

For Information Purposes

## Deal Structuring

Transaction modeling in requires a review by many affected parties that are service groups that support the operations. To ensure for quality assurance of data integrity of a respective portfolio, the following requirements are required prior to execution.

### Requirements

Any new transaction from origination or structuring deal that is within the established liquidity period authorized for the Executive Risk Committee will require explanation which details the transaction, a valuation process, the potential counterparty, and assurances that adequate controls and procedures, systems and risk analysis techniques are in place.

Any new business will require explanation which details the rationale for the transaction and any alterations required to existing policy documents, a valuation process, the potential counterparty, and assurances that adequate controls and procedures, systems and risk analysis techniques are in place.

Before a transaction can be entered into, it should be established that a customer has the legal capacity to enter into the transaction. The Legal, Finance and M&A Departments normally carries out due diligence.

Additional care and diligence must be taken with certain types of customers, including:

- Highly regulated entities (e.g. mutual funds, pension funds and plans, insurance companies and building societies);
- Sovereign and governmental agencies and municipal and local authorities;
- Emerging markets counterparties; and
- Private customers and small corporations.

In addition, it is the policy that there should be no reason to believe that a proposed transaction is unsuitable or improper for a particular customer or counterparty. With respect to a solicited or recommended transaction, it should be ensured that there is sufficient information about the customer and the product to reasonably believe that the transaction is suitable for the customer. The extent of documentation and diligence required may vary greatly by counterparty and type of financial instrument traded.

A transaction is normally appropriate if:

- The customer has the capability (either independently or through independent professional advice) to understand the nature, terms, conditions and risks of the transaction;

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- The customer's position in the transaction is consistent with its rationale for the transaction; and
- The transaction is compatible with the size, condition and nature of the customer's business.

### **Transaction Documentation**

Except for transactions entered into under standard trading documentation that has been approved, all transactions, obligations and commitments should – in advance of the completion of the transaction -- be appropriately negotiated and documented, and all documents appropriately reviewed, approved, and executed by all parties thereto, in order to be legally enforceable against the parties thereto, in order to facilitate proper transaction recording and monitoring, and in order to reduce the risk of disputes regarding the terms of any transaction, obligation or commitment.

Accordingly, transactions should not be entered into, obligations should not be undertaken, and commitments should not be made or accepted, unless appropriate documentation containing all relevant terms are executed at that time. It will usually not be satisfactory to simply recite the terms of any of these transactions on a recorded line.

From time to time, it may be necessary or appropriate to communicate the terms and conditions of a transaction, commitment or obligation informally, either verbally or in writing, prior to completion of definitive transaction documentation (for instance, to confirm a mutual understanding of the terms of a transaction). In these cases, the verbal or written summary of terms should explicitly state that it is "subject to negotiation and execution of mutually agreeable definitive transaction documentation."

A trader, originator or structurer may proceed with a transaction provided they have no reason to believe the transaction is inappropriate.

The following issues should be examined in the process:

- Market and Liquidity risk;
- Credit Risk;
- the counterparty's capacity to enter into specified transactions;
- Operational and reputational risk;
- Any financial liquidity or lending considerations; and
- Client classification in accordance with regulators' rules (the type of customer or counterparty proposed to deal with may determine, among other things, the level of protection owed in a relationship, as well as the customer or counterparty's capacity to enter into certain transactions).

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Specific attention should focus on requirements included but not limited to:

- Counterparty credit methodology.
- Mark-to-market (MTM) methodology, input requirements and sources of input to include volatility, and forward pricing.
- Marked to Model valuation.
- Modeling of optionality and Volatility
- Trading Limits Valuation
- Value at Risk Valuation
- Interest rate and Foreign Exchange
- Earnings and cash flow impact
- Signed approval list in accordance with the operational and trading limits as set forth in the Risk Policy.
- Information technology impact.
- Transfer pricing methodology
- Incremental costs for audit services to review accounting treatment

Prior to the execution of a transaction, a process of review is required from:

- Scheduling, Load Forecasting, and applicable Operations
- Legal
- Accounting
- Treasury
- Information Systems
- Risk Management

It should be clearly noted that the respective front office trader, originator or structure is directly responsible to ensure that all due diligence is adequately performed and that the transaction under review is modeled adequately. It is noted that separate models outside the normal risk management systems may be used to assess the value.

The respective front office trader, originator or structure is responsible to ensure that once approved, they are responsible for ensuring that all inputs, outputs, intrinsic and extrinsic value are modeled accordingly into the risk management system. It is therefore advised that proper attention be given to the matching of values between the respective models, and that the front office is responsible to ensure all elements of valuation are accounted for.

Risk Management will ensure appropriate oversight as required in the Risk Policy.

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Proposals should be submitted to the Risk Committee for review that should include:

- A description of the product, markets, and business strategy.
- The risk management implications.
- The procedures to measure, manage, and control risk.
- The accounting implications.
- The regulatory status authorization.
- The taxation treatment.
- An analysis of any legal implications.
- Systems Requirements.
- A confirmation that all support groups have reviewed the transaction.

Once a review has been completed and a decision has been reached to proceed, it is the responsibility of the Business Unit Leader to assure the new product is incorporated into the Business Unit Procedures.

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