Notice in Relation to Designated Investments and Associated Risk

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, and recording or otherwise without the written permission of HSBC Bank plc. Where HSBC Bank plc has provided these terms of business to you electronically, you have permission to store these terms of business in a retrieval system in your capacity as a client or prospective client.

HSBC Bank plc is authorised by Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom.

© HSBC Bank plc 2017. All rights reserved.

PUBLIC

This notice is provided to you, as (i) a professional client and/or eligible counterparty, or (ii) a retail client, in compliance with the rules of the Financial Conduct Authority (**FCA**).

This notice contains information about Designated Investments (as defined in the FCA rules), including guidance on and warnings of the risks associated with those Designated Investments. It has been provided to you so that you are able to understand the nature and risks of the service and of the specific type of Designated Investment being offered and, consequently, take investment decisions on an informed basis.

This notice cannot disclose all the risks and other significant aspects of Designated Investments. You should not deal in these products unless you understand their nature and the extent of your exposure to risk and potential loss. Except where HSBC Bank plc, HSBC Securities (USA) Inc., or HSBC Bank USA, National Association (hereinafter referred to collectively and individually as HSBC) has expressly agreed to provide you with personal recommendations, either upon your request or at the initiative of HSBC, in respect of one or more transactions relating to financial instruments (**Investment Advice**), you should also be satisfied that the Designated Investment is suitable for you in the light of your circumstances and financial position. Certain strategies, such as a 'spread' position or a 'straddle', may be as risky as a simple 'long' or 'short' position.

If a Designated Investment is composed of two or more different Designated Investments or services, and the associated risks are likely to be greater than the risks associated with any of the components, HSBC will provide, at the time that it offers the Designated Investment, an adequate description of the components of that Designated Investment and the way in which its interaction increases the risks.

Although derivative instruments can be utilised for the management of investment risk, some of these products are unsuitable for many investors. Different Designated Investments involve different levels of exposure to risk and in deciding whether to transact in such Designated Investments you should be aware of the following points:

1. Shares

A share is an instrument representing a shareholder's rights in a company. Shares may be issued in bearer or registered form and may be certificated or non-certificated. One share represents a fraction of a corporation's share capital. Dividend payments and an increase in the value of the security are both possible, although not guaranteed. The shareholder has financial and ownership rights which are determined by law and the issuing company's articles of association. Unless otherwise provided, transfers of bearer shares do not entail any formalities. However, transfers of registered shares are often subject to limitations.

Dealing in shares may involve risks including but not limited to the following:

(a) ***Company risk:*** a share purchaser does not lend funds to the company, but becomes a co-owner of the corporation. He or she thus participates in its development as well as in chances for profits and losses, which makes it difficult to forecast the precise yield on such an investment. An extreme case would be if the company went bankrupt, thereby wiping out the total sums invested.

(b) ***Price risk:*** share prices may undergo unforeseeable price fluctuations causing risks of loss. Price increases and decreases in the short-, medium- and long-term alternate without it being possible to determine the duration of those cycles. General market risk must be distinguished from the specific risk attached to the company itself. Both risks, jointly or in aggregate, influence share prices.

(c) ***Dividend risk:*** the dividend per share mainly depends on the issuing company's earnings and on its dividend policy. In case of low profits or losses, dividend payments may be reduced or not made at all.

2. Bonds

Bonds are negotiable debt instruments issued in bearer or registered form by a company or a government body to creditors and whose par value at issuance represents a fraction of the total amount of the debt. The duration of the debt as well as the terms and conditions of repayment are determined in advance. Unless stipulated otherwise, the bond is repaid either at the maturity date, or by means of annual payments, or at different rates determined by drawing lots. The interest payments on bonds may be either (i) fixed for the entire duration or (ii) variable and often linked to reference rates (e.g. FIBOR or LIBOR). The purchaser of a bond (the creditor) has a claim against the issuer (the debtor).

Dealing in bonds may involve risks including but not limited to the following:

(a) ***Insolvency risk****:* the issuer may become temporarily or permanently insolvent, resulting in its incapacity to repay the interest or redeem the bond. The solvency of an issuer may change due to one or more of a range of factors including the issuing company, the issuer's economic sector and/or the political and economic status of the countries concerned. The deterioration of the issuer's solvency will influence the price of the securities that it issues.

(b) ***Interest rate risk****:* uncertainty concerning interest rate movements means that purchasers of fixed-rate securities carry the risk of a fall in the prices of the securities if interest rates rise. The longer the duration of the loan and the lower the interest rate, the higher a bond's sensitivity to a rise in the market rates.

(c) ***Credit risk:*** the value of a bond will fall in the event of a default or reduced credit rating of the issuer. Generally, the higher the relative rate of interest (that is, relative to the interest rate on a risk-free security of similar maturity and interest rate structure), the higher the perceived credit risk of the issuer.

(d) *Early redemption risk:* the issuer of a bond may include a provision allowing early redemption of the bond if market interest rates fall. Such early redemption may result in a change to the expected yield.

(e) ***Risks specific to bonds redeemable by drawing:*** bonds redeemable by drawing have a maturity that is difficult to determine, so unexpected changes in the yield on these bonds may occur.

(f) ***Risks specific to certain types of bond:*** additional risks may be associated with certain types of bond, for example floating rate notes, reverse floating rate notes, zero coupon bonds, foreign currency bonds, convertible bonds, reverse convertible notes, indexed bonds, and subordinated bonds. For such bonds, you are advised to make inquiries about the risks referred to in the issuance prospectus and not to purchase such securities before being certain that all risks are fully understood. In the case of subordinated bonds, you are advised to enquire about the ranking of the debenture compared to the issuer's other debentures. Indeed, if the issuer becomes bankrupt, those bonds will only be redeemed after repayment of all higher ranked creditors and as such there is a risk that you will not be reimbursed. In the case of reverse convertible notes, there is a risk that you will not be entirely reimbursed, but will receive only an amount equivalent to the underlying securities at maturity.

3. Warrants

A warrant is a time-limited right to subscribe for shares, debentures, loan stock or government securities, and is exercisable against the original issuer of the underlying securities. Warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement, favourable or unfavourable, in the price of the warrant. The prices of warrants can therefore be volatile.

It is essential for anyone who is considering purchasing warrants to understand that the right to subscribe which a warrant confers is invariably limited in time with the consequence that if the investor fails to exercise this right within the predetermined timescale then the investment becomes worthless.

You should not buy a warrant unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants but are actually options (for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities, often called a 'covered warrant'). See paragraph 7 below for further details.

4. Off-Exchange Warrant Transactions

An Off-Exchange Warrant Transaction involves the trading of warrants that are not listed on any exchange. These "over-the-counter" transactions may occur electronically or over the telephone. Transactions in off-exchange warrants may entail greater risk than dealing in exchange traded warrants because there is no exchange market through which to liquidate your position, or to assess the value of the warrant or the exposure to risk. Bid and offer prices need not be quoted, and even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price. HSBC will obtain your prior express consent, whether in the form of a general agreement such as the terms of business or in respect of individual transactions, before entering into an off-exchange warrant transaction on your behalf. HSBC will make it clear to you if you are entering into an off-exchange warrant transaction.

See also paragraph 9 below for further general information on off-exchange transactions.

5. Securitised Derivatives

These instruments may give a time-limited or an absolute right to acquire or sell one or more types of investment, which is normally exercisable against someone other than the issuer of that investment. Alternatively, they may give you rights under a contract for differences which allow for speculation on fluctuation in the value of the property of any description or an index, such as the FTSE 100 index. In both cases, the investment or property may be referred to as the "underlying investment".

These instruments often involve a high degree of gearing or leverage, so that a relatively small movement in the price of the underlying investment results in a much larger movement, unfavourable or favourable, in the price of the instrument. The price of these instruments can therefore be volatile.

These instruments have a limited life, and may (unless there is some form of guaranteed return to the amount that you are investing in the product) expire worthless if the underlying instrument does not perform as expected.

You should only buy this product if you are prepared to sustain a total or substantial loss of the money that you have invested plus any commission or other transaction charges.

You should consider carefully whether or not this product is suitable for you in light of your circumstances and financial position, and if in any doubt please seek professional advice.

6. Futures

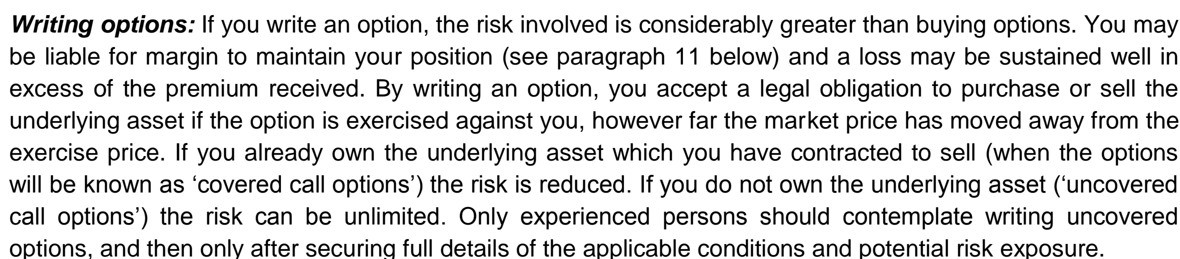
Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle the position with cash. They carry a high degree of risk. The 'gearing' or 'leverage' often obtainable in futures trading means that entering into such transactions can lead to large losses as well as gains. It also means that a relatively small movement can lead to a proportionately much larger movement in the value of your investment, and this can work against you as well as for you. Futures transactions have a contingent liability, and you should be aware of the implications of this, in particular the margining requirements set out in paragraph 11 below.

7. Options

An option is a financial derivative which represents a contract sold by one party (the one writing the option) to another (the one buying the option). The option buyer has the right, but not the obligation, to buy or sell a security or other financial asset at an agreed-upon price during a certain period of time or on a specific date.

There are many different types of options with different characteristics and risks subject to the following conditions.

Buying options*:* Buying options involves less risk than selling options because, if the price of the underlying asset moves against you, you can simply allow the option to lapse. The maximum loss is limited to the premium, plus any commission or other transaction charges. However, if you buy a call option on a futures contract and you later exercise the option, you will acquire the future. This will expose you to the risks described in this document under 'futures' and 'contingent liability investment transactions'.



Writing options: If you write an option, the risk involved is considerably greater than buying options. You may be liable for margin to maintain your position (see paragraph 11 below) and a loss may be sustained well in excess of the premium received. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. If you already own the underlying asset which you have contracted to sell (when the options will be known as ‘covered call options’) the risk is reduced. If you do not own the underlying asset (‘uncovered call options’) the risk can be unlimited. Only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

Certain options markets operate on a margined basis (see paragraph 11 below), under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

8. Contracts for Differences

Futures and options contracts can also be referred to as a ‘contract for differences’. These can be options and futures on the FTSE 100 index or any other index, as well as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risks as investing in a future or an option and you should be aware of these as set out in paragraphs 6 and 7 respectively. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out in paragraph 11 below.

9. Off-Exchange Derivative Transactions

It may not always be apparent whether or not a particular derivative is effected on exchange or in an off-exchange (over-the-counter) derivative transaction. HSBC will obtain your prior express consent, whether in the form of a general consent or in respect of individual transactions, before entering into an off-exchange transaction on your behalf. HSBC will make it clear to you if you are entering into an off-exchange derivative transaction.

While some off-exchange markets are highly liquid, transactions in off-exchange or ‘non transferable’ derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may be impossible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

See also paragraph 4 above for further information on off-exchange warrant transactions.

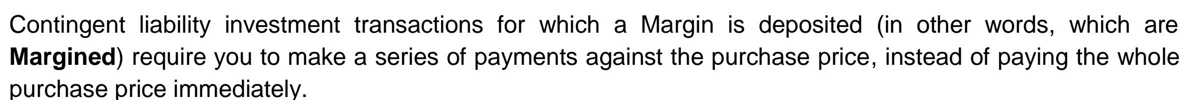
10. Foreign Markets and Foreign Denominated Securities

Transactions on foreign markets, which include the financial markets of developing countries (**Emerging Markets**), will involve different risks from transactions on the UK markets. In some cases the risks will be greater. On request, HSBC will provide an explanation of the relevant risks and protections (if any) which will operate in any foreign markets, including whether, and the extent to which, it will accept liability for any default of a foreign firm through whom it deals. The potential for profit or loss from transactions on foreign markets or in foreign denominated contracts and securities will be affected by fluctuations in foreign exchange rates.

Investments in Emerging Markets are exposed to additional risks, including accelerated inflation, exchange rate fluctuations, adverse repatriation laws and fiscal measures, and macroeconomic and political distress.

11. Contingent Liability Transactions

A contingent liability transaction is a transaction under the terms of which you will or may be liable to make further payments (other than charges) when the transaction falls to be completed or upon the earlier closing out of your position. These payments may or may not be secured by an amount in money (or represented by securities) deposited with a counterparty or a broker as a provision against loss on transactions made on account (a **Margin**).



Contingent liability investment transactions for which a Margin is deposited (in other words, which are **Margined**) require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or sell options you may sustain a total loss of the Margin you deposit with HSBC to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional Margin at short notice to maintain the position. If you fail to do so within the time required, your position may be liquidated at a loss and you will be responsible for the resulting deficit.

Even if a transaction is not Margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract. Save as specifically provided by the FCA, HSBC may only carry out Margined or contingent liability transactions with, or for you, if they are traded on or under the rules of a UK or non-UK exchange that is recognised by the FCA as suitable for use by UK investors (a **Recognised or Designated Investment Exchange**). Contingent liability transactions which are not so traded may expose you to substantially greater risk.

12. Limited Liability Transactions

Before entering into a limited liability transaction (HSBC's understanding is that a limited liability transaction means a transaction where you and HSBC agree to limit the amount of loss liability that you can sustain in advance of such a transaction being entered into), you should obtain from HSBC, or the firm with whom you are dealing a formal written statement confirming that the extent of your loss liability on each transaction will be limited to an amount agreed by you before you enter into the transaction. The amount you can lose in limited liability transactions will be less than in other Margined transactions, which have no predetermined loss limit. Nevertheless, even though the extent of loss will be subject to the agreed limit, you may sustain the loss in a relatively short time. Your loss may be limited, but the risk of sustaining a total loss to the amount agreed is substantial.

13. Collateral

If you deposit collateral as security with HSBC, the way in which it will be treated will vary according to the type of transaction and where it is traded. There could be significant differences in the treatment of your collateral, depending on whether you are trading on a Recognised or Designated Investment Exchange, with the rules of that exchange (and the associated clearing house) applying, or trading off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets which you deposited, and may have to accept payment in cash. You should ascertain from HSBC how your collateral will be dealt with.

14. Suspensions of Trading

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange trading is suspended or restricted. Placing a stop-loss order will not necessarily limit your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

15. Clearing House Protections

On many exchanges, the performance of a transaction by HSBC (or third party with whom it is dealing on your behalf) is 'guaranteed' by the exchange or clearing house. However, this guarantee is unlikely in most circumstances to cover you, the client, and may not protect you if HSBC or another party defaults on its obligations to you. On request, HSBC will explain any protection provided to you under the clearing guarantee applicable to any on-exchange derivatives in which you are dealing. There is normally no clearing house for off-exchange instruments which are not traded under the rules of a Recognised or Designated Investment Exchange.

16. Insolvency

In the event of HSBC's insolvency or default, or that of any other brokers involved with your transaction, positions may be liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payments in cash. On request, HSBC will provide an explanation of whether, and the extent to which it will accept liability for any insolvency of, or default by, other firms involved with your transactions.

17. Non-Readily Realisable Investments

Where the Designated Investments include any investments which are (i) government or public securities, or (ii) securities other than those which are or will be admitted to official listing in an EEA state or which are or will be regularly traded on or under the rules of a regulated market or other exchange, there is no certainty that market makers will be prepared to deal in such investments and adequate information for determining the current value of such investments may be unavailable.

18. Securities which may be subject to stabilisation

Stabilisation enables the market price of a security to be maintained artificially during the period when a new issue of securities is sold to the public. Stabilisation may affect not only the price of the new issue but also the price of other securities relating to it.

The FCA allows stabilisation in order to help counter the fact that, when a new issue comes onto the market for the first time, the price can sometimes drop for a time before buyers are found.

Stabilisation is carried out by a "stabilisation manager" (normally the firm chiefly responsible for bringing a new issue to market). As long as the stabilisation manager follows a strict set of rules, he is entitled to buy back securities that were previously sold to investors or allotted to institutions which have decided not to keep them. The effect of this may be to keep the price at a higher level than it would otherwise be during the period of stabilisation.

The stabilisation rules:

(1) limit the period when a stabilisation manager may stabilise a new issue;

(2) fix the price at which it may stabilise (in the case of shares and warrants but not bonds); and

(3) require it to disclose that it may stabilise but not that it is actually doing so.

The fact that a new issue or a related security is being stabilised should not be taken as any indication of the level of interest from investors, nor of the price at which they are prepared to buy the securities.

19. Structured Capital-at-Risk Products (SCARPs)

SCARPs are usually share-based investments from banking, insurance or investment management firms, and can offer attractive returns. But if your investment does not perform as planned, you could lose some or all of the capital that you put in. SCARPs usually invest in a variety of stock market investments such as shares or debt securities.

The FCA has produced a factsheet on capital-at-risk products dated February 2004, which is available at https://www.handbook.fca.org.uk/handbook/glossary/G1138.html, or, alternatively, clients can receive a copy from HSBC on request. Please read the factsheet if you are thinking of investing in a SCARP. It explains:

(1) the types of products that can put your capital at risk;

(2) how SCARPs typically work;

(3) the main risks associated with SCARPs;

(4) some points to think about before investing; and

(5) where to get more help and information.