



中國銀行
BANK OF CHINA

BOC US Branches Product Pricing Policy_Jul 2021

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Contents

1. Executive Summary	4
1.1. Rationale	4
2. Scope	4
3. Roles & Responsibilities.....	4
3.1. Policy Governance.....	4
3.2. Policy Implementation	5
4. Policy Components	6
4.1. Policy Statement	6
4.2. Policy Key Components.....	7
4.2.1. Product Inventory and Pricing Mechanism	7
4.2.2. Pricing Approval Authority	7
4.2.3. Pricing Recording and Change.....	8
4.2.4. Pricing Supervision and Review.....	8
4.2.5. Promotional Pricing.....	8
4.2.6. Client Relationship Pricing.....	9
4.2.7 Blocked Accounts Pricing	9
5. Policy Awareness / Training.....	9
6. Update Requirements	9
7. Consequences of Violating the Policy.....	10
8. Exceptions and Exemptions	10
9. Glossary	10

1. Executive Summary

This policy is formulated in order to meet business management requirements of Bank of China US Branches (“BOCNY” or “the Bank”) to enhance product pricing mechanism and standardize pricing process, and to promote market competitiveness of BOCNY.

1.1. Rationale

According to Head Office requirements, the principles of product pricing include

- 1). Compliance with applicable regulation and laws;
- 2). Market competitiveness of the BOCNY products and services;
- 3). Centralized management with appropriate policies and implementation procedures, and monitoring mechanism;
- 4). Hierarchical authorization, with a different level of approval authority from management committee, executive management, department heads to staff.

2. Scope

The product pricing policy covers all BOCNY business lines products categorized into three types:

- 1) Interest rate product with focus on the deposits. The loans and investment portfolio are excluded from this policy because their pricing are governed by other policy frameworks such as credit related policies and investment policy;
- 2) Fee / Commission products, such as various intermediate services charges;
- 3) Foreign Currency products such as FX Spot, forward, swap, and non-USD deposits & services.

This policy applies to Bank of China New York Branch and its satellite branches¹.

3. Roles & Responsibilities

3.1. Policy Governance

Asset and Liability Committee (ALCO) is responsible for reviewing and approving the product pricing policy, determining the principles for product pricing, and reviewing product prices that beyond departmental and EVP’s authorization.

Business departments are responsible for determining the detailed pricing mechanism of the products & services, and setting corresponding authorization. The pricing mechanism and authorization shall be implemented after ALCO approval through explicit business procedures.

Treasury (TRY) is the owner this Policy and responsible to oversee and monitor all related stakeholders’ implementation of this Policy.

¹ The satellite branches include the Queens Branch (“QNB”), Chicago Branch (“CHB”), and Los Angeles Branch (“LAB”).
Page 4 of 10

3.2. Policy Implementation

The business lines including the client relationship departments and products departments are responsible for implementing the policy more specifically as follows.

Treasury (TRY) is responsible for

- Leading and coordinating the policy enhancement, periodical review and update, obtaining ALCO's approval, assisting in Executive Management (EM)'s approval and communicating the approved changes
- Leading the working group to fulfill the assigned key tasks including the monitoring of the policy implementation and
- Providing funding and Funds Transfer Pricing (FTP) support for business lines' product pricing

Corporate Banking Department (CBD) is responsible for

- Pricing of corporate clients loans and deposits, and related fees / commissions products & services
- Establishing and periodically updating the corporate banking business line implementation procedure and
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Commodity Business Center (CBC) is responsible for

- Pricing of CBC clients loans and deposits, and related fees / commissions products & services
- Establishing and periodically updating its implementation procedure and
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Trade Finance Department (TSD) is responsible for

- Pricing of trade finance products & services including interest rate, and related fees/commission and
- Establishing and periodically updating its implementation procedure and the list of product inventory
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Global Market Department (MKD) is responsible for

- Pricing products related to trading, brokerage, interbank lending and borrowing, and related fees/commissions products & services
- Establishing and periodically updating its implementation procedure and
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Financial Institution Department (FID) is responsible for

- Pricing products related to interbank clearing accounts, financial institution deposit accounts, and related fees / commissions products & services
- Establishing and periodically updating its implementation procedure and
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Clearing Department (CLD) is responsible for

- Pricing of wire transfer services
- Establishing and periodically updating its implementation procedure
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Banking Department (BKD) is responsible for

- Pricing of retail deposits and related fees/commission products & services
- Establishing and periodically updating its implementation procedure
- Determining and periodically updating the list of product inventory and premium banking service clients, when applicable

Queens Branch (QNB) is responsible for

- Pricing of retail loans and related fees/commission products & services
- Establishing and periodically updating its implementation procedure, and following the BKD's procedure on retail deposits & fees/commission products & services
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Chicago Branch (CHB) is responsible for

- Following the related business lines' pricing procedures
- Establishing and periodically updating its implementation procedure when the branch has its own unique products & services.
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Los Angeles Branch (LAB) is responsible for

- Following the related business lines' pricing procedures
- Establishing and periodically updating its implementation procedure when the branch has its own unique products & services.
- Determining and periodically updating the list of product inventory and prominent client list, when applicable

Financial Management Department (FMD) is responsible for

- Timely update and communicate with business departments the latest rates of the FIDC and OCC fees
- Periodically review business lines' product pricing as part of the business performance review

Operational Service Department (OSD) is responsible for

- Timely recording the related fees & commission, and accounting the interest rates
- Providing operational support for business lines' product pricing

4. Policy Components

4.1. Policy Statement

Pricing products are categorized by market-oriented products and nonmarket-oriented products.

- Market-oriented products are priced by the base price and the authorization. The base price is mainly decided by the market and the peers of the Bank, meanwhile, bank's cost and risk premium should also be considered; the authorization is decided by the strategic development on specific products, level of competition by the peers, and etc.
- Non market-oriented products are priced based on the related regulations and industry standards.

There are departmental pricing authorization and beyond departmental pricing authorization such as EVP in charge and committee (ALCO, EMC) level.

For the products shared by multiple departments, the leading department should make the implementation rules and process. Contents of the implementing rule should cover the product's category, name, pricing method, process, pricing permission, authorization and the supervision management etc.

Business lines including client relationship and product department should establish and maintain the implementation procedure after the policy is approved by ALCO. The implementation procedure should be timely reviewed and updated to reflect the policy changes and/or other changes such as market conditions, client relationship and product features etc.

4.2. Policy Key Components

4.2.1. Product Inventory and Pricing Mechanism

- a) The client relationship and product department should maintain a comprehensive inventory of the products offered, and review and update the inventory at least annually.
- b) The client relationship and product department should develop the pricing mechanism for each of its product, and document the pricing mechanism.
- c) For interest rate products, the pricing should consider the pricing benchmark rates such as FTP, market rates and/or the margin / spread. Interest rate product pricing should be guided by the Bank's benchmarks, including FTP rate, regulatory fees such as FDIC and OCC fee, i.e. standard offering rate should be below (FTP-FDIC-OCC)
- d) For fee products, the pricing should consider the standard rate based on the quantity and quality of services.
- e) For foreign currency products, the pricing should consider the market rates, and spread.

4.2.2. Pricing Approval Authority

- a) Client relationship and product department must establish the different level of approval authority from account officer, team leaders to department head, and EVP in charge.
- b) The pricing for fee/commission products must be approved by department head and EVP in charge
- c) For interest rate products, the FTP is used as the internal benchmark and guideline. If the offering interest rate is unfavorably deviated over **20%** from FTP benchmark (i.e. (offering

interest rate²– FTP)/FTP < >20%) rate or the Profit & Loss impact is unfavorably over **\$1 Million** (i.e. offering principle amount x (offering interest rate – FTP) > =\$1 million), ALCO Chairman or EVP in charge of Treasury must approve the pricing.

- d) Same approval thresholds and process as c) are applicable to promotional pricing and client relationship pricing

4.2.3. Pricing Recording and Change

- a) For interest rate and currency products, the rate must be timely and accurately recorded into the booking and accounting system. A proper review process of the operations must also be in place.
- b) Any pricing changes must be appropriately reviewed approved. The appropriate approval authority must be documented in the implementation procedure.

4.2.4. Pricing Supervision and Review

- a) The client relationship and product department must conduct the review at least annually of the pricing benchmark, approval authority, and the related implementation procedure.
- b) TRY monitors the client relationship and product department's review of the product pricing, and reports the consolidated monitoring results to ALCO at least annually.

4.2.5. Promotional Pricing

- a) **Initiation:** Both product departments and/or client relationship departments can initiate the bank-wide or cross- departmental promotion program. The initiation department generally leads and coordinates the promotion program design, consultation, approval, execution and monitor the approved implementation.
- b) **Formulation:** promotion program shall consult the related departments such as client relationships, operations and funding where applicable to formulate program proposal for approval.
- c) **Approval:** branch-wide and cross-departmental promotion program must be approved by EVP-in-charge the related department prior to execution.
- d) **Execution and post-implementation monitoring:** The client relationship and product department shall execute the approved program together with the operational departments, and ensure the promotional rates are timely updated and reflected into the booking and/or accounting system. The initiation department shall periodically monitor the implementation the promotion program and timely escalate the issues.
- e) **Program change & exceptions:** Significant program changes must be approved at the same level as the program was initially approved; minor program changes must obtain appropriate approvals from such as dept. heads and/or EVP in charges. After approval, the initiation department shall timely notify the related department of the program changes. For

² Offering interest rate does NOT include regulatory fees.

exceptions or special individual case, EVP in charge of the program initiation department must approve.

- f) **Program cease and/or expiration:** When the program expires at pre-defined expiration date, the initiation department must notify in advance the related departments. The promotional pricing must be timely expired and reflected into the booking and/or accounting system. When the program is ceased before the pre-defined expiration date, the cease must be approved by EVP in charge. After approval, the initiation department must timely notify the related department to cease the program. The promotional pricing must be timely ceased and reflected into the booking and/or accounting system.

4.2.6. Client Relationship Pricing

- a. **Determination.** The client relationship department is responsible for determining the prominent client list or the premium banking service requirements for retail banking according to the business practices, applicable compliance and policy requirement, and approved by its EVP in charge. The list shall be periodically (at least annually) reviewed and updated.
- b. **System Recording and Update.** The client relationship pricing shall be timely recorded into the system. The prominent client list shall be shared with related departments upon requests.

4.2.7 Blocked Accounts Pricing

- a. OFAC regulation requires the blocked accounts earn interest at a commercially reasonable rate, i.e. at a rate currently offered to other depositors on deposits of comparable size and maturity. BOCNY applies the retail client DDA account rate to all OFAC blocked accounts via the same rate code.
- b. TRY at least annually reviews rate for the OFAC blocked accounts and then provide OSD the rate for interest calculations.
- c. OSD calculates the interest using the provided rate, same approach as the retail client DD account.

5. Policy Awareness / Training

TRY is responsible for the relevant communication to applicable stakeholders. The notification method(s) used to notify the individuals or department(s) in-scope of the policy about the existence and the requirements of the policy could include e-mail notification, employee attestation, or training.

6. Update Requirements

This Policy will be reviewed by TRY for updates or approvals at least every three (3) years. If any of the trigger events applies include but not limited to new or updated laws, rules, and regulations; Head Office policies impacting the BOCNY or any of their departments/functions; changes in regulatory expectations/industry practice; regulatory examination findings, or audit findings, this Policy will be updated more frequently.

7. Consequences of Violating the Policy

All employees and third-party providers acting on the Bank's behalf are responsible for ensuring compliance with product pricing policies, procedures and practices. Any employee found to have violated this policy may be subject to disciplinary action, up to and including termination of employment.

8. Exceptions and Exemptions

The exception approval process contained in this policy aligns with the requirements described in BOCNY's Policy on Policies. Exceptions to this policy must be justified in writing, be presented to the Head of TRY and will require the approval of ALCO. The decision to grant a policy exception should be documented along with a discussion of the business reasons for the exception.

Responsibility for tracking policy exceptions, including by maintaining an exception log, and documenting all follow-up actions and the resolution of all identified issues, is the responsibility of the business unit requesting the exception. Exceptions to this Policy will then be aggregated by TRY, and levels and trends of exceptions will be reported to the ALCO.

9. Glossary

Abbreviation	Name
BOCNY	BOC New York Branch and its satellite branches
ALCO	Asset and Liability Committee
EVP	Executive Vice President
TRY	BOCNY Treasury
CBD	BOCNY Corporate Banking Department
TSD	BOCNY Trade Services Department
MKD	BOCNY Global Market Department
FID	BOCNY Financial Institution Department
FMD	BOCNY Financial Management Department
CLD	BOCNY Clearing Department
BKD	BOCNY Banking Department
OSD	BOCNY Operational Service Department
QNB	BOCNY Queens Branch
CHB	BOCNY Chicago Branch
LAB	BOCNY Los Angeles Branch
OFAC	Office of Foreign Asset Control
FTP	Funds Transfer Pricing
DDA	Demand Deposit Account