

# **Global Markets Products**


## **Pricing Authorization Procedure**


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1.1	July 2020	MKD	Annual Review
1.2	March 2021	MKD	Annual Review
1.3	June 2021	MKD	Add money market product to reflect requirement from bank-wide pricing policy

Identifying Information	
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## 1. Executive Summary

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Pricing Authorization Procedure sets forth a framework for pricing products provided for clients by the Global Markets Department (“MKD”) of Bank of China New York Branch (“BOCNY” or the “the Bank”). This procedure is written to address the requirement outlined by *BOC US Branches Product Pricing Policy* and *Procedure for Authorization Management of Global Markets and Treasury Business*, and govern client hedging business and money market transactions.

### 1.1. Rationale

The purpose of this Procedure is to:

- Provide the general pricing rule such as for different products and client types;
- Standardize price initiation, request, and grant procedure for the exception to the general quotation rule.

### 1.2. Related Policies & Procedures

This Procedure is written based on procedures mentioned below.

- BOC US Branches Product Pricing Policy
- Procedure for Authorization Management of Global Markets and Treasury Business
- Corporate Client Service Procedure for Financial Market Products

## 2. The Scope

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This Procedure applies to global markets products provided by MKD to serve corporate, financial institution (FI), personal clients’ hedging demand, including FX spot, forward, swap and interest rate swap, cross-currency swap, money market lending, etc.

## 3. Roles and Responsibilities

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The primary roles and responsibilities for each relevant department are summarized as follows:

### 3.1. Client Relationship Departments (CRDs)

- Communicate and negotiate with clients about product pricing based on general quotation rule in this procedure. Report clients’ feedbacks, if any, to MKD as consultancy to improve feasibility of general quotation rule.
- Initiate exception request when there are sound reasons to grant a discount to particular clients on the basis of general rule.

### 3.2. TRY

- Initiate money market funding requests to MKD.

- Provide guidance to MKD for funding and cash investment.

### 3.3. MKD

- Establish, maintain, review, and update of this Procedure.
- Facilitate pricing negotiation with market information and other necessary supports.
- Implement this procedure in product related pricing, quotation, and trading process.
- Follow the authorization process of approving price exception if needed.

### 3.4. MOD

- Review this Procedure and provide consultancy regarding regulations and compliance to ensure consistency with code of conducts.
- Review and provide consultancy regarding the demand of exceptional quotation with loss.

## 4. General Quotation Rule

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In order to balance risk and return of products while enhance pricing competitiveness and quality of services, General Quotation Rule is to set forth the general pricing standards for different types of products and clients.

### 4.1. Client Hedging Business

Client price is an outcome of negotiation between the Bank and client. For most transactions, MKD determines client price quotations based on prevalent market prices and spread charges add-on. Spread is set in accordance to the strategic relationship with the client, market liquidity, and the Bank's positions, etc. Otherwise, the following standards provide spread charge ranges and profit target for general quotations to clients.

CRDs shall request for quote from MKD deal by deal, except for BKD's personal client transactions at T24 listed price and transactions on the E-Trading Platform. Under the cooperation with CRDs and negotiation with client, traders in MKD are authorized to quote the client price according to the General Quotation Rule as follows. CRDs shall not make further add-on or discount on this final client price. If the target price is beyond the range of traders' discretion, exception approval should be applied (see section 5.1).

### Spread Charge for Global Markets Products

#### FX spot, swap, forward

One-way Spread Pips

Types of Clients	Corporate	FI	Personal*	E-trading Platform
Upper Bound	300	100	500	100
Lower Bound	10	0.001 **	100	0.01

\*Not include spread for cash conversion services which is determined by the QNB/BKD.

\*\* Spread for short-term FX transaction with FIs such as overnight swap etc.

## Interest Rate Swap and Cross-Currency Swap

Corporate client's Internal Risk Rating		USD Equivalent Basis Points			
		1	2	3	4
Upper Bound		30			
Lower Bound	Collateralized	5	6	7	8
	Uncollateralized	7	8	9	10

Minimum spread charge for FI clients on IRS and CCS is 0.1 basis points.

Please refer to *Bank of China US Branches Credit Risk Management Policy* for the description of corporate client's internal risk rating. Generally, clients with the rating of 5 or worse may not be considered as potential clients for interest rate swap and cross-currency swap.

### 4.2. Money Market Transaction

Price is an outcome of negotiation between the Bank and the counterparty. Head Office provides rate guidance to overseas branches for funding transaction rate maximums on a routine basis, including Money Market Borrowing and Market Funding. Other transactions limitations are set forth considering the Fed Interest on Reserves as a hurdle rate, market conventions and the overall objective of interest expense control.

The following table summarizes the rate limitation for different types of money market transactions.

**Transaction Type Rate limits**

Transaction Type	Minimum Rate	Maximum Rate
Money Market Borrow	Not Applicable	HO money market borrowing Cap
Money Market Lend	Interest on Reserves + 1bp	Not applicable
REPO (Borrow USD)	Not Applicable	Interest on Reserves + 20bp
REV REPO (Lend USD)	Interest on Reserves + 1bp	Not Applicable
CD Issuance	Not Applicable	HO market funding Cap
FDIC Sweep Deposits	Not Applicable	Fed Fund Effective + 30bp

- Rate includes broker dealer fees
- Minimum rates for borrowing are not applicable
- Maximum rates for lending are not applicable
- Not applicable with Head Office transactions

## 5. Exception Initiation, Request and Approval

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### 5.1 Client Hedging Business

#### 5.1.1 Exception Initiation

For reasons such as IRS transaction related to syndicated loan or important client relationship maintenance, spread charges or prices of particular transactions need to be lower than the minimum standard in order to capture business opportunity. Also, the Bank may need to charge more credit spread for global markets products to compensate for the discount in other related business or the extra efforts the Bank put into the specific transaction. In those cases, client relationship managers in CRDs shall send a written exception request with approval from CRDs' department head or other authorized personnel, which shall include detail transaction background, risk assessment, and essential reasons to breach the pricing band.

#### 5.1.2 Exception Request

After receiving the request from CRDs, traders or product managers in MKD will submit *Exception Request Form for Product Pricing* (please refer to Reference Information) to the department head or EVP-in-charge and obtain approval prior to deal closing according to Approval Authorization as follows.

When clients' trading demand has high time sensitivity, in order to ensure the service quality and timely execution, traders or product managers in MKD can report to MKD head or EVP-in-charge and deal with clients after getting oral approval. Then, they shall contact client relationship managers in CRDs, fill and submit the Exception Request Form afterwards.

For important client who has continuous transaction relationship with the Bank, CRDs' client relationship managers can submit the exception request once and MKD will provide quotation service with approval.

#### 5.1.3 Approval Authorization

Premium on the upper bound		Department Head	EVP in Charge
FX Spot, Swap and Forward (Pips)	Corporate	≤100	>100
	FI	≤100	>100
	Personal	≤200	>200
	E-trading Platform	≤50	>50
Interest Rate Swap and CCS (BPs)	Corporate	≤20	>20
	FI	≤20	>20

Discount on the lower bound		Department Head	EVP in Charge
FX Spot, Swap and Forward (Pips)	Corporate	$\leq 2$	$> 2$
	FI	0-0.001	–
	Personal	$\leq 20$	$> 20$
	E-trading Platform	0-0.01	–
Interest Rate Swap and CCS (BPs)	Corporate	$\leq 2$	$> 2$
	FI	0-0.1	–

Generally, the Bank should not incur losses as a result of negative quotation; nevertheless, the Bank may expose to losses as a result of market risk, in the event of adverse market movements during client execution and the Bank's corresponding hedge. In the occasion when strategic business transaction demands a quotation with loss, MKD shall consult with MOD and report to EVP-in-charge to obtain approval before proceeding with the transaction.

## 5.2 Money Market Transaction

### 5.2.1 Exception Initiation

For certain circumstances, MKD may seek pricing exception including but not limited to emergency funding demand related to regulatory requirement or others special situations and lending transactions to strategic counterparties.

### 5.2.2 Exception Request

After receiving the transaction request from TRY or counterparty, traders in MKD will obtain exemption request approval from the department head or EVP-in-charge or Head Office prior to deal closing according to Approval Authorization table.

### 5.2.3 Approval Authorization

Transaction Type	Rate Limit	Approval
Money Market Borrow	Above HO money market borrowing Cap	Head Office
Money Market Lend	Below Interest on Reserves + 1bp	Department Head
REPO (Borrow USD)	Above Interest on Reserves + 20bp	EVP in charge
REV REPO (Lend USD)	Below Interest on Reserves + 1bp	Department Head
CD Issuance	Above HO market funding Cap	Head Office
FDIC Sweep Deposits	Above Fed Fund Effective + 30bp	EVP in charge

- Rate includes broker dealer fees
- Not applicable with Head Office transactions

For requests requiring HO approval, trader will seek Department Head and EVP approval before seeking Head Office approval.



## 6. Update Requirements

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Along with the minimum requirement to update procedure every 3 years, MKD is responsible for taking a proactive role in ensuring this Procedure remains relevant and comprehensive. It is therefore the responsibility of the Department to monitor internal and external circumstances to determine the immediacy of procedure update to reflect current business practice.

## 7. Reference Information

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### 7.1 Annex

Exception Request Form for Global Markets Products Pricing

HO money market borrowing guidance

HO market funding guidance