

3. **Cash Reserves:** Maintaining a cash reserve can provide liquidity in the event that investments need to be liquidated quickly. This can be particularly important in volatile markets where the value of investments can change rapidly.
4. **Risk Management:** Effective risk management is crucial for maintaining liquidity. This involves identifying and managing risks associated with the use of derivatives, such as counterparty risk, market risk, and credit risk.
5. **Regulatory Compliance:** Compliance with regulatory requirements related to the use of derivatives can help maintain liquidity by ensuring that investments are made in a manner that is consistent with regulatory requirements and that risks are managed effectively.

- **Conclusion:** Maintaining liquidity is a critical consideration when using derivatives in investment strategies. This can be achieved through a combination of hedging strategies, diversification, cash reserves, effective risk management, and regulatory compliance. By doing so, investors can ensure that they are able to liquidate their investments promptly if necessary, thereby maintaining the liquidity required to meet their investment objectives.

Answer 2:

To manage and report on investments in derivatives effectively, insurance companies must adhere to several critical practices according to the FINMA Circular 2016/5:

Management of Derivative Investments

1. **Risk Mitigation:** Derivatives should be used primarily for hedging risks associated with the assets or obligations of the insurance company or for efficient management of investments.
2. **Limitation on Risk Exposure:** The usage of derivatives must not expose the company to risks that exceed its capacity or the scope of its business operations.
3. **Coverage Requirements:** All potential obligations arising from derivative transactions must be fully covered at all times. This coverage can be either through the underlying assets or liquidity to ensure that the company can meet its derivative obligations without fail.



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