



CFTC RULE 1.55(k)  
DISCLOSURE DOCUMENT

April 1, 2018



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## CFTC RULE 1.55 DISCLOSURE DOCUMENT

### 1. INTRODUCTION

The U.S. Commodity Futures Trading Commission ("**CFTC**") requires each futures commission merchant ("**FCM**"), including BOCI Commodities & Futures (USA) LLC ("**BOCI**" or the "**Firm**"), to provide the following information to a customer prior to the time the customer first enters into an account agreement with the FCM or deposits funds or securities with the FCM. Except as otherwise noted below, the information herein is current as of April 1, 2018. BOCI will update this information at least annually and as necessary to take into account any material change(s) to its business operations, financial condition or other factors that BOCI believes may be material to a customer's decision to do business with BOCI. Notwithstanding the foregoing, BOCI's business activities and financial data are not static and will change in non-material ways frequently throughout any twelve (12) month period. For the most up to date information on BOCI, please visit our webpage at [http://www.bocigroup.com/pub/en/institutional/hqsp/201407/t20140710\\_1161.htm](http://www.bocigroup.com/pub/en/institutional/hqsp/201407/t20140710_1161.htm).

### 2. RULE 1.55 (K)(1)- FCM NAME AND ADDRESS

**Name:** BOCI Commodities & Futures (USA) LLC <sup>1</sup>  
**Address:** 1045 Avenue of the Americas, Suite 1501  
 New York, NY 10018  
**Phone Number:** (212) 554-8800  
**Fax Number:** (212) 554-8801  
**Email:** [cfus.compliance@bocigroup.com](mailto:cfus.compliance@bocigroup.com)

### 3. RULE 1.55(K)(2)- BIOGRAPHIES

**Tong Li, Manager** <sup>2</sup>  
 Bank of China Tower  
 1 Garden Road, 26/F.  
 Hong Kong

Tong Li serves as a board member of the Firm. In her capacity as a board member, Ms. Li steers the Firm towards building a sound future by supporting the adoption of fiscally responsible, ethical, and legal governance and financial management policies, as well as making sure the Firm has sufficient resources to advance its mission.

Ms. Li holds a Master degree in Economics. She also serves as the Chief Executive Officer and Executive President of BOC International Holdings Limited. Prior to her current position,

<sup>1</sup> CFTC Rule 1.55(k)(1) mandates that each FCM disclose its name, address of its principal place of business, phone number, fax number, and email address.

<sup>2</sup> CFTC Rule 1.55(k)(2) mandates that each FCM disclose the name, title, business address, business background, areas of responsibility, and the nature of the duties of each person that is defined as a principal of the FCM pursuant to §3.1 of the CFTC regulations.

Ms. Li served in various executive-level positions, including serving as the Director of Credit Committee of the Association of Shenzhen Domestic Banks, the Deputy Chief Executive Officer and the Executive President of BOC International Holdings Limited.

**Zhongze Wang, Manager and Chief Financial Officer**

Bank of China Tower  
1 Garden Road, 26/F.  
Hong Kong

Zhongze Wang serves as a board member and Chief Financial Officer (“*CFO*”) of the Firm. In his capacity as a board member, Mr. Wang steers the Firm towards building a sound future by supporting the adoption of fiscally responsible, ethical, and legal governance and financial management policies, as well as making sure the Firm has sufficient resources to advance its mission. In his capacity as CFO, Mr. Wang oversees the Firm’s Finance & Treasury Department and is responsible for ensuring that the Firm presents and reports accurate and timely financial information.

Since January 2012, Mr. Wang has also served as Chief Financial Officer and a member of the Executive Committee of BOC International Holdings Limited. Prior to serving in this capacity, Mr. Wang was appointed as the Managing Director and the Head of Finance & Treasury Division of BOC International Holdings Limited. Prior to serving in these capacities, Mr. Wang served as Senior Engineer of Electric Power Technology Development Department and Deputy Divisional Head of Electric Power Project Department to the State Energy Investment Corporation of China (1990-1994); Deputy Divisional Head of Electric Power Project Department and Divisional Head of International Finance Department to the China Development Bank (1994-2000); and Deputy General Manager & Executive Director of China Everbright International Ltd (Ticker: 00257HK), CFO & Executive Director of Hong Kong Construction Holdings Ltd (Ticker: 00190HK), Head of Financial Management Department & Director of China Everbright Holdings Ltd, and Deputy General Manager of China Everbright Group (2000-2002).

Mr. Wang holds a Doctoral Degree in Engineering from Tsinghua University, China and an MBA Degree from Richard Ivey School of Business at the University of Western Ontario, Canada. Mr. Wang is also a member of the Hong Kong Institute of Certified Public Accountants.

**Sabeena Liconte, Chief Compliance Officer**

1045 Avenue of the America, Suite 1501  
New York, New York 10018

Sabeena Liconte serves as Head of Legal and Compliance to BOC International (USA) Holdings Inc. and its subsidiaries, BOCI Commodities & Futures (USA) LLC and BOC International (USA) Inc., the Firm’s broker-dealer affiliate (collectively, the “**BOCI USA Group**”) and is designated as the Chief Compliance Officer (“**CCO**”) for both the Firm and its broker-dealer affiliate. In her current role, Ms. Liconte oversees the U.S. Legal and Compliance Division, representing the BOCI USA Group in legal disputes and enforcement matters, and overseeing the entities’ compliance program.

Prior to joining BOCI, Ms. Liconte served as a Futures & Derivatives Counsel and Compliance Advisor to E\*TRADE Financial Corp., including E\*TRADE Clearing Corp. and E\*TRADE Securities Corp.; and General Counsel and Chief Compliance Officer to Alpari (US), LLC, a CFTC-registered futures commission merchant, and its affiliate broker-dealer, Alpari Securities LLC. Her previous professional experience includes, serving in a legal and compliance capacity for the Office of General Counsel at Merrill Lynch Pierce Fenner & Smith Incorporated, the Division of Enforcement at the Financial Industry Regulatory Authority, the Legal Division of Bank of New York Mellon, and the Securities Fraud Prosecution Division of the Attorney General's Office for the State of New Jersey.

Ms. Liconte is an active member of the American Bar Association, the New York State Bar Association and the New Jersey State Bar Association. She is admitted to practice law before several U.S. federal courts, including the U.S. Supreme Court. She holds a Bachelor of Arts in Criminology and Political Science from the University of Toronto, a Master of Arts in International Relations from Columbia University and a Juris Doctor from the St. John's University School of Law. She also serves as Chair for New York County Lawyers Association's Futures & Derivatives Committee.

**Grace Zhou, Executive Director**

1045 Avenue of the America, Suite 1501  
New York, New York 10018

Grace Zhou is Executive Director and the Front Office Business Manager of BOCI Commodities & Futures (USA) LLC. Ms. Zhou joined BOCI Global Commodities Holdings Limited in Hong Kong in February 2011 and has since been working as a Business Manager for the Global Commodities Division. In her current role, she coordinates with internal and external parties to ensure firm has sufficient resources, and develops business through existing and prospective clients.

Before her transfer to the New York office, Ms. Zhou was designated as a Responsible Officer, registered by the Hong Kong Securities and Futures Commission, for BOCI Commodities & Futures Limited in Hong Kong for 4 years, overseeing its day-to-day operations. Prior to joining BOCI Global Commodities Holdings Limited, Ms. Zhou worked for commodities desk at Societe General (formerly Newedge USA, LLC). Ms. Zhou holds a master's degree in Public Administration from Cornell University and a Bachelors in Business Administration from Peking University.

**Siu Hong (Arthur) Fan, Manager**

1 Garden Road, 26/F.  
Hong Kong

Siu Hong (Arthur) Fan serves as a board member of the Firm. In his capacity as a board member, Mr. Fan steers the Firm towards a building a sound future by supporting the adoption of fiscally responsible, ethical, and legal governance and financial management policies, as well as making sure the Firm has sufficient resources to advance its mission.

Mr. Fan also serves as the Global Head of BOCI Global Commodities Division. Prior to serving in these capacities, Mr. Fan served as Executive Director in the Organization and Planning Division of BOC International Holdings Limited; an Investment Manager for

Sumitomo Corporation Equity Asia Limited; and a Management Consultant for BearingPoint, Arthur Andersen Business Consulting.

Mr. Fan holds an MBA degree from the University of Oxford and a Bachelor's degree in Computer Science from the University of Hong Kong.

**Joseph Lawrence Eric Garcia, Director of Finance & Treasury**

1045 Avenue of the Americas, Suite 1501  
New York, New York 10018

Eric Garcia serves as a principal and the Director of Finance & Treasury at the Firm. In his current role, Mr. Garcia oversees the finance and treasury operations of the Firm, its staff and its daily, monthly and year-end regulatory filings. He also manages the Firm's accounting function, ensuring the accuracy of the Firm's books and records and its adherence to regulatory capital requirements.

Prior to joining BOCI, Mr. Garcia was designated as the Financial and Operation Principal ("**FINOP**") of Santander Investment Securities, which is dually registered as a futures commission merchant and broker-dealer. His previous professional experience also includes serving as FINOP for 8 years at BNY Mellon Securities, which is the broker-dealer division of Bank of New York Mellon Bank and is based in New York City. Mr. Garcia holds a Bachelors Degree from Marist College.

**4. RULE 1.55(k)(3)- BUSINESS ACTIVITIES; PERCENT OF ASSETS/CAPITAL PER ACTIVITY**

BOCI operates as an FCM, which is registered by the CFTC and a member of the National Futures Association ("**NFA**"). BOCI is also a clearing member of CME Group Inc. ("**CME Group**"). As such, it provides institutional clients with access to and engages in the execution, clearance and settlement of exchange-traded futures and options products offered through CME Group Inc. ("**CME Group**").

Due to BOCI's current business model of exclusively offering products of CME Group, BOCI uses 100% of assets and capital for futures commission merchant activity.

**5. RULE 1.55(k)(4)- FCM'S CUSTOMER BUSINESS**

**5.1. FCM Customer Business Profile**

5.1.1. Types of Customers

BOCI serves customers that are mainly commercial and institutional clients.

5.1.2. Markets Traded

BOCI provides trading access for CME Group markets, which includes the Chicago Board of Trade Inc. (“**CBOT**”), New York Mercantile Exchange Inc. (“**NYMEX**”), Commodities Exchange Inc. (“**COMEX**”) and the Chicago Mercantile Exchange Inc. (“**CME**”).

### 5.1.3. Clearinghouses Used

BOCI uses CME Group as its clearinghouse.

### 5.1.4. Carrying Broker(s)

BOCI currently has no carrying broker.

### 5.1.5. International Business

BOCI does not clear products on any non-US exchanges. The Firm accepts non-US clients provided they qualify as a commercial or institutional customer.

## 5.2. **Permitted Depositories and Counterparties**

### 5.2.1. Choice of Depositories

BOCI’s framework for selecting and evaluating the depositories utilized to hold its customer funds is designed to mitigate segregation risk and provide a reliable source of service. The selection and evaluation of a depository undergoes a rigorous review process and must be endorsed by a risk governance management committee, known as the Risk Management Unit (“**RMU**”). The following summarizes key aspects of BOCI’s practice in selecting and evaluating banking depositories for its segregated funds.

- **Credit Rating** - The Firm relies heavily on the depository’s credit rating, which takes into account a range of factors in applying any rating to the depository, including the depository’s capitalization, creditworthiness, and access to liquidity. As such, the Firm has determined that the depository must have attained a minimum rating of “A-” (or a comparable rating by a reputable credit rating agency).
- **Operational Reliability** - The Firm considers the depository’s operational reliability with consideration of the following factors: previous experience or established relationships between the depository and the Firm or any affiliate; negative news about the depository; history of cybersecurity breaches; size and reputation of the depository; and operational ease of use and payment systems available.
- **CME Group Recognition** – The Firm limits its selection of depositories to those recognized by the CME Group as a settlement bank.
- **FDIC Membership** – The Firm ensures the depository selected to hold customer funds on behalf of the Firm is domiciled in the United States and deemed an FDIC-insured depository.

As of the date hereof, the Firm has selected Bank of China, New York Branch (“**BOCNY**”) and JPMorgan Chase Bank N.A. (“**JPMC**”) as its depository institutions.

With respect to BOCNY, this depository is an affiliate of BOCI. BOCNY was selected as a depository because BOCNY is recognized as a CME settlement bank; is sufficiently creditworthy (Bank of China Limited is rated by Standard & Poor (“**S&P**”) with an “A” and stable outlook); and the institution has a long-standing history in the banking industry in the



US, has been an FDIC-insured depository since its inception in 1912 and, as of the date hereof, is the world's fourth largest bank by total assets.<sup>3</sup>

With respect to JPMC, this depository was selected because JPM is recognized as a CME Group settlement bank; is sufficiently creditworthy (JP Morgan Chase Bank, N.A is rated by S&P with an "A+" and stable outlook); and the institution has a long-standing history in the banking industry in the US, has been an FDIC-insured depository since its inception in 1799 the Chase Manhattan Bank<sup>4</sup> and, as of the date hereof, is the world's sixth largest bank by total assets.

### 5.2.2. Counterparties

BOCI does not currently have any relationships with counterparties that are used for the investment of customer funds pursuant to CFTC Regulation 1.25.

Although CFTC Regulation 1.25 recognizes a range of permitted investment vehicles, the Firm's current policy mandates that the Firm maintain all segregated funds in cash either at its settlement bank or with the CME Group, as appropriate, and does not invest customer assets in securities, bonds, and/or any other investment instruments. In addition, segregated funds may not be invested in any obligations of the Firm or its affiliates, and, except where otherwise required under applicable law or regulation, is generally not subject to any other obligations other than any obligations owed to the customers that deposited such funds.

## 6. RULE 1.55(K)(5) MATERIAL RISKS

The information that follows provides an outline of the material risks identified by the Firm relating to investing with BOCI, and how BOCI actively manages such risks through its risk management program.

Specifically, the discussion here takes into account the following issues: (i) the nature of investments made by the FCM (including credit quality, weighted average maturity and weighted average coupon); (ii) the FCM's creditworthiness, leverage, capital, liquidity, principal liabilities, balance sheet leverage and other lines of business; (iii) risks to the FCM created by its affiliates and their activities, including investment of customer funds in an affiliated entity; and (iv) any significant liabilities, contingent or otherwise, and material commitments.

BOCI is a wholly owned subsidiary of BOC International Holdings Limited ("**BOCI HK Holdings**"), which was incorporated in Hong Kong as a limited company and is a wholly owned subsidiary of Bank of China Limited. Bank of China Limited's most recent Long-term Counterparty Credit Rating was A by S&P.

As of February 28, 2018, BOCI's measure of leverage (calculated pursuant to the NFA's Financial Requirements Section 16) was 1.05. This number represents a calculation of

<sup>3</sup> See S&P Global Market Intelligence Report from 2017, available at <http://www.snl.com/web/client?auth=inherit#news/article?id=40223698&cid=A-40223698-11568>.

<sup>4</sup> See the history of JPMorgan Chase & Co, available at <https://www.jpmorganchase.com/corporate/About-JPMC/our-history.htm>.

BOCI's net assets in relation to its total capital. BOCI currently maintains a low level of liabilities and is sufficiently capitalized to cover any outstanding liabilities. Please refer to section 10 of this disclosure document for the net worth and capital figures of the Firm as of February 28, 2018.

BOCI currently does not own any investments; all assets and funds are held in cash in the Firm's segregated bank account or with the clearing organization, CME Group. BOCI maintains a specified level of minimum net capital in a highly liquid form as required by the CFTC. BOCI calculates its net capital daily and sends this calculation to stakeholders to ensure that the firm has sufficient capital.

BOCI maintains a sufficient level of liquidity with strong liquidity support from its parent company and its settlement bank BOCNY. BOCI performs daily liquidity stress testing to monitor its liquidity. An important intraday liquidity source to BOCI CFUS is BOCNY, an affiliate Bank and the firm's settlement bank. The Firm recognizes risks posed by its relationships with BOCNY and its parent company and risk management processes are in place to monitor and mitigate these risks.

As of the date hereof, BOCI has no other significant principal liabilities.

BOCI provides clearing, execution and settlement services to its affiliate in Hong Kong, BOCI Commodities & Futures Limited ("**BOCI CFHK**"), through an omnibus account. BOCI CFHK is regulated by the Securities and Futures Commission of Hong Kong. The clearing, execution and settlement activities performed for this affiliate client currently represents the entire portion of BOCI's business. The Firm recognizes risks posed by its relationship with BOCI CFHK and risk management processes are in place to monitor and mitigate these risks. Apart from clearing, executing and settlement activities for the US futures and options contracts available through CME Group, the Firm does not have other lines of businesses.

The funds that customers deposit with BOCI, in its capacity as an FCM, are subject to risk of loss, including in the event of the insolvency or bankruptcy of BOCI. BOCI faces a variety of risks that are substantial and inherent in its businesses, including market, liquidity, credit, operational, legal, regulatory, and reputational risks. By nature, BOCI does not produce predictable earnings, and has and may continue to be adversely affected by conditions in the global financial markets and economic conditions generally.

For additional information about how customer funds are protected, please refer to the following link:

[http://www.nfa.futures.org/nfa-faqs/investor\\_information\\_faqs/trading-futures-options-on-futures-and-forex/index.HTML](http://www.nfa.futures.org/nfa-faqs/investor_information_faqs/trading-futures-options-on-futures-and-forex/index.HTML).

## **7. RULE 1.55(K)(6)- SELF- REGULATORY AUTHORITY INFORMATION AND FCM FINANCIAL STATEMENT**

BOCI's designated self-regulatory organization is CME Group. Its contact information is as follows:

CME Group, Inc.  
20 South Wacker Drive  
Chicago, Illinois 60606  
+1 312 930 1000  
<http://www.cmegroup.com>

For a copy of BOCI's most recent annual audited financial statement, please see the following link: [http://www.bocigroup.com/pub/en/institutional/hqsp/201407/t20140710\\_1161.htm](http://www.bocigroup.com/pub/en/institutional/hqsp/201407/t20140710_1161.htm)

## **8. RULE 1.55 (K)(7)- MATERIAL COMPLAINTS AND ACTIONS**

As of the date hereof, there are no material complaints or actions that have been filed against BOCI. BOCI will promptly update this section to disclose any such information in the event there are any material complaints or actions filed against BOCI, or to which BOCI, is subject in the future.

## **9. RULE 1.55(K)(8)- OVERVIEW OF FUND SEGREGATION, COLLATERAL MANAGEMENT**

### **9.1. Overview of Fund Segregation**

The customer asset protection rules were designed to safeguard customer assets against insolvency by requiring FCMs to segregate and report customer assets they hold. As such, an FCM is expected to operate with an understanding of the amount of customer assets it holds in segregation and where such assets are located. CFTC Regulations 1.20 and 30.7 are designed to protect customer funds through requiring the continuous segregation of customer assets supported by two main reports (1) segregation statement and (2) secured amount statement.

BOCI is committed to securing the safety of its customer funds. BOCI holds customer funds in cash in two separate and distinct accounts: a non-segregated account, which is designated as a house account or an account which holds funds used for the trading activities of its affiliate(s) ("**Non-Segregated Account**"); and a customer segregated account, which has been established and is maintained pursuant to CFTC Regulation 1.20 in order to prevent the comingling of BOCI's own funds and the funds of its customers ("**Segregated Account**"). BOCI has also adopted strict internal controls so that the Segregated Account can only be used for any non-affiliated customer trading activities.

It should be noted that the Firm also maintains a secured account pursuant to CFTC Regulation 30.7 for customer trading on foreign exchanges ("**Secured Account**") and a segregated account pursuant to CFTC Regulation 22 for cleared swaps ("**Cleared Swaps Account**"), but it currently does not clear any customer business for clients who conduct trading activities on these markets.

BOCI only accepts cash deposits for customer margin accounts. BOCI will update this information as necessary to take into account any material change to its business operations,

financial condition or other factors that BOCI believes may be material to a customer's decision as to whether to do business with BOCI.

For an updated overview of BOCI's customer segregation, please visit:  
[https://www.nfa.futures.org/basicnet/FCM\\_seg.aspx?entityId=IXdqghGRI5g=](https://www.nfa.futures.org/basicnet/FCM_seg.aspx?entityId=IXdqghGRI5g=)

## **9.2. Collateral Management**

The Firm does not hold cleared swaps customer collateral, which is required to be segregated under CFTC Regulation 22.2. Therefore, the Firm does not have an FCM Cleared Swaps Customer Collateral Report.

## **10. RULE 1.55(K)(9)- HOW TO FILE A COMPLAINT AGAINST THE FCM**

Should you have any concerns or comments regarding BOCI's operations or policies or one of its employees, you may report your concern or comment directly to the Firm's Chief Compliance Officer at [cfus-compliance@bocigroup.com](mailto:cfus-compliance@bocigroup.com) or directly to any of the following agencies listed below:

### **U.S. Commodity Futures Trading Commission**

866-FON-CFTC (866-366-2382)

<http://www.cftc.gov/ConsumerProtection/FileaTiporComplaint/index.htm>

### **National Futures Association**

800-621-3570

<http://www.nfa.futures.org/basicnet/Complaint.aspx>

### **CME Group Inc.**

312-341-3286

<http://www.cmegroup.com/market-regulation/file-complaint.html>

## **11. RULE 1.55(K)(10)- RELEVANT FINANCIAL INFORMATION**

### **11.1. Total equity, regulatory capital, and net worth, all computed in accordance with U.S. Generally Accepted Accounting Principles and CFTC Regulation 1.17, as applicable. (CFTC Regulation 1.55(k)(1)(i))**

As of February 28, 2018, BOCI's total member's equity (and net worth) and regulatory capital was \$5,992,051 and 7,926,165, respectively.

The most recent financial information about BOCI, including its adjusted net capital, net capital and excess net capital, is available electronically at:

<http://www.bocigroup.com/web/Inner/Inner/241>.

**11.2. Dollar value of proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers, and 30.7 customers. (CFTC Regulation 1.55(k)(1)(ii))**

BOCI does not conduct proprietary trading; however, certain affiliates of BOCI hold accounts with BOCI and, in the event they trade for market-making, hedging or other purposes, for regulatory purposes, those affiliates will be treated as non-customers.

**11.3. Smallest number of futures customers, cleared swaps customers, and 30.7 customers that comprise 50 percent of the futures commission merchant's total funds held for futures customers, cleared swaps customers, and 30.7 customers, respectively. (CFTC Regulation 1.55(k)(10)(iii))**

BOCI currently maintains one futures customer account for its affiliate.

**11.4. Aggregate notional value, by asset class, of all non-hedged, principal over-the-counter transactions into which the futures commission merchant has entered. (CFTC Regulation 1.55(k)(10)(iv))**

BOCI does not engage in any non-hedged, over-the-counter transactions as principal.

**11.5. Generic source and purpose of any committed unsecured lines of credit (or similar short-term funding) the futures commission merchant has obtained but not yet drawn upon. (CFTC Regulation 1.55(k)(10)(v))**

BOCI has no committed unsecured lines of credit.

**11.6. Aggregated amount of financing the futures commission merchant provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices. (CFTC Regulation 1.55(k)(10)(vi))**

BOCI does not provide any financing for any customer.

**11.7. Percentage of futures customer, cleared swaps customer, and 30.7 customer receivable balances that the futures commission merchant had to write-off as uncollectable during the past 12-month period, as compared to the current balance of funds for futures customers, cleared swaps customers, and 30.7 customers. (CFTC Regulation 1.55(k)(10)(vii))**

BOCI does not hold customer funds for cleared swaps or secured accounts. As of the date hereof, there were no futures customers' receivable balances that BOCI had to write-off as uncollectable.

Customers should be aware that the NFA publishes on its website about certain financial information with respect to each FCM. The FCM Capital Report provides each FCM's most recent month-end adjusted net capital, required net capital, and excess net capital. (Information for a twelve-month period is available.) In addition, NFA publishes twice-monthly a Customer Segregated Funds report, which shows for each FCM: (i) total funds held in Customer Segregated Accounts; (ii) total funds required to be held in Customer Segregated Accounts; and (iii) excess segregated funds, i.e., the FCM's Residual Interest. This report also shows the percentage of Customer Segregated Funds that are held in cash and each of the permitted investments under Commission Rule 1.25. Finally, the report indicates whether the FCM held any Customer Segregated Funds during that month at a depository that is an affiliate of the FCM. The report shows the most recent semi-monthly information, but the public will also have the ability to see information for the most recent twelve-month period. A 30.7 Customer Funds report and a Customer Cleared Swaps Collateral report provides the same information with respect to the 30.7 Account and the Cleared Swaps Customer Account.

The above financial information reports can be found by conducting a search for a specific FCM in NFA's BASIC system (<http://www.nfa.futures.org/basicnet>) and then clicking on "View Financial Information" on the on the profile of the selected FCM.

## **12. RULE 1.55(K)(11) SUMMARY OF FCM'S RISK PRACTICES, CONTROLS AND PROCEDURES**

The Firm has established a risk management program in accordance with CFTC Regulation 1.11 and 1.73 ("**RMP**" or "**Program**"). This Program has been designed to address key requirements found in the Commodity Exchange Act of 1936 ("**Commodity Exchange Act**"), as amended, and the rules and regulations of the CFTC promulgated thereunder, including Parts 1, 22, and 30, as well as the rules of BOCI's self-regulatory and designated self-regulatory organization, the NFA and CME Group.

The Program is comprised of a range of risk-related policies, procedures and controls, which take into account market, credit, liquidity, foreign currency, legal, operational, settlement, segregation, technological, capital, and other risk factors and how they impact the Firm. Listed below is a summary of some of the controls adopted by the Firm within its Program. This summary is not intended to be an exhaustive list of all of the issues addressed in BOCI's Program. It will, however, provide a high level overview of some of the material components of the Firm's Program.

### **12.1. Capital Risk**

The term "capital risk," as defined by the Firm, refers to the risk BOCI could face if it were to lose all or part of the initial capital invested by its parent, or if BOCI were not able to maintain or access sufficient capital or cash to support its operations as a registered FCM.

BOCI has established policies, procedures and controls to ensure that the Firm maintains compliance with applicable regulatory and financial reporting requirements. These include the daily and monthly monitoring of the Firm's regulatory capital; and the implementation of internal early warning signals to ensure that senior management can be promptly informed

about any potential breaches in maintaining its minimum financial requirement as required by relevant CFTC rules.

## **12.2. Credit Risk**

“Credit risk,” as defined by the Firm, refers to the potential financial loss resulting from a client’s failure to meet its financial obligations when due.

BOCI has implemented policies, procedures and controls that mandate periodic credit verification and assessments of clients and counterparties. BOCI’s policies, procedures and controls also cover margining procedures, pre-trade and post-trade controls and other procedures to ensure effective credit and settlement risk management.

## **12.3. Foreign Exchange Risk**

“Foreign exchange risk,” as defined by the Firm, refers to the possible financial loss arising from adverse movements in foreign exchange rates.

BOCI’s business model mandates that the Firm maintain any assets required to support its activities in the futures and options markets strictly in cash, which is held in USD. Thus, foreign exchange risk currently has no impact on the Firm.

## **12.4. Legal and Compliance Risk**

“Legal and compliance risk,” as defined by the Firm, refers to the risk which the Firm is exposed to arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain financial products or activities of the Firm’s clients may be ambiguous or untested. This risk can impact the Firm’s earnings or capital by exposing the institution to fines, civil money penalties, payment of damages; cause the invalidation of contracts; and result in possible enforcement action, expulsion and/or suspension from the industry. Legal and compliance risk can lead to a diminished reputation, reduced business value, limited business opportunities, lessened expansion potential, and financial losses.

BOCI has established policies, procedures and controls that mitigate legal and compliance risk. These include requirements that apply to company personnel with respect to onboarding of new clients, ensure the proper documentation of transactions, establishment of a robust anti-money laundering program, and other controls and processes to ensure the Firm maintains compliance with the rules and regulations promulgated by the CFTC and its designated self-regulatory organization.

## **12.5. Liquidity Risk**

“Liquidity risk,” as defined by the Firm, refers to the risk of insolvency arising from an FCM’s inability to meet its obligations when and as they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources.

BOCI maintains policies, procedures and controls for managing liquidity through the periodic assessment of liquidity risk. Internal warning indicators are implemented to ensure that all relevant parties can be promptly informed about any noteworthy data observed by the Firm in its monitoring of its liquidity ratios and maturity mismatches.

## **12.6. Market Risk**

“Market risk,” as defined by the Firm, means the risk of financial loss resulting from market pressure or movements in market prices and rates (such as commodity prices, foreign exchange rates and interest rates) and indirectly observable market parameters (such as volatilities and correlations).

Under the Firm’s current business model, BOCI’s market risk is very limited because the Firm strictly operates a “clearing only” organization and engages in no proprietary trading or hedging activities in the futures and options markets. The Firm also does not hold inventory or other permissible investment instruments that would subject it to market risk. The measures adopted by the Firm to mitigate and control this risk area take this business model into account.

## **12.7. Segregation Risk**

“Segregation risk,” as defined by the Firm, means any event which causes the FCM to be at risk of failing to segregate or separate its customer funds in accordance with CFTC Regulations 1.20, 22.2 and 30.7.

Any funds that customers deposit with BOCI as margin for futures and options trading are held in segregated accounts pursuant to the rules and regulations of the Commodity Exchange Act and CFTC. Such funds are, nevertheless, subject to the risk of loss, including in the event of the Firm’s insolvency or bankruptcy, or even the negligence or misconduct, of a depository or clearing house. BOCI has adopted a number of key policies, procedures and controls to mitigate this risk and ensure the needs of its clients are duly met. This includes the establishment of a system to ensure the monitoring and reporting of customer funds and any interest deposited in segregation for the benefit of the FCM’s customers; the segregation of customer funds from the funds of any affiliates which trade through the Firm; and the furnishing of segregated account bank statements on a daily basis in addition to granting real-time read only access to segregated account activity to the Firm’s regulators.

## **12.8. Operational Risk**

“Operational risk,” as defined by the Firm, is the risk of loss resulting from inadequate or failed internal processes, personnel and systems, or external events. It includes the risk of failing to comply with applicable laws, regulations and other internal policies. Operational risk does not include credit, market, liquidity and reputational risk. With respect specifically to reputation risk, this is not viewed by the Firm to be a risk in and of itself, but a consequence of other risk events, including operational risk events. Therefore, operational risk that has a direct impact upon reputation is formally considered and identified in the measures employed by the Firm to control operational risk.

BOCI maintains an overall framework that includes oversight and governance, policies and procedures, and other controls that promote consistent practices across the lines of business,



enterprise risk management tools and protocols for escalation of potential variations from established policy, which collectively are intended to provide a sound and well-controlled operational environment.

## **12.9. Technological Risk**

“Technological risk,” as defined by the Firm, means the threat to the assets and processes vital to an FCM and its business operations due to its use of or reliance on technology. These threats include data or security breaches, network failure, hardware and software failure, electronic fraud, and exposure to other suspicious or criminal activities, such as hacking, password theft, and the introduction of viruses or malware. These threats can result from a variety of factors, including human error, staff dishonesty or malicious intent, and the lack of controls or processes required to properly to protect “information assets” vital to the Firm (i.e., operational and financial data, customer data, intellectual property, or personally identifiable information).

BOCI has established control requirements designed to prevent, detect, and react to conditions that could adversely impact the confidentiality, integrity, and availability of the Firm’s information resources and intellectual property.