

## **HSBC**

### **FICC Market Standard Board (“FMSB”) New Issue Process Standard for the Fixed Income Markets Pre-Marketing Investor Selection and Allocation Procedures June 2018**

This document provides a summary of the HSBC Global Banking procedures that are globally applicable to the pre-marketing and allocation processes in relation to best efforts syndicated offerings of fixed income bonds in the wholesale markets (an “Offering”).

This document has been published pursuant to the FMSB New Issue Process Standard for the Fixed Income Markets (the “Standard”) and is subject to the broader provisions applicable to the Standard.

These procedures have been put in place to ensure transparency in the pre-marketing investor selection and allocation processes, fair treatment of issuer clients and investors, as well as adherence to applicable industry standards and appropriate standards of market conduct and the maintenance of an orderly market. These procedures apply when HSBC is involved in, or has influence over, the pre marketing investor selection and allocation processes in an Offering.

#### **Pre-Marketing Investor Selection**

Prior to the announcement or launch of an Offering, at the instruction of an issuer, HSBC may carry out market soundings and/or facilitate roadshows so as to engage potential investors and gauge investor interest in a potential transaction by an issuer.

HSBC will ensure that issuers are always invited to participate in discussions around the pre-marketing process and the investors to be approached in relation to market sounding and investor roadshows should be identified in consultation with the issuer.

The basis of any investor selection will depend on the particular facts and circumstances of each case, not least the preferences of the issuer in question. When considering which investors are chosen, the factors below will typically be taken into account. While the prominence given to individual factors may vary across situations, no single factor in isolation will be determinative:

- The nature and manner of the investor’s participation in similar processes;
- Whether the investor has expressed interest in the issuer;
- The level of engagement by the investor in the issuer, or in the issuer’s sector, or in past offerings by the issuer;
- Eligibility of investors to participate (e.g. due to deal documentation or selling restrictions); and
- The views of the issuer

#### **Allocations<sup>1</sup>**

When HSBC is appointed by an issuer to act on an Offering, HSBC is likely to be involved in the allocation of the securities to interested investors.

HSBC will ensure that issuers are always invited to participate in the allocation process, and the method/strategy for determining the proposed basis of allocation to investors should be discussed at the outset with the issuer. 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

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<sup>1</sup> Please also refer to our MiFID 2 [HSBC EMEA Debt and Equity Capital Markets Allocation Policy](#)

development of an orderly market in the securities. The issuer's allocation decisions must take precedence. 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.

For the avoidance of doubt, 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.

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, and all recommendations must be consistent with the allocation strategy initially discussed and agreed with the issuer, and should not be based on the level of business that the firm does or hopes to do with any investor client.