

Liquid Insight

Superlong JGBs still far from writedown levels

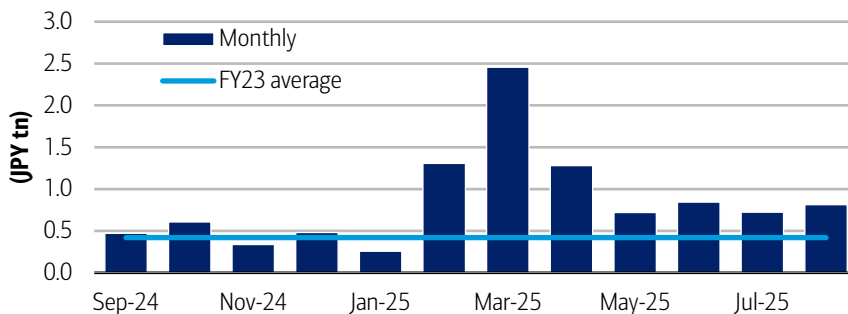
Key takeaways

- Despite growing concerns about fiscal expansion, we think superlong JGBs are still far from lifers' threshold for writedowns.
- Assuming MOF buybacks are likely, a strategic entry point would be on dips when the JU9 and JU11 yields rise above 5%.
- Limited writedown risk reduces one risk factor for JPY but political and policy setup remain bearish for JPY in 4Q25.

By Tomonobu Yamashita and Shusuke Yamada

Chart of the day: Lifers' monthly gross sales of superlong JGBs

Japanese lifers' JGB selling above FY23 average



Source: BofA Global Research, JSDA, Bloomberg

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Little writedown risk except for some off-the-run 40yr issues

Superlong JGB yields are rising on concerns about procyclical fiscal policy (Exhibit 2). This is driving investor concerns about whether Japanese lifers' superlong JGB holdings have reached their threshold for writedowns and whether they could cut losses in the near future. While we see a relatively high risk of writedowns on some off-the-run 40yr issues such as JU9 and JU11, we think substantial writedowns or loss-cutting on superlong JGBs in general is unlikely in the near future.

Assuming that the Ministry of Finance (MOF) may buy back superlong JGBs in the near future, a tactically favorable entry point to buy JU9 (nominal coupon 0.4%, redemption 20 March 2056) and JU11 (0.8%, 20 March 2058) on weakness would be when their simple yields exceed 5%.

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Japanese lifers' writedown criteria

Generally, marketable securities other than those held for trading purposes are either not marked to market or, if they are, valuation gains/losses are as a rule not booked on the income statement.

However, the Life Insurance Association of Japan (LIAJ) states that even securities not held for trading purposes should be marked to market on the balance sheet if their value falls significantly, with the resulting valuation loss to be recorded on the current fiscal year's income statement. Its view is that a "significant" fall (i.e., the threshold for writedowns) is a decline in market value to less than 50% of book value. The LIAJ also states that life insurers may book writedowns of their own volition if market value falls by more than 30%¹.

Exhibit 1: Life Insurance Association of Japan's conditions for writedowns of marketable securities by life insurers

Securities generally need to be written down if market value falls at least 50% below book value

Classification by percentage decline	Threshold for significant decline		Need for impairment loss
50%+	Significant decline		Irreversible: impairment treatment required
30%+ -50%	Based on rational criteria	Significant decline	Recoverable: impairment treatment not required
-30%		Does not qualify as significant decline	Impairment treatment not required
	Does not qualify as significant decline		

Source: Life Insurance Association of Japan, BofA Global Research

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How far are investors from needing to take writedowns?

We look briefly at how far individual JGB issues are from requiring writedowns. We use the accepted bid price in JGB auctions as a substitute for actual book value. Specifically, for the JL and JX series, we take the simple average of the average successful bid prices for each issue, including reopening issuance. For the JU series we use the simple average of issue prices for each issue, including reopening issuance, as a substitute for book value. Our calculations do not include issuance via liquidity enhancement auctions.

The table below summarizes how far each issue's current price is from the "significant decline in market value" threshold that serves as a guide for writedowns--in other words, how much each issue's simple yield would need to rise before a writedown might be required--by multiplying the book value from the above calculation by 0.5 (Exhibit 3).

Unsurprisingly, the market value of on-the-run issues has at this point fallen by far less than 50%. For instance, there were three auctions for JL193, which currently trades at around ¥97.2, in Jul-Sep, with average successful bid prices of ¥100.23, ¥98.93, and ¥98.00. The simple average of these is ¥99.05. Multiplying this by 0.5 gives a value of around ¥49.53, suggesting that life insurers would need to consider writedowns if the simple yield on JL 193 rose from around 2.72% at present to around 10.2%.

Most issues still some way from requiring writedowns

In this report, we assume that (1) Japanese lifers buy superlong JGBs via JGB auctions, and (2) continue to hold them thereafter. In short, we do not factor in secondary market trading. However, since February 2025, life insurers' monthly selling of superlong JGBs has exceeded the FY23 average. JU12, JU13, and JU14 have already fallen more than 50% from the simple average of their auction issuance prices. We think Japanese life

¹ Firms need to take writedowns if the market value of a security falls more than 50% below book value and there is no reasonable basis for assuming that it will recover. For declines of less than 50%, individual life insurers must establish rational criteria to determine whether the decline in market value is significant. A decline of less than 30% can generally be excluded from these rational criteria as it would not typically be considered "significant" (though it can be included if desired).
https://www.seiho.or.jp/data/publication/tora/pdf/tora_5.pdf



insurers have been opportunistically selling low-coupon issues and replacing them with high-coupon issues.

Market implications

Rates

Our simulation in this report suggests that most superlong JGBs, mainly on-the-run issues, are still some way from reaching life insurers' threshold for writedowns. While financial markets are concerned about the risk of procyclical fiscal policy and writedowns by lifers, we think the lifers have already made progress with opportunistic sales of low-coupon issues, and we see little risk of writedowns on superlong JGBs in general in the near future.

However, we do see a relatively high risk of writedowns for issues such as JU9 and JU11. Assuming that MOF may buy back superlong JGBs in the near future, a strategic opportunity to buy JU9 and JU11 on dips would be when their simple yields exceed 5%.

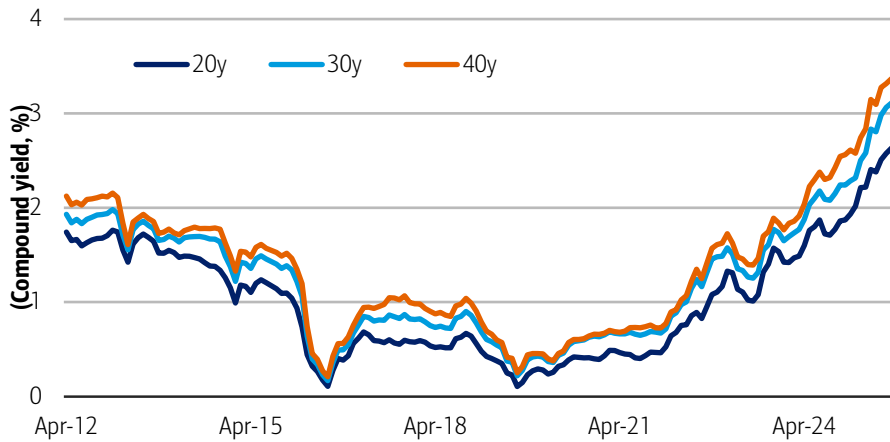
FX

Selling of superlong JGBs tends to make FX investors more concerned about fiscal risk, even if supply-demand factors are mainly to blame. In that sense, the limited potential for writedowns on superlong JGBs eliminates one risk factor. However, superlong JGBs could remain vulnerable to fiscal risk given the structural decline in lifers' demand and political and fiscal policy uncertainty (see: [FX Watch: Q&A on JPY – domestic risks skewed to a weaker yen 13 October 2025](#)). The remainder of the year will likely feature numerous political uncertainties including the prime ministerial election, formation of a new cabinet, and drafting of a supplementary budget.

We think investors are aware of the potential for MOF to intervene at current USD/JPY levels and will find it hard to continue buying aggressively, and we would view any weakness as an opportunity to sell JPY.

Exhibit 2: 20yr, 30yr, and 40yr JGB yields (monthly average)

Superlong yields at record highs



Source: BofA Global Research, Bloomberg, Ministry of Finance

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Exhibit 3: Current value of superlong JGB issues

Superlong JGBs may be far from life insurers' threshold for writedowns

20yr JGB						30yr JGB						40yr JGB					
Issue	Current price (A) (¥)	Average price at auction/2 (B) (¥)	Current simple yield (C) (%)	Converted (B) to simple yield (D) (%)	Spread (D)-(C) (bps)	Issue	Current price (A) (¥)	Average price at auction/2 (B) (¥)	Current simple yield (C) (%)	Converted (B) to simple yield (D) (%)	Spread (D)-(C) (bps)	Issue	Current price (A) (¥)	Issue price at auction/2 (B) (¥)	Current simple yield (C) (%)	Converted (B) to simple yield (D) (%)	Spread (D)-(C) (bps)
JL193	97.20	49.53	2.72	10.23	750.9	JX88	99.53	49.64	3.23	9.84	660.7	JU18	93.45	48.14	3.49	9.17	567.8
JL192	95.97	50.08	2.72	9.92	720.7	JX87	91.95	48.06	3.34	9.47	612.8	JU17	74.75	46.58	3.82	7.71	388.5
JL191	90.32	49.34	2.77	9.41	663.3	JX86	84.46	47.18	3.47	8.89	542.5	JU16	56.57	44.36	4.35	6.28	193.4
JL190	87.67	49.57	2.80	9.00	620.9	JX85	82.59	49.44	3.51	8.16	464.9	JU15	51.82	43.59	4.48	5.85	136.6
JL189	89.50	50.96	2.75	8.88	612.9	JX84	78.96	48.78	3.58	7.93	435.4	JU14	47.13	48.39	4.65	4.46	-19.4
JL188	85.57	49.00	2.78	8.91	612.7	JX83	80.93	50.42	3.54	7.79	425.2	JU13	44.39	47.94	4.76	4.20	-56.7
JL187	81.74	48.59	2.82	8.49	567.6	JX82	73.71	48.30	3.70	7.49	379.7	JU12	45.38	50.89	4.70	3.87	-83.3
JL186	85.04	50.28	2.74	8.50	575.3	JX81	70.25	48.72	3.78	7.02	323.8	JU11	52.49	49.32	4.32	4.79	47.5
JL185	79.82	48.65	2.81	8.23	542.6	JX80	74.21	51.14	3.67	6.94	327.0	JU10	55.37	48.65	4.19	5.21	101.9
JL184	80.34	50.76	2.77	7.73	496.2	JX79	63.55	47.12	3.96	6.60	264.1	JU9	46.60	46.04	4.62	4.72	9.8
JL183	84.92	51.27	2.68	8.26	558.1	JX78	67.43	51.22	3.84	6.21	237.0	JU8	65.72	49.46	3.90	6.30	240.1
JL182	81.26	50.16	2.72	8.06	534.6	JX77	71.31	50.67	3.72	6.74	301.6	JU7	72.42	50.43	3.69	6.83	314.2
JL181	79.02	50.43	2.73	7.68	494.7	JX76	67.97	48.89	3.81	6.74	293.6	JU6	76.60	50.86	3.59	7.26	366.5
JL180	78.15	50.05	2.73	7.67	494.9	JX75	66.49	51.15	3.84	6.12	227.8	JU5	79.45	48.97	3.50	8.03	453.3
JL179	74.65	48.80	2.77	7.51	474.0	JX74	61.55	49.80	3.99	5.82	183.4	JU4	84.21	49.83	3.35	8.38	502.6

Source: BofA, Global Research, Bloomberg, Ministry of Finance

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