

HSBC Continental Europe Debt and Equity Capital Markets
Process for developing allocation recommendations
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Introduction

When HSBC is appointed by an Issuer to act on a securities offering, HSBC is likely to be involved in the allocation of the securities to interested investors. This process, by its very nature, creates a number of potential conflicts for HSBC which need to be managed.

In order to ensure that conflicts of interest are managed fairly in relation to the allocation of such securities, HSBC is required to establish and follow appropriate procedures and controls.

Purpose

This document outlines the process that should be followed by the HSBC Debt and Equity Capital Markets Origination and Syndicate teams when looking to develop allocation recommendations in a debt or equity securities offering. The process applies when HSBC is involved in, or has influence over the allocation process (holds an active role on the offering). These principles stem from the EEA Markets in Financial Instruments Directive II (Directive 2014/65/EU, "MIFID II"), as well as other applicable regulations and best practice principles.

Process

1. Agreeing Allocation Strategy

HSBC will ensure that issuers are invited to participate in the allocation process. At an early stage, the following topics are to be discussed and agreed with the issuer:

- the overall syndication strategy to be adopted by HSBC;
- the method by which the issuer would like HSBC to determine the target investor base (for example: by geography and investor type, including any proposed retention by an HSBC Group entity); and
- the method for determining the proposed basis of allocation to investors;

In particular, HSBC will seek to reach an initial agreement with the issuer regarding an allocation strategy per investor type, and will also be open to any further discussion, instructions or preferences expressed by the issuer at any later point during the process. HSBC will also take into account any comments or instructions provided by other syndicate members, as well as the information gathered from potential investors in the book-building process.

These details will be used in decision-making on allocation of the new issue to ensure the decisions made are in line with the issuer's objectives and preferences and are conducive to the development of an orderly market in the securities. From time to time, final allocations may differ from those approved by the issuer. This may occur for various reasons including in the event that investors ask for changes to their allocations once released and the lead banks need to reallocate those securities as quickly as possible. Whilst it may not be possible to seek further approval from the issuer prior to making any changes, given the limited time typically available to re-allocate at this stage of the execution process, every effort will be made to make any changes substantially consistent with the agreed allocation strategy.

In the execution of transactions where HSBC incurs market and/or balance sheet risk (for example, "hard underwritten", "bought" or "backstopped" transactions), HSBC will also need to take into account its own prudential risks in determining/agreeing allocations.

2. Determining the Basis of Allocation

In the context of a securities offering, HSBC will engage with potential investors throughout the book-building process to understand investor interest and demand levels. The basis of any proposed allocation will depend on the particular facts and circumstances of each case, but not least on the allocation strategy of the issuer in question. The following factors will also, however, often be relevant in the decision making process, but no single factor will be determinative:

- the size of an investor's expressed interest (both absolute and relative to the investor's portfolio or assets under management);
- the extent to which the investor's expressed interest and the size of the allocation requested appears consistent with the investor's investment strategy, objectives and purchasing capacity;
- the investor's behaviour in past issues and their expected hold period;
- the investor's interest in securities of the issuer, and their past dealings in securities of the issuer, or securities of other issuers in the sector;
- the nature and level of interest shown by the investor in the issuer and the particular offering, for example its involvement in road shows and other direct contacts with the issuer or seller of the securities;
- the timing of the investor's interest, especially if interest is expressed only at a relatively late stage;
- any statement by the investor about its intentions and the perceived credibility of any such statement;
- any indication or reasonable belief that the investor has exaggerated the true extent of its interest in the expectation of being scaled down;
- the category or description into which the investor falls (e.g. retail fund, pension fund, tracker fund);
- the geographical location of the investor; and
- the sector or sectors of the investor's main business.

Any recommendation for allocation will be determined by the syndicate function responsible for executing the new issue, and all recommendations must be consistent with the allocation strategy discussed and agreed with the issuer, and should not be based on the level of business that HSBC does or hopes to do with any investor.

In particular, the following practices are not permitted:

- an allocation made to incentivise the payment of disproportionately high fees for unrelated services provided by HSBC ('laddering'), such as disproportionately high fees or commissions paid by an investor, or disproportionately high volumes of business at normal levels of commission provided by an investor as a compensation for receiving an allocation of the issue;
- an allocation made to a senior executive or a corporate officer of an existing or potential issuer client, in consideration for the future or past award of corporate finance business ('spinning');
- an allocation that is expressly or implicitly conditional on the receipt of future orders or the purchase of any other service from HSBC by an investor, or any entity of which the investor is a corporate officer.

3. Key considerations for Allocations to Internal Books

Any allocation to an internal book, or an affiliate of the HSBC Group, must be justifiable in terms of the objectives of the allocation process and in line with similar investor-type allocations. External investors must be given priority in the allocation process if the book is over-subscribed, subject always to the quality of the investors together with the issuers' strategy and guidance. The Issuer must consent to any internal allocations.

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