

Information about HSBC Global Markets Exchange Traded Derivatives Terms of Dealing

Information about HSBC Global Markets ETD Terms of Dealing

This notice sets out some of the key aspects of the relationship between HSBC¹ (us) and its clients, including customers and counterparties (you), when executing transactions in exchange traded derivatives (“ETD”) products. It is intended to supplement other disclosures and by continuing to trade ETD products with us, clients do so on the basis of the information described below. This notice is being provided to HSBC clients globally in different jurisdictions with respect to different products, and sets forth HSBC’s general practices, where those practices are permitted. However, our relationship and practices with you are subject to applicable local legal and regulatory requirements (including any code of conduct to which HSBC is subject), which may impact the extent to which we engage in the activities described or the manner in which we act. This notice does not affect or reduce HSBC’s legal or regulatory duties to you. This notice is subject to the terms of any written agreement we have with you, including our written terms of business.

HSBC may deal in ETD products with you as agent or as principal, with the exception of The Hongkong and Shanghai Banking Corporation Limited’s Derivatives Clearing Services, which only faces clients as agent in respect of any transaction in ETD products². With respect to each trade, HSBC’s capacity (principal or agent) will be noted on the relevant transaction documentation. This document aims to clarify and disclose relevant practices and certain terms of dealing of HSBC.

Agency Execution

Applicable when HSBC acts as your agent, by placing and executing your order on your behalf in the relevant markets or by finding you a buyer or a seller. We charge a commission on such trades. HSBC acts as agent solely for the purpose of execution and does not act as your agent for any purpose other than execution.

Principal Execution

Applicable when HSBC acts as riskless principal for the purpose of execution, entering into a transaction as principal on your behalf in the relevant markets or with a dealer or market-maker, and either clearing the transaction and recording it in your account with us, or giving up the transaction for settlement with another clearing broker. We charge a commission on such trades.

HSBC may trade on an arm’s length basis with you when we, acting on your behalf in respect of an order, determine HSBC’s proprietary desk to be the appropriate execution venue.³

HSBC’s proprietary desk, when acting as a dealer or market-maker, puts its own capital at risk and takes the other side of the trade as buyer or seller. To the extent permitted by local law and regulations, HSBC may directly or indirectly engage in bona fide hedging or positioning activity to reduce the market exposure associated with your order in whole or in part at its sole discretion at a price that may differ significantly from your transaction price.

No fiduciary or advisory role; responsibility for investment decisions

HSBC does not act as your fiduciary or as your financial, tax or legal advisor, or in any similar capacity on your behalf, and does not assume any of the responsibilities or liabilities that would be associated with such roles. Except as otherwise agreed by HSBC with you, any statements made by or through HSBC’s personnel, its electronic systems or otherwise in the processing or execution of transactions should not be construed or relied upon as recommendations or advice. You are responsible for making any investment decisions, and to the fullest extent permitted by applicable law and regulation, all such investment decisions are made at your own risk.

¹ In this Notice “HSBC” refers to the Global Markets businesses of HSBC Holdings plc and its affiliates, including HSBC Bank plc, HSBC Bank USA, N.A., HSBC Securities (USA) Inc., The Hongkong and Shanghai Banking Corporation Limited and HSBC France

² References to HSBC “acting as principal” in this document shall accordingly exclude The Hongkong and Shanghai Banking Corporation Limited’s Derivatives Clearing Services.

³ Note that HSBC Bank plc acts as principal (but not, when considered as a legal entity, as a “riskless” principal) where HSBC Bank plc executes your order with HSBC Bank plc’s own proprietary trading desk, as described in this paragraph.

Conflicts of interest

The nature of ETD products and the role of firms such as HSBC in such markets may give rise to conflicts with the interests of other market counterparties, including clients, which cannot be completely eliminated. When conducting its activities, HSBC has policies and procedures designed to manage and mitigate the risk of conflicts of interest and seeks to manage such conflicts of interests to deliver fair treatment to clients and to minimise disruption to market integrity.

Situations of actual or potential conflicts of interest which HSBC may encounter as part of its activities, and which it will seek to manage and mitigate, include those where, in accordance with applicable local law and regulations, HSBC is engaged in transactions with multiple clients and/or market counterparties, each of whose interests may diverge from those of HSBC or of other clients or counterparties, or where HSBC holds or executes proprietary positions or trades in the same (or related) instruments as its clients or acts as a market maker. HSBC may, for example, in each case to the extent permitted by applicable law and regulation:

- Choose at its discretion not to hedge or to hedge fully or partially positions that we execute with you. Any such hedging may take place in the ETD, the relevant underlying equity, or in related instruments at HSBC's sole discretion. We may unwind or adjust any hedge from time to time in our sole discretion. HSBC's market-making activity and any related risk management and hedging activities that take place before, during or after the execution of a client transaction will take into account the size of orders and prevailing market conditions;
- Use information provided to us by you or by other clients to effectuate legitimate market-making and risk-management activities, to facilitate transactions and to source liquidity;
- Choose to pre-hedge client orders that we receive, or expect to receive, with a view to managing risk and facilitating your transaction. Any such pre-hedging may take place in the ETD, the relevant underlying equity, or in related instruments at HSBC's sole discretion. Any pre-hedging transactions may be at different prices from the price at which HSBC transacts with you and may affect the price or liquidity of financial instruments connected to your transaction (and, therefore, the price of your transaction);
- Seek to anticipate near-term client demand, and take positions in connection with its risk management activities. In such cases, HSBC's actions are intended to provide it with sufficient inventory to service its clients;
- Undertake trading activities for other clients or for other purposes (whether in the relevant ETD, an underlying equity or in related instruments) which may, in turn, impact the execution or price of certain of your ETD transactions or the valuations of your positions;
- Execute bona-fide hedging transactions before, during and after the valuation time or window when a price or a level that affects your transaction is fixed or determined. This might impact a reference price or a benchmark fixing, or trigger or prevent the execution of your transactions or adversely affect their prices;
- Generate profits or losses for its own account in connection with its trading activity with you (including, but not limited to, hedging and pre-hedging). In general, HSBC as principal would attempt to execute a client transaction only when it is commercially viable to do so;
- Decline at its discretion to take an order, to execute a transaction or to respond to a pricing request, without any obligation to provide explanations. In the absence of a contractual, legal or regulatory obligation to the contrary, where HSBC receives an order from you or conveys that it is "working" an order for you, HSBC will attempt, but shall not be committed, to execute the trade.
- Receive multiple orders or requests for the same or related ETD products, including in instances where HSBC also has an interest in such products, for example as a result of its market-making activity. In such cases, HSBC acting as principal may seek to satisfy all its clients' requests and interests alongside its own, and accordingly conflicts of interest may arise. Subject to applicable law and regulation and in accordance with internal policies and procedures, HSBC generally retains discretion in managing these conflicts (including with respect to order execution, aggregation, priority and pricing) and may in some

instances not satisfy (or not fully satisfy) all client order or requests. HSBC has no obligation to disclose to a counterparty why it was unable to execute a transaction in full or in part;

- Act as the calculation agent, valuation agent, collateral agent or other determining party or participate in clearing house auctions in liquidation scenarios with respect to transactions or terms or reference inputs of transactions that we enter into with you. In such capacity our economic interests may be adverse to yours; and
- Have an ownership or other economic interest in an execution venue or clearing house on which transactions may be executed or cleared. In such cases, we may derive financial or other benefits if trades are executed and/or cleared at such execution venue or clearing house.

Client information

Protecting client confidential information is amongst HSBC's highest priorities as an institution. HSBC has systems and controls reasonably designed to protect confidential information and ensure it is not used or disclosed improperly. However, it should be understood that HSBC, in its role as an execution broker, dealer or market-maker, may on a limited, need-to-know basis, in accordance with applicable law and regulation and any customer documentation entered into with you:

- Use information provided by clients to inform business decisions such as those related to managing and hedging risks and transactions;
- Use and share information about client activities amongst HSBC's internal sales and trading personnel to inform HSBC's view of the market and any related client-facing business, product or service (including information about block trades in order to facilitate their execution); and / or
- Share information about client activities with regulators and/or other authorities exercising similar oversight over HSBC's activities, and with other persons where required in accordance with any applicable legal or regulatory requirements or the rules of an exchange or clearing house.

Basis for ETD prices and placement of orders

The price of a transaction references the market price which may be impacted by a broad range of factors, such as prevailing market conditions and the size of the transaction, and are subject to being updated. To the extent permitted by applicable law and regulation, the price given may not include fees and costs which are informed and agreed separately where required.

In accordance with HSBC's internal policies and procedures, HSBC seeks to ensure that all offered prices are fair and reasonable, but as they depend on transaction and market conditions, it may offer different prices to different clients for the same or substantially similar transactions. HSBC's receipt and execution of a client's order might also be adversely affected by latencies or delays for technological, operational or other reasons that may impact the price. In relation to both electronic and voice execution with HSBC, it is the client's obligation to ensure that they are satisfied with the price (indicative or firm) and other terms of any transaction with HSBC prior to the transaction being executed.

Clients can send orders to HSBC using various channels, including voice or electronic means, as may be agreed between HSBC and the relevant client. Subject to any legal or regulatory obligations that may apply, HSBC may respond to any order or request received from you with a price to execute the trade (in full or in part) as principal at a price that could be off market. You may accept or decline such offer but must, independently of HSBC, reach a decision about the price and (save where we are required to consider whether the transaction is suitable for you under applicable law) suitability of the transaction and, if you accept it, should not expect any later adjustment to the price or to the transaction after its execution (regardless of post-trade price movements).

When a client submits a trade order, and in determining whether to accept that order HSBC performs a series of checks, including:

- Validity checks: confirming the details contained within the trade order and availability of credit limits (and any other applicable risk limits) related to the client.

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- Price checks: Market prices are subject to being updated, meaning that it is possible that market prices have changed and the client's order's price is off market.

Validity and price checks are carried out concurrently and failure of either may result in a trade request being rejected. Where technologically practicable, HSBC will take reasonable steps to inform clients of trade rejections and the associated reasons.

All checks are initiated and completed as soon as technologically practicable, after receiving a trade order and without applying any additional holding periods.

Where clients execute algorithmic orders with HSBC, HSBC will execute transactions as determined by the algorithm based on parameters selected by the client.

At HSBC, we are committed to building a sustainable business with long-term client relationships. If you have questions about this notice, please contact your local HSBC representative.

This notice is also available at <https://www.gbm.hsbc.com/solutions/markets/terms-of-dealing> and may be updated from time to time. Updates will be made available on that website.