European Union's Central Securities Depository Regulation

Introduction

The European Union's Central Securities Depositories' Regulation ("CSDR") is one of the key regulations adopted following the recent financial crisis. The regulation sets out to increase the safety and efficiency of the operational aspects of securities settlement in the European Economic Area ("EEA"). It imposes an obligation on financial institutions to offer clients the choice of omnibus vs. individual segregation of their securities for their custodial safekeeping arrangements.

The CSDR is now being implemented across the EEA. As a direct participant of the European Union Central Securities Depositories (CSDs), specifically Euroclear and its affiliates and Clearstream, HSBC Private Banking is required to offer to our clients the choice of account structures: Omnibus (which is the current account structure), or Individual Segregated Account held with the applicable CSDs.

Account Structures Overview

As a result of the new regulation, the following two types of accounts will become part of HSBC Private Banking's Custody safekeeping offering for our clients.

- Omnibus Client Segregated Accounts

In an Omnibus structure, the Omnibus Client Segregated Account ("OSA") at the CSD holds the securities of a number of clients on a collective basis. HSBC Private Banking presently holds Omnibus accounts in its own name (or nominee name) at those CSDs in which our clients' securities are held. Each client's individual entitlement to their securities is held in a separate account within HSBC Private Banking.

- Individual Client Segregated Accounts

An Individual Client Segregated Account ("ISA") at the CSD holds the securities of a single client, separate from the securities of other clients and separate from HSBC Private Banking's omnibus account.

What you need to do

Please review the notification below for more information about the two account structures. If you wish to change your account structure from an OSA to an ISA, please contact your Relationship Manager to review the risks associated with these options and the related additional fees associated with setting up an ISA.

There is no need to respond to this notice if you wish to leave the structure(s) of your account(s) unchanged.

If you have any further questions relating to CSDR and how it affects your account(s), please contact your Relationship Manager. You understand that securities, investments and other non-deposit products, as well as certain deposits, are not (unless otherwise specifically stated) insured in the United States by the Federal Deposit Insurance Corporation (FDIC); are not guaranteed by HSBC, its subsidiaries or affiliates; may lose value; and are subject to the risks, including loss of principal investment, which are applicable solely to your Account.

Below is HSBC Private Banking's notice to clients on the European Union's Central Securities Depositories regulation, and our offer of choice between OSA and ISA accounts for safekeeping securities with the CSDs.

Notice to clients of HSBC Private Banking, a division of HSBC Bank USA, N.A. ("HSBC") under European Union's Central Securities Depositories' Regulation ("CSDR") CSDR Article 38(5) and (6)

Background

The European Union's Central Securities Depositories' Regulation ("CSDR") is currently being implemented across the European Economic Area ("EEA"). CSDR requires Central Securities Depositories ("CSDs") such as Euroclear Bank SA/NV, including any affiliates ("Euroclear") and Clearstream Banking SA ("Clearstream") to become authorized by their National Competent Authority, which is generally the national regulator. Once a CSD receives authorization, the CSD and their CSD participants must be in compliance with the CSDR requirements. HSBC Bank USA, N.A., ("us", "we" or "HSBC") is considered a direct CSD participant of Euroclear and Clearstream, and therefore HSBC must comply with the applicable requirements under CSDR Article 38(5) and Article 38(6).

- CSDR Article 38(5) requires that *any CSD participant offer its clients a choice between (i) an omnibus client segregation of accounts ("OSAs") and (ii) individual client segregation of accounts ("ISA") and inform them of the costs and risks associated with each option.*

- CSDR Article 38(6) requires *CSDs and their participants to publicly disclose the levels of protection and the costs associated with the different levels of segregation that they provide and shall offer those services on reasonable commercial terms. Details of the different levels of segregation shall include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions.*

CSDR applies to HSBC when it acts as a direct CSD participant. If HSBC holds client securities through a sub-custodian, the CSDR requirements will apply to the subcustodian and not to HSBC in that situation.

A. Notice of Offer of Choice of Segregated accounts at Central Securities Depository ("CSD") level under CSDR Article 38(5)

HSBC is hereby offering you the choice to hold your securities in an Individual Client Segregated Account ("ISAs") or an Omnibus Client Segregated Account ("OSA") in accordance with CSDR Article 38(5). This offer becomes effective upon the authorisation of the applicable CSD[s]. In the case of securities which we hold for you as client assets in our capacity as a participant in an EEA CSD, please advise us:

- For securities currently held in an OSA, please contact us if you would like HSBC to set up one or more ISAs at the applicable EEA CSD level to hold your securities; or

- For securities currently held in an ISA, please contact us if you would like HSBC to move any of your securities into an OSA at the applicable EEA CSD level to hold your securities[1].

B. CSDR Article 38(6) CSD Participant Disclosure

See Appendix A included in this notice which discloses the different levels of protection associated with the different levels of segregation for ISAs and OSAs. Details of the different levels of segregation also include a description of the main legal implications of the respective levels of segregation offered, including information on the insolvency law applicable in the relevant jurisdictions. For details on the fees for segregated accounts, please contact your Relationship Manager.

[1] Please note that there are markets where individual segregation is mandatory under local laws and regulations and for these cases the choice of segregation levels is not applicable.

Appendix A

CSDR Article 38(6) CSDR Participant Disclosure: HSBC Private Banking, a division of HSBC Bank USA, N.A.

1. Introduction

The purpose of this document is to disclose the levels of protection and costs associated with the different levels of segregation that HSBC Bank USA, N.A. ("us", "we" or "HSBC") acting directly through our office in United States, provides in respect of securities that we hold directly for clients with Central Securities Depositories ("CSDs") within the European Economic Area ("EEA"), including a description of the main legal implications of the respective levels of segregation offered and information on the insolvency law applicable. This disclosure is required under Article 38(6) of the Central Securities Depositories Regulation ("CSDR") in relation to CSDs in the EEA.

Under CSDR, the CSDs of which we are a direct participant (see glossary below) have their own disclosure obligations.

This document is not intended to constitute legal or other advice and should not be relied upon as such. Clients should seek their own legal advice if they require any guidance on the matters discussed in this document.

This document may be updated from time to time, with the most recent version being made available on our website. You should ensure that you consider the most recent version of this document on our website, which will supersede and override any previous version.

Additionally, the disclosures included in this document are for information purposes only and do not constitute part of any agreement between you and us.

2. Background

We record each client's individual entitlement to securities that we hold for that client in one or more client securities accounts established and maintained for such client in our own books and records pursuant to the terms of the custodial services agreement between the client and us. We also open accounts with CSDs in our own (or in our nominee's) name in which we hold clients' securities. We currently make two types of accounts with CSDs available to clients: Individual Client Segregated Accounts ("ISAs") and Omnibus Client Segregated Accounts ("OSAs").

An ISA is used by us to hold the securities of a single client and therefore the client's securities are held separately from the securities of other clients and our own proprietary securities.

An OSA is used to hold the securities of a number of clients on a collective basis. However, we do not hold our own proprietary securities in OSAs.

3. Main legal implications of levels of segregation

Insolvency

Clients' legal entitlement to the securities that we hold for them directly with CSDs would not be affected by our insolvency, regardless of whether those securities are held in ISAs or OSAs.

The distribution of the securities in practice on an insolvency would depend on a number of factors, the most relevant of which are discussed below.

Application of insolvency law in the U.S.

As a U.S. insured depository institution, if we were to become insolvent or in certain other events, we would be subject to U.S. authority exercised by the FDIC, including its ability to institute U.S. resolution proceedings (see glossary) and, as receiver, act on our U.S. resolution plan (see glossary).

Under the provisions of law applicable to U.S. national banking associations (including requirements specified by the U.S. Office of the Comptroller of the Currency (OCC)) and the provisions of law applicable to national banks, structural risk mitigants which provide client protections include that client securities are not held on our balance sheet as our assets and client securities are required to be separately identifiable and fully segregated from our

assets. Under the U.S. Federal Deposit Insurance Act and other applicable U.S. law with regard to insolvency, securities that we held on behalf of clients would not form part of our estate in resolution, would not be subject to the claims of our general creditors and would not be available to the FDIC, as receiver, for any purpose other than distribution to applicable clients or upon clients' instructions (except for transfer to a successor custodian appointed by the FDIC).

It would not be necessary for clients to make a claim in our insolvency as a general unsecured creditor in respect of those securities. Securities that we held on behalf of clients would also not be subject to any authority of the FDIC, as receiver, which may be applied to us to limit or reduce any of our obligations in the implementation of our U.S. resolution plan.

Accordingly, where we hold securities in custody for clients and those securities are considered the property of those clients rather than our own property, they should be protected on our insolvency or resolution. This applies whether the securities are held in an OSA or an ISA.

Nature of clients' interests

Although our clients' securities are recorded in our name at the relevant CSD, we hold them on behalf of our clients, who are considered as a matter of law to have a beneficial ownership interest in those securities. This is in addition to any contractual right a client may have against us to have the securities delivered to them.

This applies both in the case of ISAs and OSAs. However, the nature of clients' interests in ISAs and OSAs is different. In relation to an ISA, each client is considered to have a beneficial interest in all of the securities held in the ISA. In the case of an OSA, as the securities are held collectively in a single account, each client is normally considered to have a beneficial interest in all of the securities in the account proportionate to its holding of securities as recorded in our books and records.

Our books and records constitute evidence of our clients' beneficial interests in the securities. The ability to rely on such evidence would be particularly important on our insolvency and in the case of an OSA, since no records of individual clients' entitlements would be held by the relevant CSD. In the case of either an ISA or an OSA, an insolvency practitioner may require a full reconciliation of the books and records in respect of all securities accounts prior to the release of any securities from those accounts.

As a professional custodian, we maintain accurate books and records and conduct the reconciliation of our records against those of the CSDs with which accounts are held. We are also subject to regular audits in respect of our compliance with those.

We are subject to the OCC's supervisory guidance for the provision of custody services (Custody Services Guidance). We are also subject to regular examinations in the US in respect of our compliance with those requirements. Subject to the maintenance of books and records in accordance with the Custody Services Guidance, clients should receive the same level of regulatory protection on insolvency from both ISAs and OSAs.

Shortfalls

If there were a shortfall between the number of securities that we are obliged to deliver to clients and the number of securities that we hold on their behalf in either an ISA or an OSA, this could result in fewer securities (of the type where a shortfall has arisen) than clients are entitled to being returned to them on our insolvency. The way in which a shortfall could arise would be different as between ISAs and OSAs (see further below).

How a shortfall may arise

Where we have been requested to settle a transaction for a client and that client has insufficient securities held with us to carry out that settlement, in the case of both an ISA and an OSA, we only carry out the settlement once the client has delivered to us the securities needed to meet the settlement obligation.

However, a shortfall could arise for a number of reasons including as a result of administrative error, operational issues, intraday movements or counterparty default following the exercise of rights of reuse. Although, we do not permit clients to make use of, or borrow securities belonging to other clients for intra-day settlement purposes, even where the securities are held in an OSA, should there be a shortfall of securities in your account, the omnibus structure avoids a delay in settlement and/or increased costs to buy-in additional securities to meet

settlement obligations. An ISA does not allow for this reduction in settlement risk. In this respect we believe the protection offered to OSAs and ISAs is not substantially different. The impact of this approach is increased risk of settlement failure, which in turn may incur additional buy in costs or penalties and/or may delay settlement, as we would be unable to settle where there are insufficient securities in the account.

Nothing in this paragraph should be construed to override any obligation that the client owes us in respect of any irrevocable payment or delivery obligations (as these terms are defined in the custodial services agreement which we have in place with the client as amended or supplemented from time to time) which we incur in settling that client's trades.

Treatment of a shortfall

In the case of an ISA, the whole of any shortfall on that ISA would be attributable to the client for whom the account is held and would not be shared with other clients for whom we hold securities. Similarly, the client would not be exposed to a shortfall on an account held for another client or clients.

In the case of an OSA, the shortfall generally would be shared among the clients with an interest in the securities held in the OSA, pro rata in accordance with the amounts of their respective interests (see further below). Therefore, a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.

The risk of a shortfall arising is, however, mitigated as a result of our obligation under the applicable client asset rules in our jurisdiction and/or our client asset policy in certain situations to set aside our own cash or securities to cover shortfalls however identified, including during the process of reconciling our records with those of the CSDs with which securities are held.

Subject to the relevant custody agreement between client and us, if a shortfall arose for which we are liable to clients, and we do not set aside our own cash or securities to cover the shortfall, the clients may have a claim against us for any loss suffered. If we were to become insolvent prior to covering a shortfall, clients would rank as general unsecured creditors for any amounts owing to them in connection with such a claim. Clients would therefore be exposed to the risks of our insolvency, including the risk that they may not be able to recover all or part of any amounts claimed.

In these circumstances, clients could be exposed to the risk of loss on our insolvency. If securities were held in an ISA, the entire loss would be borne by the client for whom the relevant account was held. If securities were held in an OSA, each of the clients with an interest in that account would bear a loss generally equal to the client's pro rata share of the shortfall.

In order to calculate clients' shares of any shortfall in respect of an OSA, each client's entitlement to securities held within that account would need to be established as a matter of law and fact based on our books and records. Any shortfall in a particular security held in an OSA would then be allocated among all clients with an interest in that security in the account. It is likely that this allocation would be made rateably between clients with an interest in that security in the OSA, although arguments could be made that in certain circumstances a shortfall in a particular security in an OSA should be attributed to a particular client or clients. It may therefore be a time consuming process to confirm each client's entitlement. This could give rise to delays in returning securities and initial uncertainty for a client as to its actual entitlement on an insolvency. Ascertaining clients' entitlements could also give rise to the expense of litigation, which could be paid out of clients' securities.

Security interests

Security interest granted to third party other than a CSD

Security interests granted over clients' securities (which for the avoidance of doubt must always be granted in accordance with the terms of the custodial services agreement and/or additional contractual agreements that we have in place with them) could have a different impact in the case of ISAs and OSAs.

Where the client purports to grant a security interest over its interest in securities held by us in an OSA and the security interest was asserted against the CSD with which the account was held, there could be a delay in the return of securities to all clients holding securities in the relevant account, including those clients who had not granted a security interest, and a possible shortfall in the account. However, in practice, we would expect that the

beneficiary of a security interest over a client's securities would perfect its security by notifying us rather than the relevant CSD and would seek to enforce the security against us rather than against such CSD, with which it had no relationship. We would also expect the CSDs to refuse to recognise a claim asserted by anyone other than ourselves as account holder.

Security interest granted to CSD

Whether or not the CSD may benefit from a security interest will be regulated by the CSD's own rules. Such rules may also regulate the CSD's approach to enforcement of such security interest. Should the CSD benefit from a security interest over securities held for a client, there could be a delay in the return of securities to a client (and a possible shortfall) in the event that we failed to satisfy our obligations to the CSD and the security interest was enforced. This applies whether the securities are held in an ISA or an OSA. However, in practice, we would expect that a CSD would first seek recourse to any securities held in our own proprietary accounts to satisfy our obligations and only then make use of securities in client accounts. We would also expect a CSD to enforce its security rateably across client accounts held with it.

Corporate actions

Where securities are held in an ISA and the client is entitled to a fractional entitlement on a corporate action, it is possible that the client would not in practice benefit from that fractional entitlement. However, where securities are held in an OSA, fractional entitlements may be received on an aggregated basis and therefore it is more likely that the clients may be able to benefit from some or all of those fractional entitlements.

Our insolvency may also have an impact on our ability to collect any entitlements, such as dividends, due on clients' securities held in an ISA or OSA or exercise any voting rights in respect of those securities.

4. CSD disclosures

In this section, we set out links to the websites of CSDs in which we are a participant as of the date of this document. We expect relevant CSDs to make their own disclosures in respect of CSDR Article 38. Any disclosures on these websites are provided by the relevant CSDs. We have not investigated or performed due diligence on the disclosures and clients rely on the CSD disclosures at their own risk.

Central Securities Depositories and websites:

Clearstream Banking SA	http://www.clearstream.com
Euroclear Bank SA/NV	https://www.euroclear.com/en.html

5. Costs disclosure

Typically, the set up and maintenance costs for ISAs are greater than for OSAs. This is due to the additional operational complexity and expenditures involved in setting up and maintaining an ISA on an ongoing basis. This disclosure is intended to provide a summary of the factors which determine the overall costs of setting up and maintaining an ISA, or an OSA.

Costs for OSAs and ISAs

The main factors which will determine the aggregate costs are likely to include:

- whether the account type is ISA or OSA
- how many accounts are required
- technical set up at the Central Securities Depository (CSD), including the set-up and maintenance fees, charged by the CSD
- the set up and maintenance costs at HSBC internally

- the types of services you require in relation to the account(s).

The recurrent account maintenance fee will be charged in line with your selected account structure.

We do not expect changes to charges for clients who remain on the OSA setup and we are happy to discuss and confirm the exact fees applicable for establishing and running an ISA for you. If you would like to take up this option please contact your Relationship Manager.

Glossary

Central Securities Depository or **CSD** is an entity which records legal entitlements to dematerialised securities and operates a system for the settlement of transactions in those securities.

Central Securities Depositories Regulation or **CSDR** refers to EU Regulation 909/2014 which sets out rules applicable to CSDs and their participants.

Direct participant means an entity that holds securities in an account with a CSD and is responsible for settling transactions in securities that take place within a CSD. A direct participant should be distinguished from an indirect participant, which is an entity, such as a global custodian, which appoints a direct participant to hold securities for it with a CSD.

EEA means the European Economic Area.

FDIC means the U.S. Federal Deposit Insurance Corporation.

U.S. resolution proceedings are proceedings for the resolution of failing insured depository institutions under Sections 11 and 13 of the U.S. Federal Deposit Insurance Act.

U.S. resolution plan means our resolution plan, commonly known as a living will, periodically submitted for approval to the FDIC pursuant to Part 360.10 of the FDIC's regulations that describes our strategy for rapid and orderly resolution of our businesses (including, in whole or in part, continuation, reorganization, transfer or liquidation) in the event of our insolvency or similar event.

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