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| **Date** | 9/18/2018 |
| **MRA Project Manager** | Charlie Peng |

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| **MRA #** | FRB-June2018-2 |

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| **FED MRA#2** | |
| **Description of MRA** | **MRA #2: Improve support for and transparency of assumptions**  **Issue**: *Enhance the support and transparency for the process utilized to establish runoff rates for commercial paper backstops and asset haircuts.*  *While management mostly addressed this issue by enhancing the process utilized to establish runoff rates for commercial paper backstops and asset haircuts, the firm must capture in its internal liquidity stress test the following assumptions related to Commercial Paper Direct-Pay Letter of Credit (CPDP):*  *1. Treat undrawn lines as a liquidity commitment*  *2. Assume 100% is drawn on the maturity date of Commercial Paper*  ***Remediation Timeframe*:** *Within 90 days* |
| **Description of Action Item(s) and Detailed Step(s)** | **BOC USA Response**: While relevant data and product have been analyzed during the remediation resolution development, the Management concurs with the Fed’s feedback and will further enhance CPDP run-off assumptions with transparency and additional support.  After discussion and clarification with FRB examiners, the components of CPDP commitment will be treated as follows:  1. The used portion of the CPDP commitment (total amount of outstanding CP) will be treated as liquidity commitment;  2. The loan drawn on the maturity of Commercial Paper has been fully captured as outflow and included in the Balance Sheet; the unused portion (the total commitment size minus the sum of the amounts of outstanding CP and drawn loan) has minimal potential liquidity impact.  **BOC USA Action Plan and Timeline**: The Management will consider and analyze the Bank’s internal information including historical data, product feature, client profile and feature, and available external data sources related with CPDP commitment. The Management will also leverage LCR Rules as guidance for benchmark. The run-off rates along with respective analysis and applicable process enhancement will be well-documented with sufficient details to enhance the CPDP run-off assumptions.  IRM functions will review and challenge the methodology and assumptions to ensure that the CPDP run-off assumptions are well-supported, well-documented, and based on sound rationale. The Management will then obtain the appropriate levels of approval prior to the implementation.  The Management will implement the changes of run-off rates by September 18, 2018. |

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| **Part 1 – Evidence of Project Execution from the First Line of Defense** |

Description of artifacts proving execution of the remediation action: list and describe each individual document.

| **Department** | **Description** | **Evidence** |
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| FMD | The Bank’s Front Line Unit (“FLU”) Financial Management Department (“FMD”) has enhanced an internal methodology to estimate the runoff rates of commercial paper direct pay letter of credit (CPDP). The new runoff rates have been reflected in the stress testing for August month-end of 2018 with approval of the Bank’s Risk Management and Internal Control Committee (RMICC).  In response to the Fed’s feedback, the Bank developed a plan to address the concerns on the runoff rates estimation including benchmark against the LCR requirements. The Bank conducted further research on industry data and practice and academy papers. Also, the Bank involved corporate banking department, the owner of CPDP product, to gain a thorough understanding on the nature of business and products and the impact on cash flow under stress scenarios. The aforementioned work has all been reflected in the proposed resolution.  The approaches are designed to fit the specific products at the Bank. In order to estimate runoff rates under stress scenarios, the Bank has analyzed multiple data sources including internal empirical data and external market data. A revised internal empirical data based approach is applied to estimate CPDP run-off rates under the three stressed scenarios corresponding at different percentiles.  Attached is the FLU’s remediation resolution document. FLU has adopted second line’s recommendations where appropriate. |  |

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| **Part 2 – Second Line of Defense Review Results** |

| **Department** | **Description** | **Evidence** |
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| MRD | As an Independent Risk Management (“IRM”) under Second Line of Defense, the Bank’s Market Risk Management Department (“MRD”) has conducted the independent review and effective challenge on FLU’s proposal of Commercial Paper Direct Pay (CPDP) Runoff Rate. MRD’s review scope covered the data source and quality, assumption and analysis, results and documentation.  The CPDP runoff methodology and assumptions are developed primarily based on historical observations, management judgement, industrial practice, and regulatory guidance. After the review and challenge, MRD concludes the CPDP methodology, assumptions and runoff rates are acceptable. FLU has reflected MRD’s recommendations into their final proposal and documentation. |  |

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| **Part 3 – Evidence of Risk Governance (Risk Committee Approval)** |

Description of artifacts proving execution of the remediation action: list and describe each individual document.

| **Number** | **Description** | **Evidence** |
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| 1 | BOCNY Risk Management and Internal Control Committee (RMICC) reviewed and approved Fed MRA#2 remediation resolution on August 30th. Prior to RMICC meeting, the FLU proposal and IRM review were presented to Market and Liquidity Risk Committee for detailed review and discussion. The RMICC approval meeting minutes is attached for reference. |  |