

**Best Execution  
Client Disclosure Statement**  
HSBC UK Bank Plc –  
Global Markets

Dated 1 July 2018



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# Client Disclosure Statement

## INTRODUCTION

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### HSBC and Global Markets

HSBC UK Bank Plc (**HSBC UK**) is a member of the HSBC Group, the ultimate holding company of which is HSBC Holdings plc. Global Banking and Markets (**GBM**) is a business line of the HSBC Group and provides financial solutions to government, corporate and institutional clients as well as retails worldwide. **Global Markets (GM)** is the financial markets sales and trading division within GBM. It includes our businesses Global Equities, Global FX, and Fixed Income (**Asset Classes**).

### Purpose

HSBC UK has a policy and related arrangements (**Best Execution Policy**) on best execution in respect of our GM activities. This Client Disclosure Statement (**Statement**) provides information on our Best Execution Policy. If you have any questions about this Statement or our Best Execution Policy, please contact your HSBC UK representative.

### Best execution

HSBC UK is subject to the regulatory duty of best execution under MiFID II in respect of our GM activities. MiFID II regulates the provision of execution services. HSBC UK has a general duty to act in accordance with the best interests of those of our clients who are not eligible counterparties when providing those services. Best execution is a specific application of that general duty. References in this Statement to **MiFID II** are to the Markets in Financial Instruments Directive (Directive 2014/65/EU), and related legislative acts of the European Union, as incorporated into applicable domestic law.

### Asset Class Annex

Each Asset Class publishes an Annex that supplements this Statement. The Annexes provide additional information on the application of our Best Execution Policy in those Asset Classes. The Annexes are available on [www.hsbcnet.com/bestexecution](http://www.hsbcnet.com/bestexecution).

### Addressees

This Statement is addressed to those clients of HSBC UK who deal directly with GM and are not eligible counterparties. For organisational and regulatory reasons, only some clients of HSBC UK may deal directly with GM. In addition, for the same reasons, only some GM products may be available to certain clients who deal directly with GM. References below to **HSBC UK** and **we**, and to **clients** and **you**, should be understood accordingly.

### Retail Client Orders

Retail clients should refer also to the Summary Disclosure Statement on Retail Client Orders (**RCO Summary**), which is available on [www.hsbcnet.com/bestexecution](http://www.hsbcnet.com/bestexecution). The RCO Summary provides information on our Best Execution Policy in a shorter format, with a focus on the total costs that the retail client may incur.

### Our commitment

Irrespective of the scope of best execution, we are committed to being efficient, transparent and client focused in our sales to and servicing of clients and are open to discussing with you your precise execution requirements to see how we can accommodate them.

## SCOPE

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Our Best Execution Policy applies to the provision of execution services where

- HSBC UK executes orders
- for clients that are within the scope of best execution
- and HSBC UK acts on behalf of the clients concerned for the purposes of best execution.

### Executing an order

An **order** is an instruction (to buy or sell one or more financial instruments) from the client to HSBC UK that is accepted by HSBC UK and execution is the performance by HSBC UK of that instruction, even where (in doing so) HSBC UK is dealing on our own account with the client. MiFID II defines the term **financial instrument**. For this definition, please see Schedule 1 of this Statement.

### Clients

Clients who are treated by us as retail clients or as professional clients are within the scope of best execution. Eligible counterparties are not.

### Acting on the client's behalf

HSBC UK takes account of prevailing regulatory guidance in identifying those clients on whose behalf we act for the purposes of best execution. Based on this guidance, this is our approach:

HSBC UK acts on behalf of those clients who legitimately rely on us to protect their interests in relation to pricing and the other parameters of the transaction that may be affected by the choices made by us when we provide execution services to them (**legitimate reliance**).

In the normal course of business, this means that when providing execution services:

- we act on behalf of those clients whom we treat as retail clients
- we act on behalf of those clients whom we treat as professional clients, if the service is the execution of a client instruction to buy or sell financial instruments for the client in the course of execution-driven activity

### RFQs

In contrast, in the normal course of business, we do not act on behalf of professional clients when the service is the execution of transactions with the client following a request-for-quote (**RFQ**) or in the course of similar quote-driven activity. This is because of the regulatory assumption that, in these circumstances, professional clients do not place legitimate reliance on individual quoting firms. In the absence of legitimate reliance, the quoting firm does not act on behalf of professional clients in respect of this activity and best execution is not applicable.

### Determining legitimate reliance

We do not apply a blanket carve-out from best execution to this quote-driven activity. Based on prevailing regulatory guidance, we take into account certain factors in identifying those professional clients who legitimately rely on us. We do this holistically in the context of the client, the market, the transaction and other relevant facts and circumstances.

These factors include whether market practice indicates that there is an expectation of legitimate reliance. In particular, if there is a practice for clients to shop around, this is a contra-indicator of legitimate reliance. The term **shop around** refers to the market practice of seeking price quotations from a number of firms. This practice implies an absence of reliance on any one particular quoting firm in respect of execution.

The market practice to shop around is an important (but not determinative) factor. For example we may conclude that, in the case of RFQs for the unwinding of a bespoke products issued by HSBC UK,

the ability to shop around may necessarily be constrained and that (following the application of the above approach) best execution is applicable.

## **BEST EXECUTION**

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### **Overarching principle**

Our Best Execution Policy requires us to provide those execution services that are subject to best execution in a manner that is consistent with the overarching principle. This is the **overarching principle**: we take all sufficient steps to obtain the best possible result for our clients, taking into account the execution factors, on a consistent basis.

### **Sufficient Steps**

The overarching principle does not mean that we must obtain the best possible results for clients on every single occasion. Rather, it requires the following of us:

- verification on an on-going basis that our execution arrangements work well throughout the different stages of the order execution process
- detection of potential deficiencies
- application of all appropriate remedial actions to such deficiencies

### **Execution Venues**

The overarching principle is particularly important in the context of the decisions we make in selecting the execution venue over which we execute an order on your behalf. This is also known as **order routing**.

## **CLIENT INSTRUCTIONS**

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### **Specific instructions**

The overarching principle applies to the exercise by HSBC UK of our discretion, having taken into account specific instructions. We encourage clients to be as precise as practicable as to their execution requirements, in particular so that it is clear what discretion we retain in the provision of execution services. A **specific instruction** is an instruction from the client to HSBC UK that is both

- accepted by us
- a specific direction as to how we should execute the order concerned (or a specific aspect of it)

If we accept a specific instruction, we satisfy best execution to the extent that we execute the order, or the specific aspect of the order, following the instruction. In respect of those aspects of the order (if any) that are not covered by the specific instruction, we apply the overarching principle.

**Specific instructions may prevent HSBC UK from applying the overarching principle to the elements covered by those instructions.**

### **Fixed price**

In the case of certain order types, the client gives specific instructions on price and HSBC UK's discretion is thereby limited. By way of example, these may include those orders commonly referred to as 'fixed price' and 'benchmark'.

### **Other order types**

In the case of those market and resting orders where HSBC UK has discretion, the overarching principle applies to the exercise of that discretion. By way of example, these may include those orders commonly referred to as 'at market', 'at best', 'at worst', 'stop loss', 'take profit' and 'limit'.

## EXECUTION FACTORS

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### Execution factors

In applying the overarching principle, HSBC UK takes into account these **execution factors**:

- price
- costs payable by client as a result of the execution
- speed of execution and settlement
- likelihood of execution and settlement
- size of the transaction
- nature of the transaction
- any other consideration that is relevant to execution

### Execution criteria

These execution factors are not listed in any particular order of priority. In assessing the relative importance of the execution factors for a specific scenario, HSBC UK takes into account the market information that is available to us and these **execution criteria**: the characteristics of

- the client (including the categorisation of the client as retail or professional)
- the client order (including whether the order involves a Securities Financing Transaction)
- the financial instruments that are the subject of that order
- the execution venues to which that order can be directed

together with such other criteria as we consider relevant to the application of the overarching principle.

**Outcomes for clients may vary depending on our prioritisation of these execution factors in applying the overarching principle.**

## APPLICATION

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### Professional clients

In the case of professional clients, in applying the overarching principle in the normal course of business, price merits a high relative importance. In considering price, we also consider the steps that we may reasonably take to minimise the market impact of execution. The application of the overarching principle is subject to prevailing market conditions and our understanding of the professional client's preferences. Therefore, there may be circumstances in which we conclude that other factors are as important, or more important, than price in applying the overarching principle. These other factors may relate to quality of execution (such as, speed and likelihood of execution).

### Retail clients

In the case of retail clients, in applying the overarching principle in the normal course of business, we determine the best possible result in terms of total consideration. Please refer to the RCO Summary for further information.

### Commercial judgement

The application of the overarching principle involves the exercise of commercial judgement in the context of available market information. It is neither a guarantee that the best price will be obtained nor a guarantee that the transaction will be executed in full. Other firms may exercise their judgement differently and reach a different conclusion as to how the overarching principle might be applied.

## Steps

The diversity of markets in which we operate and of the transactions that clients carry out means that the steps we take to apply the overarching principle may vary. In particular, these steps may vary significantly depending on whether (for example) HSBC UK executes with the client a customised derivative transaction or HSBC UK executes for the client a share purchase order on a regulated market. In certain circumstances, the steps we may take are necessarily limited. For example, there may only be a single available execution venue.

## EXECUTION VENUES

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### Execution venues

The term **execution venue** refers to:

- regulated market
- multilateral trading facility (**MTF**)
- organised trading facility (**OTF**)
- systematic internaliser
- market maker
- other liquidity provider
- entity that performs a similar function in a third country

The first three are also referred to as **trading venues**.

### Assessment

HSBC UK regularly assesses the execution venues that are available to us for the purposes of implementing our Best Execution Policy. In doing this we may take into account (in respect of the venue concerned) these factors:

- quality of liquidity available for the financial instrument concerned
- quality of execution (including, price, cost and speed)
- quality of the operator of the execution venue
- quality of the execution venue (including, reliability, continuity of trading and creditworthiness)
- quality of any related clearing and settlement facilities
- such other factors as may be relevant to the application of the overarching principle

For execution venue selection, in the sense of choosing between competing execution venues, please refer to the Annex.

### No unfair discrimination

Our Best Execution Policy requires us not to discriminate unfairly between execution venues when providing execution services.

### Access

Our access to execution venues may be adversely affected by market turbulence or systems failure.

### Asset Classes

The Asset Classes have identified the execution venues the use of which enables the Asset Classes to obtain on a consistent basis the best possible results for the execution of client orders. The list of



those execution venues is available on [www.hsbcnet.com/bestexecution](http://www.hsbcnet.com/bestexecution). The Asset Classes may use other venues where it is appropriate to do so under our Best Execution Policy. The Asset Classes regularly assess the execution venues that are available to us. Following any such assessment, an Asset Class may update that list. Any such updates will not be separately notified.

## LIMITATIONS

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### OTC Consent

Subject to applicable trading obligations, **HSBC UK may execute orders outside of a trading venue**. We apply the overarching principle in making a decision to do so, subject to any specific instruction given by the client. If the client does not provide its prior express consent (**OTC Consent**) to this, we may not be able to apply the overarching principle and may decline to accept the order concerned.

### Close-outs

In accordance with the terms of a contractual relationship between HSBC UK and the client, we may exercise a power to terminate such relationship upon the occurrence of an event of default in respect of which the client is the defaulting party or a similar event. In exercising this power (including, without limitation, by unwinding or otherwise terminating any client position or enforcing any security), we act for our own account to protect our interests and do not, for the purposes of best execution, act on the client's behalf. Therefore, best execution does not apply in this case.

### Portfolio compression

**Portfolio compression** involves the reduction of risk in a portfolio of derivatives by way of termination and replacement of some or all the derivatives in the portfolio. Best execution does not apply to portfolio compression.

## OVER-THE-COUNTER

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In providing execution services, we may execute with clients transactions in derivatives and securities over-the-counter (**OTC**), including following a RFQ. This means we execute the transaction otherwise than on a trading venue. In these circumstances, HSBC UK acts as the client's **counterparty**. This means we enter into the OTC transaction with the client acting as principal and for our own account.

### Market structure

Certain transactions (for example, non-standardised derivatives transactions) may only be executed OTC. Certain markets, eg Fixed Income, Currencies and Commodities (**FICC**) markets, traditionally operate on an OTC basis.

### Quote-driven

OTC transactions, particularly in FICC markets, tend to be quote-driven rather than execution-driven. This means the legitimate reliance analysis is of particular relevance to these markets and transactions.

### Clients

The clients with whom we transact OTC tend to be sophisticated market participants, transacting in markets where the practice is to seek price quotations from a number of firms. These factors are contra-indicators of legitimate reliance.

## Pricing

Where HSBC UK executes an OTC transaction with the client, we may do so at an all-in price. An **all-in price** is a price that includes any spread or margin above the price at which HSBC UK may be able to transact in the market. We may take into account a number of factors in quoting an all-in price, including the following factors:

- the risk that HSBC UK assumes under the transaction
- infrastructure and operational costs
- counterparty, capital, and funding related costs
- fees and costs that arise during the execution and life of the transaction
- the level of service provided to the client
- any pre-agreed fee or spread charges
- other factors specific to the client

The relative contribution of each of these factors may vary from transaction to transaction.

## Responsibilities

It is the client's responsibility to determine whether or not to accept our price quotation for an OTC transaction. It is our responsibility to monitor the fairness of our pricing for OTC transactions that are subject to best execution.

## Call back

There may be circumstances in which a client requests a price quotation at or around an indicated level that we are unable to provide immediately. In these circumstances, we may undertake to 'call back' the client when we are able to provide a price quotation at or around the indicated level. It is our approach to treat this activity as quote-driven rather than execution-driven. This is because the decision to accept or reject our price quotation is made by the client (and not by us on behalf of the client).

## CUSTOMISED TRANSACTIONS

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### OTC derivatives

The OTC transactions in derivatives that HSBC UK enters into may involve the negotiation and execution of unique contractual relationships tailored to the specific needs of our clients. For these transactions, we determine whether the client is placing legitimate reliance on HSBC UK in respect of execution. In the absence of legitimate reliance, HSBC UK is not acting on the client's behalf in respect of the activity concerned and best execution is not applicable. If best execution is applicable, we seek to apply the overarching principle in a manner that takes into account the particular circumstances associated with the execution of the transaction concerned. However, the scope for applying the overarching principle in these circumstances is correspondingly limited.

## TRADING PLATFORMS

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In FICC markets in particular, firms may transact with clients via third party electronic trading platforms that bring together diverse sources of liquidity. In these circumstances, the prices at which transactions can be concluded are transparent to the client and therefore the client is not relying on the transacting firm to protect the client's interest in relation to pricing.

## CONFLICTS

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HSBC UK has established procedures that are designed to identify and manage conflicts of interest. In relation to best execution in particular:

### Inducements

It is our policy not to receive prohibited inducements from third parties in connection with the provision of execution services to clients. An inducement is prohibited if, for example, its receipt would be inconsistent with our general duty under MiFID II to act in the best interests of our clients.

### Payment for order flow

Payment for order flow (**PFOF**) is the practice of a firm that executes client orders receiving commissions both from the client originating the order and from the counterparty with whom the trade is executed. It is our policy not to enter into PFOF arrangements.

### Fees

It is our policy to establish an appropriate methodology (whether at the transactional or relationship level) to ensure pricing transparency for clients and not to route orders by reference to our fees.

### Internalisation

Internalisation may apply to a transaction, whereby HSBC UK becomes the execution venue (in respect of all or part of the transaction concerned). Internalisation refers to HSBC UK's decision to execute the transaction internally as opposed to executing externally on a trading venue. Internalisation decisions are subject to the overarching principle. In addition, internalisation decisions are subject to the trading obligations and take account of specific instructions, including the terms of applicable OTC Consents.

### Transmission

HSBC UK may transmit an order to a third party for execution. This third party may be a **connected party** – that is, an entity that is a member of the HSBC Group. Alternatively, this third party may be an entity that is not a connected party. We are required to act in accordance with the best interests of our clients when transmitting client orders to third parties for execution. This means we apply the overarching principle in making a decision to transmit a client order, subject to any specific instruction given by the client. This does not mean that the standards of execution that apply to us necessarily apply to the third party.

### Intra-group reliance

If we have a connected party in the place in which the financial instruments concerned are traded, we may transmit the order to that connected party for execution. We consider that reliance on connected parties in these circumstances is in the interest of clients because (amongst other things) certainty of execution is increased and communication is enhanced.

## MONITORING

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HSBC UK monitors the arrangements described in this Statement in order to detect potential deficiencies. In the case of transmission of client orders, this includes monitoring connected parties and other third parties on whom we rely. In the case of OTC transactions, this includes monitoring the fairness of our pricing.

## **REPORTING**

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### **Quality of execution**

We publish data on the quality of execution of transactions. The data is available on the HSBC net website.

### **Execution venues**

We publish data on our top five execution venues. The data is available on the HSBC net website.. .

## **TERMS OF BUSINESS**

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### **Professional clients**

Professional clients should refer to our terms of business for further information on best execution and order execution more broadly.

### **Retail clients**

Retail clients should refer to the RCO Summary for further information.

## **AMENDMENTS**

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HSBC UK may amend the Best Execution Policy and may update this Statement from time to time. When we make a material change to the Best Execution Policy, we inform clients by publishing an updated version of this Statement. The prevailing version of this Statement is available on [www.hsbcnet.com/bestexecution](http://www.hsbcnet.com/bestexecution). This Statement updates and replaces our prior disclosure statements on best execution in GM.

# Schedule 1 (Financial Instruments)

These are **financial instruments** for the purposes of MiFID II:

## **SECURITIES**

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- (1) Transferable securities
- (2) Money-market instruments
- (3) Units in collective investment undertakings

## **DERIVATIVES**

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- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 and not being for commercial purposes, which have the characteristics of other derivative financial instruments
- (8) Derivative instruments for the transfer of credit risk
- (9) Financial contracts for differences
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF

## **EMISSION ALLOWANCES**

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- (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme)