to provide an explanation of the rationale and validity of the model to the supervisory authorities concerned (authorities of the jurisdictions covered by the model). The developer of the model could also be required to report the relevant issues described below to the supervisory authorities concerned.</p> <ol style="list-style-type: none"> (1) The board approved the use of the model for regulatory purposes. (2) Appropriate rules on model governance are in place. (3) The model is subject to self-assessment with regard to material regions and perils. (4) Information on the model and its use with regard to material regions and perils currently provided through the FT questionnaire (Q164-166, in the case of the 2018 questionnaire). <p>These safeguards are beneficial in ensuring comparability and removing concerns about not requiring supervisory approval.</p> <p>Comparability is not necessarily ensured through the use of the same models by all insurers. Rather, comparability can be achieved through allowing each IAIG to utilize the models (subject to safeguards) which help the insurer achieve the most appropriate results in accordance with the risk characteristics of the insurer, irrespective of the place of its domicile. Such models would best describe the risk characteristics of the insurer and enable comparability among insurers.</p> <p>With regard to safeguards, due care should be taken so that they are not too stringent, impose an excessive burden on IAIGs, and that flexibility is assured. While the criteria listed in paragraph 329 are in principle necessary, the information requirements based on each criterion should be fit for purpose. Also, supervisors should be allowed to clarify the criteria of information they require. Supervisors should also be allowed to utilize the approval process within IAIGs to help reduce procedural burden.</p> <p>Also, further simplification of safeguards should be applied to those models that are widely used, for example, in reinsurance transactions (external models developed by RMS, AIR, etc.), and those models that are used industry-wide, for example, for accounting purposes (the GIROJ model in the case of Japan).</p>
<p>Q103</p>	<p>With regard to other catastrophe scenarios, IAIGs should be able to judge whether to employ them or not depending on the materiality. These scenarios may not necessarily be material for certain insurers.</p> <p>With regard to the terrorist attack scenario (a five-tonne bomb blast and calculated for the largest geographical risk concentration), while it is too burdensome to make a precise calculation, it is also difficult to apply simplified risk scenarios that meet the confidence level. Therefore, we think it is inappropriate to calibrate risk based on the scenario method. An alternative approach would be to include the risk within the premium and reserve risk and apply a risk factor derived from past field testing results.</p>
<p>Q104</p>	<p>We have no objection with the continued use of the DNS.</p>

Q106	<p>Whereas the purpose of the IRR stress on LTFR is to measure risks that manifest once in 200 years, the purpose of setting a cap on maximum LTFR annual change is to improve stability (mitigate excessive volatility) of insurance liabilities. Since they have different objectives, we do not think the cap should necessarily be aligned.</p>
Q107	<p>The proposed method aggregates the maximum IRR for each currency. As a result, the risk to insurers with convexity risk is valued as smaller compared with those without. Also, insurers' required capital would be sensitive to the reversal of long and short positions, resulting in instability. For example, when risk in currency A is 120 for a long position and 100 for a short position, and risk in currency B is 100 for a short position, the risk of currency A (long 120) and B (short 100) will be aggregated with the correlation factor of -0.75. This would be smaller than the risk of currency A (short 100) and currency B (short 100) being aggregated with the correlation factor of +0.75.</p> <p>Therefore, we believe the current method should be revised.</p> <p>One alternative method would be to calculate the interest rate upward stress ($\sqrt{UP^2 + \max(\text{twist1}, \text{twist2})^2}$) and downward stress ($\sqrt{DOWN^2 + \max(\text{twist1}, \text{twist2})^2}$) for each currency, and apply the largest of the (1)~(3) below.</p> <ul style="list-style-type: none"> (1) the risk amount aggregated by the upward risks of each currency with the correlation factor of 0.75 (2) the risk amount aggregated by the downward risks of each currency with the correlation factor of 0.75 (3) the risk amount calculated by current method
Q109	<p>(Firstly, we repeat our opening comment on Q71)</p> <p>There are cases where insurers set a target interest rate hedge ratio (interest sensitivity of asset/interest sensitivity of liability) to mitigate interest rate risks and continuously rebalance their investments so that the ratio falls within a certain range. In such cases, we reflect this interest rate hedge strategy by reflecting the rebalancing of hedge ratio to 1 year continuous interest rate change in Monte-Carlo simulation of the internal model.</p> <p>While we would like to reflect the effect of interest rate risk mitigation, it is difficult to incorporate such practices within the standard method. Therefore, ICS interest rate risks should allow for the effect of interest rate hedging through, for example, the application of factors.</p> <p>The ICS standard method does not capture the risk of fluctuation in the implied volatility to be used to assess the time value of surety and option. Considering that such risk may be material for some IAIGs, a method taking into account the fluctuation of implied volatility should be considered. Such a method should be simplified to the extent possible and avoid being burdensome for IAIGs.</p> <p>The ICS standard method does not include the risk margin (MOCE) in the measurement of interest rate risks. When appropriate, a method to measure the interest rate risk that reflects the risk margin should be available, for example when the risk margin has large sensitivity to interest rate fluctuation.</p>

Q112	In order to be consistent with insurance liability discounting, shock applied on spread before adjustment (credit risk + liquidity premium) should be both on assets (shock should be applied to the spread before adjustment) and on liabilities (shock should be applied to adjusted spread). If shock is applied only on the credit risk part of the spread, then the shock should only be applied on assets.
Q113	Please refer to our comments on Q112.
Q118	Please refer to our comments on Q112.
Q119	The MAV discount rate which has been discussed for quite a while is more sophisticated. Non-default spread risk should be adjusted so that it will be consistent with the MAV discount rate.
Q124	Since such treatment provides room for arbitrariness, we do not agree with the idea of categorizing strategic equity and private equity differently from other assets and applying a lower risk charge.
Q136	Changing the risk factor of reinsurance assets in accordance with their duration, and calculating the duration of each reinsurer is too burdensome. Risk factors should only be differentiated by rating categories.
Q143	If the investments listed in the table of paragraph 933 of the Technical Specifications also need to meet qualitative criteria, it would be difficult for an IAIG to identify investments which qualify as infrastructure investments. We think that provision of the Technical Specifications fails to clarify this point.
Q145	<p>While “other assets” receive a stress factor of 8%, in Japan, assets included in this category, i.e., amounts due from agents, amounts due for reinsurance, and other uncollected funds, are mostly reclaimed within a year and are rarely written off. Against such a background, the stress factor of 8% is excessive and a new factor or category needs to be added to cater for the situation in Japan. To clarify, it is common in Japan to collect the premium payments that agents receive on a daily-basis, or at the very latest within the following month. Amounts due from agents are very short-term and diversified receivables. Taking these situations into account, an 8% risk factor, which is comparable to a credit rating of BB (1-3 years RC5) or B (0-1 years RC6) is far too excessive.</p> <p>Based on historical write-off data, rating category 2 or 3 whose factors are 0.2% (0-1 years RC2) or 0.6% (0-1 years RC3) is appropriate for considering the amounts due from agents.</p>
Q146	<p>Reflecting the different characteristics of the insurance business, underlying operational risk differs significantly. Therefore, applying merely their size as exposure may not necessarily be appropriate. Considering that the underwriting of risk is the source of return, risk quantified (required capital) that takes due account of underlying operational risks could be regarded as exposure.</p> <p>Also, when using premiums as exposure, the current practice to apply written premium will be affected by the method of payment. Therefore, earned premium or annualized premium income of policies in force is more appropriate.</p>
Q147	Please refer to our comments on Q146.

Q152	<p>Regardless of whether or not IAIGs' GAAP applies a more stringent utilisation assessment approach, in order to maintain comparability, the DTA recognition approach utilising IFRS should be allowed, instead of DTA utilisation on a jurisdictional GAAP basis.</p> <p>For example, the Accounting Standards Board of Japan ("ASBJ") Guidance No.26 places entities into 5 categories based on taxable income and limits recognition of deductible temporary difference according to each category. Regarding entities that are included in category 2, 3, and 4, the DTA could be reassessed by recognising deductible temporary difference pursuant to category 2 which is close to IFRS and US GAAP.</p>
Q153	<p>The method described in our comment on Q152 is based on the Accounting Standards Board of Japan ("ASBJ") Guidance No.26 which the JGAAP applies. Therefore, the method is transparent and verifiable.</p>
Q159	<p>The statutory tax rate announced after the reference date should not be applied on the group effective tax rate. Such application is not appropriate since the announcement of the statutory tax rate could be delayed and such application may bring inconsistencies between the IAIGs within the same jurisdiction. The tax effect has a significant impact on the ICS ratio. Therefore, group effective tax rates should be stable, and the application of negative tax rates should be avoided. For example, a group effective tax rate could be calculated based on the statutory tax rate of each jurisdiction and the weighted average of the items, such as liabilities, which represent risk amounts.</p>
Q160	<p>The ICS calculation should consider the DTA arising from MOCE. We think MOCE is part of insurance liability. Therefore, it should be recognized after tax in line with the difference of MAV's current estimate and GAAP.</p>
Q162	<p>If MOCE is to be categorized as a liability other than an insurance liability, then it should be recognized after tax in line with other items. If MOCE is identified as a deduction from capital, then it should be calculated after tax.</p>
Q179	<p>The valuation of insurance liability greatly depends on discounting. The IAIS should seek to narrow the range of discount rate in order to maintain comparability and consistency between groups and the ICS.</p>
Q180	<p>It should be recognized in terms of capital adequacy.</p>
Q181	<p>The elements of MAV listed below do not align with IFRS 17. Regarding these elements, audited IFRS 17 figures should be allowed in the ICS, except those which are important in assessing capital adequacy, and improve the confidence of the ICS.</p> <ul style="list-style-type: none"> - contract boundaries - recognition/derecognition of insurance liabilities - future management actions - simplification with regard to non-life insurance premium reserves - contract service margins <p>With regard to discount rate and MOCE (risk margin), the IFRS allows a wide range of practices. The IAIS and the IASB should work together to ensure that what is used by the ICS will be recognized within the scope of IFRS practices.</p>

Q185	The framework should incorporate a process to verify the components of the model based on materiality. For those components which are not material, the insurer could be exempt from using the self-assessment template.
Q187	External models may include information that is not open to users, and IAIGs may have limited access to such information. Therefore, comparison with another model may not be fully possible. In such a case, validating the model itself should be allowed, instead of comparing.
Q188	The ownership of the internal model should belong not only to the Board of Directors but also to the senior management.
Q189	<p>Statistical quality tests should examine whether the underlying data has sufficient quality against their objectives. The examination should not be any more stringent and burdensome than necessary.</p> <p>For example, when an individual component of the internal model is examined, such examination should reflect the extent the component influences the required capital of an IAIG.</p>
Q191	Requiring both the Board of Directors and senior management to have duplicative control of and responsibility over the internal model indicates a clear lack of flexibility. The Board of Directors and senior management should be allowed to divide and/or share their roles and responsibilities depending on the activity or materiality.
Q192	The requirement on documentation should be “sufficient to demonstrate compliance with the regulatory validation requirements” (ICP17.17). They should not be too detailed, prescriptive or exhaustive.
Q193	<p>Even if an IAIG has no intention to “cherry-pick”, if the GWS does not approve their internal model as a whole, the IAIG will be forced to use a partial internal model. It should be made clear that self-assessment is not required in such cases.</p> <p>Also, it should be clearly stated that changes in scope of the internal model that reflect changes in portfolio, risk environment, and measurement methodologies, should not necessarily be regarded as “cherry-picking”.</p> <p>The requirement to provide “the rationale for the limited scope of the internal model” should not put an IAIG under excessive burden of proof. Mitigation of concern about “cherry-picking” should be enough.</p>
Q194	With regard to the reference “why it considers that using partial internal modelling for determining regulatory capital requirements is more consistent with the risk profile of the business than the standardised approach”, factors and stress levels used for the standard method (excluding catastrophe risk) often include elements whose basis and rationale are not necessarily clear (such as supervisory judgement). Therefore, it should be duly noted that sufficient information for comparison may not be available.