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| **Date** | 10/30/2017 |
| **MRA Project Manager** | Charlie Peng |

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| **MRA #** | FRB-March2017-1 |

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| **FED MRA#1** | |
| **Description of MRA** | **MRA #1: Ensure Compliance with Regulations and Guidance**  **Issue**: Bank of China is not in compliance with Regulation YY, section 252.157(c)(3)(ii) Net Stressed Cash Flow Need, as the stress testing model remains under development and the Bank was unable to bifurcate between internal and external cash flows.  ***Required Action*:** *By September 15, 2017, Management is required to demonstrate to the satisfaction of the Board that the firm can sufficiently calculate the net stressed cash flow need as prescribed in section 252.157(c)(3)(ii) of Regulation YY. The cash flows should be sufficiently granular to determine both internal and external inflows and outflows.* |

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| **Action Plan** | |
| **Description of Action Item(s) and Detailed Step(s)** | **BOC USA Response**: BOC USA Management (the “Management”) recognizes that the current internal liquidity stressed testing model (the “Model”) projects the cumulative Net Cash Flow Need in 3 time buckets: Overnight, 1 Week, and 14 Day. However, the model does not explicitly segregate the cumulative Net Stressed Cash Flow Need into daily buckets during the first 14 days. While the model is designed with the capability to bifurcate the internal and external in and out cash flows, the Bank will ensure the above concerns are fully addressed and will enhance the Net Stressed Cash Flow Need calculation to ensure compliance with section 252.157(c)(3)(ii) of Regulation YY.  **BOC USA Action Plan and Timeline:** BOC USA Management will enhance the calculation model of Net Stressed Cash Flow Need by including calculation of daily buckets during the first 14 days with sufficient granularity to determine internal and external inflows and outflows. BOC USA Management will also perform retrospective calculation of the daily Stressed Cash Flow Need with data beginning from June 30, 2016 and assess any material impact on the size of the liquidity buffer. The change in the model and the results of the retrospective calculation will be reviewed and validated by Independent Risk Management (“IRM”) functions and will be subject to the appropriate levels of approval.  The Management will implement the remediation action by September 15, 2017.  After the discussion meeting with FRB-NY on August 2nd, the Management committed to completing the internal auditing validation by October 31. |

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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.

| **Number** | **Description** | **Evidence** |
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| 1 | The Bank’s Front Line Unit (“FLU”) Financial Management Department (“FMD”) has enhanced net stressed cash-flow needs (“NSCFN”) model with *sufficient granularity.* The Bank enhanced the calculation approach of NSCFN with detailed daily buckets over the first 14 days that demonstrates the bifurcation of internal and external in and out cash-flows. FMD adopted a truncated linear approach to allocating the cash flow to a daily basis for the first 14 days. Finally, a benchmark analysis was performed to compare the historical runoff rate with the proposed runoff schedule, which concluded the proposed schedule was conservative. A retrospective analysis exhibited there was little impact on the Bank’s liquidity buffer in most months with the exception of one, which had less than a 20 basis point move on the buffer ratio.  The Bank interviewed with multiple business units to get a better understanding of both the businesses themselves as well as the nature of the products. The most relevant product was non-maturing deposits. The Bank conducted a thorough research process; this included reviewing available research studies, and investigating both industry and sister branch best practices. While the Bank believed the obtainable industry data and research were good references for the resolution development, it was neither sufficient nor granular enough to be directly impactful for the Remediation Resolution. The Bank, therefore, decided to employ a benchmark approach against internal empirical data.  Attached is the latest version of FLU (Front Line Unit)’s remediation documentation. The FLU has assessed internal audit's observations and taken immediate actions to enhance the documentation. The actions taken are reflected in the attached documentation. |  |

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

| **Number** | **Description** | **Evidence** |
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| 1 | The daily NSCFN calculation methodology and assumptions are developed primarily based on the historical observations, management judgment, industrial practice, and regulatory guidance. As an Independent Risk Management (“IRM”) function, the Bank’s Market Risk Management Department (“MRD”) has conducted independent review and effective challenge on FLU’s proposal. MRD’s review scope covered the data source and quality, theory and assumption, analysis and calculations, results and documentation. This methodology was proven to be stable after accounting for outliers, variance of time horizons, and daily volatility. After the review and challenge, MRD concludes the enhanced daily NSCFN calculation methodology is acceptable and the results of the retrospective analysis are correct.  Attached is the latest version of independent review documentation. MRD has assessed internal audit's observations and taken immediate actions to enhance the documentation. The actions taken are reflected in the attached documentation. |  |

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| **Part 3 – IAD Validation Review Results** |

| **Description** | **Evidence** |
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| Internal Audit Department (IAD) conducted independent validation on the Bank’s remediation for the MRA by assessing whether corrective actions were implemented to address the actions required by the FRB to calculate net stressed cash-flow need, testing the design and operating effectiveness of controls over the net stressed cash-flow need calculation report and assessing 2nd line of defense’s validation result .  **Overall conclusion:** The overall validation result is “Pass”. BOC USA Management has devoted significant time and effort to enhance the calculation model of NSCFN and implemented corrective actions to address the actions required by the FRB. Although minor observations were noted during our review, they do not significantly impact the implementation of the actions to address the MRA.  Attached is the internal audit validation report and supporting work papers. |  |