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BANK OF CHINA NEW YORK BRANCH

Global Markets Department

Corporate Client Service Procedure for Financial Market Products

June 2021

Version	Date Changes Made	Author	Description of Changes
1.0	December 2017	TRD	Procedure Initiation
1.1	June 2018	TRD	FX e-trading platform for corporate clients and updates pertaining to Head Office Global Market Business Procedure 2018
1.2	October 2018	TRD	Central Counterparty (CCP) Clearing Procedure
1.3	June 2019	MKD	Annual Procedure update
1.4	July 2020	MKD	Annual Procedure update: Updated 5.1.8.2 to incorporate margin call and forced liquidation exemptions; Updated 5.3.2.1 to reflect the change of IDI exclusion; Updated 5.4 CCP Clearing Procedure to remove 2052a reporting process
1.5	March 2021	MKD	Annual Procedure update: Updated sections to reflect the retirement of Kondor+ Updated 5.1.6 and 5.4 to reflect MOD's role as inputter of deals
1.6	June 2021	MKD	Add NDF, 360T, MRD function and margin waiver.

Identifying Information	
Title	Corporate Client Service Procedure for Financial Market Products
Owner	Global Markets Department
Contact Information	Kevin C Zhu, Jason Zhang
Effective Date	June 2021
Location	BoC Policy Library
Document Type	Procedure

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1. Executive Summary

The objective of this procedure is to specify roles and responsibilities in providing financial market product services to corporate client of Bank of China USA (hereinafter referred to as “the Bank”). This procedure intends to standardize inter-department business processing, strengthen internal control, effectively control risk and ensure the timeliness, authenticity, completeness and consistency of business records.

2. The Scope

This Procedure applies to all related Departments in the scope of servicing corporate clients with financial market products.

This Procedure is subordinate to the Branch’s Risk Governance Framework and all related Branch’s IRM’s policies.

2.1 Product Scope

- **FX Spot** – an agreement between two counterparties to buy one currency against selling another currency at an agreed price for settlement on the spot date (following market practice, usually T+0, T+1, T+2).
- **FX Forward** – an agreement between two counterparties to purchase one currency against sell a set amount of other currency at a specified price for settlement at a predetermined time in the future (following market practice, usually T+3 and beyond).
- **Non-Deliverable Forward (NDF) –** an outright forward contract in which counterparties settle the difference between the contracted NDF rate and the prevailing spot rate for emerging currencies, using an agreed major currency notional amount, such as USD.
- **FX Swap** – an agreement in which a counterparty borrows one currency from, and simultaneously lends another currency to, another counterparty. Each counterparty uses the repayment obligation to its counterparty as collateral and the amount of repayment is fixed at the FX forward rate as of the start of the contract.
- **Interest Rate Swap (IRS)** – an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. IRS usually involves the exchange of a fixed interest rate for a floating rate, or vice versa.
- **Cross-Currency Swap (CCS)** – an agreement by which two counterparties undertake to periodically exchange interest payments of equally valued principal in two currencies. CCS may have various types of principal exchange, such as no principal exchange, only effective date exchange, only maturity date exchange, both effective and maturity date exchange.

Any other financial market products, such as option, interest rate cap and floor, should follow new product development procedure and seek corresponding approval before launch.

2.2 Department Scope

- Client relationship departments (CRDs), including Corporate Banking Department (CBD), Trade Service Department (TSD), Commodity Business Center (CBC), Queens Branch (QNB), Chicago Branch (CHB) and Los Angeles Branch (LAB)
- Banking Department (BKD)
- Legal Office (LGO)
- Global Markets Department (MKD)
- Treasury Middle Office Department (MOD)
- Market Risk Department (MRD)
- Operation Service Department (OSD)

2.3 System Scope

- Opics
- T24

3. General Provisions

3.1 Corporate client service for financial market products shall be processed pursuant to the principles of separated duties, limited authorization, and balance efficiency and risk control. The organizational structure of trading is to follow the principle of separated marketing, front-office trading, middle-office risk monitoring, and back-office settlement. Marketing, front, middle, and back offices shall manage their respective internal risks and develop relevant control procedures.

3.2 Offering financial market products to corporate clients shall strictly follow all policies governing credit risk, market risk, operation risk, legal and compliance risk, and other risks in the Bank and Head office.

3.3 Financial market product service provided to corporate clients should be based on commercial and real demand to avoid any violation of Volcker rule, Dodd Frank Act, and other regulatory requirements.

3.4 Product managers from MKD are required to fully understand each financial market product, including but not limited to risk profile, product structure, and market impact, to avoid potential misunderstandings between client and the Bank, so that risk hedging request from client can be properly met.

3.5 Both trader and product manager shall follow the "Code of Conducts for BOCNY Global Markets Business Personnel" to develop financial market service business for corporate client.

4. Roles and Responsibilities

Financial market product service for corporate clients is processed to include the following elements: product introduction, agreement sign off between client and the Bank, transaction execution, credit and margin monitoring management, risk measurement and control, transaction settlement and accounting treatment, reporting (if applicable) and post evaluation. The primary roles and responsibilities reside upon the relevant departments are summarized as follows and each department shall update its own departmental procedure.

4.1 CRDs

- Client onboarding, which involves important activities such as evaluating new clients in accordance with the Bank's KYC, BSA, and AML requirements; in addition to applying and setting up credit limit for client, and facilitating opening account in line with the Bank's business policy and industry regulations.
- Client assessment, by which the client's *willingness* and *ability* to take on a certain level of risk pertaining to particular derivatives product. Client should understand the financial market product that is intended to transact. Client shall sign the acknowledgement clause relating to the scope and risk of the underlying product in order to proceed with the corresponding transaction.
- Abide to the terms and conditions set forth in the agreement, between the Bank and the client, and fulfill the right and obligations under the agreed transaction.
- Maintain client relationship by continual tracking of the client's ability to perform its obligations and monitor potential risk of default may result in a loss, and promptly notify MKD & MOD during adverse events including but not limited to client's bankruptcy, failure to pay, cross default, rating downgrade or negative outlook, and account freeze by regulator.
- Contract enforcement in the event of margin breach or default.

4.2 BKD

- Open account for client to facilitate future settlement and margin deposit.
- Process the margin deposit and inform OSD to freeze fund as collateral in client's account if needed.

4.3 LGO

- Review contracts related to financial market products, if applicable, with the help of the Bank's approved outside legal consultants.

- Provide legal opinion on product services, especially in derivative instruments and DTCC reporting where Dodd-Frank standards are involved.
- Provide legal opinion if any adverse event occurs, for in the event of client failures to perform contractual obligations, to advise on legal actions and ramifications.

4.4 MKD

- Product introduction and assessing the feasibility of the requested transactions based on the client's status and circumstances.
- Provide indicative pricing and relevant market information to CRDs and clients, when applicable.
- Quote executable price to CRDs and client, and execute the transaction in the market following client requests.
- Notify OSD if reporting to the Depository Trust & Clearing Corporation (DTCC) is needed and provide related trading details.
- Monitor market conditions, and perform market and credit risk analysis, with particular attention on its effects upon the client's hedging strategies.

4.5 MOD

- Negotiate the derivatives related agreements with client.
- Input deals into system.
- Monitor transactions based on the Bank's established trading and risk management policies including regular reports monitoring market and credit risk.
- Verify and reconcile the DTCC reporting result if delegated reporting is required.
- Based on Head Office requirements, MOD assists Head Office on calculating the *de minimis* threshold amount of BOC Global Markets Business Line on a routine basis.

4.6 MRD

- Review and approve margin exemption application.
- Monitor market risk from the perspective of second line of defense.

4.7 OSD

- Send transaction confirmation to client.
- Settlement of the transactions i.e. issuing/receiving payment instructions to/from counterparties.
- Daily valuation appraisal and monitor client's collateral adequacy ratio.
- Per client's request, send valuation report on a regular basis.
- Process swap-data reporting to DTCC on behalf of the client, when applicable.

5. Procedure Instructions

5.1 General Procedure

5.1.1 Client Onboarding

5.1.1.1 General Requirement

- CRDs shall conduct KYC, due diligence, AML, and all other checks to make sure transaction request from client is safe and sound.

5.1.1.2 Client Assessment (See Attached 7.1)

- Client transaction background, objective, financial condition, and risk tolerance should be well assessed before any transaction.
- Client is required to complete the OTC Derivatives Client Information and Assessment Form and submit to the Bank for derivatives transaction related evaluation and documentation.
- From the dimensions of client and product, CRDs and MKD should jointly assess the suitability for each transaction proposed from client with serious and comprehensive consideration.
- After internal assessment, if the proposed financial market product is not suitable for client, CRDs and MKD should give written notice to client and decline the offering of the corresponding product. If client insists to initiate the underlying transaction with the Bank, a written request listed with clear reasons and authorized signature is required for the Bank's further evaluation.

5.1.1.3 Derivatives Disclosure Statement (See Attached 7.2)

- The client is responsible for understanding the underlying financial market products that is intended to transact. If needed, product explanation including the below aspects from the product manager will only function as an introductory primer, and does not constitute the basis for client decision to utilize such product.
    - Product features
    - Risk profile
    - Potential loss and gain
    - Market impact
    - Negative rate implication
- Client is required to sign-off the Derivatives Disclosure Statement as the acknowledgment of the risks implied in the financial market derivatives product.

5.1.1.4 Product Manager Rule of Conduct

- MKD is currently assuming the function of product manager of the scope outlined in this procedure. Depending on other US branches' progression and expansion of financial market product related business needs, MKD will train and develop branches to become product managers upon request.
- All the product managers should be familiar with the features and compliance/regulatory requirements for each type of financial market product.
- Product managers should understand the product scope in compliance with Head Office authorization and local regulators.
- Product managers are responsible for ensuring proper controls are in place to minimize risk and remain compliant with applicable laws, regulations, and policies.
- Product managers are required to attend training for any new financial market products approved within the Bank. Besides this, product managers shall be informed of the latest market and regulatory environment changes, which may have impact on the marketing of financial market product to client. Relevant training record should be kept for future reference.
- If there is any conflict between client and the Bank, such that the Bank may engage in business and investment activities for its own account whilst clients are active in relevant markets at the same time, client's interest should always be prioritized.
- Please refer to "Code of Conducts for BOCNY Global Markets Business Personnel" for more information.

5.1.2 Account Opening

Cash margin shall be deposited in the account opened in the Bank. CRDs and BKD shall provide relevant information and document requirement to assist client in account opening.

LAB, CHB and QNB will open related account by their own banking division.

5.1.3 Contract

Product related contracts and agreements are set in place in order that the client and the Bank are aware of each other's requirements, expectations, and obligations. CRDs, MKD, and MOD shall assume the responsibility to guide clients in completing all relevant documents before deal initiation. MKD shall ensure the completion of the relevant documents and not enter into transactions unless all relevant documents are in place. Different combinations of these agreement templates, per product scope, are used for initiating financial market transaction in this procedure, as outlined below:

5.1.3.1 Corporation Resolution (See Attached 7.3)

Corporate Resolution is the letter from client, which shows the Bank that decision of signing agreements and completing derivatives transaction has been made by shareholders or a board of directors during a meeting.

5.1.3.2 Power of Attorney (See Attached 7.4)

Power of Attorney is referred as the certified document from client to identify the appointment of authorized personnel to execute relevant agreements, trade and confirm derivatives transaction with the Bank.

5.1.3.3 International Swaps and Derivatives Association (ISDA) Agreement (See Attached 7.5)

ISDA Agreement (Master Agreement and Schedule Agreement) are designed, amongst other things, to facilitate cross-transaction payment and close-out netting and provide standardization of terms which are no transaction specific. They each contain certain fundamental standard terms pertaining to matters such as payment netting, events of default and other events entitling a party to call for early termination and to specify details for matter such as transfers and notices.

- Products within the current scope, i.e. FX forwards, NDF, FX swaps, IRS and CCS transactions should not be executed without a signed ISDA agreement in place, if appropriate, with the client.
- Amongst other executable contracts, CRDs, MOD, MKD, and LGO are to negotiate the ISDA agreement with necessary outside legal consultation.

5.1.3.4 Margin Account Agreement and Collateral Agreement (See Attached 7.6)

A margin account involves an extension of credit to the client, which depending on the transaction, is in connection with client's collaterals such as approved credit line or pledged assets. The Margin Account Agreement and Collateral Agreement enable collaterals in client account to be pledged to finance the underlying transaction of the client. The acceptable asset for the Margin Account is currently cash only, in the form of a CD deposit.

- Before client deposit margin in the account, a request form should be filled to grant the Bank security interest in the Certificate of Deposit. **(See Attached 7.7)**

5.1.3.5 Client Swap Onboarding Form (See Attached 7.8)

Client Swap Onboarding Form is required for derivative transactions. This is a Dodd-Frank mandate that helps to determine product suitability for the client and their goals, and to identify the eligibility and legal status of the client.

5.1.3.6 Cross-Border Swaps Representation Letter or its equivalent (See Attached 7.9)

This representation letter allows market participants to provide counterparties with status representations needed to determine whether compliance with various CFTC swap regulations is required by Dodd-Frank Act Title VII. The representations in this letter or its equivalent are mainly for the purposes of making such determinations.

- A non-U.S. Person Representation that is neither an U.S. affiliate conduit nor an U.S. Person[1] guarantee will not fall under the Dodd-Frank Act jurisdiction.
- A U.S. Person Representation will be governed by the Dodd-Frank Act where reporting (if delegated) and recordkeeping requirements are required.

5.1.3.7 Reporting Delegation Agreement (See Attached 7.10)

Although the reporting obligation falls under the U.S. Person counterparty for derivative transactions, U.S. Person client may delegate to the Bank the actual process of reporting data to the Swap Data Repository (SDR). Accordingly, the Reporting Delegation Agreement is required before the Bank can report on behalf of the client.

5.1.3.8 Transaction Request Form (See Attached 7.11)

Transaction request form is distributed to CRDs, and shall be used for client to initiate transaction request.

- Client transactions are required to be reported through internal request by CRDs. Before sending any transaction request to MKD, CRDs shall make sure that there is no sanction violation and nothing suspicious with the client's request. MKD traders should check the authorized signatures from CRDs, and sign on the request form if the transaction is approved.

5.1.4 Other Preparations

5.1.4.1 Credit Management

Before initiating any transaction, client is required to have at least one of following instruments to mitigate credit risk and ensure future settlement.

Qualified instrument	FX spot/forward, NDF	FX swap	IRS/CCS
Cash	√		
Credit	√	√	√
Cash Margin	√	√	√

[1] "U.S. Person" refers to the specific term according to "Interpretive Guidance and Policy Statement Regarding Compliance with Certain Swap Regulations" published by CFTC in July 2013.

Notes: (1) For FX spot, per Head Office policy, with credit risk monitoring closely, if client meets all the following four criteria, credit or cash margin can be exempt for initiating T+1 and T+2 transaction.

- With internal credit rating BB and above;
- Classified as “Normal” if the Bank categorize risk of client;
- Not in the abnormal client list;
- No significant credit risk event occurred before.

If CRDs grant credit or cash margin exemption to client for T+1 and T+2 transactions, proof and detailed information shall be provided to MKD and MOD for reporting to Head Office.

(2) Cash Margin can be exempted for derivatives if margin waiver approval is obtained according to “New York Branch Credit Risk Management Procedure of Hedging Derivative Business for Clients”.

(3) For other related matters, please refer to MRD’s Counterparty Credit Risk Management Program.

CRDs take the responsibilities to ensure all qualified collaterals are correctly in place before initiating client transaction request.

- For FX spot and forward deal, if the full amount of its underlying selling currency from client is deposited and freeze in the Bank ahead of transaction, no other collateral is required.
- Credit limit is applied by CRDs for client initiating transaction. MKD shall provide the support and information of required credit limit to CRDs prior to transactions and CRDs shall ensure the client’s credit limit is sufficient to cover the transaction.
- If elects to post cash margin for derivatives transaction, the client is required to complete the relevant agreements. Before each transaction, with required amount of cash calculated by MKD in account, CRDs will notify BKD for initial margin posting request. BKD or the banking division of LAB, CHB and QNB shall open a Certificate of Deposit (CD) with the amount of required initial margin equaling to the term of the transaction under client’s account. Margin deposit rate is determined by CRDs. After opening CD, BKD or the banking division of LAB, CHB and QNB will pass the relevant information to OSD for collateral freeze.

5.1.4.2 LEI Application

Under Dodd-Frank Act Title VII, for FX forward, FX swap, IRS and CCS transactions with US corporate client, the transaction data is required to be reported to DTCC. Therefore, no matter whether the data is reported by client or by the Bank, client’s LEI is required to submit relevant information.

The Legal Entity Identifier (LEI) is a 20-digit, alpha-numeric code developed by the International Organization for Standardization (ISO). It connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions.

Client can register and obtain its own LEI from the website of www.gmeiutility.org.

5.1.5 Deal Execution

After all related documents are secured, MKD is ready to transact in line of the relevant conditions such that:

- Only authorized traders of the corresponding instrument can execute the particular transaction.
- Details per transaction request shall be accurately recorded and executed.

After a trade is executed with client, the terms of the trade shall be confirmed as soon as possible.

5.1.6 Booking

5.1.6.1 Transaction Booking

After client transaction and position squaring transaction are completed, MOD shall book client deal and book squared deal with external counterparty (e.g. Head Office) in Opics system.

MKD is required to pass trading details and confirmations to MOD and OSD for further processing. Blotter and applicable systems (Opics) shall be cross-referenced and matched up. Additionally, related "Volcker Checklist" must be filled in time and submitted to the MOD.

For IRS and CCS transactions please refer to 5.2.2.2.

5.1.6.2 Credit Booking

The approved credit limit is maintained in T24 and other applicable systems. If credit limit should be occupied in T24, MKD shall pass corresponding credit limit amount to OSD, and OSD shall utilize specific category to book client's used credit limit in T24 system for derivatives transactions collateral adequacy ratio monitoring. Opics risk limit will be occupied with the booked transaction accordingly.

5.1.6.3 Confirmation (See Attached 7.12)

OSD is required to send confirmation with authorized signature to client. Client should sign off the confirmation and reply to the Bank within 2 hours. CRDs should verify the client's signature on the confirmation. If the Bank does not receive replied trading confirmation within five business days, CRDs are required to contact client to seek the reason. If no reasonable explanation is provided, CRDs shall give instructions to MKD on whether to dispose the existing deals. The cost and any loss in the underlying transaction will be borne by the client. If the client refuses to pay, then the loss is transferred from MKD to CRDs.

5.1.7 Swap Data Reporting and Recordkeeping Requirements

Dodd-Frank Act's new statutory framework stipulates derivative swap data recordkeeping and reporting requirements for swap data repositories (SDRs) for all U.S. Person representations, even for swap counterparties who are neither swap dealers nor major swap participants (including counterparties who qualify for the end user exception with respect to particular swaps).

- MKD will inform OSD and MOD if US-Person Client delegates DTCC reporting to BOCNY and provide relevant trading details.
- OSD will input swap data and the subsequent quarterly data reporting in the DTCC system for US client transaction.
- MOD will verify the OSD prepared DTCC report based on the MKD provided trading details. If there is any discrepancy, MOD will inform OSD and MKD for further processing.
- Original transaction documents, files upload to and download from DTCC must be kept throughout the existence of a swap and for five years following final termination or expiration of the swap. The above records must be readily accessible throughout the life of a swap and for two years following its final termination.

5.1.8 Collateral Adequacy Ratio Monitoring

5.1.8.1 Valuation of Transaction and Risk Alert

OSD shall monitor the collateral adequacy ratio of the client on a daily basis during the entire tenor of its underlying derivatives transaction. When abnormality of the underlying transaction is observed, OSD shall send the results of transaction valuation and give risk alerts to MKD and CRDs.

5.1.8.2 Margin Call, Early Warning, and Forced Liquidation (See Attached 7.13)

When the collateral adequacy ratio touches the warning line, i.e. 50% of the credit limit and margin, OSD shall prepare and issue the notice of margin call to CRDs, which shall notify the client to pay additional cash margin. MKD shall assist CRDs in taking risk control measures, including but not limited to assessing causes for changes in risk profile, judging market tendencies and impact.

When the collateral adequacy ratio falls below the forced liquidation line, i.e. 80% of the credit limit and margin, OSD shall prepare and issue the notice of margin call to CRDs, which shall notify the client to pay additional cash margin. If no sufficient margin deposited, CRDs shall give the liquidation notification to client. MKD is responsible for executing liquidation deals.

The client shall deposit cash margin in the form of Certificate of Deposit (CD). CRDs will notify BKD for additional margin posting request, which then shall open a CD with the amount of required additional margin that matches the same term to the transaction under client's account. Margin deposit rate is determined by CRDs. After opening the CD, BKD will then pass the relevant information to OSD for collateral freeze.

Collateral adequacy ratio is monitored by client dimension, which is calculated as follows,

$$\text{Collateral adequacy ratio} = 1 - \frac{\text{total absolute value of all outstanding transactions MTM loss}}{\text{financial market transaction credit limit or initial margin} + \text{maintenance margin}}$$

The time duration of the margin deposits for transaction maintenance must be equal or greater than the duration of the all underlying transactions.

For transactions that qualifies the exemption of margin call and forced liquidation, follow the "NYB Credit Risk Management Procedure of Hedging Derivative Business for Clients".

5.1.8.3 Release of Credit Limit and Margin

Credit limit/margin may be released per client's request, which could be used to pledge against other transactions. Client shall provide written request to CRDs for the release of credit limit and/or margin. CRDs, MKD and MOD shall unanimously decide whether or not to release, determine the release amount, and send co-signed notice to OSD. If approved, credit limit and/or margin should be released in two working days. Additional conditions for credit limit and margin release are as follows:

- Cash margin shall not be released until the credit limit is fully released.
- The credit limit and/or margin will be released based on the transaction maturity date, with those transactions maturing first having their credit limit and/or margin released first.
- The maximum amount of release for client equals to: max (0, client's credit limit occupied/margin paid – absolute value of client loss on transaction valuation - credit risk mitigation of transactions for residual maturity).

5.1.9 Settlement

5.1.9.1 Transaction Settlement

OSD shall process the payment and the receiving of funds relating to client transaction.

5.1.9.2 Accounting Treatment

FMD shall undertake the accounting treatment of trades and TRY is responsible for FR2052a report in accordance with applicable procedures accurately and timely. The handling and authorization processes shall be duly performed.

5.1.10 Event of Default

5.1.10.1 Identification of Event of Default (See Attached 7.14)

After obtaining information pertaining to the event of default, CRDs, MKD, and OSD shall submit relevant materials to LGO, who is responsible to issue legal opinions based on the transaction in contract between client and the Bank.

If client is judged to default on the transaction with the Bank, CRDs will send Default Notification to client.

5.1.10.2 Liquidation (See Attached 7.15)

If CRDs, MKD, and MOD unanimously determine to liquidate a transaction, CRDs shall send Notice of Early Termination to client. If the adverse market movement deems an urgent liquidation, where insufficient time is allowed for client notification, special approval should be obtained from executive managers.

When the client in default cooperates in position reversal (all outstanding transactions must be squared), the transaction shall be terminated through unwinding where possible. CRDs shall initiate the unwind transaction to MKD, who shall then execute the deal against Head Office.

Client shall bear the cost and loss resulted from transaction liquidation, and CRDs are responsible for claiming the corresponding amount. With cash margin deposited in the Bank, it shall be withheld until client fulfills its obligation to the Bank. If client refuses, CRDs need to compensate the transaction loss to MKD as well as further actions, including costs such as arbitration or the filing of a lawsuit.

5.1.10.3 Other Details

For any other unspecified items, operating procedure for processing client default from Head Office shall be strictly followed.

5.1.11 Post Evaluation

After the maturity or termination of a derivatives transaction of a new product type for a client, the product team in MKD will initiate an evaluation with CRDs and trading team to conduct post evaluation. The post-evaluation should cover the following topics:

- Price sensitivity
- Credit event, if any
- Communication mechanism
- Client risk appetite
- Potential future demand

Above information can be used as reference for client’s future suitability assessment, transaction initiation, price quotation, and credit risk control. After the post-evaluation of the first trade of a new derivatives product for the client, ongoing evaluation conversations should occur at least annually, or as necessary due to material changes to the client relationship or product.

5.1.12 Applicability

	FX spot	FX forward, NDF and FX swap	IRS and CCS
Client onboarding	No need for suitability assessment and risk disclosure, but KYC, AML and other procedures are required.	√	√
Contract	Transaction Request form	• ISDA • Cross-Border Swaps Representation Letter • Onboarding form • Reporting Delegation Agreement (If client is US corporate and delegate report obligation to the Bank) • Transaction Request form	• ISDA • Cross-Border Swaps Representation Letter • Onboarding form • Reporting Delegation Agreement (If client is US corporate and delegate report obligation to the Bank) • Transaction Request form
LEI	N/A	√ For US corporate	√ For US corporate
Booking	• Transaction booking	• Transaction booking • Credit booking • Confirmation	• Transaction booking • Credit booking • Confirmation
Reporting	N/A	√ (If client is US corporate and delegate report obligation to the Bank)	√ (If client is US corporate and delegate report obligation to the Bank)
Collateral adequacy ratio monitoring	N/A	√	√
Settlement	√	√	√
Event of default monitoring	√	√	√
Post evaluation	N/A	√	√
Record keeping	Exempt from Dodd Frank Act	√ If client is US corporate	√ If client is US corporate

5.2 FX e-trading pricing service

FX e-trading pricing service for corporate clients is conducted through E-trading platform, which is a computer software program that can be used to transact, in this case, foreign exchange spot, swap, and forward, over a network with a financial intermediary. Since this service involves an electronic channel of facilitating client transaction, whereby the underlying products are the same as current FX spot, forward and swap business, this service follows the general scope and product applicability as defined in this procedure. The current platform associated with this service are Reuters Electronic Trading (RET), FXall, and 360T with the following procedures:

1. Client onboarding and KYC are still conducted by CRDs, and CRDs will work on the BSA and AML transaction monitoring with MKD by setting up appropriate rule to watch for each transaction (i.e. daily/single volume transaction limit, currency scope) and by reviewing the weekly transaction report.

2. Clients with e.g. FXall e-trading platform, request e-trading service for FX transactions through relevant client services department or satellite branch.

3. Transaction volume limits proposed by MKD based on business need, credit condition and CRD pre-set up rules will be processed by MOD into BOCNY's e-trading platform. MKD will only conduct transactions within the client's trading volume limit and the rules set-up by CRDs. If client request exceeds the limits prescribed, MKD will reject the request, and discuss with CRDs and MOD whether the limits can be modified, either on a trade-by-trade basis, or on a client basis.

4. Client pricing can take two forms according to client profile and transaction rules: [2]

    a. Live price streaming is available to clients whose transaction rules can be processed into the e-trading platform, as determined by CRD, MKD, and the departments corresponding BSA officers.

    b. If the client's transaction rules cannot be processed into the e-trading platform, FX transactions can be conducted by request for quote (RFQ) through the platform, which is then manually received and processed by the trader.

5. If the client takes the price, the e-trading platform can be setup to be automatically and simultaneously squared with approved counterparties on the platform, though manual trade execution is also available depending on the client profile and the trader's market assessment.

[2] While it is difficult to establish an universal transaction rule, as it may vary by the different capabilities in different e-trading platforms, as well as different clients/counterparties with varying requests and profiles, the current transaction rule is defined based on Head Office credit limit formula. Such that if approved credit limit is e.g. $1 million, assuming a 5 days maximum settlement period to account for holidays, the transaction rule could stipulate a conservative daily maximum of e.g. $10 million in live stream pricing, and not ever exhaust the credit limit as a result of full credit limit release every 5 days. For FX swaps and forwards, depending on platform capabilities and client/counterparty limits, the e-trading pricing service may be limited to RFQ only.

6. Both the client deal and market deal need to be entered into Opics when completed.
7. On a daily basis, authorized traders monitor all e-trading transactions, as well as submitting daily transaction report (signed by desk's supervisor or backup) to Global Markets business line BSA officer. The daily transaction report also functions as an end-of-day review of all executed trades in RET recorded into relevant booking systems. On a weekly basis, all transactions with the client during the week will be submitted to CRDs for review.

5.3 Specific Product

5.3.1 FX Forward, NDF, and FX Swap

FX forward and FX swap are exempt from the definition of "swap" in Dodd Frank Act Title VII. Therefore, if the Bank executes a FX forward or FX swap with US corporate, mandatory central clearing and swap dealer registration requirement are not applicable. However, they remain subject to the business conduct rules and reporting/recordkeeping obligations. NDF has an addition subjection to *de minimis* threshold calculation.

5.3.2 IRS and CCS

5.3.2.1 Regulatory Requirement for Transaction with US Person

The Dodd-Frank Act stipulates that when the IRS/CCS transaction involves U.S. Person counterparty, it is to be cleared through Central Counterparty Clearing-houses (CCPs), in addition to swap dealer registration requirements, record keeping, and reporting. However, there are exceptions and exclusions where some of these Dodd-Frank restrictions can be exempt, leaving only reporting and recordkeeping requirements. These include more specifically, the End-User Exception and IDI exclusion, without which the Bank will not enter into a swap transaction with the intended counterparty.

- End-User Exception: Swap market participants that are neither swap dealers nor major swap participants are referred to as Non-Registrants. Non-Registrants are not required to register with the CFTC. Non-Registrants are divided into those that are "financial entities" and commercial end users. The Bank's counterparty may elect the End-User Exception if it:
    - is not a Financial Entity,
    - is using the swap to hedge or mitigate commercial risk,
    - utilizes reporting system, such as DTCC, to a registered swap data repository ("SDR").

  If an exception to the mandatory clearing requirement is available and elected, such swap is also exempted from the mandatory trade execution requirement.

- IDI Exclusion: As an insured depository institution, swaps entered into by the Bank with counterparties in connection with loans to those counterparties are excluded from the swap dealer *de minimis* threshold calculation, if:
    - the swap is connected to the financial terms of the loan or is required by loan underwriting criteria to be in place as a condition of the loan in order to hedge the borrower's price risks;
    - The Bank enters into the swap with the client no earlier than 90 days before the date of execution of the applicable loan agreement, or no earlier than 90 days before any transfer of principal to the client by the Bank pursuant to the loan.
    - the loan is within the common law meaning of "loan;"
    - The Bank is the sole source of funds to the client under the loan; committed to be, under the terms of the agreements related to the loan, the source of at least 5 percent of the maximum principal amount under the loan.
- Reporting: Where the Bank faces a Non-Registrant that is a U.S. person, the U.S. Non-Registrant will be the reporting party under Dodd-Frank Act. Notwithstanding the above fact, it is expected that the client will delegate the reporting function to the Bank. If reporting responsibility is delegated to the Bank, this delegation shall be memorialized in a reporting delegation agreement.
- Record Keeping: As a non-swap dealer, non-major swap participant, the Bank is required to maintain full, complete and systematic records, including all pertinent data and memoranda, with respect to each swap to which it is counterparty.

The Bank is not subject to regulation by the CFTC under the Dodd-Frank Act., so long as the Bank is entering into swaps with counterparties that are non-U.S. Persons that are neither CFTC Registered Entities nor whose swap obligations are guaranteed by a U.S. Person that is a financial entity. That means all the mandatory central clearing, record keeping and reporting requirements are exempt.

5.3.2.2 Operation

- Currently, the Bank relies on End-User Exception to exempt from central clearing for the IRS and CCS transaction with US corporate client. Therefore, according to CFTC, the Bank is required to file the “Reporting Counterparty End-User Exception Form” to DTCC prior to be fulfilling the reporting obligation. This exemption application is valid for 1 year from the date of filing and must be renewed on an annual basis throughout the duration of the swap. (See Attached 7.17)
- CRDs shall make sure the client is using IRS and CCS to hedge or mitigate their commercial risk, such as loan interest rate risk, and notify MKD in advance so that the swap can met and be executed within IDI exempted requirement.
- Provided that MKD has not receive Head Office or MOD's notification that Bank of China has been registered as Swap Dealer under Dodd-Frank VII, MKD shall check CFTC's website

for the latest list of Registered Swap Dealer before transaction. As long as Bank of China is not on the list, MKD may consider Bank of China is not a Registered Swap Dealer.
- MOD shall book client and position squaring deals in the Opics system.
- Currently, satellite branches such as CHB and LAB that are not FDIC insured, may not be able to conduct derivative transactions with U.S. Person clients due to their illegibility for Insured Depository Institution (IDI) exclusion, unless the transaction is covered within *de minimis* threshold calculation for Bank of China Limited. However, IRS and CCS hedging for LAB or CHB clients may allow the Bank or Queens Branch commits to at least 5 percent of the maximum principal amount under the loan from LAB/CHB, so that FDIC insured branches become connected to the loan and are able to execute swap hedging within the IDI exclusion framework.

5.4 Central Counterparty (CCP) Clearing Procedure

CCP clearing is a Dodd-Frank requirement for dealing IRS with USFI. This requirement is valid for all IRS transactions with an USFI (market-maker) whether the transactions are based on client service hedging or based on banking book hedging under ALCO instructions. Under CCP clearing, the Bank's IRS transaction will be submitted through a clearing member, acting in an agency capacity, to a CCP for clearing. Currently, regulatory bodies (CFTC and SEC) have designated certain IRS to be cleared through central clearing house, such as London Clearing House (LCH) and CME Group. The actual clearing function in the settlement process is handled by clearing agent, summary of multi-departmental responsibilities are as follows:

- MKD is responsible for deal execution and the confirmation of trading data through a Head Office designated website, which is a service provided by Markitwire, and novation.
- MOD is responsible for coordinating legal documents negotiation.
- OSD is responsible for making the settlement and revaluation.
- LGO is responsible for reviewing legal examination of relevant agreements pertaining to CCP clearing under Dodd-Frank Title VII.
- FMD is responsible for accounting setup.

Procedure and process are as follows:

- With all the legal documents in place, MKD shall enter into an IRS transaction with counterparty. The trading data is confirmed through MarkitWire, a service designated by Head Office, which after the data is being affirmed by the two trading parties, MarkitWire will automatically submit the trading data to clearing houses. The Markitwire service updates the trading status, and completes the novation of changing the original counterparty into a central clearing house.

- MOD and OSD will book IRS transaction with CCP in Opics, instead of original counterparty, as the actual credit risk is transferred to CCP and settlement finally goes to CCP. In the "Comment" field of Opics system, MOD shall input the original counterparty and clearing agent for record.
- According to Head Office's Policy on OTC derivatives central clearing business, Head Office is in charge of the initial margin and excess margin payment, and New York Branch is responsible for the variation margin process, which is cash.
- OSD will process settlement, including interest, variation margin, collateral interest (if any) and clearing agent fees. Amount is settled by netting, i.e. only one fund transfer with the clearing agent every day. In case of payment after netting, OSD shall pay corresponding amount before the payment deadline to the clearing agent; in case of collection after netting, the clearing agent will transfer money to the Bank on its own initiative.
- In the condition of emergency which causes business discontinuity, IRS transaction with USFI will not be executed to avoid any potential legal and compliance issues.

5.5 Reporting Procedure

As a part of financial service functions, the Bank may engage in derivative transactions known as "swaps." When engaging in such transactions, the Bank is subjected to certain swap reporting requirements of the Commodity Exchange Act ("CEA"), as amended by Title VII of the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and the U.S. Commodity Futures Trading Commission's ("CFTC") rules adopted thereunder. For detailed procedure, please refer to "BOC USA Financial market products reporting procedure".

5.6 Regulatory Requirement Applicability

<table>
<tr><th>Product</th><th>Client Identity</th><th>Mandatory Central Clearing</th><th>Swap Dealer Registration</th><th>Reporting</th><th>Record Keeping</th></tr>
<tr><td>FX spot</td><td colspan="5">Exempt</td></tr>
<tr><td rowspan="2">FX forward, NDF/ FX swap</td><td>U.S. person</td><td>N/A</td><td>Applicable to NDF</td><td>Applicable (Delegation)</td><td>Applicable</td></tr>
<tr><td>Non U.S. person</td><td colspan="4">Exempt</td></tr>
</table>

IRS, CCS	U.S. person	Applicable (Commercial End User Exemption)	Applicable (IDI Exception)	Applicable (Delegation)	Applicable
	Non U.S. person	Exempt			

6. Update Requirements

Along with the minimum requirement to update procedure every 3 years, the Department 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. Appendices

7.1 OTC Derivatives Client Information and Assessment Form

7.2 OTC Derivatives Disclosure Statement

7.3 Corporate Resolution Letter

7.4 Power of Attorney

7.5 ISDA Agreement

7.6 Margin Account Agreement

7.7 Pledge of deposit request form

7.8 Client Swap Onboarding Form

7.9 Cross-Border Swaps Representation Letter

7.10 Reporting Delegation Agreement

7.11 Transaction Request Form

7.12 Transaction Confirmation

7.13 Notice of Margin Call

7.14 Default Notification

7.15 Notice of Early Termination

7.16 Reporting Counterparty End-User Exception Form