# Measures for the Management of Overseas Treasury Business of Bank of China Limited

**(Edition 2019)**

## General Provisions

* 1. The *Measures for the Management of Overseas Treasury Business of Bank of China Limited (Edition 2018)* (“the Measures” hereinafter) is hereby formulated to facilitate the realization of the Bank’s strategic goal of becoming a world-class bank in the new era, strengthen its management of the overseas treasury business line, strive for technology-led, innovation-driven reform, transformation and development, seize historic opportunities, face up market challenges and build an enterprising, aspiring team for the treasury business.
  2. The Measures aims at reinforcing the functional positioning of the overseas treasury business, detailing the access qualifications of treasury personnel and spelling out work requirements with regard to the business. It provides for the management of the line and means of performance appraisal, and impels the treasury personnel to improve their professionalism and sensitivity to risks, to jointly build a complete business management system, to consolidate the first line of defense for risk control, and to stick to the bottom line of no systematic financial risks.
  3. The Measures is applicable to Hong Kong Branch, Macao Branch, Taipei Branch and overseas institutions, excluding companies in comprehensive operation, which are collectively referred to as “overseas institutions”[[1]](#footnote-2) in short hereinafter. The Measures shall be implemented by overseas institutions without prejudicing local laws, regulations, regulatory requirements or articles of association.

## Business Functions

* 1. The treasury of an overseas institution is the barometer and regulator of overseas assets and liabilities. Communication and collaboration with the internal departments of the overseas institution under overall arrangement and coordination by the Treasury of the Head Office shall be stepped up to better manage the asset and liability structure.
  2. The treasury of an overseas institution is responsible for intraday liquidity management of the institution, drawing up intraday liquidity management strategies, policies and processes, managing the bank’s capital gap and capital fund. The treasury is responsible for operating the liquidity portfolio, managing the clearing account and ensuring the institution have appropriate provisions. It shall manage and arrange capital positions through using interbank borrowing, swap and other market instruments according to its own asset and liability structure, liquidity conditions and changes in the money market.
  3. The treasury of an overseas institution operates bond investments in the institution’s banking account and utilizes market financing instruments to replenish capital subsequently. Hence, the treasury should be conversant with local financial market conditions and be good at analyzing interest rate trends of various currencies and at employing market financing, bond investment and the like to expand funding sources and enhance the capital utilization efficiency.

## Overall Requirements for Treasury Work

* 1. To carry out the treasury business, overseas institutions shall obtain approval documents from local regulators as well as business authorization issued by the Treasury of the Head Office. It shall strictly conform to the treasury business and risk management provisions and requirements stipulated by the Head Office, and develop its own operating process, instruction manual etc. for the treasury business.
  2. Intraday Liquidity management

1. The overseas institution shall ensure that its treasury transactions and intraday liquidity management satisfy both the regulators’ and the Head Office’s management requirements.

2. It shall keep a close eye on liquidity conditions of the local market and the bank. In need of liquidity supports worth over USD500 million or denominated in other currencies than USD, EUR, HKD, JPY from the Head Office, it shall communicate with the Head Office at least two working days in advance, Beijing Time, so that the Head Office can arrange liquidity in advance.

3. The overseas institution shall develop its own *Measures for the Management of Position Forecasts* and the *Operating Guideline on Capital Allocation* according to its own intraday liquidity management conditions. It is necessary to provide for division of responsibilities and operation flows with regard to daytime liquidity management, to strengthen monitoring on abnormal positions, and to ensure an appropriate balance in all accounts that can timely satisfy payment requirements under normal and stress scenarios.

4. The position management personnel of the overseas institution shall be familiar with the intraday liquidity management system, and the control capability of the daytime liquidity system shall be enhanced for better monitoring on positions, automatic and accurate capital allocations.

* 1. Bond investment

1. When making bond investments, overseas institutions shall strictly abide by all rules and provisions, authorization requirements and indicator limits. All bond investments are subject to the management regime of issuers’ credit limits. In other words, each investment shall be covered by sufficient effective credit limits of the issuer.

2. Bond investments of overseas institutions adopt the mode of “centralized control, differentiated authorization”. In principle, overseas institutions shall entrust Hong Kong Branch to operate their bond investments in a centralized manner.

3. Overseas institutions shall fully know about features of bond products, bond classification, bond impairment loss and other traits of bonds. It shall constantly monitor the performance of the bond market, strengthen market studies and predictions, reasonably allocate assets and increase their capital utilization efficiency.

4. The overseas institution shall be familiar with the bond investment process, including limits enquiry, investment application, deal conclusion, entry of transaction data into systems, capital delivery etc. Early preparations shall be made for the business, and it shall be guaranteed that operation steps in the system are accurate and efficient.

5. It is important to pay heed to credit risk, market risk, concentration risk facing the bond investment business, take proactive measures to guard against all sorts of risks and effectively control business risks.

6. The treasury shall give effective suggestions on holding or disposing of bonds based on regular analyses on changes in the value of bonds held.

* 1. Market financing

1. When carrying out market financing activities such as certificate of deposit, commercial paper and bond issuance, overseas institutions shall conform to the management measures for overseas market financing formulated by the Head Office and get familiar with the business flow. They shall enhance communication with the Treasury of the Head Office, apply for and report the establishment of financing schemes and issuance of financing instruments with a term of over one year.

2. Market financing and interbank borrowing shall follow the guidance price for the transaction set by the Head Office with an emphasis on controlling financing costs. Any transaction concluded at a price exceeding the guidance price shall be reported in advance to the Treasury of the Head Office for approval.

3. Overseas institutions shall pay heed to risks related to the market financing business and control them, ensure full, on-time repayment of principal and interests, and lengthen terms of certificate of deposit and commercial bills to lower liquidity risk and dissolve refinancing risks.

4. Attaching importance to developing investors, overseas institutions shall assist the Head Office with such investor-related activities as transactional or non-transactional road shows, field visits etc., and make active efforts to develop local market investors to consolidate the Bank’s investor base.

5. Statistics, account checks and data reporting with regard to market financing are essential as well. Overseas institutions shall step up their IT system building, skillfully use such systems as Murex in bond issuance and enhance the automatic level of the systems.

* 1. Risk management

1. Overseas institutions shall assign functions of risk management in the treasury business, ensure that risks in all business varieties are controllable, and see to it that risk management capability matches the business operation capacity.

2. An all-round, full-process risk management system shall be established to cover all business links with risk management efforts, and the awareness of risk management shall be spread to every member of the treasury department.

3. The treasury personnel shall be familiar with main risk of all business varieties, master the risk monitoring means and understand the definitions of the risk indicators. It is vital to strengthen proactive risk management, move risk control to earlier stages and pay constant attention to risks before, in the middle of and after each transaction.

4. Active communications should be maintained with the business personnel and the risk control personnel in the second line of defense to jointly analyze and solve problems. The treasury personnel shall monitor business risks on a daily basis, enhance its market analysis and risk reporting capabilities, have adequate knowledge of risks facing the business and timely report the developments of risk events.

5. It is required to timely assess the compliance of the institution’s treasury business, timely report the assessment result to the management of the institution and the Head Office and continuously improve the compliance level of the business.

## Business Teambuilding

* 1. Overseas institutions shall step up the echelon formation of the treasury team, make arrangements for replenishing business staff and risk management staff, and continuously enhance the capabilities of professional operation and management.
  2. The Treasury of the Head Office actively assists overseas institutions with enhancing their globalized capital operations and with consolidating risk control in the first line of defense through offering centralized training, online training, and temporary jobs at the Head Office, etc. Besides, an overseas treasury personnel qualification certification system should be established to rigorously assess their performance and strengthen their core competitiveness.
  3. Overseas institutions shall designate professionals to the treasury business, and the treasury staff shall perform their responsibilities in strict accordance with the management requirements of the local regulators, the institution itself and the Head Office. They should reinforce communication and collaboration with the Head Office, and take initiatives to jointly push forward the healthy, orderly development of the overseas treasury business.
  4. Business staffing[[2]](#footnote-3). Class-A overseas institutions shall at least have three employees in place for liquidity management, market financing, bond investment and other treasury business varieties. Class-B overseas institutions shall have at least two for the same purposes. Personnel changes should be timely reported to the Treasury of the Head Office for filing.
  5. For each business variety, at least one operator and one reviewer should be designated with definite division of responsibilities and clear duty descriptions. Overseas institutions shall establish a treasury personnel authorization system, spell out a large-value business approval mechanism and build a complete business reporting route.
  6. Required qualifications of business personnel. Operators of the treasury business of overseas institutions shall have treasury-related work experience of one year or above, and the manage personnel two years or above. Newly established overseas institutions are allowed a certain grace period, during which overseas institutions can step up training of their treasury staff and train them on the job to enhance their professionalism.
  7. Treasury staff should be conversant with the management of asset and liability, intraday liquidity management requirements and operation modes. Besides, they should be familiar with all business policies and rules released by the Treasury of the Head Office, as well as business flows of interbank borrowing, swap, bond investment and market financing, and be able to use the treasury business system. Treasury personnel should be equipped with sharp market analysis capability and professional business reporting ability. They should fully know all the risk and try to lower the incidence of risk events in the business.

## Risk Management Teambuilding

* 1. Overseas institutions shall continuously enhance their business control, consolidate the ground of regulated, orderly business development and enhance risk control in the first line of defense for the treasury business. Risk management personnel should be down-to-earth, face up questions, keep communication and coordination to ensure all-round, effective risk management of the business.
  2. Risk management staffing. Class-A overseas institutions shall be equipped with at least one risk management personnel, independent from the business personnel and the second and third lines of defense, to be responsible for risk management in the first line of defense of the treasury business. Class-B overseas institutions shall see to it that risk control functions in the first line of defense of the treasury business are assigned to specific persons, who may work part-time but independently from the business personnel for risk management of the treasury business. Class-B overseas institutions with resources can appoint risk management personnel for the business independent from the business personnel and the second and third lines of defense. Personnel changes should be timely reported to the Treasury of the Head Office for filing.
  3. Required qualifications of risk management personnel. Risk management personnel of the overseas treasury business shall have work experience related to the treasury business or risk management of at least one year.
  4. The risk management staff should be familiar with rules and provisions released by the Treasury of the Head Office. Besides, they should be clear about risk indicators of the treasury business, means to monitor market risk, credit risk and operational risk and all business risk points. They should know how to use the treasury business system, and be good at communication, problem analysis and business reporting.

## Line Management and Assessment

* 1. The Treasury of the Head Office strengthens the management and evaluation on the treasury line with an orientation to strategy, business performance and value creation. It conducts regular assessments on the compliance, risk control conditions etc. of the treasury business of overseas institutions, and includes the assessment result into its considerations of differentiated access authorization and annual performance assessment.
  2. Authorization management. The treasury business of overseas institutions shall follow the authorization principles of “centralized control, differentiated authorization, consolidation and coordination, and focus on basic services”. The Treasury of the Head Office revises the treasury operation authorization every year, and formulates business authorizations with regard to bond investment, market financing, interbank borrowing, swap, foreign exchange derivatives and other varieties under treasury business according to local regulators’ requirements, business development requirements and financial market conditions.
  3. Full considerations should be given to the risk management capability of overseas institutions in treasury business, and authorization based on merit can be practiced. The Head Office shall take account of external market environment, asset and liability structure, business control and other factors, assess the objective conditions of business operation, and grant according authorization. Missing risk management personnel or failure to implement the management requirements or occurrences of risk events on the part of overseas institutions will lead to a downgrading or even suspense of authorization by the Treasury of the Head Office.
  4. Risk prompts and warning. Overseas institutions shall strictly implement the Head Office’s management rules and requirements regarding the treasury business, and take initiatives to enhance the compliance of the business. The Treasury of the Head Office keeps monitoring on the treasury business of overseas institutions on a daily basis and conducts regular inspections on business compliance.
  5. If an overseas institution fails to perform the management requirements or has operational risk during the conduction of treasury business, the Treasury of the Head Office will give risk prompts to the institution; if the overseas institution takes liberty to conduct the business in violation against the Head Office’s rules, the Treasury of the Head Office will issue a risk warning letter. Upon receipt of risk prompts from the Head Office, the overseas institution shall present an improvement plan within three working days. Besides, it shall reinforce internal management and timely implement the rectification requirement.
  6. Information circulation. Overseas institutions shall submit a quarterly treasury business report as well as a yearly business report at the end of each year. The Treasury of the Head Office conducts regular assessments on the overseas treasury business to get updated on overseas institutions’ management mentality and status quo of treasury business. Those with high initiatives to develop the business and high business control level will be commended. Those institution slacking off intraday liquidity management or with poor management of the business will be publicly reprimanded and required to come up with a business optimization plan.
  7. Onsite and offsite inspections. The Treasury of the Head Office regularly or irregularly conducts onsite or offsite inspections on the treasury business of overseas institutions. Overseas institutions shall offer materials required in the inspection, assist with the inspection, and make a rectification plan for problems found by the Treasury of the Head Office and strengthen internal management. As for problems concerning the whole picture, the Treasury of the Head Office shall optimize the policies, provisions and management process.
  8. Overseas institutions shall conduct self-inspections on their own treasury business according to requirements released by the Treasury of the Head Office. Besides, they should carry out risk scanning in the business and report the self-inspection results to the Head Office based on regulatory provisions and the management rules and requirements of the Treasury of the Head Office.
  9. Line assessment. The Treasury of the Head Office shall select elitist for the purpose of establishing role models and enhancing cohesion of the team. Overseas institutions shall strengthen the management of the treasury business and encourage business personnel to take on responsibility and strive to make contributions to the treasury business.

## Supplementary Provisions

* 1. The Measures is construed by the Treasury of the Head Office, and shall take effect upon issuance.

1. Institutions in Hong Kong, Macao and Taiwan, China, are managed in the light of the management of overseas regions/institutions. [↑](#footnote-ref-2)
2. Business staff, including business operation staff and business management staff (including the member of General Manager Office in charge of Treasury Business) [↑](#footnote-ref-3)