Guideline No. : 1.6

BANKING ORDINANCE

(Chapter 155)

Guideline on activities that can be conducted
at regional offices and back offices by overseas incorporated
bank and restricted licence banks which are subject to
the "one building" condition ("relevant banks and relevant RLBS")

1. Relevant banks are subject to the following condition (the "One-building" Condition) attached to their respective licences by the Monetary Authority:

> "The bank may maintain offices to which customers and others have access (physical or otherwise) for the purpose of banking business and/or for the arranging or entering into of any other financial transactions in only one building.
>
> In this context, the word "Office" includes any automated teller machine or similar terminal device which provides facilities to customers or others.
>
> In addition to the offices mentioned in the first paragraph, the bank may maintain not more than one regional office and one back office to which customers and others have access (physical or otherwise) in a separate building or buildings for the purpose of conducting activities as set out in guidelines to be issued from time to time by the Monetary Authority."

2. Relevant RLBs are subject to the following condition (the 'One-building" Condition) attached to their respective licences by the Monetary Authority:

> "The restricted licence bank may maintain offices to which customers and others have access (physical or otherwise) for the purpose of the business of taking deposits and/or for the arranging or entering into of any other financial transactions in only one building.
>
> In this context, the word "office" includes any automated teller machine or similar terminal device which provides facilities to customers or others.
>
> In addition to the offices mentioned in the first paragraph, the restricted licence bank may maintain not more than one regional office and one backOffice to which customers and others have access (physical or otherwise) in a separate building or buildings for the purpose of conducting activities as set out in guidelines to be issued from time to time by the Monetary Authority.

3. Each relevant bank and RLB may establish not more than one regional office and one back office in a separate building or buildings to which customers and others have access. In the case of relevant banks, these offices will not be allowed to engage in banking business, namely the receiving of deposits and the payment or collection of cheques drawn by or paid in by customers. In the case of relevant RLBs, these offices will not be allowed to engage in the business of taking deposits. They are also not allowed to arrange or enter into any other financial transactions of a type or nature that are normally transacted between the relevant bank or relevant RLB and its customers or counterparties (such as other authorized institutions), including loans trade finance, the buying and selling of foreign exchange, money market transactions and remittance business. Such activities should continue to be conducted by the Branch. The back office may however process transactions that have been arranged or entered into by the Branch.

4. This guideline is issued for the purpose of providing guidance to relevant banks and relevant RLBs which intend to establish regional and/or back offices in building(s) separate from the Branch on the types of activities that can be conducted in these offices.

Regional Offices

5. The typical activities which a regional office may carry out include:

(a) strategic planning, direction and control of regional operations;

(b) formulation of regional policies and monitoring compliance with such policies;

(c) providing administrative support at regional level including budgetary control, human resources management, evaluation of management in the region, research etc.

(d) development, coordination and monitoring of group activities in the region;

(e) monitoring and overview of risk exposures including credit, country, currency, interest and liquidity risk;

(f) general liaison with correspondent banks, government bodies and corporate entities in the region;

(g) promotion of group products and activities and fostering of public relations on a regional basis;

(h) approval of credit facilities that exceed the limits of regional branches;

(i) internal audit; and

(j) monitoring compliance with local laws and regulations by regional branches.

6. It is recognised that a regional office may from time to time need to have contact with customers who have business connections with other offices in the region under its control. However, it is expected that the regional office would confine its customer contacts to liaison activities. The arranging and entering into of any financial transactions with customers or counterparties must continue to be conducted at the Branch.

Back Offices

7. For the purpose of this guideline, a “back office” is defined as one which carries out internal administrative functions on behalf of the Branch and/or which is only involved in recording, processing or settling transactions already entered into or arranged by the Branch. Apart from its separate location, the back office should be regarded as an integral part of the Hong Kong Branch and should be managed and controlled as such.

8. The typical activities which a back office may carry out include :

(a) internal administration (including personnel functions);

(b) accounting;

(c) data processing;

(d) loan administration, including the processing of drawdowns and repayment of facilities approved at Branch level;

(e) Processing trade financing documents including the issue and advising of letters of credit, confirmation of letters of credit, the negotiation of bills of exchange, collection of bills etc. (This would allow a back office to issue letters of credit or to Purchase trade bills under a standing trade financing facility already arranged or entered into with customers or counterparties by the Branch);

(f) despatch and receipt of confirmations;

(g) settlement of treasury transactions; and

(h) Processing remittances through Swift and Telex etc.

9. Although back offices may need to have contact with customers or counterparties for the purpose of carrying out the permitted functions, transactions with customers or counterparties should be arranged and entered into only by the Branch. In

particular, cheques for collection on behalf of customers should be lodged with the Branch.

Compliance

10. Relevant banks and relevant RLBs which intend to establish regional and/or back offices in a building(s) separate from the Branch are required to notify the Monetary Authority in advance of their intention to do so, the address of the proposed office(s) and the activities which they intend to carry out at such additional offices.

11. The Monetary Authority will check compliance with this guideline during regular on-site examinations.

12. Failure to comply with the provisions of this guideline would be a breach of the above condition of their respective licences.

Monetary Authority

15th November 1995