Information about HSBC’s Foreign Exchange and Metals Terms of Dealing

This notice sets out some of the key aspects of the relationship between HSBC and its clients when dealing with HSBC Global Markets in foreign exchange and metal products (collectively FX&M), where HSBC transacts in the market as a principal dealer and market maker. It is intended to supplement other disclosures concerning the terms and conditions of FX&M transactions with HSBC, and by continuing to trade with HSBC, the client does so on the basis of the information described below. This notice does not affect or reduce HSBC’s legal or regulatory duties to its clients.

HSBC’s FX&M Principal Dealing Activities and Services

Where HSBC transacts in the market as a principal dealer and market maker, HSBC’s goal is to participate in the orderly operation of the markets, to offer consistently competitive prices and to protect and enhance its long-term sustainable relationships with clients.

HSBC deals at arm’s-length as principal, putting its own capital at risk, in transactions with clients. This is true when HSBC is responding to a request for quote, providing indicative pricing, executing client orders, or otherwise transacting in the market.

With respect to FX&M dealing activities and services, HSBC does not act as the agent or fiduciary of its clients. Accordingly, HSBC does not assume any of the responsibilities that would be associated with such roles. Each client is responsible for performing their own independent assessment of any FX&M transaction prior to execution and based on its own facts and circumstances.

Potential Conflicts of Interest

The nature of the FX&M market and the role of firms such as HSBC gives rise to potential conflicts of interest that cannot be completely eliminated.

As such, at any time HSBC may be engaged in transactions with a large number of different counterparties (including HSBC itself), each of whose interests may differ. As part of HSBC’s management of client activity, HSBC trading personnel may 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.

It would not be unusual for HSBC to hold positions or trade in a way that may not be aligned with the objectives of an individual client. Given HSBC’s activities in the market are consistent with its role as a principal dealer and market maker, HSBC may, for example:

- Impact the execution or price of certain transactions, such as barriers, stop loss orders or other limit orders;
- Impact the level at which benchmarks or other reference prices are set through its trading activity prior, during or after the “Calculation Window”; and/or
- Enter into transactions in proportion to the requirements of its expected and/or actual order book, taking into account the size of orders and applicable market conditions in order to effectively support its customers' proposed and/or actual activity.

There may be instances of transactions being executed or cleared on trading venues or clearing systems in which HSBC may have a commercial interest or other relationship with, and which may result in financial or other benefits for HSBC.

HSBC has policies and procedures to manage and mitigate potential conflicts of interest. When conducting these activities, HSBC seeks to avoid undue market impact to the extent consistent with its trading and risk management needs and objectives.

Client Information

In its role as a principal dealer and market maker and unless otherwise explicitly agreed, HSBC may, for example:

- Use information provided by clients to inform business decisions related to mitigating and hedging against risk;
- Share information about client activities amongst sales and trading personnel; and/or
- Use or disclose information on an aggregated and non-attributable basis to inform HSBC’s view of the market and any related client-facing business, product or service.

HSBC may share information about client activities with regulators and in accordance with any applicable law or regulation.

HSBC has policies and procedures designed to protect confidential information and ensure it is not used or disclosed improperly. When handling Client Information, HSBC seeks to promote effective communications that support a robust, fair, open, liquid, and appropriately transparent FX&M Market.

Pre-Hedging

Pre-Hedging is the management of the risk associated with one or more anticipated client orders, designed to benefit the client in connection with such orders and any resulting transactions[1]. Where a client indicates interest in a potential transaction, provides a request for a quote or leaves an order, HSBC may use that information to engage in Pre-Hedging activities by dealing as principal with a view to facilitate a potential transaction. Any such Pre-Hedging transactions could be at different prices from the price at which HSBC transacts with a client, may affect the market price or liquidity, and may result in a profit or loss to HSBC. HSBC has policies and procedures to manage and mitigate potential conflicts of interest arising from Pre-Hedging.

Basis for Pricing and Order Execution

HSBC's goal is to offer consistently fair and reasonable prices to its clients. A number of factors may be taken into account when pricing transactions, for example and in no particular order:

- The commercial return on risk HSBC assumes under the transaction, accounting for matters such as HSBC's risk appetite, business strategy, positions and risk management costs, and characteristics of the specific transaction;
- Infrastructure and other operational costs;
- The channel used for executing the transaction;
- Counterparty, capital and funding related costs, such as the nature and credit risk of the client, and internal credit and/or funding charges;
- Fees and costs that arise during the execution and life of the transaction, such as trading platform costs, clearing, settlement and other delivery costs, documentation and legal costs, and regulatory costs and taxes;
- Client services such as non-standard execution, sub-allocations, trade structuring, trade simulations and related information;
- HSBC's relationship with the relevant client, taking into account factors specific to that client; and/or
- Any pre-agreed fees or charges (for example, some execution services entail a fee, which is agreed with the client in advance).

The relevant impact of each individual factor upon the price of a transaction will differ depending on the prevailing market conditions and specific circumstances of that transaction. The way client transactions are priced may also differ depending on whether HSBC is providing quotes and indicative prices or is facilitating the execution of a client order. As a result, HSBC may offer different prices to different clients for the same or substantially similar type of transaction based on factors above.

Unless otherwise agreed, orders linked to or triggered at a specific level will be considered triggered at the level agreed with the client. Any margin will be subsequently applied to the final price of the resulting transaction.

Pricing Availability

HSBC makes prices and data available on various proprietary and third party electronic platforms, some of which may be used by clients to execute transactions. HSBC takes all reasonable measures to monitor and oversee the quality and availability of these electronic platforms, however there remains a risk that pricing and execution of trade requests or orders, and availability of data may be delayed or interrupted. During this time, clients may be unable to submit, cancel or modify trade requests or orders, and as a result may be exposed to damages or losses for which HSBC will not be liable.

Execution of Client Orders

Clients can send orders to HSBC using various channels, including voice or electronic means (e.g. API, instant messages, e-mail) as agreed between HSBC and the client. An order will only be considered to be received once HSBC acknowledges that order.

When placing an order with HSBC, a client offers to transact with HSBC, as principal, on or near the parameters set out in the order. Subject to any express agreement to the contrary, HSBC is entitled to exercise discretion in determining

[1] Source: FX Global Code

whether to accept that order, to fill the order in whole or in part, and whether and how to enter into transactions in the market to hedge, pre-hedge, facilitate or otherwise enable HSBC to execute or fill the order, including the pricing, size, and timing of such transactions. Where HSBC has trading interest from multiple sources (including from within HSBC itself), HSBC retains discretion on how to satisfy such competing interests, including as to order execution, fill quantity, aggregation, priority, timing and pricing.

When exercising discretion to aggregate or prioritise a client's order with orders for other counterparties or orders entered into by HSBC for the purposes of its market making or risk management activities, HSBC will do so on the basis it considers appropriate to meet the needs of these competing interests. It is possible this may result in a worse outcome than if the client's order had been executed sequentially or on an individual basis.

HSBC is committed to protecting Client Information and is under no obligation to disclose information about trading interests of its counterparties. Where HSBC chooses to make such disclosures, HSBC will be truthful in its statements and will do so in line with the principles detailed in Client Information section.

Where a client places an order for execution using a particular algorithm, if the algorithm so permits, at the client's direction, HSBC will execute such an order against:

- Liquidity that HSBC accesses by way of transactions with third parties; and/or
- The trading inventory of HSBC itself.

In the absence of any specific instruction, HSBC may, in its discretion, use either or both of these execution methods.

Quotes and Indicative Prices

Unless otherwise agreed, any firm or indicative price quoted by HSBC to a client is an "all-in" price, inclusive of any margin applied to the price at which HSBC may be able to transact in the market, whether the price is quoted electronically or by sales, trading or other personnel.

In relation to both electronic and voice trading 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.

At HSBC, we are committed to building a sustainable business with long term client relationships. This commitment includes maintaining the highest levels of integrity and treating all our clients fairly. If you have questions about this notice, please contact your HSBC representative.

Additional information available in appendices:

- Appendix A: Information about Last Look in Electronic Trading
- Appendix B: Information about Benchmark and Algorithmic Orders

Appendix A: Information about Last Look in Electronic Trading

The following outlines HSBC's framework by which it determines whether or not to accept a client's request to transact when dealing electronically, a process commonly referred to as "Last Look".

Pre-Trade Controls

Prices published electronically by HSBC are indicative. When a client submits a trade request it is an offer to transact, and in determining whether or not to accept that offer HSBC performs a series of checks, including:

- Validity Checks: confirming the details contained within the trade request and availability of credit limits (and any other applicable risk limits) related to the particular client.
- Price Checks: where a client submits a trade request to HSBC, it is possible that HSBC may have refreshed its pricing independent of and prior to receiving the trade request. Where this is the case, the price checks ascertain whether or not the client's trade request is within a pre-defined price tolerance for execution.

Validity and Price Checks are carried out concurrently and failure of either will 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.

Price Checks

Where HSBC has refreshed its pricing, HSBC's system will respond as detailed below.

- Where the electronic trading system used for a client's transaction is capable of price improvements:
    - If the refreshed price is advantageous to the client, HSBC will accept the trade request at the refreshed price and pass on the full price improvement to the client.

      In this scenario, there exists a pre-defined "fat-finger" tolerance which if breached will result in the trade request being rejected even if the refreshed price is advantageous to the client.
    - If the refreshed price is not advantageous to the client, HSBC will ordinarily reject the trade request. In limited circumstances however, HSBC may accept such a trade request if the change in price is within a pre-defined threshold. This is applied on a client by client basis at HSBC's sole discretion.
- Where the electronic trading system used for a client's transaction is not capable of price improvements:
    - If the refreshed price is advantageous to the client, HSBC will accept the trade request at the requested price provided that the change in price is within a pre-defined threshold set by HSBC for the particular product and client. If the requested price falls outside of this threshold, the trade request will be rejected.
    - If the refreshed price is not advantageous to the client, HSBC will ordinarily reject the trade request. In limited circumstances however, HSBC may accept such a trade request if the change in price is within a pre-defined threshold. This is applied on a client by client basis at HSBC's sole discretion.

      Thresholds, utilised for accepting or rejecting trade requests with a client who is unable to accept price improvements, are applied symmetrically regardless of whether the refreshed price is or is not advantageous to the client.

Where HSBC has not refreshed its pricing, the trade request will be accepted subject to all other Pre-Trade Control requirements being satisfied.

These controls are designed to provide HSBC's clients with a similar experience to trading on a central limit order book.

Risk Management and Client Information

All Last Look checks are initiated and completed as soon as technologically practicable, after receiving a trade request and without applying any additional holding periods. HSBC will only engage in risk management activities in relation to the trade request once the Validity and Price Checks are completed and the trade request has been accepted.

Where a trade request is rejected on the basis of Last Look, the Client Information obtained will not be used in HSBC's pricing and risk management activities.

Appendix B: Information about Benchmark and Algorithmic Orders

Where practicable, HSBC manages FX&M Benchmark and Algorithmic Orders for its clients through a dedicated product team with separate reporting lines from its principal trading desks. HSBC also employs information barriers in its front-office systems so that Client Information is not shared between the dedicated product team and its principal trading desks. Where these arrangements are not available, Benchmark Orders will be managed via HSBC's principal trading desks.

In all of the above cases, HSBC has policies and procedures to mitigate the potential conflicts of interest associated with the execution of Benchmark and Algorithmic Orders.

Benchmark Orders

HSBC may be instructed to execute transactions at a rate determined by a benchmark or other reference price calculated by a third party (referred to as "Benchmark Orders"), based on trading during a specified determination period (commonly referred to as the "Calculation Window") or an auction.

Clients who leave Benchmark Orders with HSBC will have a transaction executed between themselves and HSBC at a rate set by the benchmark provider plus i) a fee which is pre-determined and pre-disclosed, and/or ii) a spread determined by the benchmark provider.

Risk Management in Relation to Benchmark Orders

HSBC takes all reasonable steps to mitigate the market impact resulting from Benchmark Order execution by, for example:

- Calculating a net total amount comprising of external client orders and HSBC's own interest;
- Where available, attempting to match the net amount against the interest of other market participants using anonymous Benchmark Order matching or auction services offered by third-party providers;
- Executing hedging transactions prior, during or after the Calculation Window or auction in which the chosen benchmark or reference rate is determined.

Consequently, these hedging activities may have an impact on the level at which benchmarks or other reference prices are set and the volatility in related markets. Where HSBC enters into hedging transactions before the benchmark Calculation Window or auction, it does so with the intent to minimise the market impact of executing Benchmark Orders and in a manner consistent with HSBC's policies and procedures.

Algorithmic Orders

Where clients leave algorithmic orders with HSBC, HSBC will execute transactions as determined by the algorithm based on parameters selected by the client. HSBC will subsequently enter into one or more transactions with the client on a principal basis to transfer the amounts traded plus a fee which is pre-determined and pre-disclosed.