



中國銀行

BANK OF CHINA



Global Markets Department

**Global Markets and Treasury Business
Procedure**

March 2021

Version	Date Changes Made	Author	Description of Changes
1.0	February, 2017	Li Su	New format of procedure initiated
1.1	July, 2017	Xiaoyi Zhang	Banking account position exposure 2018 2018 Annul
1.2	April, 2018	Yuanzheng Bian	Review and e-trading service
1.3	May, 2018	Yuanzheng Bian	Update partially based on Process Mapping
1.4	October, 2018	TRD	Operation Process Review
1.5	July, 2019	MKD	Departmental Responsibility Partially Update
1.6	August, 2020	MKD	Annual update to reflect the most current business practice and info; Update 4.1.3 to include floating rate YCD issuance; Incorporate MODMKD procedure regarding BSA/AML compliance and remove the overlapped content; Update Volcker rule implementation practice
1.7	March, 2021	MKD	Remove procedures related to Kondor+ as the system reassigned; include funding pool transactions guideline; Compliance enhancement.

Identifying Information		
Title	MKD Global Markets and Treasury Business Procedure	
Procedure Owner	MKD	
Contact Information	Leeshue Marshall Huamao Bai	Kevin C. Zhu Nan Wu
Effective Date	March 2021	
Location	BoC Policy Library	
Document Type	Procedure	

Approved by	
Xiaoyi Zhang SVP and Acting Head of Global Markets Department	 3/23/2021
	SignatureDate
Min Zhu EVP in charge of Global Markets Department	 3/26/2021
	SignatureDate

Contents

1. Executive Summary	6
1.1. Rationale	6
1.2. Related Policies & Procedures.....	6
1.2.1. Policies	6
1.2.2. Procedures	6
2. The Scope	7
3. Roles & Responsibilities	8
3.1. Procedure Governance.....	8
3.2. Procedure Implementation	8
4. Procedural Instructions	9
4.1. Money Market and Fixed Income (MMFI) Function	9
4.1.1. General Requirements	9
4.1.2. Procedures for Money Market Borrowing and Lending.....	10
4.1.3. Procedures for Money Market Funding Pool Borrowing and Lending	10
4.1.4. Procedures for Wholesale Funding Programs - Negotiable CD (Yankee CD) Issuance	12
4.1.5. Procedures for Wholesale Funding Programs - Brokered CD Issuance.....	13
4.1.6. Procedures for Wholesale Funding Programs - Brokered Sweep Program	15
4.1.7. Procedures for Repo and Reverse Repo	15
4.1.8. Procedure for Market Execution for Foreign Currency Position Management.....	17
4.1.9. Issuing Commercial Paper on Behalf of BOC Hong Kong Branch	17
4.1.10. Procedure for Bank Account Placement.....	18
4.1.11. Procedures for Bond Investment Business	18
4.1.12. Coordinating the Branch's Bond Issuance.....	21
4.2. FX & Derivatives (FXDR) Function.....	22
4.2.1. General Requirements	22
4.2.2. Executing Corporate Client Orders through CRDs.....	24
4.2.3. Foreign Exchange Rate Setting Procedure for Clients.....	26
4.2.4. FX E-Trading Pricing Service	26

4.2.5.	Executing Head Office Orders.....	27
4.2.6.	Conducting FX and Derivatives transaction per TRY instruction.....	28
4.2.7.	Foreign Exchange and Derivatives Related Product Management and Sales Support	29
4.3.	Additional Risk Management Measure and Internal Controls.....	30
4.3.1.	Market Risk.....	30
4.3.2.	Liquidity Risk.....	31
4.3.3.	Credit Risk (Counterparty Risk).....	31
4.3.4.	Operational Risk.....	32
4.3.5.	Compliance Risk	34
4.3.6.	Other Internal Controls.....	36
5.	Update Requirements	39
6.	Reference Information.....	39
6.1.	External Regulations	39
6.2.	Other Related Branch Policies, Procedures, and/or Guidance	39
6.3.	Frequently Asked Questions.....	40
6.4.	Glossary.....	40
7.	Appendix	41
7.1.	Operational Guidance For Volcker Covered Instruments	41
7.1.1.	Monitoring Head Office's FX and Bullion Books	41
7.1.2.	Executing FX Transactions For Clients	42
7.1.3.	Executing IRS or CCS Transactions For Clients.....	42
7.1.4.	Managing Liquidity Using FX Swap/Forward	42
7.1.5.	Executing IRS Transactions For Liquidity Management	44
7.1.6.	Bond Investment	44
7.1.7.	Deals Made By Mistake	44
7.1.8.	Additional Notes	44
7.2.	Volcker Checklist	46
7.3.	Fed Discount Window Facility.....	46

1. Executive Summary

1.1. Rationale

This Procedure details the business operations at Global Markets Department (“the Department”) of Bank of China New York Branch (“the Branch”) of Bank Of China Ltd (“Head Office” or “HO” refers to Head Office of Bank of China Ltd).

1.2. Related Policies & Procedures

1.2.1. Policies

- (A) BOC US Branches Risk Governance Framework (the “RGF”)
- (B) BOCNY Market Risk Management Policy
- (C) BOCNY Liquidity Risk Management Policy
- (D) BOC US Branches Credit Risk Management Policy
- (E) BOC US Branches BSA AML Compliance Program
- (F) US Sanctions Compliance Policy and Program
- (G) BOC US Branches Operational Risk Management Policy
- (H) Bank of China USA Regulation W - Affiliate Transactions Policy
- (I) Bank of China USA Community Reinvestment Act Compliance Policy
- (J) Bank of China US Branches Business Continuity Management Policy
- (K) Bank of China US Branches Advertising and Marketing Policy
- (L) BOC US Branches New Activity Risk Management Policy
- (M) Bank of China Volcker Compliance Policy
- (N) BOC USA Bond Investment Policy
- (O) BOC NY Contingency Funding Plan

1.2.2. Procedures

- (A) BOCNY Liquidity Buffer Management Procedure
- (B) MOD Risk Control Procedure
- (C) MOD Input Operations Manual
- (D) FLU Know Your Customer Procedures
- (E) BOCNY MODMKD – Compliance Operation Guidance Procedure
- (F) Bank of China US Branches Advertising and Marketing Procedure
- (G) Bank of China US Branches Community Reinvestment Act Compliance Procedure
- (H) BOCNY Intraday Liquidity Management Procedure
- (I) MKD Business Recovery Plan
- (J) BOCNY Procedure for Using HO Securities

2. The Scope

This Procedure applies to the Global Markets Department's all personnel (including contingency worker authorized to work in the Department, if any).

This Procedure is subordinate to the Branch's Risk Governance Framework and all related Branch's IRM's policies (including policies from LCD, ORD, MRD, CRM and CDO).

3. Roles & Responsibilities

3.1. Procedure Governance

The Global Markets Department is responsible for maintaining, reviewing and updating this Procedure. In particular, those in supervisory roles are responsible for the maintaining, reviewing, and updating of the specific parts belonging to global markets and treasury functions. This Procedure must be approved by the Global Markets Department Head and the Executive Management Member in Charge to take effect.

The Branch's related IRMs (including LCD, ORD, MRD, CRM and CDO) as the second line of defense and IAD as the third of defense shall jointly evaluate the adequacy and compliance of this Procedure.

All personnel in the Global Markets Department are responsible for following this Procedure during all of their work.

3.2. Procedure Implementation

The Global Markets Department is responsible for implementing this Procedure. In particular, those in supervisory roles are responsible for implementing the Procedure for their specific functions.

4. Procedural Instructions

4.1. Money Market and Fixed Income (MMFI) Function

4.1.1. General Requirements

(A) Checking relevant Credit Limit for Trading

Before any transactions, the trader should check the counterparty limit for the counterparty in Fusion Risk, and should leave enough limits in case of calculation errors and other unexpected credit limit-related issues. Additionally, traders should check that New York Branch counterparty limits have been approved and in effect. No exceeding limit deal is allowed. Traders should pay careful attention to the credit limit and make sure every deal is conducted within the counterparty limit. In the case of a deal exceeding credit limit, the trader shall try to cancel the deal with the counterparty and at the same time report to the desk head, department head, and Middle Office Department immediately.

(B) Checking counterparty name in the “Counterparty Name List”

Before conducting any transaction with external counterparty, trader must check approved ‘Counterparty Name List’ excel file with middle office to ensure the name is in the file. For names not listed in ‘Counterparty Name List’, the transaction cannot be made until FID’s approval is obtained. Currently, to get FID approval, ‘Due Diligence Request’ form must be submitted to FID.

MKD is required to fill out the KYC request form for any counterparty refresh as per request by MOD.

(C) Checking Head Office Rate Caps

For funding transaction (issuance and interbank borrowing) with external counterparty, traders will check applicable rate caps. Interpolate rates are allowed when transaction are between tenors. Traders should not exceed rate caps without applicable approval.

(D) Deal Entry, Update, and Deletion

Traders shall pass the deal ticket to MOD’s deal entry person to enter the deal immediately into OPICS, and other relevant recording systems, and record the deal in the trading blotter. Deal entry person shall input deals as soon as the deal is complete and confirmation is obtained. If no deal entry person is available, traders must enter their own trade in the applicable systems on time. Middle office has control over deal entry time. Currently, any deals inputted 30 minutes after completion or updated after trade date, needs to be signed, explained, and requires supervisor’s signature.

All trade tickets require two signatures from two authorized traders for deal confirmation and verification purposes; this applies both to updated and deleted trade tickets. Confirmations and trade tickets are to be passed to the back office for settlement as soon as possible. Blotter and applicable systems are cross-referenced and matched up. Please refer to MOD’s Input Operations Procedure for details.

In addition, for certain transactions involving FX swaps, forwards, rate derivatives, or bonds, “Volcker Checklist” is to be filled and submitted to the middle office.

4.1.2. Procedures for Money Market Borrowing and Lending

The Department conducts overnight and term deposits with other financial institutions in the interbank deposit market.

- (A) Product Definition: Banks borrow and lend to each other without collateral for short periods, typically up to twelve months.
- (B) Purpose: Liquidity and cash management for the Branch.
- (C) Trade Details: Trade details shall include counterparty, direction of the trade (borrow or lend), currency, amount, interest rate, value date, maturity date, settlement instruction, broker name if any.
- (D) Trade Confirmation: Trader can confirm the trade using Reuters Dealing, Bloomberg or office email. The confirmation shall include all the applicable trade details listed in part (C).
- (E) Blotter Entry: Trader shall enter trade details into trade blotter upon completion of a trade. Trade details include those listed in part (C), as well as by whom the trade is initiated, suspicious activity and remarks if any.
- (F) Deal systems entry: MOD will enter trade required by OPICS include those listed in part (C) as well as *Branch*, applicable *Product Type*, *Trade Date*, and *Interest Rate Basis*. The OPICS number shall be entered into the trade blotter once generated.
- (G) Using Brokers: Traders are allowed to use interbank brokers.
 - (a) Trader shall leave an order to interbank broker through office email or Bloomberg and may provide necessary information such as selling period, approved counterparties, direction of the trade (borrow or lend), currency, target amount or amount cap, target rate, target value date, tenor, etc.
 - (b) Trader shall check counterparty limit (both tenor and amount) before leaving an order to place funds.
 - (c) Broker is responsible to confirm whether the order has been filled. No feedback from broker is regarded as nothing done.
 - (d) Trades that are done by brokers during usual business hours shall follow deal entry procedure specified in 4.1.1 (D). Trades that are done by brokers after usual business hours shall be entered into Opics before 09:30 AM EST the next business day.

4.1.3. Procedures for Money Market Funding Pool Borrowing and Lending

- (A) Product Definition: BOC Branches in the funding pool borrow and lend to each other without collateral.

(B) Purpose: To coordinate and adjust funding surplus and shortfall of overseas branches/affiliates and develop overseas businesses, Head Office has set up an overseas funding pool at Head Office, Macau Branch and London Branch respectively. HO Funding Pool is the main channel for BOC Group's cross-border funding. Macau Funding Pool focuses on adjusting medium- and long-term funding surplus and shortfall. London Funding Pool focuses on intraday liquidity management, meeting the funding needs with T+0 and T+1 value, and adjusting short-term (less than 1 month) funding surplus and shortfall.

(C) Funding Pool Business Guidelines:

- a) The Branch shall strictly follow the treasury business authorizations given by HO and must not conduct business beyond the scope of authorization.
- b) In accordance with the principle of "centralizing for overall planning, internal first and external second", the Branch shall give priority to transacting with funding pools when adjusting funding surplus and shortfall. If transacting with funding pools is restricted by regulation or other reasons, the Branch may transact with other branches or other banks within authorization.
- c) Borrowings from the funding pools must not be deposited back for arbitrage. In principle, borrowings from the funding pools shall only be used to support loan business or meet short-term liquidity needs, and shall not be renewed upon maturity or terminated early.
- d) As BOC Group's USD clearing bank, the Branch is critical for ensuring USD intraday liquidity of the whole group. In principle, shall not deposit USD funds for clearing purpose back to funding pools.
- e) For transactions with HO Funding Pool and Macau Funding Pool, trader shall fill out the request form in *Global Intraday Liquidity Management Platform Funding Pool Module* (hereinafter referred to as "GILMP") accurately, follow the standard approval process and for best practice submit to corresponding funding pool two business days before the value date.
- f) For short-term (less than 1 month) transactions with London Funding Pool, the Branch shall follow simplified approval process and submit the request form in GILMP directly to London Funding Pool for approval.
- g) For minor currencies or transactions with a large amount (equal or above USD 500 million equivalent), for best practice the Branch shall communicate with HO at least one week in advance, and can conduct asset or liability business with external customers/banks only if the source or use of funds is confirmed.
- h) Rates for a USD funding pool transaction can refer to *Overseas Funding Pool USD Deposit and Lending Rates* issued by HO periodically. Rates for non-USD transactions is the implied rate from FX swap.

(D) MKD roles and responsibilities:

- a) Fulfilling TRY's funding request and for transactions MKD initiated, seeking approval from TRY;
- b) Fill out the request in GILMP and assist in internal approval.
- c) Confirm the deal in GILMP or in other means.

- d) Record the OPICS number in GILMP.
- (E) Trade Details: Trade details shall include counterparty, direction of the trade (borrow or lend), currency, amount, interest rate, value date and maturity date.
- (F) Trade Confirmation: Traders can confirm the trade using GILMP or other means. The confirmation shall include all the applicable trade details listed in (E).
- (G) Blotter Entry: Trader shall enter trade details into trade blotter upon completion of a trade. Trade details include those listed in (E), as well as by whom the trade is initiated, suspicious activity and remarks if any.
- (H) Deal systems entry: MOD will enter trade details in OPICS include those listed in (E) as well as *Branch*, applicable *Product Type*, *Trade Date*, and *Interest Rate Basis*. The OPICS number shall be entered into the trade blotter once generated.

4.1.4. Procedures for Wholesale Funding Programs - Negotiable CD (Yankee CD) Issuance

- (A) Product Definition: A Yankee CD is a certificate of deposit issued in the U.S. by foreign banks with a minimum face value of \$100,000. Yankee CDs are bought by sophisticated institutional investors, can be sold in the secondary market and are not redeemed before maturity. Yankee CD can be with fixed-rate or floating-rate. A floating-rate Yankee CD pays a floating interest rate indexed to a benchmark and the rate adjusts upward or downward over the lifespan of the Yankee CD.
- (B) Purpose: Funding for the Branch.
- (C) Broker Dealer Onboarding: MMFI trader shall select recognized U.S.-based broker dealers. According to “*MKDMOD – Compliance Operation Guidance Procedure*”, MMFI trader shall make a request for new broker dealer onboarding by preparing and submitting a KYC request form to MOD. However, no due diligence request needs to be submitted for a new broker dealer who has account at the Branch but MMFI trader shall notify MOD/FID the intent of transaction. When submitting KYC request form to MOD, MMFI trader will clearly notify that the entity is used as broker.
- (D) Legal Documents: Legal terms of relevant legal documents shall be reviewed by LGO before execution for consistency with industry standards and LGO’s Practice Guidance.
- (E) Pre-trade Checks:

- (a) Prior to issuing floating-rate Yankee CD, MMFI trader shall check the FTP and consult with TRY on the interest rate risk to the balance sheet with proposed target amount, tenor and rate. MMFI trader shall go ahead only after approval. Floating-rate issuance at an unattractive rate relative to FTP requires the Head of MKD approval and no objections from TRY.
 - (b) For floating-rate new issuance indexed to LIBOR maturing after 2021, MMFI trader shall consult with MOD to incorporate the current best practices (e.g. fall back language in the term sheet) before issuance.
 - (c) For the initial trade with a new index, MMFI trader shall check with calculation agent and OSD Back Office Team if the new index can be supported or processed.
 - (d) MMFI trader must check "Counterparty Name List" to ensure the name is in the list before any transaction.
- (F) MMFI trader shall call or email the broker dealers to place a Yankee CD issuance order.
- (G) Once the trade confirmation is received from the broker dealer, MMFI trader shall request a new CUSIP from OSD Back Office Team, and then inform the broker dealer of the CUSIP. Trade details on the final confirmation shall include CUSIP, trade date, broker name (as buyer of CD), settlement date, issuer name (Bank of China New York Branch), principal amount, maturity date and interest rate if fixed-rate CD. With floating-rate CD, the interest rate shall include index, spread, calculation rule, reset and coupon dates.
- (H) MMFI trader shall pass the final trade confirmation to MOD Input Operations Team for booking and processing.

4.1.5. Procedures for Wholesale Funding Programs - Brokered CD Issuance

- (A) Product Definition: A certificate of deposit (CD) that is issued through a brokerage firm, or from a sales representative other than a bank. Brokered CD is FDIC-insured up to the legal coverage limit.
- (B) Purpose: Funding for the Branch.
- (C) The Branch agreements with Brokers and DTC (acting as custodian) , include:
 - (a) Brokerage Agreement
 - (b) Incumbency Certificate
 - (c) DTC Letter of Representations

- (D) Broker Dealer Onboarding: MMFI trader shall select recognized U.S.-based broker dealers. According to *"MKDMOD – Compliance Operation Guidance Procedure"*, MMFI trader shall make a request for new broker dealer onboarding by preparing and submitting a KYC request form to MOD. However, no due diligence request needs to be submitted for a new broker dealer who has account at the Branch but MMFI trader shall notify MOD/FID the intent of transaction. When submitting KYC request form to MOD, MMFI trader will clearly notify that the entity is used as broker.
- (E) MMFI trader must check "Counterparty Name List" to ensure the name is in the list before any transaction.
- (F) After placing CD orders, the brokers will send the terms agreement. Traders will check and sign terms agreement.
- (G) Typically the broker order is best effort basis, where no guaranteed amount will be sold in the market. Meanwhile MMFI traders can check with the broker the process of the selling anytime and decide whether to keep the order alive or cancel the order and just keep the amount they already sold.
- (H) At least two business days prior to the settlement day, the broker shall send the Master Certificate including: principal amount, coupon rate, CUSIP number, net proceed, maturity date, interest payment date and issue date.
- (I) The trader then submits the Master Certificates to back office for settlement purpose.
- (J) On the settlement day, the broker will wire the funds, minus the agreed commission to a predestinated account.
- (K) On the maturity day, after the back Office wires the principal plus interest to DTC, the broker administers interest and principal repayment to its customers.
- (L) Procedures for Early Redemption of Deceased Account
 - (a) Unless otherwise agreed by the parties, early withdrawal of any brokered CD shall only be permitted in the event of death or adjudication of incompetence of a depositor. The broker shall notify The Depository Trust Company (DTC) of any request by or on behalf of a depositor for early withdrawal, and shall provide all appropriate documentation to support such request. Unless the parties (the brokers and the Branch) agree to the contrary, redemption shall be for the full principal amount at par plus accrued interest to but excluding the date of redemption.
 - (b) The required documents for redemption shall include the request from DTC, the death certificate of the depositor or other supporting documents which has the same function. The brokered CD is a money market instrument with CUSIP. The Branch pays the proceeds (principal and interest) directly to DTC, not the beneficiary. DTC should be responsible to identify who the beneficiary is.

- (c) To do the early redemption, MMFI trader shall instruct MOD to input a new deal in the systems. In OPICS, trader should buy back the CD from DTC at par according to the request letter sent by DTC, settling the next business day of the trading day.

4.1.6. Procedures for Wholesale Funding Programs - Brokered Sweep Program

- (A) Product Definition: A financial institution operates a sweep program in which idle client funds are swept into FDIC-insured banks. Banks use brokered sweep deposit to finance assets with these deposits. Brokered sweep deposit is FDIC-insured up to the legal coverage limit.
- (B) Purpose: Funding for the Branch.
- (C) The Department will execute the transaction with the Brokered FDIC Sweep Program providers. Terms include contract rate, target amount and contract expiration date.
- (D) The Branch will enter into agreements with Brokered FDIC Sweep Program providers before transacting. Brokered FDIC Sweep Program providers will propose brokers to participate in program. The Branch has the right to reject brokers that don't meet the Branch's requirements.
- (E) After the agreement is in place the Branch will enter into account opening addendums/agreements with brokers that the Branch has accepted to participating Brokered FDIC Sweep Program. The Branch may enter into agreement with settlement bank participating in approved Brokered Sweep Programs if applicable.
- (F) The Department will request FID for account opening, which includes compliance review and approval.
- (G) The Branch reserves the right to reject or close broker accounts after notifying the program administrator and brokers. It is understood that the winding down of an account may take a period of time after notification.
- (H) Back Office is responsible for settlement (principal, interest and fees) and reconciliation of brokers in the Brokered FDIC Sweep Programs.
- (I) MKD will inform Back Office of spread change to index or other material rate changes in a timely manner.

4.1.7. Procedures for Repo and Reverse Repo

- (A) Product Definition: Repo is a generic name for both repurchase agreements and sell/buy-backs. In a repo, one party sells an asset (usually fixed-income securities) to another party at one price at the

start of the transaction and commits to repurchase the fungible assets from the second party at a different price at a future date.

(B) Purpose: Liquidity and cash management for the Branch.

(C) The Department conducts repo and reverse repo transactions for liquidity and cash management purposes. Repo collaterals in this sub-section are the securities owned by New York Branch. Refer to (D) for the procedure for repo transactions using Head Office securities.

- (a) Trade Details: Trade details shall include counterparty, direction of the trade (which party borrow collateral), CUSIP/ISIN and description of collateral, settlement date, dirty price, interest rate, day count convention, haircut if any, nominal amount, wired amount at settlement date, termination date (maturity date), repo interest, and wired amount at termination date.
- (b) Before any repo transactions (lend collateral borrow cash), trader shall accurately calculate the inventory of securities based on Security Balance report for the previous business day provided by back office.
- (c) Trader shall follow the below principles when selecting securities: (1) U.S. Treasuries; (2) Interest payment date not fall into the duration of transaction; (3) For repo transactions (lend collateral borrow cash), relatively large inventory of that particular security.
- (d) Trader shall verify the validity of repo counterparty by checking against the updated list of approved repo counterparties provided by Head Office.
- (e) Besides checking the Branch's internally approved 'Counterparty Name List', traders shall check the available counterparty credit limit in Fusion Risk system to calculate the maximum amount available for the intended repo transaction for each counterparty.
- (f) Trade Confirmation: Trader can confirm the trade using Bloomberg or office email. The confirmation shall include all the applicable trade details listed in (a).
- (g) Blotter Entry: Trader shall enter trade details into trade blotter upon completion of a trade. Trade details include those listed in (a), as well as by whom the trade is initiated, suspicious activity and remarks if any.
- (h) Deal systems entry: MOD will input trade details required by OPICS represented in (a) as well as *Branch, Product, Type, Currency, Trade Date, and Interest Rate Basis*. If the collateral does not exist in the system, trader shall provide security details to middle office or back office, and assist with security definition. The OPICS number shall be entered into the trade blotter once generated.

(D) Procedure for Repo Transactions Using Head Office Securities

Refer to TRY *"BOCNY Procedure for Using Head Office Securities"* and *"Using HO securities for Overnight REPO Flow Chart"*.

4.1.8. Procedure for Market Execution for Foreign Currency Position Management

TRY will be responsible for monitoring and managing foreign currency positions of the Branch and MKD will be responsible for related market executions. MKD MMFI's procedure is hereby adjusted in response to this function transfer as follows.

- (a) Upon receiving formal request from TRY, MMFI trader checks the necessary information which may include currency, amount, value date, maturity date (if any) and account (if multiple nostro accounts exist for same currency). MMFI communicates with TRY regarding missing information or funding issues.
- (b) MMFI trader will inform TRY the indicative rate for proposed transaction.
- (c) If TRY provides money market borrowing/lending order, MMFI will execute the trade and inform TRY trade details in a timely manner.

4.1.9. Issuing Commercial Paper on Behalf of BOC Hong Kong Branch

Bank of China Hong Kong Branch ("HK Branch") has set up a USCP program. Due to its time difference and geographical distance from the United States, HK Branch retains BOC New York Branch to provide services relating to the issuance of commercial paper ("CP") in the United States in the name of the HK Branch. Trader shall execute orders of CP issuance and money market placements (if any) for the cash proceeds raised from such issuance strictly as instructed by HK Branch, and be entitled to compensation for such services.

- (A) Product Definition: Commercial paper is an unsecured promissory note with a fixed maturity of not more than 270 days. Commercial paper is a money-market security issued (sold) by large corporations to obtain funds to meet short-term debt obligations, and is backed only by an issuing bank or company promise to pay the face amount on the maturity date specified on the note.
- (B) Purpose: Funding for BOC Hong Kong Branch.
- (C) Trader receives USCP order from HK Branch Front Office via email, Bloomberg or other communication channels. The order shall include such details as tenor, all-in discount rate, available settlement date (T+1/T+2), daily issuance amount cap and other necessary information.
- (D) Trader shall place issuance order to CP dealers appointed by HK Branch. Dealers are subject to LCD approval and transacting with USCP dealers without internal approvals is prohibited. Order to CP dealer shall be a daily order, and shall include maturity dates, offered and all-in discount rates, settlement dates and other necessary information.

- (E) Once a deal is done, the dealer will provide trade confirmation which includes CUSIP, trade date, settlement date, nominal amount, issuer name, maturity date and wired amount at settlement date. Trader shall check the accuracy of the trade confirmation, and enter trade details into USCP blotter.
- (F) Trader shall send the trade confirmation to OSD, and carbon copy HK Branch Front Office and HK Branch Middle Office. HK Branch Middle Office is responsible for CP deal entry.
- (G) For all CP issued, trader shall check whether the security has been defined in the system. If not, trader shall fill out the definition application according to HK Branch's instruction and email the form to Bank of China (HK) Ltd. FMO and carbon copy HK Branch. Bank of China (HK) Ltd. FMO is responsible for providing CP definition.
- (H) If there is a money market placement order for the cash proceeds from CP issuance, trader shall strictly follow HK Branch's order and conduct a money market transaction with the counterparty on behalf of HK Branch. Trader shall follow the procedure for money market borrowing and lending.
- (I) By the end of day, trader shall send a trade recap summarizing the transactions for that day through Notes to Head Office, HK Branch Front Office, HK Branch Middle Office and OSD.

4.1.10. Procedure for Bank Account Placement

- (A) Product Definition and Purpose: The Department conducts funds placements to the account that the Branch opened at other financial institutions. The general purpose of bank account placement is to improve the yield of idle funds, thus the scope of this product excludes those accounts that opened for clearing and settlement purpose.
- (B) If account does not exist, trader shall request FID for account opening, which includes compliance review and approval.
- (C) After the account is opened and before any funds placements, trader shall request FID for proper credit limit.
- (D) Terms of funds placement shall include currency, amount, interest rate, value date (not applicable to non-maturing demand deposit), maturity date (not applicable to non-maturing demand deposit) and settlement instructions. The terms of funds placement can be stipulated as an addendum to the account agreement that is signed by authorized signatories.
- (E) Trader shall make a confirmation and include all the applicable details listed in the terms.
- (F) Deal Entry: Trader shall enter funds placement details into trade blotter.
- (G) Trader shall then pass the confirmation to back office for settlement.

4.1.11. Procedures for Bond Investment Business

- (A) Product Definition: Bond is a fixed income investment in which an investor loans money to an entity (typically corporate or governmental) which borrows the funds for a defined period of time at a variable or fixed interest rate.

- (B) Purpose: for the Branch's liquidity management; to use as collateral pledge for regulatory purpose; yield enhancement.
- (C) Head Office Guideline: All transactions should follow the Head Office's investment authorization guideline. If the investment is beyond the Head Office's investment authorization scope, fill the application form, submit to Head Office to get the approval on a case-by-case basis.
- (D) Checking Credit Limit: Before any transactions, the trader should check the credit limit for the bond issuer in Fusion Risk, and should leave enough limits in case of calculation errors, currency conversions and other unexpected credit limit-related issues. No exceeding limit deal is allowed. Traders should pay careful attention to the credit limit and make sure every deal is conducted within the issuer limit. In the case of a deal exceeding credit limit, the Department shall try to mitigate risk to make sure the portfolio within the issuer credit limit and at the same time report to the MOD and Executive Management immediately.
- (E) Checking Stress Test Limit: Before the trade, trader shall check the stress test limit provided by MOD. Trader will calculate the post-trade stress test limit to avoid any breach.
- (F) Checking counterparty name: Before conducting any transaction with external counterparty, trader must check approved 'Counterparty Name List' excel file with MOD to ensure the name is in the file. For names not listed in 'Counterparty Name List', the transaction cannot be made until FID's approval is obtained. Currently, to get FID approval, 'Due Diligence Request' form must be submitted to FID.

(G) Trade Approval:

To Buy: Trader must submit the trade application for the department head and senior management's approval (additional CRO's approval required for any US credits) before any transaction, and submit the trade application to HO if it's subjected to HO approval based on the HO guideline.

To Sell: Trader must obtain approvals from department head, senior management and HO before any transaction.

Application should include ISIN (and/or CUSIP) code, direction of the trade (buy or sell), currency, quantity, target yield, application effective date range signed by Head of the Fixed Income Desk, Head of Global Markets Department, and approved by EVP.

- (H) Price Check: The bond trader should compare prices with at least three counterparties or electronic pricing sources and try to execute at the best price for the portfolio.
- (I) Trade Confirmation: Trades shall be done on Bloomberg with counterparty. The confirmation shall be sent by the counterparty as VCON (deal confirmation) including all the applicable trade details.

(J) Bond Definition: Trader shall fill out the Bond Definition Application form for the newly purchased securities. The completed form will be sent to MOD for bond definition in required system.

(K) Deal Entry

(a) After the trade is done, trader shall forward the trade VCON to the middle office and the back office for record.

(b) Trader shall pass the confirmation to MOD to input the deal in OPICS within 30 minutes after MOD confirm the definition in the system.

(c) All tickets need to be stamped as "Hold to maturity" or "Available for sale", and signed by the authorized trader and the supervisor. The original ticket will be delivered to OSD back office and a copy to MOD. If tickets delivered through email, the security will be considered as "Available for Sale" unless indicate otherwise.

(L) Volcker Checklist

In addition, for certain bond investment, "Volcker Checklist" is to be filled and submitted to MOD.

Pre-analysis: Pre-analysis should include, but not limited to, including investment description, target yield level, duration, limit checks, internal and external ratings, the yield curve, spread analysis applicable to credit investment and the rationale behind the proposed trade.

(M) Position Booking: After finish all the settlement, transaction should be booked in Bloomberg MAV.

(N) Trade Log: After deal entry, trader will fill the trade log and send it to MOD.

(O) The market value change report: The bond desk will monitor the market value change for the bond portfolio using MOD and OSD reports.

(P) MAV Report: The bond desk will monitor the portfolio on daily basis through Bloomberg MAV function including but not limit to, the book yield and duration for the underlying securities.

(Q) Haircut: For the liquidity buffer calculation, based on the asset classification, trader provides the related haircut for the bond purchased.

(R) Credit Monitor: The bond desk monitors the credit update/downgrades for the portfolio on a regular basis.

(S) OTTI Assessment

Refer to the "BOCUSA OTTI Procedures"

For other details on bond investment, please refer to “BOC USA Bond Investment Procedure”.

4.1.12. Coordinating the Branch’s Bond Issuance

(A) Before Issuance:

- (a) Initiated by ALCO’s decision on the bond issuance, together with all relevant departments, the Department will work out and submit detailed issuance plan to the Branch’s executive management members and, after executive management’s approval, report to Head Office for approval.
- (b) The Department will work with TRY and Market Risk Department (MRD) to draft the issuance plan so that TRY and MRD can judge if it is necessary to raise the particular issuance to Asset and Liability Committee (ALCO) and/or Market and Liquidity Risk Committee (MLRC) based on relevant issuance characteristics, such as size, term, rate, format and etc.
- (c) After communication with Head Office, the Department will work together with Financial Institution Department (FID), TRY and Legal Office (LGO) to propose potential underwriters to Bulk Purchase Committee, so that the Bulk Purchase Committee can make final choice decision. (Other departments will follow their procedures for their required functions so that the Bulk Purchase Committee can make decision)
- (d) Since other servicing parties receiving service fee in the bond issuance program, such as issuer lawyers, auditors, and custodian, if not chosen by Head Office and if the fee reaches the Bulk Purchase Committee limit, must also be decided by Bulk Purchase Committee, the Department shall carefully coordinate the process of submitting relevant proposal to the committee.
- (e) The Department will then work closely with FID (for underwriters due diligence), LGO (for legal documents preparation), FMD (for financial statements preparation) and Operations Service Department (OSD) (for the other documents preparation as needed) under guidance of Head Office, with the issuer lawyers chosen and the underwriter lawyers assisting in document preparation as needed for bond issuance.
- (f) The underwriters and Head Office will coordinate road shows or conference calls for potential investors if deemed necessary, and the Department will work closely with FID to provide assistance as asked by Head Office or underwriters.
- (g) Any significant change (such as size, term, format and/or rate) in the issuance plan must be notified to TRY and MRD, and be approved by executive management and Head Office. The Department must immediately notify FMD and MRD with any significant change so that they can review the changes and determine if they are material changes to raise the new plan to ALCO and/or MLRC to raise the new plan to ALCO based on relevant issuance characteristics, such as amount, term, rate, format and etc.

(B) After issuance:

- (a) The Department will work with MOD book bond issuance in required system and let MOD check and verify the input. Then, the Department will work together with MOD personnel to submit a deal level calculation to MRD for estimating NII influence for floating rate bond or EVE influence for fixed rate bonds.

- (b) The Department will pass detailed information (i.e. Pricing Letter) to OSD Back Office for settlement or the related fees & charges as soon as valid information is available by the Department.
- (c) As long as the issued bonds are outstanding, the Department will work together with MOD to notify MRD of any significant bond position changes (i.e. partial unwind or debt buy-back), any big gap causing large currency exposure or significant liquidity events related with the issued bonds such as credit rating downgrade.

4.2. FX & Derivatives (FXDR) Function

4.2.1. General Requirements

- (A) MKD acts as the FX and derivatives execution department for the Branch, which conducts FX transactions including acting as “night keeper” for Head Office’s FX book, executing FX orders, setting FX rates for clients, and hedging the Branch’s FX and interest rate positions. At the same time, the Department also utilizes derivatives, such as interest rate swap and cross-currency swap in relation to client requests and the Branch’s balance sheet reallocation purposes.

- (B) Authorizations

Traders may only execute trades in products that they have received corresponding authorizations for from both Head Office and New York Branch. The maximum allowable trade amount per deal is the lesser of the two figures approved by the two authorizations. Risk limits must be strictly followed as dictated by the authorizations. Proprietary trading of any kind is prohibited. Traders must ensure that they do not exceed the scope of their authorizations.

If there are new products or services that are not currently under the scope of the most recent authorizations, product team needs to follow New Product procedure as detailed by section 4.3.6.1 and seek additional approval. Additionally, any deals done beyond the standard business hours must have prior approval for each individual counterparties from executive management.

- (C) Early preparation for trading

Authorized traders should arrive at the desk on time. At the beginning of each day, traders shall research relevant overnight market information, read analysis, and report to get an overview on the financial market.

Authorized traders should log onto trading systems to be fully prepared to quote price and transact with client.

At the beginning of each working day, FXDR function needs to input the latest foreign exchange rate in T24 system.

In order to keep traders aware of trades done, when night shift traders arrive at the dealing room, they should check emails which contained all the transactions that have transpired throughout the day.

(D) Checking Counterparty Limit for Trading

Before any transactions, the trader should check the Head Office counterparty limits for the counterparty in Fusion Risk system, and should leave enough limit in case of unexpected credit limit-related issues. Additionally, traders should check that New York Branch counterparty limits have been approved and in effect. No exceeding limit deal is allowed. Traders should pay careful attention to the credit limit and make sure every deal is conducted within the counterparty limit. In the case of a deal exceeding credit limit, the trader shall try to cancel the deal with the counterparty and at the same time report to the desk head, department head, and Middle Office Department immediately.

(E) Checking counterparty name in the "Counterparty Name List"

Before conducting any transaction with external counterparty, trader shall refer to 'Counterparty Name List' excel file to ensure the name is in the file. For names not listed in 'Counterparty Name List', the transaction cannot be made until FID's approval is obtained. Currently, to get FID approval, 'Due Diligence Request' form must be submitted through MOD. Afterwards, the Department can transact directly with FI counterparties in the approved name list within the counterparty limits.

(F) Deal Dispute

Traders should be diligent and avoid disputes involving trades if possible. However, in the case of any disputes, they should be resolved in a timely manner. Traders should first check all records including but not limited to trade confirmations, e-mails, and voice recordings in order to resolve the issue. In the case that the records are not sufficient to resolve the dispute, traders should report the supervisor and escalate the event as soon as possible.

(G) Deal Entry

Traders shall pass the deal ticket to deal entry person to input the deal immediately and record the deal in the trading blotter. Deal entry person shall input deals as soon as the deal is complete and the confirmation is obtained. Middle Office has control over deal entry time. Any deals inputted 30 minutes after completion needs to be signed, explained, and requires supervisor's signature.

The Middle Office will send an end-of-day trade blotter to be approved by two traders.

In addition, for transactions involving FX forwards (including deliverable and NDF), FX swaps, precious metals forwards, precious metals swaps, IRS and CCS, “Volcker Checklist” is to be filled out and submitted to the Middle Office.

(H) Deal Updates and Deletion

Deal entry persons should input deals into the applicable systems as accurately and swiftly as possible. However, in the event that there is an incorrect input, deals shall be updated or deleted.

Please refer to MOD’s Input Operations Procedure for details.

(I) Deal Reconciliation

Deals should be reconciled at the end of the day to ensure that no deals are missing or that extraneous deals have been inputted. All Head Office night keeping deals should be signed by an authorized trader and e-mailed to the relevant Head Office departments for confirmation.

(J) Disaster Contingency Plan

In case disruptions of business process including but not limited to inaccessible work space/building outage, partial or complete IT outage/system failure, limited staff availability due to severe weather, pandemic, etc., or loss of critical vendor, please refer for the document “Bank of China New York Branch Global Markets Department Business Recovery Plan.”

4.2.2. Executing Corporate Client Orders through CRDs

Clients may request to do FX spot, forward, swap, or other derivative products (i.e. Interest Rate Swap, or IRS and Cross-Currency Swap, or CCS) with the Branch through Client Relationship Departments (CRDs, including sub-branch). For product scope and definition, please refer to Corporate Client Service Procedure for Financial Market Products. The general procedure is as follows:

- (A) Before any transaction, all documentations and regulatory requirements are to be fulfilled. Combination of documents and requirements specific to each transaction may include but not limited to suitability questionnaire, representation letter, delegation agreement, and Volcker compliance checklist for all forward and swap deals, the commercial background evidences for cross-border CNY deals, etc. Below is a table summary on the applicable considerations of the different financial market products. For detail about FX and derivative transactions with corporate clients, please refer to the “*Corporate Client Service Procedure for Financial Market Products*”.

FX spot	FX forward 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	<ul style="list-style-type: none"> • ISDA • Cross-Border Swaps Representation Letter • Onboarding form • Reporting Delegation Agreement (If client is US corporate and delegate report obligation to the Branch) • Transaction Request form 	<ul style="list-style-type: none"> • ISDA • Cross-Border Swaps Representation Letter • Onboarding form • Reporting Delegation Agreement (If client is US corporate and delegate report obligation to the Branch) • Transaction Request form
LEI	N/A	✓ For US corporate	✓ For US corporate
Booking	<ul style="list-style-type: none"> • Transaction booking 	<ul style="list-style-type: none"> • Transaction booking • Credit booking • Confirmation 	<ul style="list-style-type: none"> • Transaction booking • Credit booking • Confirmation
Reporting	N/A	✓ (If client is US corporate and delegate report obligation to the Branch)	✓ (If client is US corporate and delegate report obligation to the Branch)
Volcker Checklist	N/A	✓	✓
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

(B) Clients with hedging requests will contact the relevant client relationship department or satellite branch for deal structuring. The Department shall work closely with the client relationship department or satellite branch, which reaches out to the Department for pricing.

(C) Taking into consideration the size of the deal, currency pair, and client involved, along with current market rates, the Department will give a rate to the client through the client relationship department.

- (D) If the client agrees with the transaction terms, trader will send a confirmation to the client relationship department or satellite branch and, if requested, to the client confirming the terms agreed upon when the deal was done.
- (E) Based on the authorization and existing position, the execution trader is to square the deal on the market to clear positions incurred by the Branch.
- (F) Both the client deal and market deal are to be entered into applicable transaction booking systems (OPICS, and/or T24) when done per instructions of 4.2.1.G.
- (G) Client credit limit shall be occupied and monitored in relevant systems (Fusion Risk, T24, and etc) to ensure there is no breached limit transaction done.
- (H) After each FX forward, FX swap, IRS and CCS transaction is completed, if the Branch is delegated by US clients for reporting under Dodd Frank Act, MKD will send reporting request to OSD and provide transaction details and other applicable information using relevant template to OSD and MOD within 2 hours. For detail information about this reporting procedure, refer to “Financial Market Products Reporting Procedure”.

4.2.3. Foreign Exchange Rate Setting Procedure for Clients

- (A) The Department is responsible for the setting of exchange rates, which is inputted in T24 system every business day morning. The inputted rates are exported in document form for dual sign off.
- (B) The exchange rates should be modified when markets move significantly (i.e. 150bps) to keep the Branch’s currency rates up-to-date.
- (C) For foreign currency exchange transactions which amounts to the equivalent of \$50,000.00 or more, the relevant business departments and satellite branches are to report the position to the Department immediately, and confirm the exchange rate before completing the transaction with client.
- (D) Corporate clients, business departments, and satellite branches can get quotes of exchange rates from the Department on demand. For retail clients, exchange rates set forth in respective amount categories in T24 system can be referred.
- (E) If business departments and branches decide to grant more favorable exchange rates to clients, such discount must be approved and signed by authorized trader. The Department shall require the relevant business departments and satellite branches of the following: in the case where the transaction amount is greater than \$20,000.00 or the exchange rate is within 200 pips of the “Middle Rate”, prior approval from the Department is required.
- (F) For more details on product pricing, please refer to MKD’s Pricing Authorization Procedure.

4.2.4. FX E-Trading Pricing Service

FX e-trading pricing service for corporate clients and financial institutions is conducted through E-trading platform, which is a financial software program that can be used to transact, in this case, foreign exchange

spot, forward, and swap, over a network. Since this service involves a new FX channel of facilitating client transaction, whereby the underlying products are the same (FX spot, swap, and forward), this service follows the general scope and product applicability as defined in this procedure. The current platform associated with this service is Refinitiv's Electronic Trading (RET).

- (A) Only MKD staffs with FX trading authorization will have access granted to e-trading platform. MOD will be given a non-trading administrative account in charge of setting up client/counterparty user profiles and passwords, maximum daily transaction limit and other necessary parameters.
- (B) Limit the currency offerings on the platform in line of trade authorization, strategy, and currency accounts. The current currency offerings for e-trading are EUR, GBP, CHF, AUD, CAD, JPY, SGD, NZD, HKD, and CNH. The currency list is subjected to change either by addition to, or subtracting from, in response to authorization, strategic, and/or account changes.
- (C) Platform operation is from Monday to Friday during MKD's trading hours, excluding bank standard holidays, except for department head approval. However, platform service may not be available during disaster recovery events.
- (D) Credit limits are allocated separately (FX trading vs. loan) for corporate clients. Likewise, FX and derivatives credit-lines are also separated from fixed income and money markets credit-lines for financial institutions. MKD will conservatively set aside appropriate counterparty and client credit limits dedicated to e-trading, and coordinate with MOD to process the maximum daily transaction limit in the platform accordingly.
- (E) 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 MOD 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. For corporate clients, all transactions with the client during each week will be submitted to CRDs for their review.

4.2.5. Executing Head Office Orders

- (A) Overseeing Head Office Positions:

Traders are responsible for watching over Head Office positions during New York hours. During this time, traders will hedge Head Office positions to limit market risk. Positions for FX and precious metal cannot exceed the limits set by Head Office; if exposure limit is exceeded, it is to be cleared within 30 minutes. For overnight and weekends, positions, limit set by Head Office shall also be strictly followed.

- (a) Once received Head Office books, traders are to manage Head Office FX and precious metals book positions. Traders are also to manage orders and fill orders that correspond to market movement. Hedge transactions executed for the Head Office must be back-to-back with an offsetting transaction with an external dealer.
- (b) When a trader executes a trade on the market to hedge client flow or to fill order, both back-to-back trades are passed to deal inputter to be entered into the OPICS system, which manages the Branch's trading positions, credit limits and settlement procedure, within 30 minutes of trade execution.
- (c) New York branch will pass the FX books back to Head Office. After passing back the FX books, traders are to ensure that all FX positions are cleared below the overnight limits.
- (d) New York branch will pass the precious metals books back to Head Office. After passing back the precious metals books, traders are to ensure that all precious metals positions are cleared below the overnight limit.
- (e) After the FX books are passed back to Head Office, traders will send trader blotter(s) to Head Office for settlement.

(B) Operations on Market Close:

Since the interbank FX and precious metals market closes over the weekend, traders must ensure that all Head Office trading systems under the Branch's control are shut down every Friday at 5 PM New York time (EST/EDT). This prevents client flow from coming in during the weekend and exposing the Branch to unnecessary foreign exchange risk.

- (a) On Friday before market close at 5 PM (EST/EDT), traders are to ensure that large positions are cleared below authorized limits, as well as carefully monitor incoming client flow to square deals on the market as the time approaches market close. Traders should check each other's work to mitigate any operational risks.
- (b) After turning off client flow, traders are to ensure that no more client flow is entering the system, and that all deals done before turning off client flow have successfully registered in the system.

4.2.6. Conducting FX and Derivatives transaction per TRY instruction

The banking book receives foreign exchange and interest rate exposures from various business operations.

First, the banking book accumulates foreign exchange exposure because the Branch may realize profits or losses in non-USD currencies from relevant business operations. FXDR will receive foreign exchange exposure report of the entire branch, instructions of the hedging amount, and direction from Treasury Department (TRY). Following the instruction, the positions are squared by the trader.

Second, in the similar pursuit, foreign exchange and interest rate exposure may be generated from liquidity management, USD or non-USD currency interest income, or payment in the banking book. If request from TRY is executed in FX market, after transaction is done, the FXDR desk informs TRY with FX trade details in a timely manner.

Third, the Branch may experience interest exposure due to the asset and liability mismatch from fixed rate loan and other business. With explicit approval/instruction, FXDR will execute the hedging transaction.

The procedure is outlined as follows:

- (A) Upon receiving the hedging request from relevant committee or TRY, FXDR trader will execute the trade based on that request.
- (B) The deal is inputted into OPICS system and corresponding reasons for the trade is recorded in the “comment” field of the OPICS deal entry platform.
- (C) For all derivatives deals, a checklist needs to be completed and signed by the trader and the function supervisor/desk head to ensure that the deal satisfies all necessary Volcker compliance regulations.

4.2.7. Foreign Exchange and Derivatives Related Product Management and Sales Support

An integral part of the FXDR function includes supporting client relationship departments to better service clients, publishing market research, product maintenance and development, as well as product introduction for client related services. General procedure for client interaction is as follows:

- (A) Generally, for corporate clients’ orders, it is received indirectly through other departments or satellite branches. Before making any transaction, the following guidelines are checked:

All relevant documents are ready. For client orders through other departments or satellite branches, at minimum, the duly signed product request form from the requesting department or satellite branch is obtained. For cross-border trade related CNY transactions, written documents proving valid trade background is needed. For other details about pre-trading preparations, please refer to the *Corporate Client Service Procedure for Financial Market Products*.

- (B) Client Suitability Assessment and Risk Disclosure

Provide all relevant disclosures and information to current and potential clients about the products and transactions, including but not limited to risk profile, product structure, and market

impact. Language and terminology used in communications should be appropriate for audience and should avoid using ambiguous terms.

- (C) Product manager should check if the client suitability assessment process is properly conducted by client relationship department as required by the *Corporate Client Service Procedure for Financial Market Products*. Guidance for handling client orders:
- (a) Product manager from MKD is required to understand all aspects of financial market products, including but not limited to relevant compliance issues, risk profile, product structure, and market impact. Product manager should follow rules of conduct outlined in the *Corporate Client Service Procedure for Financial Market Products*.
 - (b) Use telephone recording equipment when communicating with the counterparty on the specific transaction, product manager should not accept any client order outside the trading room.
 - (c) The product managers are to check with authorized trader for pricing, before quoting price as part of client-related communication. Product manager should make clear to clients whether the prices they are providing are firm or merely indicative.
 - (d) Communicate with counterparty with clear and unambiguous language, for example, your company sells USD 100 million against CNH, value date mm/dd/yyyy, price 6.4730/Done/Confirm, etc.
 - (e) As for products with complicated structure, such as IRS and CCS, a term sheet, describing transaction terms such as cash flows and the interest rate reset dates, should be confirmed by the counterparty before negotiating the client order.
 - (f) After receiving the client's order, the product managers should inform the authorized trader to execute the order pursuant to the client mandate promptly. The product manager should avoid exposing the Branch to market risk in the process of executing the client's order.

4.3. Additional Risk Management Measure and Internal Controls

4.3.1. Market Risk

Under the current governing structure of Bank of China for frontline global markets and treasury business, market risk exposure thresholds are allocated to the Branch through a top-down approach. The Head Office allocates related risk limits, including exposure limits, stop-loss limits, etc., to the Branch every time

it concludes its annual review of the risk exposure limits or sees the need to adjust the risk exposure limits allocated to the Branch. The Branch must operate its businesses within those limits set by the Head Office.

Based on the limits allocated by the Head Office, the Department proposes its limits to MRD for review: the Department may reduce the proposed limits, if it determines that the limits are too high, but the proposed limits can never exceed the limits allocated by Head Office.

All the authorized traders shall keep in mind the limits reviewed and approved by MRD and make efforts in good faith to keep the exposures within authorized limits. Currently, the set limits include: foreign exchange exposure, stop loss limit, PVBP and Value at Risk (VaR) (inner and outer limits are listed in *"BOCNY Market Risk Management Policy"*), stress test limit, DV 01 limit, and etc. Limits usage can be checked in Fusion Risk. All traders must pay close attention to the limit usage, and in particular, the FXDR function and MMFI function supervisor/desk head must pay close attention to the usage: if breaching inner limit, the function supervisor/desk head must immediately inform the Department head, Middle Office personnel and MRD monitoring personnel; if breaching the outer limit, the function supervisor/desk head must immediately work to bring down the limits within control (if not possible, a solution must be formed and proposed) and, at the same time, inform the Department head, Middle Office personnel and MRD monitoring personnel.

4.3.2. Liquidity Risk

Please refer to the *'BOCNY Intraday Liquidity Management Procedure'*, *'BOCNY Liquidity Buffer Management Procedure'* and *'BOC NY Contingency Funding Plan'*.

4.3.3. Credit Risk (Counterparty Risk)

Head Office has the authority to approve all counterparty limits for financial entities. Besides Head Office approval, the Department work together with Middle Office to submit CRR request (the requested limit can be lower than or equal to the Head Office approved credit limits) form to FID for credit limits approval.

Traders must check counterparty limits in the Fusion Risk system (different limits for different business: "CPTY" for FX/Precious Metals spot, forward and swap, repo/reverse repo, IRS, CCS and etc.; "DEPO" for interbank lending business (Note: "DEPO" usage is also included in "CPTY" usage); "ISSUER" for bond and CD/CP investment) before doing any trade with the specific counterparty.

Should a violation occur, the trader must immediately report it to the person in charge (Including: Middle office personnel, and Function Supervisor/desk head or Department Head), and reverse the position when deemed necessary. If the position cannot be reversed, a solution must be formed to deal with the violation.

Currently, based on agreement of CRM, the current Fusion Risk credit settings are to be utilized in limit calculations.

In addition to the counterparty limit, the Department shall follow the Branch's guidance to closely monitor the counterparty concentration risk.

4.3.4. Operational Risk

4.3.4.1. Maximum deal amount

Single trading book transaction size shall not exceed 500 million US dollars or equivalent in other currencies except those transactions with central banks.

4.3.4.2. Deal Entry

A detailed inputting procedure can be referred to *MOD Input Operations Manual*.

4.3.4.3. Deal Cancellation

Any deal required cancellation but failed to delete on the same day shall be escalated to the Head of MKD before the end of day, and report to middle office.

4.3.4.4. Trading Authorization and Access to Dealing Functions

A trader should have formal and specific trading authorization before he/she conducts any trading activity. An authorized trader can only conduct specific transactions authorized by the Executive Management Member in charge. Access to the dealing room is restricted to authorized personnel which includes traders and those authorized by the Executive Management Member in charge. Otherwise, accesses to trading room should be locked. All system must be locked after traders leave the trading room. Traders are given specific authorizations to access specific systems and functions, folders and portfolios of each system.

4.3.4.5. Restrictions on After-Hour and Off-Premises Trading

The trades transacted after normal trading hours or from off premises, by either mobile phone or any other equipment, should only be undertaken with the approval of the Department Head. The normal hours are from early in the morning to the following formal close, namely:

(A) 6:30PM for money market, except some days when the Federal Reserve extends the cut-off time

(B) 5:00PM for bonds or CD/CP

(C) 5:00PM for foreign exchange business based on the Branch's own needs

(D) The time when Head Office personnel taking back the positions for watching Head Office positions (in general, around 7:30 PM (EST)/8:30 PM (EDT))

Sometimes after normal hours and/or off-premises trades are unavoidable (i.e. business must be done in market other than US market, including required by client through client relationship department due to

liquidity or time zone concern). In such cases, traders should ask relate function supervisor/desk head and the Department head's approval. In addition, the transaction must be recorded with proof of the trading time. The transaction must be entered into the OPICS system as soon as possible and no later than the early in the morning the following business day, and, following market practice, all those transactions after 5 PM shall be considered as deals for the next business day.

4.3.4.6. Front Office and the Middle Office/Back Office Independence

The Executive Management of the Branch recognizes that separation and close cooperation between the Department and the Middle Office is vital to the success of the Branch. Although priorities are different, the Department and the Middle Office should both work towards the same goal of properly processing, controlling and recording. Meanwhile the operations of the two departments must be separated.

Similarly, the Back Office and the Department must be separated and be independent.

4.3.4.7. Equipment

The equipment of the Department must meet the needs and demands of all global markets and treasury business. The equipment includes: dealing system, E-platform for trading, telephone system, information system, computerized deal entry system, personal computers, recording system and fax machine. Fax machine serves as backup communication for exchanging "Foreign Exchange Request Form", in case of network failure (e.g. outlook) in satellite branches. In such circumstance, the affected satellite branch is to notify MKD's authorized traders by phone, of the network failure and the intent to communicate FX request via fax.

4.3.4.8. Emergency Plan

An emergency plan must be in place and regularly tested. The Department should have a convenient way of communicating to each other and with Back Office, Middle Office and the Head Office. The Department will closely follow the Branch's BCP arrangements.

4.3.4.9. Confidential Procedures for Visitors in the Trading Area

A visitor from another trading institution is not permitted to trade for his or her own institution from the premises of the Branch, except for those specially authorized by Executive Management. Visitors should be prearranged to visit the trading room and an employee should accompany all visitors at all times.

4.3.4.10. Using E-Trading Platform

(A) User Name and Password:

- (a) Only traders with authorizations of trading or executing transactions may have e-trading platform user accounts.

- (b) Each user account should have a unique user name and password.
- (c) For risk control purpose, user accounts without trading function can be assigned to non-trading personnel in the Department or Middle Office and Back Office personnel. This assignment will need approval from the Department head.

(B) Counterparties and Credit Lines

- (a) Transactions cannot be performed through the e-trading platform until the Branch has a credit line with market-maker(s) and counterparty (ies) on that platform.
 - (b) If there is more than one market maker on a platform, only those market makers with credit lines can be chosen as counterparties.
- (C) Confirmation tickets or blotters from e-trading platforms can be regarded as original transaction records.
- (D) If there is a disagreement, traders should call the counterparty to reconfirm that transaction. Whenever there's a technical problem, traders should call IT department or technical support personnel from the platform provider to solve the problems.

4.3.4.11. **Settlement Risk**

In the event of an unsuccessful settlement and upon notification from OSD, the MKD trader communicates with the counterparty's sales desk and facilitate with all relevant parties to settle the trade as soon as possible.

4.3.4.12. **Operational Incidents Reporting**

For any operational incidents, the person responsible should report to the team leader, department head, and Middle Office Department immediately.

4.3.5. **Compliance Risk**

4.3.5.1. **BSA/AML Risk**

The Department should be aware of signs of fraud and violations of Bank Secrecy Act ("BSA")/Anti-Money Laundering ("AML") sanctions and all other relevant U.S. rules and regulations. All staff should obey the rules, authorizations and regulations, especially when beginning new customer or counterparty relationships, developing new products, or undertaking any other new business line. When dealing with customers or counterparties, the department staff should have a reasonable belief that the entity is who it holds itself out to be.

The department strictly follows the *FLU Know Your Customer Procedures* and *BOCNY MODMKD – Compliance Operation Guidance Procedure* to conduct business. In addition, the following specific guidance is provided for the Department staff for routine operation:

4.3.5.1.1. Customers vs. Counterparties

In the context of the entity/customer types that the Department deals with on normal basis, there are two types:

“Customers” of BOC-US branches: These are customers who hold accounts with BOC-US business departments/branches (classified as customers based on the *FLU Know Your Customer Procedures*), including the Banking Dept., Financial Institutions Dept., Corporate Banking Dept., Trade Services Dept., Commodity Business Center, Queens Branch, Los Angeles Branch or Chicago Branch. These customers are often associated with the following accounts: Money Market Deposit Accounts, interest-bearing Demand Deposit Accounts, or IBF (overnight investment) Accounts. For these customers, the responsibilities of BSA/AML compliance, i.e. KYC, CDD, onboarding, AML risk rating, ongoing account monitoring, etc., rests primarily with the account officer/department that manages the particular customer. At present, the Department has no authority to open up a customer account or set up relationship directly with a customer to do business.

“Counterparties” of BOC-NY branch: These are large financial institutions which do not have accounts at BOC-US and do not qualify as customers under the *FLU Know Your Customer Procedures* (classified as “non-customers” according to the Procedures). For these counterparties, the Department needs to submit CDD request to MOD for FID approval before any transaction.

4.3.5.1.2. Natural Person

All the Department staffs are strictly forbidden from serving BOC USA’s Natural Person Clients.

4.3.5.1.3. Non-Natural Person

(A) Corporates which are not financial institutions (‘Corporate’ here after in the section)

(a) Dealing with corporates

The Department is only a product manager at the Branch. All the corporate clients the Department may handle are clients of other departments or satellite branches (such as: Banking Department, Corporate Banking Department, Trade Service Department, Commodity Business Center, Queens Branch, LA Branch or Chicago Branch), where they already have been on-board.

In most cases, MKD would deal client business through other departments/satellite branches in the method that the Department conducts transaction with the client-facing department/branch and the department/branch conducts transaction with the client. For these transactions, the

Department totally relies on the client-facing department to check and monitor the soundness of the client transaction. If needed, the Department staff might interact with the corporate clients to answer their technical questions related to global markets business or show them financial market information under the guidance of client-facing department.

For special large corporate clients requiring the Department to directly deal with as a product manager to make transactions, the Department must have a written document (i.e. MEMO) co-signed with the client relationship department/satellite branch which has on boarded the client. In the written document, it will detail the things, based on the profile of the client, the Department shall monitor during its interaction with the corporate client, and the frequency it will report transaction activities to the client relationship department. Though the Department shall generally follow the frequency determined by the client relationship department based on client profile, the frequency cannot be less than once each month.

(B) Financial Institution

Details refer to *BOCNY MODMKD – Compliance Operation Guidance Procedure*.

(C) Monitoring and Escalation

Details refer to *BOCNY MODMKD – Compliance Operation Guidance Procedure*.

4.3.5.2. Consumer Compliance

Follow all of bank's policies and procedures in consumer compliance sector, include *Bank of China USA Regulation W - Affiliate Transactions Policy, Bank of China USA Community Reinvestment Act Compliance Policy, Bank of China US Branches Advertising and Marketing Policy, Bank of China US Branches Advertising and Marketing Procedure, Bank of China USA Community Reinvestment Act Procedure* etc to promote fairness in business practice. The department will fulfill CRA reporting duty based on LCD's requests.

4.3.6. Other Internal Controls

4.3.6.1. New Product

When there is any new product/service in development, the Department must follow the Branch's Policy and Procedure regarding new product. Most importantly, the Department must contact ORD regarding the intent and follow ORD's instruction.

4.3.6.2. Job Description Requirement

The Department Head is required to provide every staff of the Department with his or her Job Description in writing. Each individual will be assigned the described job, and evaluated periodically on his or her performance. The manager of the Department has the responsibility to review the Job Description annually. Evaluation report will be presented to both the concerned employee and the General Management.

4.3.6.3. Requirement of Ten-Consecutive-Business-Days Leave

Per request from HRD, all staffs of the Department should each year have at least one leave (e.g. business leave or vacation) of 10 consecutive business days away from his or her office. While on leave any trading staff does not have the authority to trade for the Branch. Any special case needs approval from the Department Head.

4.3.6.4. CDEA and VM CSA agreements

For making transactions requiring clearing through CCP (central counterparty clearing) with counterparty, traders must check to confirm that a Cleared Derivatives Execution Agreement (CDEA) has been signed between HO and the counterparty.

For making transactions subject to swap margin rule with counterparty, traders must check to confirm that a Variation Margin Credit Support Annex (VM CSA) has been signed between HO and the counterparty.

4.3.6.5. KRI Monitoring

All the authorized traders shall understand KRIs (Key Risk Indicators) related to their day to day business activities and operate within established KRI limits, especially the following ones: Percentage of Bond Investment Below A Category Rating, Price Risk in the Trading Book Daily VaR Covering the Trading Book, Daily, Monthly, Yearly P/L, Foreign Currency Exposure - Trading, PVBP - Trading, PVBP - Total Bond, Stress Testing - Total Bond, Clearing Bank Book Currency Exposure Limit, and Participating Bank Book Currency Exposure Limit. Due to the possible change of KRI limits numbers, traders shall refer to the most recent KRI inventory.

4.3.6.6. Incidents Reporting

Following incidents should be reported to the team leader, department head, Middle Office Department, and Executive Management:

- i. Any breaches in authorizations of products;
- ii. Any breaches in authorized exposure limits,;
- iii. Any exceeding counterparty credit limits;

- iv. Generating loss for the Branch due to operational error;
- v. Any violations of AML/BSA regulations.

5. 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.

6. Reference Information

6.1. External Regulations

- (A) OCC's Comptroller's Handbook
- (B) OCC's Heightened Standards
- (C) FED's Enhanced Prudential Standards
- (D) Volcker Rule
- (E) Dodd Frank Title VII

6.2. Other Related Branch Policies, Procedures, and/or Guidance

Refer to Sections 1.2 Related Policies & Procedures.

BOCUSA OTTI Procedures

Foreign Currency Position Management Procedure

Corporate Client Service Procedure for Financial Market Products

Financial Market Products Reporting Procedure

Global Markets Products Pricing Authorization Procedure

Short Term and Long Term Cash Flow Input Procedure

Key Risk Indicator Inventory

6.3. Frequently Asked Questions

Not applicable

6.4. Glossary

Term	Explanation
The "Branch"	Bank of China Limited, New York Branch
The "Department"	Global Markets Department of the Branch; The Procedure Owner
"Head Office" or "HO"	Head Office of Bank of China Limited
Satellite Branches	Los Angeles Branch, Chicago Branch or Queens Branch
OPICS	The Opics system, used for booking and settlement
Fusion Risk	System to check credit limit
IRM	Independent Risk Management
Middle Office	The Middle Office Department of the Branch
Back Office	The Back Office section of the Operational Service Department of the Branch
LCD	Legal and Compliance Department of the Branch
ORD	Operational Risk Department of the Branch
MRD	Market Risk Department of the Branch
CRM	Credit Risk Management Department of the Branch
CDO	Chief Data Officer of the Branch
IAD	Internal Audit Department of the Branch
FMD	Financial Management Department of the Branch
OSD	Operational Service Department of the Branch
FID	Financial Institution Department of the Branch
CBD	Corporate Banking Department of the Branch
MMFI	Money Market and Fixed Income of the Department
FXDR	Foreign Exchange and Derivatives of the Department
TRY	Treasury Department of the Branch

7. Appendix

7.1. Operational Guidance For Volcker Covered Instruments

This section is only an internal guidance used as quick guide for providing guidance to personnel not familiar with the operation. (This Guidance will be updated frequently according to the most current business practice at the Department.) The department follows strictly to the *Bank of China Volcker Policy* as the practice guidance.

For the products currently transacted at the Department, when transacting the following products, the Department personnel must pay special attention to ensure that they comply with the requirements of the Volcker Rule:

FX forwards (including deliverable and NDF), FX swaps, bullion forwards, bullion swaps, IRS, CCS, and bonds (exemption for U.S. Treasury Notes or Bills).

The following are guidance for ensuring Volcker Rule compliance:

For any transactions listed above with the maturity less than or equal to 60 days, the Volcker Rules Checklist must be filled out before the execution.

In addition, backstop questions 4 to 6 for both part 1 and 2 on the checklist are always needed to be checked in Volcker Checklist. In case for a transaction, 'Yes' needs to be filled for any of the three questions, the transaction cannot be conducted, and the case must be reported to the Department Head immediately.

7.1.1. Monitoring Head Office's FX and Bullion Books

For a single forward/swap transaction executed back-to-back in the market for a single Head Office transaction, the OPICS number of the back-to-back transaction with Head Office will be recorded. A Volcker Checklist will be completed for each of the two transactions (indicating the "Market Making Exemption" as the applicable Volcker Rule exemption), sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

When a combination of transactions (i.e. one spot and one swap are combined to square a forward transaction or several small transactions are combined to face a large transaction) are used for purposes of back-to-back squaring for the two sides (market side and Head Office side), the combination should be linked together, with related OPICS numbers. A Volcker Checklist indicating the "Market Making Exemption" as the applicable Volcker Rule exemption will be completed for each of the forward/swap transactions (note that a Volcker Checklist does not need to be completed for bona fide spot transactions). The Volcker Checklists for the two sides will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

7.1.2. Executing FX Transactions For Clients

For a client-side transaction, which is deemed too small to be squared right away, a Volcker Checklist indicating the “Market Making Exemption” as the applicable Volcker Rule exemption will be completed. The FX request form and the completed Volcker Checklist will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

For a single FX forward/swap transaction executed because of client need, the OPICS number of the related client side transaction will be recorded. A Volcker Checklist indicating the “Market Making Exemption” as the applicable Volcker Rule exemption will be completed for each of the two transactions. The two Volcker Checklists and the FX request form for the client side will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

When a combination of transactions (i.e. one spot and one swap are combined to square a forward transaction or several small transactions are combined to face a large transaction) are used for serving client needs, the combination should be linked together, with the related OPICS numbers. A Volcker Checklist indicating the “Market Making Exemption” as the applicable Volcker Rule exemption will be completed for each of the forward/swap transactions (note that the Volcker Checklist does not need to be completed for bona fide spot transactions). The Volcker Checklists, FX request form(s) for the two sides will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

7.1.3. Executing IRS or CCS Transactions For Clients

All such transactions executed must be made exact back to back. For the two transactions executed back to back, the OPICS number of the related client side transaction and a short explanation of the link will be recorded. A Volcker Checklist indicating the “Market Making Exemption” as the applicable Volcker Rule exemption will be completed for each of the two transactions. The two Volcker Checklists and the request form for the client side will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

7.1.4. Managing Liquidity Using FX Swap/Forward

For the transactions in the category with maturity less than or equal to 60 days, the “Purpose Test” question is filled with ‘Yes’ due to “Risk Mitigating Hedging Exemption” explained in the *BoC Volcker Compliance Policy*.

(A) Borrowing non-USD currency

For a FX swap transaction executed to borrow non-USD currency, the following documents must be kept at Middle Office for monitoring Volcker Rule covered transactions:

- (a) A completed Volcker Checklist: For the transactions in the category with maturity less than or equal to 60 days, indicate the “Risk-Mitigating Hedging Exemption” as the applicable Volcker Rule exemption. The Volcker Checklist’s “additional explanation” box should also contain the following statement “The Purpose Test is filled with Yes due to no rebuttal decision for 60 days presumption”; “the correlation between the underlying “loan portfolio risk” and the hedging executed is 100%”;
- (b) A written request from TRY specifying the borrowing need;
- (c) The FX request form, which shows the underlying non-USD currency loan need with the underlying loan specified (the specification must include loan department, amount, the value/maturity date of the loan) on the request form (if the borrowing is due to a client’s non-USD currency loan need); or
- (d) A document or documents specifying (the specification must include the transaction type, amount, the value/maturity date of the transaction) the non-USD interbank lending/deposit/investment (if the borrowing is due to non-USD interbank lending/deposit/investment need) ; or
- (e) A document or documents showing clear liquidity management reasons for the borrowing request. For such kind of document not pointing to particular loan/lending/deposit/investment(s), written explanation is required for transactions with maturity of 60 days or less.

(B) Lending non-USD currency

For a FX swap transaction executed to lend non-USD currency, the following documents must be kept at Middle Office for monitoring Volcker Rule covered transactions:

- (a) A completed Volcker Checklist: For the transactions in the category with maturity less than or equal to 60 days, indicate the “Risk-Mitigating Hedging Exemption” as the applicable Volcker Rule exemption. The Volcker Checklist’s “additional explanation” box should also contain the following statement “The Purpose Test is filled with Yes due to no rebuttal decision for 60 days presumption”; “the correlation between the underlying “loan portfolio risk” and the hedging executed is 100%”;
- (b) A written request from TRY specifying the lending need; and
- (c) A document or documents (i.e., Swift report for cash account) showing the excessive liquidity of the non-USD currency). If the document(s) can’t pin down particular loan/ lending/ borrowing/ deposit/ investment(s), written explanation is required for transactions with maturity of 60 days or less.

(C) Selling expected non-USD interest

For a FX forward transaction executed to sell expected non-USD future interest income, the following documents must be kept at Middle Office for monitoring Volcker Rule covered transactions:

- (a) A completed Volcker Checklist: For the transactions in the category with maturity less than or equal to 60 days, indicate the “Risk-Mitigating Hedging Exemption” as the applicable Volcker Rule exemption. The Volcker Checklist’s “additional explanation” box should also contain the following statement “The Purpose Test is filled with Yes due to no rebuttal decision for 60 days presumption”; “the correlation between the underlying “FX risk” and the hedging executed is 100%”;
- (b) A document showing the detailed calculation (i.e. Excel sheet) of the expected future interest income from the TRY.

7.1.5. Executing IRS Transactions For Liquidity Management

No IRS transaction with a maturity of 60 days or less for liquidity management reason can be executed at the Department. Before making any investment, the Volcker Checklist will be completed (indicating the transaction is not for the Volcker Trading Account). A copy of the Volcker Checklist and a document indicating the reason for the need will be sent to and kept at Middle Office for monitoring Volcker covered transactions.

7.1.6. Bond Investment

Before making investment, the Volcker Checklist will be completed if the transaction maturity less than or equal to 60 days (indicating the transaction is not for the Volcker Trading Account) except for US Treasury which is exempted from the Volcker Rules. A written explanation or meeting minutes of approval is required to be attached with the copy of the Volcker Checklist when submit to Middle Office for monitoring Volcker covered transactions.

7.1.7. Deals Made By Mistake

If any such transaction is executed by mistake, the transaction shall be squared immediately after detection. A clear explanation must be made in writing and be signed by the trader who executed the transaction, the head of the desk, the head of the Department and the head of the Middle Office. All relevant documents will be sent to and kept at Middle Office for monitoring Volcker Rule covered transactions.

7.1.8. Additional Notes

- (A) Transaction update

For all transactions involving FX forwards, FX swaps, bullion forwards, bullion swaps, IRS, CCS, Repo/Reverse Repo or bonds, if an update is made, the reason for update must be documented, sent to and kept at Middle Office.

(B) “loan portfolio risk” for borrowing/lending non-USD currency

For making non-USD currency deposits or investments (i.e. CD or Bond) to other entities, the Branch is essentially lending the foreign currency to the other entities. For accepting non-USD currency deposits or investments from another entity, the entity is essentially lending the foreign currency to the Branch. Therefore, these will be essentially viewed as loans and, hence, hedging “loan portfolio risk” applicable.

7.2. Volcker Checklist

For certain transactions involving FX forwards (including non-deliverable forwards)/swaps, bullion forwards/swaps, interest rate swaps, cross currency swaps, bonds(exemption for U.S. Treasury Notes or Bills), the Volcker checklist must be completed if the maturity days less than or equal to 60 days.

7.3. Fed Discount Window Facility

EVP in charge or applicable approval is required before seeking advances and credits from the Federal Reserve Bank of New York ("FED") under the Discount Window Facility (the "Facility"). In order to have access to discount window, securities are pledged with the FED. The amount available from discount window is the market value of the pledged securities with a haircut.

- (a) TRY shall provide the end of day Fed projections throughout the day monitoring the Fed balance.
- (b) If there is a shortfall at end of day in Fed account, 2 authorized officers listed on Federal Reserve list will need to be available to execute the discount window drawdown where one executes the transaction while the other will later confirm transaction when Fed calls to confirm using the designated phone number on the authorization list.
- (c) Check the pledged collateral at Fed. If collateral is inadequate with the target borrowing amount inform TRY.
- (d) The discount window authorization list is maintained and updated periodically by FID. In preparation, the department should check the current list before transacting.
- (e) The authorized officer(s) after having approval shall call up the FED to formally request the drawdown against the Facility and the proceeds shall be credited into our FED account to cover the deficit. UNDER NO CIRCUMSTANCE SHALL DIVERSION TO OTHER ACCOUNT BE PERMITTED.
- (f) The FED will then call back directly to the authorized officer to confirm the drawdown.
- (g) The authorized officer(s) who requested the drawdown of the Facility shall immediately report the borrowing to the Executive Management.
- (h) For emergency market situations including a major market disruption or technical / financial failure of a major bank, the following steps should be taken:
 - i. The Clearing Department shall immediately notify the head of Clearing Department, Treasury and Global Markets Department, and the Executive Management member in charge, other member of the Executive Management and members in the Fed Discount Window contact list.
 - ii. The head of the Clearing Department or designated officer shall remain in the office even after the close of the Branch to monitor the situation until and after the cutoff of the FEDWIRE transfer.

- iii. The head of the Clearing Department, Treasury and the Department head, and the Executive Management member in charge or another member of the Executive Management in the Fed Discount Window contact list shall be kept close contact and advised of the situation at any time.
 - iv. The decision to draw against the Facility or to withhold any major outgoing payments after the close of the market shall be made at the best judgment of the Executive Management member in charge or another member of the Executive Management in the Fed Discount Window contact list based on the support of the head of the Clearing Department and Treasury taking into account the prevailing situation such as the impact of withholding the payment.
 - v. If it were decided to draw against the Facility, the authorized officer(s) after seeking approval from the head of the Clearing Department, or the Department head, or from the Executive Management member shall call up the FED to formally request the drawdown against the Facility and the proceeds shall be credited into our FED account to cover the deficit. UNDER NO CIRCUMSTANCE SHALL DIVERSION TO OTHER ACCOUNT BE PERMITTED.
- (i) Information Required by Fed for conducting borrowing:
- i. Name and location (city and state) of your institution:
 - a. Bank Of China, New York Branch
 - b. 1045 Avenue of the Americas, NYC, NY 10018
 - ii. Your institution's ABA and telephone number:
 - a. 026003269
 - b. Phone number listed in Fed discount window authorization list
 - iii. Your name and title. If your institution's borrowing resolution requires that two people request a Discount Window loan, please have a second authorized individual available:
- (j) The two authorized officers making the operation this time.
For borrowing with "Secondary", a reason needs to be prepared and given to Fed.
- (k) The amount and term should be determined before making borrowing request.
- i. The amount and number of days that funds will be needed: