

Custody Services

CORPORATE PROFILE

▶ Background

BOCHK is a locally incorporated licensed bank, celebrating its 102 Anniversary since it commenced operation in September 1917.

Starting as a small branch with only 8 staff, BOCHK has now become the second largest financial group in Hong Kong with market capitalization of about USD 50 billion (HK listing quote: 2388/ ADR OTC Symbol: "BHKLY").

BOCHK has been capturing opportunities arising from the ASEAN region and the Belt-and-Road initiatives, by which all ASEAN branches/subsidiaries of BOC China have come under the shareholding and leadership of BOCHK since 2017.

▶ Financial Strength

As of end 2020, BOC Hong Kong (Holdings) Limited's total assets exceeded HK\$3,320 billion and total equity was HK\$290 billion. Total capital ratio was 22.10%.

▶ Credit Ratings

(As of end 2020)	Long-term	Short-term
Fitch Ratings	A	F1+
Moody's	Aa3	P-1
Standard & Poor's	A+	A-1

The double-A rating of the Bank is comparable to those of many international custodians.

▶ Market Status



Recognition & Accolades :

- ★ Awarded "Hong Kong Country Award" by Asia Money (Years 2018, 2019 & 2020)
- ★ Awarded "Bond Connect Top Custodian" by Bond Connect Company Limited (Years 2018, 2019 & 2020)
- ★ Awarded "Best Custodian – QDII, China" and "Best Custodian, Highly Commended - Offshore, China" by The Asset magazine (Year 2020)
- ★ Awarded "Best QDII Mandate" and "Best Custodian, QDII, China" by The Asset magazine (Year 2018)
- ★ Awarded "Best Custody Specialist – China" by The Asset magazine (Year 2016)
- ★ Awarded "Strongest Bank in Asia Pacific & Hong Kong" by The Asian Banker (Years 2014 to 2018)
- ★ Awarded the "Bank of the Year Hong Kong" by The Banker (Years 2013, 2015 & 2017)
- ★ Awarded the "Best QFII Custodian" by The Asset magazine (Year 2013)
- ★ Awarded the "Best Asian Bank for Cross-Border Custody" by Asian Investor magazine (Year 2012)
- ★ Awarded the "Hong Kong Domestic Cash Management Bank of the Year" by Asian Banking & Finance (Years 2014 to 2018)



Special Status of BOCHK in its capacity as :

- ★ The second largest banking corporation in Hong Kong
- ★ One of the three banknote issuers
- ★ The only Renminbi (RMB) Clearing Bank in Hong Kong appointed by the People's Bank of China
- ★ The only clearing participant of Cross-Border Interbank Payment System (CIPS) outside of China
- ★ Authorized clearing agent of China National Advanced Payments System (CNAPS)
- ★ Direct Participant in the USD, Euro, RMB and HKD Real Time Clearing Systems of Hong Kong
- ★ Authorized agent for joint USD cheque clearing between Hong Kong and Shenzhen
- ★ Authorized agent for HKD and USD RTGS clearing between Hong Kong and Shenzhen / Guangdong
- ★ The bank with the largest distribution network and client base in Hong Kong
- ★ The only award-winning Chinese custodian in Hong Kong ever accorded by industry journals

▶ **Regional Focus**

BOCHK is the first Chinese bank to adopt a hub-spoke approach in managing its international network. It prides itself on building a top-class, full-service and internationalized regional bank by providing comprehensive services through digitalization and globalization.

BOCHK's focus on the Guangdong-Hong Kong-Macao Greater Bay Area development and the Belt-and-Road initiatives leads to its ASEAN expansion that covers 8 countries, including Thailand, Malaysia, Vietnam, the Philippines, Indonesia, Cambodia, Laos and Brunei. The integration of BOC Myanmar is also underway.

■ **INTRODUCTION OF CUSTODY SERVICES**

▶ **Business Qualification**

BOCHK possesses full capabilities and fulfills all the requirements of the concerned regulatory authorities in providing custody services.

▶ **Full Scope of Services for Corporate and Institutional Clients**

Market / Product Coverage include, but not limited to :	<ul style="list-style-type: none"> • Hong Kong equities • A-shares via Northbound trades of China-Hong Kong Stock Connect • RMB-denominated China Interbank Bond Market (CIBM) cash bonds via Northbound trades of China Bond Connect 	<ul style="list-style-type: none"> • Local or global fixed income instruments cleared through the Central Money Markets Unit (CMU) of Hong Kong, Euroclear or Clearstream Depository Systems • Listed or quoted securities cleared through the depository systems of more than 80 countries 	<ul style="list-style-type: none"> • Listed or non-listed mutual funds or unit trusts • Mutual Recognition of Fund regimes • Derivatives, structured products, or other ESCROW assets etc.
Core Services :	<ul style="list-style-type: none"> • Account Opening • Settlement & clearing • Shares registration & safekeeping 	<ul style="list-style-type: none"> • Income Collection • Corporate Events processing • Proxy Voting 	<ul style="list-style-type: none"> • Securities Market Information • Reporting and others
Value Added Services :	<ul style="list-style-type: none"> • Foreign Exchange • Cash Management • Tax-related Services 	<ul style="list-style-type: none"> • Valuation of Assets • Fund Accounting • Investment Compliance Monitoring 	<ul style="list-style-type: none"> • Hedging Arrangements • Market or Product Training • Customized Services

▶ **Proven Track Records**

BOCHK provides custody services in various shapes and forms to over 600,000 retail and corporate clients, including insurance companies, banks, brokers, funds, asset managers, sovereign entities and various types of QDII from China. It is also one of the largest service providers for cross-border RQFII/QFII funds and RMB products in Hong Kong.

Globally, BOCHK is one of the top five players of the Bond Connect scheme and has been providing one-stop servicing to our clients in Stock Connect activities. BOCHK has also secured a leading position in the China-Hong Kong Mutual Recognition of Funds Program.

As of the end of 2020, total value of assets under custody by the Bank Group exceeded HK\$1,371.76 billion (up 8.27% versus prior year).

▶ **Staff Dedication and Experience**

Each key custody manager of BOCHK possesses more than 20 years of actual experience in custody services on average; the team is thus one of the strongest in town.

Apart from the assignment of dedicated Relationship Manager, there is also a highly professional custody services team servicing global clients based on extended hours.

■ **MAJOR PROCESSING**

▶ **Account Opening**

To segregate clients' assets from BOCHK's proprietary assets, BOCHK has set up omnibus client accounts with local and overseas custodians and depository agents for safekeeping client assets, unless there are other market-specific requirements.

▶ **Instructions**

Clients can deliver instructions by SWIFT, internet banking, fax, letter or electronic file transfer.

▶ **Settlement**

Settlement Flows :

- Authentication of client instructions
- Instruction pre-matching as per market practices
- Clearing and settlement of trades
- Trade settlement advice via selected channels
- Failed trade tracking and rectification

▶ **Income Collection / Corporate Actions / Proxy Voting**

Income Collection Processes :

- Daily checking of corporate announcements
- Dispatch of corporate actions advice to clients within one working day after an announcement is received
- Dispatch of entitlement advice to clients after record date
- For any voluntary corporate event, client instructions must be received at BOCHK before the due date specified in the advice
- Credit of stock/cash entitlement into client accounts, followed by advice to clients within the next working day

Proxy Voting Processes :

- Client authorization for BOCHK to vote must reach BOCHK before the reply due date in the advice
- BOCHK processes and executes the voting instruction after verification
- Dispatch of Meeting results to clients as per their requests

▶ Securities Market Information

Market information available to institutional clients :

- Crucial but ad hoc securities market news
- Generic securities market summaries and key features for the background understanding of clients prior to their market entry

▶ Cash Clearing & Foreign Exchange

BOCHK handles over 70% of cross-border RMB payments outside of China, with strong liquidity to provide smooth settlement and competitive rates in RMB-related business.

BOCHK is a major participant in the Hong Kong Foreign Exchange Market, and is one of the few market makers in the inter-bank spot and forward exchange on USD/HKD.

OPTIONAL PROCESSING

▶ Asset Valuation / Portfolio Accounting

Accounting principles and Policies :

- Financial reports in line with generally accepted accounting principles in Hong Kong and also International Financial Reporting Standards
- Customized reports as per clients' requirements

Valuation Reports include, but not limited to, the following :

- Fund Price Calculation
- Valuation of Investment
- Schedule of Acquisition/ Sale
- Cash Transaction Report
- Market Price Variance Report
- Exchange Rate Variance Report

Annual Financial Statements include, but not limited to, the following :

- Statement of Assets & Liabilities
- Statement of Movements in Portfolio Holdings
- Investment Portfolio

▶ Investment Compliance Monitoring

Professional Portfolio Management System is being used to :

- Establish investment restrictions in the system
- Perform user acceptance testing on investment restrictions
- Approval of investment restrictions by Team Head
- Maintenance of investment restrictions and system running by IT Dept

Compliance monitoring can be performed at two levels :

- **Individual Investment Item**
 - Checking starts when newly acquired investment is entered into the portfolio management system
- **Continuous Investment Monitoring**
 - A "Portfolio Restriction Detail Report" is generated each business day for monitoring of any "passive breach" investments

► Tax-Related Services

Clients are suggested to seek independent professional tax advice, as they bear the primary responsibilities for meeting tax requirements.

BOCHK fully adheres to Common Reporting Standard (CRS) requirements and regulations.

For taxation involving USA securities, BOCHK as a Qualified Intermediary offers tax reporting and reclaim services to clients based on the relevant tax treaties with the USA through its overseas agents or sub-custodians. For other markets, BOCHK disseminates tax-related information that is publicly available while tax reclaims will have to be assessed on a case-by-case basis.

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