

Interest Rate Benchmarks

Risk Disclosure for RFR and Term RFR Facilities

The following is provided for general information only and is not exhaustive. You should conduct your own independent research and analysis regarding the risks involved in conjunction with your legal, tax, accountancy and other advisers. HSBC cannot provide any advice or recommendation.

Why are we sending this to you?

You are considering a product based on a "Risk Free Rate" also known as "Near Risk-Free Rates" (RFRs). We want to give you some information about certain risks related to RFRs and also the Term versions of RFRs known as "Term RFRs".

Please refer to our website and HSBC's Client Guides and Factsheets for information on the background to the development of RFRs and how they are calculated.

Risk Free Rates

The RFR interest rate benchmarks for the LIBOR currencies are set out in the table below:

Currency	RFR Benchmark
USD	SOFR
GBP	SONIA
JPY	TONA
EUR	€STR
CHF	SARON

Daily RFRs are backward looking overnight rates based on market transactions and reflect the average of the interest rates that certain financial institutions pay to borrow overnight on an unsecured basis from wholesale market participants (eg. SONIA) or the average rate paid on secured overnight repurchase or "repo" transactions (eg. SOFR).

RFRs do not include or imply any credit or term premium. However, RFRs are not truly free of risk. RFRs can rise or fall as a result of changing economic conditions and central bank policy decisions.

Daily RFRs

Where your facility references a daily RFR it is important to note:

- interest can only be determined at the end of an interest period based on the series of overnight rates over that interest period. It is not possible to know the exact amount of interest payable for an interest period in advance;
- a lookback or lag mechanism is typically used to be able to calculate interest that will be due a few days in advance of the interest payment date;
- trade facilities using daily RFRs in arrears do not generally use a lookback or lag with the result that the exact amount of interest due may only be known on the due date of the interest payment, when (in most cases) it would be debited from the relevant account;
- daily rates may fluctuate and the interest amount due is based on the daily rates over the relevant interest period.

Term RFRs

Where your facility references a Term RFR it is important to note:

- these are constructed from derivative contracts (typically swaps or futures) on the overnight RFR, representing future rate expectations of the overnight RFR;
- the quality and stability of term RFR's is therefore a function of derivative market liquidity and so are different to the overnight RFRs and pose additional risks in their use, representativeness and potentially their availability;
- if these derivative markets on which term RFRs are typically based are not consistently as large as overnight wholesale lending markets, those term RFR's may not be as robust as daily RFRs;

- Term RFRs might be affected by a spike in derivative prices on the particular day the rate is taken with this rate being fixed and used to calculate interest for each day in the interest period. When using overnight RFRs on the other hand, daily rates are determined for each day during the interest period meaning any one-day spike in rates could have a significantly smaller impact on interest calculated;
- The performance of Term RFRs have not yet been (stress) tested in a period of market stress and therefore their behaviour in these circumstances is unknown at present;
- There is a risk that Term RFRs may not be available or allowed for all your required borrowing currencies and this should be considered if convention alignment across currencies is important to you.

RFRs generally

- the manner of adoption, calculation and application of RFRs in loan facilities and/or trade facilities may differ compared with the application, calculation and adoption of RFRs in other markets, such as the bond and derivatives markets;
- using a RFR where interest is calculated using one calculation methodology (e.g. RFR compounded in arrears), could mean that amounts payable are lower or higher than using an alternative interest rate benchmark or a RFR calculated using a different methodology (e.g. forward looking term RFR);
- if you have a multi-currency facility with us or a combination of products, you may find that they use different interest rate benchmarks for calculating interest and the methodologies and conventions for each will differ. You should consider the impact this may have on you from an operational perspective;
- interest rate calculation conventions for RFR and Term RFR will likely require your internal treasury, accounting and payment systems to be enhanced in order for you to manage the servicing of these products in an accurate, efficient and timely manner;

- future changes to market practice or conventions relating to the use of RFRs in loan and/or trade facilities could potentially be adverse to your interests, require you to make changes to the documentation you have executed with us or to other administrative and operational changes you have already made. These further changes could result in you incurring additional costs.

Fallbacks

Your RFR facility may include fallbacks to apply should the rate be temporarily unavailable or become permanently unavailable, such as if the rate is withdrawn from publication in the future.

The operation of these fallback provisions might result in changes to the amounts payable under your facility which might be lower or higher than would have been payable had the original rate applied and might operate in a different way to the original rate.

Hedging Considerations

It is important that you ensure that any hedging product appropriately and effectively hedges the exposure under your facility and that the requirements for any particular accounting treatment are satisfied. A misalignment of rates, methodologies or fallbacks may result in an inappropriate or ineffective hedge.

Furthermore, in the event of a restructuring or termination of any associated hedging product(s) you have with HSBC or another hedging provider, a payment may be due from you to HSBC or that hedging provider. Such payment may be significant.

It is not certain that hedging products based on forward looking RFRs will be available. HSBC does not currently offer any term RFR hedging products.

What should you do if you have any questions?

We strongly recommend you seek guidance from your usual professional advisers if you have any questions.

Further information is available at:

www.business.hsbc.com/ibor

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Head Office: 885 West Georgia Street, Vancouver,
BC, V6C 3E8.

Interest Rate Benchmarks

Risk Disclosure for EURIBOR lending and trade facilities with HSBC Bank Canada

What is EURIBOR?

The Euro Interbank Offered Rate (“EURIBOR”) is an interest rate benchmark which is used directly or indirectly to determine the fees, charges, commission, interest and other amounts payable under some loans and trade facilities.

What is changing?

There is currently no expectation that EURIBOR will cease to be published (unlike LIBOR, which will cease to be published). The underlying calculation methodology of EURIBOR has been reformed to align with benchmark regulatory expectations. However, there are certain changes to trade and loan facilities which reference EURIBOR which have been recommended by the euro working group on risk-free rates (EURWG) to help ensure an orderly transition away from EURIBOR, should EURIBOR be discontinued at some point in the future. Any discontinuation of EURIBOR would likely follow an industry consultation process with appropriate implementation timelines.

Why are we sending this to you?

The following is provided for general information only. You should conduct your own independent research and analysis regarding the risks involved, including considering whether a product referencing EURIBOR and its related fallbacks (as described further here) is right for you, in conjunction with your legal, tax, accountancy and other advisers. The statements below are not exhaustive. While HSBC receives updates from regulators as to their expectations, there are events relevant to benchmark rates which are not yet known. Accordingly, HSBC cannot give any statement about the likelihood of any specific outcome or its potential impact on any transaction or customer position nor is HSBC providing any advice or recommendation.

The temporary and permanent fallbacks for HSBC Bank Canada’s lending and trade facilities

HSBC’s Canadian lending and trade facilities generally include “fallback” provisions that will apply if the EURIBOR screen rate is unavailable, either temporarily or permanently. The fallback provisions generally provide as follows, although we recommend you review your documentation carefully as your circumstances may require a different approach:

- ♦ **Temporary Unavailability:** If the EURIBOR screen page is not available temporarily, the rate from the last available EURIBOR Business Day may be used.
- ♦ **Permanent Discontinuance:** If there is a permanent discontinuance or unavailability of EURIBOR or a EURIBOR Period, the Euro Short-Term Rate (ESTR) published by the European Central Bank for EURIBOR may be used.

The operation of the temporary and permanent fallback provisions outlined above might result in changes to the amounts payable under your lending and/or trade facilities. Such amounts might be lower or higher than would have been payable if EURIBOR had applied and might operate in a different way to EURIBOR. The rate used may be different to EURIBOR.

The temporary and permanent fallback provisions and trigger events outlined in this risk disclosure may be different for syndicated transactions.

What should you do if you have any questions?

HSBC is unable to provide you with specific advice or recommendations on this issue. We strongly recommend you seek guidance from your usual professional advisers if you have any questions.

Further information is available at:

www.business.hsbc.com/ibor

EURIBOR Risk Disclosure – Oct 2022

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