中國銀行
BANK OF CHINA

BOC USA Bond Investment Procedure

March 2021

Version	Date Changes Made	Author	Description of Changes
1.0	June 2017	MKD	Initial Creation
2.0	June 2018	MKD	Update
3.0	July 2019	MKD	Update
4.0	July 2020	MKD	Update
5.0	March,2021	MKD	Annual Update

Identifying Information	
Title	Bond Investment Procedure
Procedure Owner	Global Markets Department
Contact Information	Huamao Bai John Fusco
Effective Date	March 2021
Location	BOC Policy Library
Document Type	Procedure

Reviewed by		
Xiaoyi Zhang **SVP & Acting Head of MKD**	Signature	3/24/2021 Date

Approved by		
Min Zhu **EVP in charge of MKD**	Signature	3/26/2021 Date

Contents

1. Executive Summary

This bond investment procedure is written to outline the bond investment and operational procedure at the Global Markets Department ("MKD") of Bank of China New York Branch ("BOCNYB" or the "Branch") based on the related policies and procedures.

1.1. Rationale

This Procedure details the bond investment at MKD of Bank of China New York Branch.

1.2. Related Policies & Procedures

This Procedure is written based on the policies mentioned below.

(A) Bank of China Head Office's ("Head Office" or "HO" refers to Head Office of Bank of China Ltd) Oversea Bond Investment Guidelines

(B) Bank of China Volcker Compliance Policy

(C) BOC Market Risk Management Policy

(D) BOC Bond Investment Policy

(E) BOC US Branches Credit Risk Management Policy

(F) BOC LCD Front Line Unit Know Your Customer Procedures

(G) BOC US Community Reinvestment Act Compliance Procedures

(H) BOC NY Liquidity Buffer Management Procedure

2. The Scope

This is an operational procedure that applies to MKD's operations and personnel. This Procedure is subordinate to the Head Office Risk Government Framework, the Branch's Risk Governance Framework and all related Branch's IRM's policies (including policies and procedures from TRY, MOD, ORD, MRD, CRM, LCD and CDO) (please find the definitions of these abbreviations in section 6.2 Glossary).

3. Roles & Responsibilities

3.1. Procedure Governance

The Global Markets Department is responsible for maintaining, reviewing and updating this Procedure. This Procedure will be reviewed and updated on an annual basis, and BOC New York Branch's MKD is the owner of the Procedure whom has the sole interpretation right for this document.

3.2. Procedure Implementation

The Global Markets Department is responsible for implementing this Procedure. All personnel of the Bond Desk within the Department are responsible for upholding this Procedure.

4. Procedure Instructions

This Procedure provides detailed, step-by-step guidance on how to comply with the policy requirements in which the procedure intends to implement in the following sections that provide such guidance.

4.1. Bond Investment Plan

(A) **On the macro side,** Bond Investment Manager will research on macroeconomic indicators including but not limited to inflation, unemployment and GDP growth.

(B) **On the micro side**, Bond Investment Manager will research on credit quality of individual bonds, including but not limited to *credit rating, balance sheet, income statement and cash flow*.

(C) Given (A) and (B) above, Bond Investment Manager will generate investment ideas, identify bond investment opportunity, make an investment plan together with TRY and execute for the portfolio based on the market conditions.

4.2. Credit Risk Limit and Non-Credit Risk Limit

(A) Bond investment trades are initiated in the following situations: the Branch's own assets or liabilities needs, and satellite branches' (e.g. Chicago Branch and Los Angeles Branch of Bank of China) requests as well as the regulatory requirements or needs.

(B) **Credit Risk Limit**: The Bond Investment Manager will prepare and submit credit risk analysis including, but not limited to, the rationale for the credit trade, the credit quality and the credit risk limit. Specifically, MKD will work with MOD to obtain HO's approval for BOC-HO credit risk limit and then MKD and MOD will work with FID (for US treasuries, supranational and financial institutional bonds, etc.) to obtain the BOC-NY credit risk limit approval from BOC-NY Credit Approval Committee (CAC). The credit risk limit will be calculated and implemented by the lessor of BOC-HO credit risk limit and BOC-NY credit risk limit.

(C) **Credit Event Reporting:** Any credit related significant event should be reported to and obtain the approval from CAC before any trade is put on. This process is required to be consistent with the credit guidelines and requirements from BOC-HO. Any inconsistency due to the mandated guidelines from HO should be reported to CAC. The corresponding credit exemptions and exceptions need to be approved by CAC after the bond manager provides the rationale for the proposal. After the trade is put on, any credit rating migration (including downgrade or default) should be escalated with a remediation plan to CAC for approval to hold position (for recovering value) and/or sell (for writing-off).

(D) **Non-credit Risk Exposure.** Bond Investment Manager will prepare the non-credit risk analysis including, but not limited to, the rational for the non-credit trade and non-credit risk limit. Specifically, MKD will work with MOD to get HO's approval for BOC-HO non-credit risk limit and then MKD and MOD will work with Market Risk Department (MRD) and HO (for stress test risk limit) to obtain the BOC-NY non-credit risk limit approval from BOC-NY Market Liquidity Risk Committee (MLRC). The non-credit risk limit will be calculated and implemented by the lessor of BOC-HO non-credit risk limit and BOC-NY non-credit risk limit.

(E**) Compliance Check:** The compliance checks for OCC (Office of the Comptroller of the Currency), FDIC (Federal Deposit Insurance Corporation), EPS (Enhanced Prudential Standards), CRA (Community Reinvestment Act) and other regulatory requirements should be conducted before the trade proposal is submitted for the management's approval.

(F) **Credit Assessment**: The investment manager shall evaluate the creditworthiness of the investment. The pre-trade analysis should include, but not limited to, the credit quality, the complexity of the structure, the size of the investment, credit risk limit, credit risk control and non-credit limit previously mentioned, in addition to the trade rationale for macro and credit reasons. For non-government bonds, excluding the multi-national financial institution issued bonds, the following factors should be appropriately reviewed: the spread to US Treasury is consistent with the other bonds with the similar credit quality, tenor, size and the operating financial performance, etc.

4.3. **Trade Approval and Execution Process**

The trade proposal and trade execution process include the following steps:

(A) Before a trade execution, the investment manager must make sure that the trade does not exceed any limits, i.e. the issuer limit and stress test limits.

(B) Bond investment manager will submit a proposal to buy or sell a bond. The investment proposal will cover the pre-trade analysis including investment description, target yield level, duration, limit checks as specified in the above section (A), internal and external ratings, the yield curve, spread analysis applicable to credit investment and the rationale behind the proposed trade.

(C) The proposal requires the approval from Head of MKD and the senior management (including the approval from the CRO before buying the local-issuance credit name) of BOC NY and/or Head Office depending on the local and global issuance of the credit name. After providing the Branch level authorization for the local-issued credit trade, the investment manager may proceed to next step. If not locally issued, the proposal must be sent to Head Office for case by case approval; and only after the Head Office final approval, the investment manager may proceed to the next step. If the proposal is to buy CRA-qualified Ginnie Mae MBS bond as authorized by the head office, the bond investment manager should be required to work together with (and obtain an input review from) the CRA officer at LCD. If the proposal is to sell a unencumbered security, the investment manager should (1) check whether the trade is in compliance with the minimum holding period requirements of AFS accounting and Volker Rule; (2) get the approval from the senior management at the New York Branch and the approval from the head office before selling any bond; and (3) get the approval from head office and report to the head office if there is any mark-to-market (MTM) loss for the credit related name.

(D) The investment manager may either ask counterparty for a bid or an offer or place an order with counterparty and monitor the execution of the order. The investment manager should receive the price quotes from at least three sources from the bank's Financial Institution Department ("FID") KYC-approved counterparty list. The counterparty list should be reviewed by FID for KYC purpose periodically.

(E) Before selling any credit or supranational bond, the Volcker Checklist will be completed when applicable. A copy of the Volcker Checklist will be kept together with trading ticket at Middle Office for monitoring Volcker covered transactions and the Volcker Checklist will be gone through for the bond desk as part of the pre-bond purchase analysis. In addition, the bond desk works closely with FID/MOD team routinely on the KYC (know your customer) process of the counterparties while applying or renewing the credit limit for the credit name involved.

(F) The Bond Desk must also ensure that the bond investment does not trigger the Market Risk Capital Rule Test Restriction or the Stress Test Restriction.

(G) The Investment Manager will input the trade in the trade blotter. Details will include counterparty, CUSIP, amount, price/yield, trade date and value date. An "available-for-sale" stamp or a "hold-to-maturity" stamp should be placed on the ticket on trading day according to the proper classification of the transaction (the trade blotter is communicated through email, which is assumed to have an "available-for-sale" stamp while working from home).

(HI) In addition to normal deal entry requirements, the trading ticket must be signed by at least two traders (via email check while working from home), include executing trader and authorized trader.

(I) For the order execution to satellite branches of the Bank, the Investment Manager will inform the satellite branch the details of the transaction as well as OCC collateral pledge activity.

4.4. **Post-trade Process**

The regular post-trade process should include:

(A) **Daily Risk Monitor:** The investment manager will monitor the individual bond and portfolio daily performance/risk/credit profile and make ***tactical and strategical*** trade recommendations for the portfolio based on the macro/risk/credit profile change. At the same time, any credit related downgrade/upgrade events should be reported with an action plan to MOD and related departments. If the remediation plan requires approval, MKD will escalate to Credit Approval Committee (CAC) for approval to hold the position (for recovering value) or sell (for writing-off).

(B) **Monthly Portfolio Report & Attribution**: The investment manager will have monthly portfolio report and performance attribution to determine what factors helped or hurt the performance for the portfolio, and/or whether any corresponding trades are needed for the portfolio.

(C) **Routinely Credit Monitor Review**: The investment manager will have the routinely credit monitor review for the portfolio and make the ***strategic*** repositioning recommendations for the portfolio based on the top-down and bottom-up revaluing of the positions.

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

(F) Community Reinvestment Act

6.2. Glossary

The glossary lists definitions of terms and acronyms used in the policy.

Term	Explanation
The "Bank"	Bank of China Limited
The "Branch"	Bank of China Limited, New York Branch
The "Department"	Treasury 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 transaction booking and settlement
IRM	Independent Risk Management
MOD	The Middle Office Department of the Branch
LCD	Legal and Compliance Department of the Branch
MRD	Market Risk Department of the Branch
CRM	Credit Risk Management Department of the Branch

FID	Financial Institution Department of the Branch
CBD	Corporate Banking Department of the Branch
BOND	Bond Investment Desk of the Department
MKD	Global Markets Department
TRY	Treasury
ORD	Operation Risk Department
OSD	Operation Service Department
CDO	Chief Data Office
OCC	Office of the Comptroller of the Currency
FDIC	Federal Deposit Insurance Corporation
EPS	Enhanced Prudential Standards

Appendix: BOC-USA Bond Investment Flow Process