*Advisory Platform Programme*

Asset Classification Workstream

Artefact:

Asset Classification rules

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2 Governance & Document Management

2.1 Revision History

| **Date**  08.11.17 | **Version**  0.1 | **Status**  Draft | **Prepared by**  BlackRock | **Comments**  Initial Draft |
| --- | --- | --- | --- | --- |
| 14.11.17 | 0.2 | Draft | BlackRock | Added Single-Line Equities product type |
| 21.11.17 | 0.3 | Draft | BlackRock | Added delisted security and risk country |
| 04.12.17 | 0.4 | Draft | BlackRock | Revised as per feedback.  Added fixed income sections |
| 09.01.18 | 0.5 | Draft | BlackRock | Revised fixed income section.  Added Alternatives section |
| 26.01.18 | 0.6 | Draft | BlackRock | Finalized Fixed Income and Equity sections. Removed Alternatives section given pending revision |
| 21/02/18 | 0.7 | Draft | Ntiana Beracha | Edited comments |
| 22/02/2018 | 0.8 | Draft | Michael Arrowsmith | Incorporating comments & recent items from the action log |
| 01/08/2018 | 0.9 | Draft | Declan Murphy | Edited comments and provided feedback from Equity Product Leads |
| 06/03/2018 | 0.10 | Draft | Michael Arrowsmith | Incorporating feedback from Equity Product Leads |
| 07/03/2018 | 0.11 | Draft | Michael Arrowsmith | Incorporating currency definitions and other feedback |
| 13/03/2018 | 0.12 | Draft | Michael Arrowsmith | Finalizing Fixed Income sections |
| 14/03/2018 | 0.13 | Draft | Michael Arrowsmith | Finalizing Fixed Income sections |
| 15/03/2018 | 0.14 | Draft | Declan Murphy | Finalizing Fixed Income & Liquidity sections |
| 22/03/2018 | 0.15 | Draft | Declan Murphy | Updated with final input from Laurent & Regional Asia feedback |
| 22/05/2018 | 0.16 | Draft | Michael Arrowsmith | Added Alternative section for HSBC to fill in |
| 08/06/2018 | 0.17 | Draft | Michael Arrowsmith | Added FX section (sections for HSBC to fill in) |
| 25/06/2018 | 0.18 | Draft | Bo Osibodu | Completed FX section following feedback from FX leads |
| 27/06/2018 | 0.19 | Draft | Monsur Rashid  Declan Murphy | Preliminary definitions for Alternatives section added |
| 20/07/2018 | 0.20 | Draft | Bo Osibodu | Preliminary definitions for Structured Product section added |

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| 26/07/2018 | 0.21 | Draft | Bo Osibodu | Asset Classification Mapping Rules for Structured Products and FX expanded |
| --- | --- | --- | --- | --- |
| 01/08/2018 | 0.22 | Draft | Maria Makrii | Added attributes section |
| 01/08/2018 | 0.23 | Draft | Declan Murphy | Full Document Review |
| 02/08/2018 | 0.24 | Draft | Bo Osibodu | Funds & ETF Product Type and Asset Class section incorporated and Full Document Review |
| 06/08/2018 | 0.25 | Draft | Bo Osibodu | Asset Classification for REITs updated |
| 07/08/2018 | 0.25 | Draft | Geraldine Carvello | Removing "Stock Borrowing and Lending" and "Bond Borrowing and Lending" from Product types Level3, to align with Classification regime |
| 09/08/2018 | 0.26 | Draft | Declan Murphy | Small addition to the list of Focused  Morningstar Categories in section 7.4, alignment of Attributes definitions and values to final agreed view in section 6 |
| 05/08/2018 | 0.27 | Draft | Bo Osibodu | Structured product and Derivative Asset Classification Updated. |
| 11/09/2018 | 0.28 | Draft | Bo Osibodu | Deposit and Credit Facilities (Product Type) updated. |
| 12/09/2018 | 0.29 | Draft | Bo Osibodu | Credit Facilities, Contingent Liabilities and Margin Trading (Product Type) added. |
| 13/09/2018 | 0.30 | Draft | Bo Osibodu | Streamlined SP asset classification rules |
| 17/09/2018 | 0.31 | Draft | Michael Arrowsmith | Added sections Asset Class sector “Other mixed”, Product Type section for Index and revised wording & formatting elsewhere. |
| 20/09/2018 | 0.32 | Draft | Michael Arrowsmith | Changed Country breaks in Appendix |
| 03/10/2018 | 0.33 | Draft | Michael Arrowsmith | Added section on the aggregation of Asset Classification |
| 04/10/2018 | 0.34 | Draft | Bo Osibodu | Added definitions for Product type Deposits and Cash, Credit, Contingent Liabilities, Margin Trading, and Others |
| 05/10/2018 | 0.35 | Draft | Michael Arrowsmith | Amended Morningstar categories in Focused Fund mappings in the Appendix that were back to front |
| 19/10/2018 | 0.36 | Draft | Michael Arrowsmith | Updated Morningstar Categories considered Focused |
| 31/10/2018 | 0.37 | Draft | Michael Arrowsmith | Updated Morningstar Categories considered Focused and defined the PM types |
| 05/11/2018 | 0.38 | Draft | Michael Arrowsmith | Updated Morningstar Categories considered Focused |
| 19/11/2018 | 0.39 | Draft | Michael Arrowsmith | Updating Depositary Receipt & Preferred share definition |

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| 30/11/2018 | 0.40 | Draft | Barbora Letavayova | Addition of Asset Type section in Appendix |
| --- | --- | --- | --- | --- |
| 06/02/2019 | 0.41 | Draft | Bo Osibodu | Separation of Accumulator and Decumulator to mirror update to ACR |
| 08/04/2019 | 0.42 | Draft | Barbora Letavayova | Correction of FAQ 4.2.5  Addition of Definitions |
| 09/06/2019 | 0.43 | Draft | Michael Arrowsmith | Updating sector names to match revised HSBC asset class schema |
| 11/06/2019 | 0.44 | Draft | Michael Arrowsmith | Updating Fund classification sector for Fixed Income and adding section on overrides |
| 17/06/2019 | 0.45 | Draft | Michael Arrowsmith | Adding EuroFund definition |
| 08/03/2021 | 0.46 | Live | Brian Waldele | Update For REIT & Units |
| 06/05/2022 | 0.47 | Live | Michael Arrowsmith | Updates to asset class for Asia AC  enhancement (more granularity) and addition of new SP product types. Additions also for Liquidity – Insurance for EuroFunds |
| 02/08/2022 | 0.48 | Live | Vishal Suhindani | Updates to fund lookthrough for new holdings methodology |
| 02/08/2022 | 0.49 | Live | Michael Arrowsmith | Providing more colour on handling of FX Forward/Spot in AC in portfolios section |
| 19/10/2022 | 0.50 | Live | Vishal Suhindani | Updates to the handling of fund liquidity holding – now classified as other mixed upon request; Updated the focused fund mapping table in appendix |

2.2 Document Control

| **Role**  Owner | **Name**  Hani Daou | **Role**  Asset Classification Lead | **E-mail** | **Telephone** |
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| Reviewer | Bo Osibodu | Asset Classification |  |  |
| Reviewer | Barbora Letavayova | Asset Classification |  |  |
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2.3 Document Approval

| **Role**  Programme Sponsor | **Name**  Stuart Parkinson | **Signature** | **Sign-off Date** |
| --- | --- | --- | --- |
| Budget Owner | Muriel Danis |  |  |
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3 Background

As part of the HSBC PB roll-out of its new Advisory Services Proposition, known as Prism Advisory, BlackRock’s Aladdin is being implemented as the strategic tool to act as a Risk Engine, with supporting Portfolio Construction and Portfolio Management capabilities to underpin and further enhance the GPB Prism Advisory Service Proposition.

Asset Classification will help provide an enhanced Advisory offering. The Asset Classification schema will ensure global consistency and promote alignment to the GPB Strategic Asset Allocation (SAA) which is the HSBC GPB view on the most effective way to achieve a specific Risk & Return target over the long-term.

The implementation of our new Asset Classification Regime will support the following:

• Aligning Client Risk Profiling and Knowledge and Experience assessments with the GPB SAA

classification regime.

• Aligning GPB investment narratives, investment proposals, and portfolio reviews with the GPB SAA classification regime.

• Monitoring clients’ portfolios against the GPB SAA effectively, without manual re-categorisation of a client’s holdings.

• Provision of Advisory Reporting which aligns with the GPB SAA, without manual re-categorisation of a client’s holdings.

• Enrichment of the portfolio construction process and services, as well as monitoring of clients’ holdings by the provision of additional product attributes in GPB Security Master File.

Note that, although Asset Classification will be derived by Aladdin for all securities, HSBC have the ability to override both the classification in any instance (both Asset Class and Product Type). Users can reach out to their local advisory team for further information.

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4 Product Types

4.1 Single-Line FI Securities

4.1.1 Summary

The figure below outlines the three levels of the product schema for Single-line Fixed Income Securities. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Single-Line Fixed Income | Bonds | Bonds |
| Securitized | Securitized Bonds Residential MBS |
| Securitized Bonds Commercial MBS |
| Securitized Bonds ABS |
| Securitized Bonds CMO CDO |
| Securitized Other Mixed |
| Convertible Bonds | Convertible Bonds |
| Bond Options | Bond Options |
| Bond Futures | Bond Futures |
| Certificate Of Deposits And Commercial Paper | Certificate Of Deposits And Commercial Paper |
| Loans | Syndicated Loans |
| Single Line Fixed Income Other Mixed | Single Line Fixed Income Other Mixed |

4.1.2 Level 1

*Single-Line FI securities:*

Single-Line FI securities capture debt obligations and standardized derivative contracts that reference debt obligations. Debt obligations are those that entitle the holder to the payment of principal and interest and are generally issued for a fixed term (although can be perpetual) and redeemable by the issuer at the end of that term (ISO 10962 definition of debt securities).

4.1.3 Level 2 and 3

*Bonds*

These instruments represent the debt obligations of companies, governments and government-related entities. These securities are used by entities to raise funds for investment and are accompanied with defined rules of payment and seniority in the event of default of the issuer.

Note that inflation linked bonds and covered bonds are captured within this product type, each will be identified through an additional (Y/N) attribute flag.

Note that this product type (i.e. Bonds) does contain Contingent Capital Notes (CCNs) of which “CoCos” are a subcomponent.

CCNs are hybrid securities issued by Financial institutions that provide a buffer in times of distress by absorbing losses. CCNs have two core features, the loss absorption method (either conversion to equity or a principal write down) and the trigger (the point at which loss absorption is activated). Triggers can be mechanical triggers (based on a specific capital ratio of the entity) or discretionary triggers (at the discretion of the relevant regulatory body, generally at the point of non-viability (PONV)).

HSBC PB distinguishes CoCos from other CCNs based on the trigger, only those instruments with a mechanical trigger are considered CoCos. These securities will be classified as bonds and separately identified through their ‘CoCo’ attribute which would indicate yes, they would also have a debt rank of “Junior Subordinated”. CCNs with

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a discretionary trigger will also be classified as bonds, however will not be flagged as CoCos. All CCNs (regardless of trigger mechanism) will be identified as ‘Bail-in Eligible’ through a specific Bail-in Eligible attribute.

*Syndicated Loans*

This product type represents Syndicate Loans i.e. a loan offered by a group of lenders – referred to as a syndicate – that work together to provide funds for a single borrower. The borrower could be a corporation, a large project or a sovereignty.

HSBC’s clients currently do not participate in syndicate loans through HSBC PB, nor does HSBC PB provide advice on such products. Should this change, HSBC will provide terms and conditions of these securities to BlackRock. This product type has been left in the manual to ensure completeness, since this is expected to change in the future.

*Securitized Bonds Residential MBS*

Securities backed by a pool of residential mortgages. Note that this product type includes adjustable rate mortgages.

*Securitized Bonds Commercial MBS*

A form of mortgage-backed security that is secured by mortgages on commercial properties, instead of residential.

*Securitized Bonds ABS*

Securities backed by financial assets other than mortgage loans, such as auto loans, whole business loans or credit cards.

*Convertibles Bonds*

Securities that can convert into equity. Note that this product type includes exchangeable convertible bonds. These are convertibles where the equity is that of another company and not the issuer of the convertible bond. For example, National Westminster Bank Convertible, ISIN: XS0041078535.

Note that this product type does not contain Contingent Capital Notes (CCNs) of which “CoCos” are a subcomponent. CCNs, including CoCos are captured under Bonds. CoCos specifically will be identified through a ‘CoCo’ attribute as stated above.

*Bond Options*

Options to buy or sell a bond at a certain price on or before the option expiry date. These can also be on Bond Futures.

*Bond Future*

Bond Futures are financial derivatives which obligate the contract holder to purchase or sell a bond on a specified date at a predetermined price. A bond future can be bought in a futures exchange market and the prices and dates are determined at the time the future is purchased.

*Certificates Of Deposits And Commercial Paper*

A certificate of deposit is a time deposit, akin to a saving accounts. Commercial paper is an unsecured, short term debt instrument issued by a corporation. Note, this product type also contains commercial paper issued by municipal entities.

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4.1.4 Examples

The following are indicative product level examples:

• Bonds:

o *German Nominal Government Bond:*

o *Description:* Bundesrepublik Deutschland 1.5% 04/09/2022

o *ISIN:* DE0001135499

o *SEDOL*: B7YJD46

• Syndicate Loan:

o *Description:* VERISR TL B1E 1L EUR Corp

• Securitized Bonds Residential MBS:

o *Description:* FGOLD 30YR GIANT

o *ISIN:* US3128M5EY23

• Securitized Bonds Commercial MBS:

o *Description:* DBJPM\_16-C3

o *ISIN:* US23312VAF31

• Securitized Bonds ABS:

o *Description:* TOBACCO SETTLEMENT FING CORP L

o *ISIN:* US88880PBW32

• Securitized Bonds CMO CDO:

o *Description:* FNMA\_12-72

o *ISIN:* US3136A64N15

• Convertible Bond:

o *Description:* TWITTER 0.25 % NOTES 2015-15.9.19 CONV

o *ISIN:* US90184LAB80

o *SEDOL:* BYYN507

• Bond Option:

o *Description:* MAR18 RXH8 C @ 160

o *ISIN:* DE000C08RE47

• Bond Futures:

o *Description:* US 10YR NOTE (CBT) FUT JUN 17

o *Bloomberg Ticker:* TYM7 COMDTY

• Certificate Of Deposits And Commercial Paper:

o *Description*: HINGHAM INSTITUTION FOR SAVINGS

o *ISIN:* US433323AL65

4.1.5 FAQs

*Q: Where are capital securities captured?*

A: These securities fall under both L1: Single-line FI > L2: Bonds and L1: Single-line Equities > L2: Preferred Shares. These are securities that possess characteristics of both equity and debt issues (hybrid), and if issued by a bank holding company they are treated as capital (Equity) rather than liabilities. Note, CoCos are treated differently, see below.

Capital securities are generally captured as Bonds. However, there are exceptions where Trust Preferred securities (including Bank Trust Preferred securities) and Tier 1 capital securities (excluding CoCos) are structured as preferred equities and appear in Single-Line Equities. Please see the Preferred Shares section in Single-Line Equities product type section for more details.

*Q: Where are CoCos captured?*

A: These securities are captured under bonds and are hybrid securities issued by Financial institutions. CoCos provide a buffer in times of distress by absorbing losses through converting into equity. The trigger event that causes conversion is dependent on the CET1 ratios of the issuer.

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Note that “CoCos” are a subcomponent of Contingent Capital Notes (CCNs). CCNs are hybrid securities issued by Financial institutions that provide a buffer in times of distress by absorbing losses. CCNs have two core features, the loss absorption method (either conversion to equity or a principal write down) and the trigger (the point at which loss absorption is activated).

HSBC PB distinguishes CoCos from other CCNs based on the trigger, only those instruments with a mechanical trigger are considered CoCos. These securities will be classified as bonds and separately identified through their ‘CoCo’ attribute which would indicate yes, they would also have a debt rank of “Junior Subordinated”. CCNs with a discretionary trigger will also be classified as bonds, however will not be flagged as CoCos. All CCNs (regardless of trigger mechanism) will be identified as ‘Bail-in Eligible’ through a specific Bail-in Eligible attribute.

*Q: Where are Government, Municipal and Agency debt captured?*

A: These securities are captured under Bonds in the product type breakdown. Differentiation between debt issued by Governments and Municipalities will be made in the Asset Class schema. Assuming the bonds are issued by Developed Market issuers, the former will fall under Government Developed and the latter under Government Related Developed. If the bonds are issued by an Emerging Market country then the Asset Class Exposure will be either Emerging Market Debt-Hard Currency or Emerging Market Debt-Local Currency. The difference between Governments and Municipalities, however, will be mapped through the Sector attribute. From a Product Type perspective however, all forms of debt will fall under Bonds.

*Q: How are mortgage related corporate debt captured?*

These bonds have property as collateral (i.e. 1st Mortgage), which is part of the issuer’s balance sheet. These are not securitized loans. Examples include:

- *Example 1*

o *Description:* WESTAR ENERGY INC

o *ISIN:* US95709TAH32

- *Example 2:*

o *Description:* TRI-STATE GENERATION AND TRANSMISS

o *ISIN:* US89566EAK47

These securities will fall under the product type of Bonds.

*Q: How is debt that has been issued relating to a SPV/SPE to raise capital for a significant purchase (e.g. Aircraft Lease) treated?*

A: Enhanced Equipment Trust Certificates (EETCs) will fall under “Securitized Bonds – ABS (Non Mortgage)”. EETCs are collateralised corporate debt securities used primarily by airlines to purchase aircrafts. They are secured by the collateral and further supported by certain structural elements, such as debt tranching, availability of liquidity facilities, and overcollateralization.

*Q: How are non-US CMOs captured?*

A: Securitized assets that are not mortgage pass-throughs may generally be referred to as “ABS” in Europe. Within Product Classification however, all European CMOs have been captured in the “Securitized Bonds - CMO/CDO”. All European MBS securities will fall into “Securitized Bonds - Residential MBS” or “Securitized Bonds - Commercial MBS (CMBS)” bucket as appropriate.

For example,

- *Example 1*

o *Description:* Home Equity backed securitized asset

o *Ticker:* BSABS\_06-H7-IIM1

o *ISIN:* US07388HBK41

*Q: How are Bail-in Eligible bonds captured?*

A: Securities that are considered as loss absorbing under FRS, MREL and TLAC or local regulation criteria will be identified by an additional Bail-in Eligible attribute flag.

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4.1.6 Requirements

*Market Data*

• Distinguishing security product types for Level 1 to 3 – Thomson Reuters

*HSBC Security Master Data*

• HSBC are required to identify Syndicated Loans

• HSBC are required to identify Bail-in Eligible debt

• HSBC are required to differentiate CNNs with discretionary triggers vs mechanical triggers (i.e. CoCos) • HSBC are required to identify a Dual Currency Bonds

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4.2 Single-Line Equity Securities

4.2.1 Summary

The figure below outlines the three levels of the product schema for Single-line Equity Securities. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Single-line Equities | Preferred Shares | Preferred Shares |
| Ordinary Shares | Ordinary Share Bearer |
| Ordinary Share Registered |
| Depositary Receipts | Depositary Receipts |
| Equity Options | Equity Options |
| Warrants | Warrants |
| Rights | Rights |
| Futures Options | Futures Options |
| Futures on Equities | Futures on Equities |
| Participation Certificates | Participation Certificates |
| Single Line Equity Other Mixed | Single Line Equity Other Mixed |

4.2.2 Level 1

Single line equity:

Financial instruments representing an ownership in an entity or pool of assets. (ISO 10962 definition)

4.2.3 Level 2 and 3

The sections below describe each product type in the equity product type schema.

*Preferred Shares*

A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock or corporate debt and retail bonds that are traded on stock exchanges and designed for sale to retail investors. Preferred shareholders have priority over common stockholders on earnings and assets in the event of liquidation and they have a fixed dividend (paid before common stockholders).

The definition of preferred shares includes preferred shares with a fixed dividend that often have no voting rights and perpetual preferred shares. Preference shares, which have variable dividends and may have limited voting rights are also captured under Preferred shares. There are a variety of different types of preferences shares which include the Participating Preference shares as well as the following:

- Cumulative Preference Shares

o E.g. AVIVA % CUM IRRD PREF PLC, ISIN GB0002114154, SEDOL: 0211415

- Redeemable Preference Shares

o E.g. CANADIAN UTILITIES LIMITED, ISIN CA1367176429, SEDOL: B98D0M5

- Convertible Preferences Shares

o E.g. BANK OF AMERICA CORP, ISIN US0605056821, SEDOL: B2PB3Z7

Note, some capital securities are captured under preferred shares. Capital securities possess characteristics of both equity and debt issues (hybrid), and if issued by a bank holding company they are treated as capital rather than liabilities. E.g. Citigroup Capital IX, ISIN: US1730662004, SEDOL: 2340618.

Capital securities generally fall within Bonds. Those that are structured as Preferred Shares however, (and thus fall in Single-Line Equity), are Trust Preferred securities (including Bank Trust Preferred securities) and Tier 1 capital securities (excluding CoCos). Tier 1 capital comprises equity-like components such as the following:

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- Ordinary shareholders equity; retained earnings; perpetual (undated) non-cumulative preferred stock (Tier 1 Preferred); reserves created by appropriations of retained earnings, share premiums and other surpluses; and minority interests.

Note that this Product Type also captures Depositary Receipts on Preferred Shares and depositary receipts on Preference shares since they are considered Preferred.

*Ordinary Shares > Ordinary Share Bearer*

A bearer share is an equity security wholly owned by whoever holds the physical stock certificate. The issuing firm neither registers the owner of the stock nor tracks transfers of ownership.

*Ordinary Shares > Ordinary Share Registered*

Securities signifying ownership in a corporation and representing a claim on part of the corporation’s assets and earnings. These securities represent the “Common Stock” portion of the company’s Balance Sheet.

Note, Real Estate Investment Trusts, Real Estate Unit Trusts, Stapled securities and Limited Partnerships (including Master Limited Partnerships) are captured under either “Ordinary Share Registered” or “Preferred Shares” securities.

For Example:

• REIT

o *Description:* Ashford Hospitality Trust REIT

o *SEDOL:* 2310116

• Limited Partnership

o *Description:* Natural Resource Partners

o *SEDOL:* 2019015

• Stapled Securities

o *Description:* Far East Hospitality Trust REIT TR

o *SEDOL:* B8GM577

*Depository Receipts*

A document issued by a bank to represent the foreign company’s publicly traded shares in the place of ordinary registered shares, thus making it easier to deal in foreign securities because the actual stock certificates do not have to be physically transferred. Depository receipts trade on a local exchange but the custodian bank in a foreign country holds the actual shares.

Depository shares represents the foreign shares of the company held on deposit by a custodian bank in the company’s home country and carries the corporate and economic rights of the foreign shares, subject to the terms specified on the ADR certificate.

The following types are considered within this product type:

• Depository Receipt

• ADR (American Depository Receipt)

• ADS (American Depository Shares)

• EDR (European Depository Receipt)

• EDS (European Depository Shares)

• GDR (Global Depository Receipt)

• GDS (Global Depository Shares)

• IDR (International Depository Receipt)

• IDS (International Depository Shares)

• Chess Depository Interests

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• Subscription Receipt

• Thai Non-Voting Depository Receipt

**Note:** Depositary Receipts on Ordinary shares are captured within this product type but Depositary Receipts on Preferred shares are not. This is also true for Depositary Receipts on Preferred Shares. Depositary Receipts on Preferred Shares are captured under the Preferred Shares level 2 Product Type.

*Equity Options*

In its simplest form, an equity option is the right to buy or sell the underlying equity at an agreed-upon price on a specified date or date range. The underlying equity of these instruments can be either a singular registered share or a singular equity index (e.g. the S&P 500 equity index or the Euro Stoxx 50 equity index).

*Warrants*

A derivative security that gives the holder the right to purchase equity from the issuer at a specific price within a certain time frame.

*Rights*

An issue of rights to a company's existing shareholders that entitle them to buy additional shares directly from the company in proportion to their existing holdings, within a fixed period. These securities are like warrants (described below) except that the warrants do not have to be issued only to existing shareholders.

Equity rights also includes Fully Paid rights which are the rights to acquire new shares for which full payment of the subscription price has been made.

*Futures Options*

Options on futures are derivatives which allow a trader to enter into either side of a futures contract. A put is the option to sell a futures contract (to take a short position) and a call is the option to buy a futures contract (to take a long position) at a strike price. The strike price represents the specified price of the contract if the option is exercised. The underlying of these instruments a singular equity index.

*Futures on Equities*

A future is an exchange traded forward contract. The underlying of these forward contracts is either a single stock or an index.

*Participation Certificates*

A participation certificate, in Europe, refers to an interest in a separate class of share capital. In this specific example, the company decided to issue participation notes rather than split the shares (trading at CHF69800 per share) to maintain voting rights.

4.2.4 Examples

The following are indicative product level examples:

• Single Line Equity > Preferred Shares

o *Description:* Co-operative Bank Plc 9.25% PFD

o *ISIN:* GB0002224516

o *SEDOL:* 0222451

• Single Line Equity > Depository Receipt

o *Description:* Banco Santander ADR

o *ISIN:* US05964H1059

o *SEDOL:* 2018186

• Single Line Equity > Warrant

o *Description:* FastJet Plc

o *ISIN:* GB00BD3H7G38

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o *SEDOL:* BD3H7G3

• Single Line Equity > Ordinary Shares – Ordinary Share – Registered

o *Description:* IMPERIAL OIL LTD

o *ISIN:* CA4530384086

o *SEDOL:* 2454241

• Single Line Equity > Rights

o *Description:* CORPORATE TRAVEL MANAGEMENT LTD RT

o *ISIN:* AU0000CTDRB3

o *SEDOL:* BD0XX88

• Single Line Equity > Futures on Equities (exchange traded)

o *Description:* MINI-DAX FUTURE JUN 16

o *Ticker:* DFWM6

• Single Line Equity > Equity Options

o *Description:* DEC19 BBVA C @ 7.750000

o *ISIN:* ES0A01070457

• Single Line Equity > Equity Options

o *Description:* DEC18 DAX P @ 9800.000000

o *ISIN:* DE000P93T430

• Single Line Equity > Futures Options

o *Description:* DEC20 MTX C @ 120.000000

o *ISIN:* DE000C8BN5D8

4.2.5 FAQs

*Q: Are ETFs considered Ordinary shares?*

A: ETFs are captured elsewhere in the product type schema and not within Single Line Equity despite shared characteristics.

*Q: How are Equity Funds Treated?*

A: These securities a grouped with Funds and ETFs, a separate section to Single-Line Equities in level 1 of the Product Type schema. The Asset Class schema captures the fact that the underlying of Funds and ETFs can include equity components, whereas their Product Type captures the security’s features.

*Q: How are Real Estate Investment Trusts, Real Estate Unit Trusts, Limited Partnerships and Master Limited Partnerships captured?*

A: These securities are included within Single-line Equities and captured under the L3 Product Type “Ordinary Shares Registered” or “Preferred Shares”. See section 6.3.3 under *Ordinary Shares > Ordinary Share Registered.*

*Q: How are Depositary Receipt handled?*

A: The domicile of the issuer is used to drive the Asset Class mapping for depositary receipts. Take for example the Cannon ADR (ISIN: US1380063099). The Asset Class is “Developed – Japan” although this American depository receipt is USD denominated. Note that here the country risk may differ to the currency risk for such securities.

*Q: How are Equity linked Notes handled?*

Equity Index linked notes, as well as single name Equity linked notes, will be classified as Structured Products. Please see the Structured Product section 4.4 for more information.

4.2.6 Requirements

*Market Data*

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• Distinguishing security product types for Level 1 to 3 – Thomson Reuters

*HSBC Security Master Data*

• HSBC are required to identify Bearer Shares

• HSBC are required to identify Participation Certificates

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4.3 Funds and ETFs

4.3.1 Summary

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Funds and ETFs | Mutual Funds | Mutual Funds UCITS |
| Mutual Funds Non UCITS US |
| Mutual Funds Non UCITS Non US |
| Mutual Funds - Other Mixed |
| Exchange Traded Products | Exchange Traded Products UCITS |
| Exchange Traded Products Non UCITS US |
| Exchange Traded Products Non UCITS Non US |
| Exchange Traded Products Other Mixed |

4.3.2 Level 1

Funds and Exchange Traded Funds (ETFs) are investable and marketable securities that combine a pool of individual securities into a single financial security which aim to outperform a benchmark (mutual fund) or track a benchmark (ETF).

4.3.3 Level 2

• This is fully Supported by BlackRock – No assumptions needed

• BlackRock will use vendor information to distinguish between Mutual Funds and Exchange Traded products.

4.3.4 Level 3

• This is fully Supported by BlackRock – No assumptions needed

• UCITS designation will be sourced from Morningstar

• Country of domicile (US vs. Non-US) is sourced from other Aladdin data vendors

*Mutual Funds UCITS*

These are a managed pool of securities that aim to outperform a benchmark and follow the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission.

*Mutual Funds Non UCITS US*

These are a managed pool of securities domiciled in the US that aim to outperform a benchmark where the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission does not apply.

*Mutual Funds Non UCITS Non US*

These are a managed pool of securities not domiciled in the US that aim to outperform a benchmark where the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission does not apply.

*Exchange Traded Products UCITS*

These refer to exchange traded products that aim to track a benchmark and follow the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission.

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*Exchange Traded Products Non UCITS US*

These refer to exchange traded products domiciled in the US that aim to track a benchmark where the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission does not apply.

*Exchange Traded Products Non UCITS Non US*

These refer to exchange traded products not domiciled in the US that aim to track a benchmark where the Undertakings for the Collective Investment of Transferable Securities (UCITS) directive as laid out by the European Commission does not apply

4.3.5 FAQs

*Q: How will Unitized Equity Securities & Unit Trusts be classified?*

A: Securities that represent a unit of ownership in a company & unit trusts will be classified under Single Line Equities

*Q: How will Closed Ended Funds be classified?*

A: Closed Ended Funds will be classified under Mutual Funds at a level 2 and the appropriate L3 based on their UCITS/Non-UCITS and US/Non-US status.

*Q: Where Morning Star coverage/data is not available how will Funds be classified?*

A: These Funds and ETFs will be classified into the relevant level 3 Non UCITS buckets.

*Q: How will Mutual Funds following Alternative Mandates be classified?*

A: Unless explicitly listed in the Master Approved Alternative Funds Lists (MAAFL) published be HAIL, Funds & ETFs falling into Alternative Morningstar categories will still be captured under Mutual Funds. Their Asset Class will be captured under the Alternative strategies in “Alternatives > Hedge Funds” however. For example, ISIN: LU0411704413, BSF European Absolute Return Fund Class A2, will be classified as a Mutual Fund but map into Alternatives > Hedge Funds > HF Market Neutral.

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4.4 Structured Products (SPs)

4.4.1 Summary

The figure below outlines the three levels of the product schema for Structured Product securities. Each level will be defined in detail below

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Structured  Product | Fixed Income Note | Credit Linked Note |
| Single Bond Repack |
| Portfolio of Bond Repack |
| Bond Repack with CDS Overlay |
| Deposit Repack |
| Rate Note | Fixed Rate Note |
| Floating Rate Note |
| Step Up Note |
| Steepener |
| Flattener |
| Switchable Note |
| Reverse Convertible Rates |
| Autocallable Rates |
| Range Accrual Note |
| Callable Range Accrual Note |
| Floored Note |
| Cap Floor Floater Note |
| Digital Note |
| Equity Note | Equity Linked Note |
| Reverse Convertible Equity |
| Autocallable Yield Note |
| Fixed Coupon Note |
| Phoenix Note |
| Step-down Note |
| Callable Daily Accrual |
| Equity-Linked Note With Daily KO |
| Callable Yield Note |
| Bonus Coupon Note |
| Bonus Coupon Note With Floor |
| Bonus Locker Note |
| Bonus Locker Note With Floor |
| Twin Win Note |
| Growth Note |
| Growth Note Up And Out |
| Growth Note With Floor |
| Booster Note |
| Airbag Note |
| Constant Proportion Portfolio Insurance Note |
| Volatility Tracker Note |
| Dynamic Tracker Note |
| Delta One Equity Tracker |
| Digital Equity Note |
| Outperformance Note |
| Stability Note |
| FX Note | Dual Currency Digital Note |
| Dual Currency Floating Rate Note |
| Triple Currency Note |

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|  |  | Currency Principal Floored Digital Note |
| --- | --- | --- |
| Currency Principal Floored Participation Note |
| Autocallable Note |
| Currency Forward Rebate Note |
| Twin Win Shark Fin Note |
| Bullish Shark Fin Note |
| Daily Range Accrual Note with Conversion |
| Principal Protected Callable Range Accrual Note |
| Fund Note | Fund Linked Note With Floor |
| Commodities Note | Delta One Commodities Tracker |
| Step Down Callable Note |
| Autocallable Commodities Note |
| Twin Win Callable Note |
| OTC | Pivot |
| Option |
| Accumulator |
| Decumulator |
| Interest Rate Swap |
| Interest Rate Cap And Floor |
| Credit Default Swap |
| CSTF |
| Total Return Swap |
| OTC Structured Product Other Mixed |
| Structured Product Other Mixed | Structured Product Other Mixed |

4.4.2 Level 1

*Structured Product*

A financial instrument that gives an investor the ability to participate in the performance of one or more underlying assets.

4.4.3 Level 2

*Fixed Income Note*

A structured note with fixed income underlying.

*Rate Note*

A structured note linked to an interest rate (e.g. Libor).

*Equity Note*

A structured note with an equity underlying including equity shares, equity ETFs and equity indices.

*FX Note*

A funded structured note whereby the payoff is linked to foreign exchange rates. Note: unfunded FX Positions are captured under the Level 1 ‘FX, PM, Other Commodities’ please see section 4.5.

*Fund Note*

A structured note with a fund as the underlying which determines the pay off.

*Commodities Note*

A structured notes with a commodity underlying.

Over the Counter (OTC)

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These are derivative contracts or agreements linked to an underlying and traded directly between two parties.

*Structured Product Other Mixed*

Other structured note not captured above.

4.4.4 Level 3

*Credit Linked Note*

Structured as a security with an embedded credit default swap allowing the issuer to transfer a specific credit risk to credit investors.

*Single Bond Repack*

A repackaged note where a Special purpose vehicle (SPV) holds a single bond as the charged asset. The Note in return pays an interest or coupon. The coupon is derived by the SPV entering into a cash flow conversation agreement with a swap or hedging counterparty.

*Portfolio of Bond Repack*

A repackaged note where a Special purpose vehicle (SPV) holds a portfolio of bond as the charged asset. The Note in return pays an interest or coupon. The coupon is derived by the SPV entering into a cash flow conversation agreement with a swap or hedging counterparty.

*Bond Repack with CDS Overlay*

A repackaged note where a Special purpose vehicle (SPV) holds a bond as the charged asset. In addition, the transaction to for the issuer to sell a Credit default swap (a for mf credit insurance) on a specific assets is also entered. The Note in return pays an interest or coupon. The coupon is derived by the SPV entering into a cash flow conversation agreement with a swap or hedging counterparty.

*Deposit Repack*

A repackaged note where a Special purpose vehicle (SPV) enters into a deposit agreement with a depositary counterparty. The Note in return pays an interest or coupon. The coupon is derived by the SPV entering into a cash flow conversation agreement with a swap or hedging counterparty.

*Fixed Rate Note*

A fully principal protected note which pays a fixed rate coupon.

*Floating Rate Note*

A fully principal protected structured note whereby coupon payments are linked to the movement in a reference rate (usually money market rates, such as the EURIBOR or LIBOR).

*Step up Note*

100% principal protected note which pays a fixed coupon that increases at certain points during the tenor of the note.

*Flatteners / Steepeners*

A swap or bond where the payoff is derived from the spread between long term and short term interest rates, typically 2yr and 10yr.

*Switchable Note*

100% principal protected note which pays a fixed coupon that is subject to a switch option i.e. the issuer has the right to irrevocably “switch” the fixed coupon to a floating coupon linked to a Reference Rate by giving prior notice. If the Issuer does not exercise the Switch Option, then coupon payment remains at the fixed rate.

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*Autocallable Rates*

A note linked to an underlying interest rate which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security will also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Range Accrual Note*

A fully capital protected structured product where the coupon is linked to the performance of a reference rate, and the coupon rate is only accrued on days when the rate from which the coupon is derived falls within a specified range.

*Callable Range Accrual Note*

A fully capital protected structured product where the coupon is linked to the performance of a reference rate, and the coupon rate is only accrued on days when the rate from which the coupon is derived falls within a specified range. The security will also have a call feature which gives the issuer a right to redeem the note early at their discretion.

*Floored Note*

A fully principal protected structured note whereby coupon payments are linked to the movement in a reference rate (usually money market rates, such as the EURIBOR or LIBOR). The note will also have a predefined minimum coupon rate or floor rate.

*Cap Floor Floater Note*

A fully principal protected structured note whereby coupon payments are linked to the movement in a reference rate (usually money market rates, such as the EURIBOR or LIBOR). The note will also have a predefined minimum coupon rate and maximum coupon rate.

*Digital Note (Rate and Equity)*

A fully principal protected note with a payoff that is contingent upon certain events e.g. coupon paid if underlying closes above 120%; if not, no coupon paid. (Investor is a long zero coupon bond and long a digital option or strip of digital options) (NOTE: the same definition applies to a “Currency Principal Floored Digital Note” whereby it is linked to FX.)

*Reverse Convertible (Equity and Rate) / Equity Linked Note*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Autocallable Yield Note*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security will also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Fixed Coupon Note*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security could also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Phoenix Note*

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A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security will also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Step-down Note*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security also has an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying reaches a certain level. This Level will step down during certain predefined periods within the life of the note. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Callable Daily Accrual*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security could also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Equity-Linked Note With Daily KO*

A note linked to an underlying equity position which is issued at a discount to the par value of the note and the return is based on predetermined conditions linked to the performance of the underlying. The security has an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Callable Yield Note*

A note linked to an underlying equity position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security will also have a call feature which gives the issuer a right to redeem the note early at their discretion. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Bonus Coupon Note*

A structured product which allows the investor to participate in the positive performance of an underlying or provides a fixed coupon based on the performance of the underlying meeting certain predefined conditions. The principal repayment at maturity will also be based on the performance of the underlying.

*Bonus Coupon Note With Floor*

A structured product which allows the investor to participate in the positive performance of an underlying or provides a fixed coupon based on the performance of the underlying meeting certain predefined conditions. The principal repayment at maturity will also be based on the performance of the underlying, however, there is an embedded floor feature which defines a minimum amount that will be repaid.

*Bonus Locker Note*

A structured product which allows the investor to participate in the positive performance of an underlying or provides a fixed coupon based on the performance of the underlying meeting certain predefined conditions. The note has a locker feature which, if triggered, will mean the note becomes fully principal protected and will generate a minimum fixed coupon return or more, linked with the performance of the underlying. If the locker feature is not triggered, the principal repayment at maturity will also be based on the performance of the underlying however, there is an embedded floor feature which defines a minimum amount that will be repaid

*Twin Win*

A structured product that allows the holder exposure to the upside of an underlying asset, as well as a positive participation to the downside of the underlying (up to a limit defined by the downside barrier). If the price of

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the underlying falls to or below the barrier the return of the underlying against the principal is delivered at maturity.

*Growth Note*

A principal protected structured note which provides the participation in a predefined amount of the positive performance of an underlying asset which is either a single-line equity, single-line fixed income or commodity instrument. (NOTE: the same definition applies to a “Currency Principal Floored Participation Note” whereby it is linked to FX. The definition also applies to a “Fund Linked Note with a Floor” whereby it is linked to a fund)

*Growth Note Up And Out*

A principal protected structured note which provides the participation in a predefined amount of the positive performance of an underlying asset. However, if the performance of the underlying reaches a predefined level, the note will be knocked out (or terminated) and a predetermined fixed coupon, known as a rebate, will be paid instead, together with the principal invested.

*Booster*

A structured product that offers typically a leveraged participation in the positive performance of the underlying up to a predefined level. The repayment of principal at maturity will be determined by the performance of the underlying.

*Airbag*

A structured product that offers a participation in the positive performance underlying up to a predefined level. The repayment of principal at maturity will be determined by the performance of the underlying.

*Constant Proportion Portfolio Insurance*

The note provides a dynamic allocation strategy between a risky asset (e.g. a mutual fund) and a riskless asset (e.g. LIBOR). The Initial allocation to the risky asset is predetermined together with a leverage factor. If the risky asset increases in value, exposure to the risky asset increases accordingly. Similarly, exposure falls when the risky asset falls in value. If the risky asset falls to a certain predetermined level it will trigger the predefined protection floor and 100% will become allocated to the riskless asset for the remainder of the investment.

*Vol Target*

A trading strategy whereby the strategy's weighting to the reference fund is adjusted to target a predefined volatility level. Typically there is a maximum exposure defined.

*Dynamic Tracker Note*

A note where the notional is linked to multiple components. Each component provides either proportionate yield return or a participation return ion an underlying. The proportion of notional linked to each component changes according predefined performance levels of the underlying(s) through the life of the note.

*Delta One Tracker*

A structured product that has a linear, symmetric payoff profile with no optionality and as such for a given instantaneous move in the price of the underlying asset there is expected to be an identical move in the price of the note. They may be linked to an asset or a basket of assets and thus give the holder an easy way to gain exposure to a multiple securities via a single product. Furthermore, Dividend payments from the underlying can be included or excluded.

*Market Timer*

A Structured Product with a feature that optimises the entry point (or strike), using the most beneficial position based on observations over a predefined period (e.g. 3 months). This is a feature that is typically added to a delta-1 or airbag.

*Outperformance Note*

An Outperformance note is a note which provides a return which is linked to outperformance of a reference asset against another. It is generally capital protected on the downside.

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*Stability Note*

A Structured Product based on the stability of the underlying index and a specific event known as a stability disruption event. A stability level is defined (typically the difference between the closing prices on two consecutive trading days) which the index must respect to avoid a stability disruption event. The product pays a coupon which is prorated if a stability disruption event occurs. If a stability disruption event occurs the product is automatically redeemed.

*Dual Currency Digital Note*

A note which pays either a maximum or minimum coupon periodically based on the performance of a reference underlying. At maturity the principal is repaid in either the one of two currencies (the principal currency or the conversion currency) depending on the level of the reference FX rate with respect to a strike rate (the conversion strike).

*Dual Currency Floating Rate Note*

A note which pays a variable coupon linked to a reference rate. At maturity the principal is repaid in either the one of two currencies (the principal currency or the conversion currency) depending on the level of the reference FX rate with respect to a strike rate (the conversion strike).

*Triple Currency Note*

A triple currency note pays is a note which pays a yield in a reference currency. However the delivery of principal at maturity is linked to the performance of the reference currency against two other counter currencies.

*Currency Principal Floored Digital Note*

See definition of Digital Note.

*Currency Principal Floored Participation Note*

See definition of Growth Note

*Currency Forward Rebate Note*

A note which pays a rebate coupon depending on the performance of the reference FX rate. If no rebate coupon is paid, at maturity the principal is repaid in either the one of two currencies (the principal currency or the conversion currency) depending on the level of the reference FX rate with respect to a strike rate (the conversion strike).

*Twin Win Shark Fin Note*

A structured product that allows the holder exposure to the upside of an underlying asset, as well as a positive participation to the downside of the underlying. However, if the performance of the underlying reaches a predefined level, the note will be knocked out (or terminated) and a predetermined fixed coupon, known as a rebate, will be paid instead, together with the principal invested. The principal may be subject to a floor which is a minimum amount that will be delivered at maturity.

*Bullish Shark Fin Note*

See Growth Note Up and out. [A principal protected structured note which provides the participation in a predefined amount of the positive performance of an underlying asset. However, if the performance of the underlying reaches a predefined level, the note will be knocked out (or terminated) and a predetermined fixed coupon, known as a rebate, will be paid instead, together with the principal invested. Note: The principal may be subject to a floor which is a minimum amount that will be delivered at maturity]

*Daily Range Accrual Note with Conversion*

A fully structured product where the coupon is linked to the performance of a reference currency pair, and the coupon rate is only accrued on days when the rate from which the coupon is derived falls within a specified range. The security will also have a call feature which gives the issuer a right to redeem the note early at their

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discretion. Finally, the note is subject to conversion from the principal currency into the quote currency (or vice versa) depending on the pre-determined conditions linked to the performance of the currency pair.

*Principal Protected Callable Range Accrual Note*

See Callable Range Accrual Note

*Fund Linked Note With Floor*

*See definition of Growth Note*

*Delta One Commodities Tracker*

*< HSBC to add definition >*

*Step Down Callable Note*

*< HSBC to add definition >*

*Autocallable Comodities Note*

A note linked to an underlying commodities position which pays a coupon based on predetermined conditions linked to the performance of the underlying. The security will also have an autocall feature which allows the note to be redeemed earlier than maturity if the performance of the underlying meets certain conditions. If Principal is not 100% protected, the repayment at maturity will also be linked to the performance of the underlying.

*Twin Win Callable Note*

*< HSBC to add definition >*

*Pivot*

A Pivot is an obligation to either buy or sell an asset at one of two rates at predefined expiry dates. Whether the holder buys or sells the asset is determined by the value of the asset at each expiry.

*Option*

The holder of a call option has the right to purchase the underlying for an agreed strike price at the maturity date(s). The holder of a put option has the right to sell the underlying for an agreed strike price at the maturity date(s). The writer of a call option has the obligation to sell the underlying for an agreed strike price at the maturity date(s). The writer of a put option has the obligation to purchase the underlying for an agreed strike price at the maturity date(s).

*Interest Rate Swap*

An agreement between HSBC and the client, which specifies the nature of an exchange of payments benchmarked against an interest rate index (commonly an IBOR) and a specified notional principal amount. These can either be fixed for floating payments or floating for floating payments (against 2 different interest rates).

*Credit Default Swap*

A Product where the holder will be compensated by the seller in the event of a loan default (on another financial instrument) or other credit event. The holder of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the loan defaults.

*Accumulator*

An Accumulator is a Structured Product sold by an issuer to investors that requires the buyer to periodically purchase an amount of an underlying security at a predetermined strike price. The investors will "accumulate" holdings in the underlying security over the term of the contract.

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*Decumulator*

A Decumulator is the reverse of an accumulator, whereby the investor takes on the obligation to sell an amount of an underlying security on a regular basis at a predetermined strike price.

*Commodities and Structured Trade Finance*

A note structured as a short-term loan to a corporate which repays 100% of the principal at maturity plus a coupon as long as the corporate does not default on the loan.

*Total return swap*

An agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, which includes both the income it generates and any capital gains.

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4.5 FX, PM, Other Commodities

4.5.1 Summary

The figure below outlines the three levels of the product schema for Single-line FX, PM and Other Commodities. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| FX, PM, Other  Commodities | Option | Vanilla |
| Barrier |
| Binary |
| Accumulators | Accrual Option |
| Accrual Forward |
| TARF Forward |
| TARF Collar |
| TARF Box |
| Pivot Forward |
| Forward | Forward |
| Futures | Futures |
| Swap | Swap |
| Margin Products | Margin Products |
| Precious Metals | Allocated |
| Unallocated |
| Currency And Precious Metal Linked Deposit Investments | Dual Currency Deposit Investment |
| Digital Plus |
| Other Commodity Products | Other Commodity Products |

4.5.2 Level 1

FX, PM and Other Commodities:

Financial Instruments whereby the underlying risk is linked to currencies, precious metals and other commodities.

4.5.3 Level 2 and 3

The sections below describe each product type in the FX, PM and Other Commodities product type schema.

*Option > Vanilla*

In its simplest form, an option is the right to buy or sell the underlying at an agreed-upon price on a specified date or date range. The underlying of these instruments can be either an FX rate or a commodity.

*Option > Barrier*

Barrier options are options whose payoff depends on whether the underlying asset has reached or exceeded a predetermined price. The option’s payoff is not predetermined.

*Option > Binary*

Binary options are options whose payoff is fixed and depends on whether the underlying asset has reached or exceeded a predetermined price.

*Accumulators > Accrual Option*

An Accrual option is a contract that provides a buyer a right to buy a currency (or receive a payment) whereby the notional to be transacted at expiry is uncertain and depends on the amount of time that the underlying currency trades within a pre-set level (or levels) known as the accrual barrier (or barriers).

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*Accumulators > Accrual Forward*

An Accrual Forward is a contract which allows the buyer to accumulate a fixed proportion of notional for every business day (or chosen frequency) only if the spot price fixes within pre-defined limits. If the spot price fixes outside of the limits, no notional is accumulated. At expiry, the buyer buys the accrued notional at a pre-agreed rate.

*Accumulators > TARF Forward*

A TARF forward allows buyer to accumulate a notional amount a currency at a pre agreed rate provided that the pre-determined target level has not been reached. Once the target is reached, the structure terminates.

*Accumulators > TARF Collar*

A TARF Collar holder has the right to buy a currency at pre agreed rate (Strike 1), but also the obligation to buy the currency at a pre agreed lower rate (Strike 2), provided the predetermined target level has not been reached. Once the target is reached, the structure terminates.

*Accumulators > TARF Box*

A TARF Box is a strategy which pays the holder a cash payment if the spot price of a currency fixes within a range, otherwise the holder has the obligation to buy the currency if the spot price is below the range or sell the currency if the spot price is above the range provided the pre-determined target level has not been reached

*Accumulators > Pivot Forward*

A Pivot Forward is a forward obligation to either buy or sell a currency at one of two rates. Whether the holder buys or sells the currency is determined by the spot rate at each expiry.

*Forward > Forward*

FX Forwards are contracts which agree to exchange a specified amount of different currencies at some future date, with the exchange rate being set at the time the contract is incepted.

*Futures > Futures*

A future is an exchange traded forward contract. The underlying of these forward contracts is a commodity in this instance.

*Swap > Swap*

By entering into this product, two parties enter into a binding agreement to execute two foreign exchange transactions linked to the currency exchange rate or PM. The two counterparties agree to exchange one currency for another currency (or currency linked to a precious metal) at a particular rate on one date (the “near date”) and to reverse payments on a specified subsequent date (the “far date”). The exchange rates are set at inception of the contract.

*Margin Products > Margin Products*

Margin Products allow the holder to perform leveraged FX transactions while maintaining the appropriate collateral. The FX transactions include Spot FX, Froward FX and Plan Vanilla FX Option transactions.

*Precious Metals > Allocated*

Precious metals are defined as Gold, Silver, Palladium and Platinum. An investor in allocated PM is the outright owner of a certain amount of physical PM. The account provider is the custodian. The customer has his PM physically segregated and is given a detailed list of the weights and assays of his PM.

*Precious Metals > Unallocated*

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Precious metals are defined as Gold, Silver, Palladium and Platinum. Unallocated PM accounts don’t physically store your PM and the customer has not title to any particular bar. Unallocated metal remains the property of the bank- the investor is essentially a creditor of the bank.

*Currency and Precious Metal linked deposit investment > Dual Currency Deposit Investment*

A Dual Currency Deposit is an instrument that provides a guaranteed enhanced coupon. The principal is not protected and is paid at maturity either in the investment currency or in a known amount of a second currency**.**

*Currency and Precious Metal linked deposit investment > Digital Plus*

A Digital Plus note is a note linked to an FX underlying that pays a lower or higher coupon based on the underlying meeting predefined conditions.

*Other Commodity Products > Other Commodity Products*

All other commodities products excluded Precious Metals

4.5.4 FAQs

*How are FX deposits or cash held in non-Base currency captured?*

Currency deposits or cash held outside of the client’s base currency will be captured as part of liquidity. However, it is important to note that will still be FX risk implications for such holdings which will be reflected in the portfolio risk measure.

*How do we capture structured Products with an FX underlying?*

Structured products with and FX underlying are captured within the Structured product classification regime. However, it is important to note that will still be FX risk implications for such holdings which will be reflected in the portfolio risk measure.

*How do each Product Type Level 3 for FX. PM & Other Commodities to map into the Asset Class sectors?* FX, PM and Other Commodity products are to map into one of the following 3 asset class sectors depending on their underlying:

• FX – Structured Products / Derivatives: Any derivative or SP within the category linked to a FX rates • Alternatives – Structured Products / Derivatives: Any derivative or SP within the category linked to a precious metal or other commodity

*What is the difference between margin product and collateralized positions?*

The FX Margin products refer to FX margin in a dedicated sub account in Asia. Within this sub account, netting of positions and collateral is offered as part of FX margin service. When associated spot positions are rolled over, they use deposit and loan rate to roll them, hence there are 2 legs to a spot rollover transaction. FX positions and trades are also done on a margined basis (collateralized). The difference here is, there is no netting of FX positions nor collateral i.e. if I have a buy AUD sell USD trade and also a sell AUD buy USD trade, these are considered 2 separate trades and hence collaterals to be provided accordingly. Any deviation will be handled by Credit on a manual case by case basis.

*How are Non-Deliverable forwards (NDFs) classified?*

NDFs will fall within the forward category, but the non-deliverable aspect will be accounted for as an additional attribute and will have different implication in terms of risk.

*How will FX strategies be handled in the classification?*

Strategies composed by two or more options (call spread, seagull, calendar spread) are considered for risk assessment in their single components.

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4.5.5 Requirements

*Market Data*

• Market Data will be used for Futures

*HSBC Security Master Data*

• HSBC are required to identify Precious Metals

• All other product types will require terms and conditions be sent from HSBC

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4.6 Alternatives

4.6.1 Summary

The figure below outlines the three levels of the product schema for Alternatives. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Alternatives | Hedge Funds | Hedge Funds |
| Liquid Alternatives |
| Other Hedge Funds |
| Private Funds | Venture |
| Buyout |
| Secondaries |
| Energy |
| Direct Club |
| Direct Club Secondaries |
| Emerging Markets |
| Multi-Strategy |
| Distressed Debt |
| Private Loans |
| Other Private Funds |
| Real Estate | Fund |
| Club Deals |
| Segregated Mandates |
| Other Real Estate |

4.6.2 Level 1

*Alternatives:*

Alternative investments cover a wide range of strategies and opportunities, including hedge funds, commodities, real estate, private equity and infrastructure. Alternative investments typically have low correlations with mainstream asset classes.

4.6.3 Level 2 and 3

*Hedge Funds > Hedge Funds*

Hedge funds are alternative investments using pooled funds that employ numerous different strategies to earn active return, or alpha, for their investors. Hedge funds may make use of derivatives and leverage in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

*Hedge Funds > Liquid Alternatives*

Liquid hedge fund (alternative) strategies are hedge funds which aim to generate a total or absolute return and can have the ability to take both long and short position with typically improved liquidity, offering daily, weekly or twice monthly dealing. Unlike traditional alternative investments, liquid alternatives are structured within a regulated mutual fund format. This means investors may expect benefits associated with mutual funds, such as greater transparency, minimum investment levels as well as leverage and concentration limits.

*Hedge Funds > Other Hedge Funds*

Hedge Fund products that cannot be classified into either of the above categories.

*Private Funds > Venture*

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Venture capital refers to investments made in start-ups and young companies with little to no track record of profitability. Venture capital investments are made with the goal of generating outsized returns by identifying and investing in the most promising companies and profiting from a successful exit.

*Private Funds > Buyout*

Buyout Private Equity Funds acquire assets, typically utilising a significant amount of leverage through borrowed capital, aiming to hold and manage a company for a period of time and exiting the company after significant value has been created. Leveraged buyout aim to generate returns on the acquisition that will outweigh the interest paid on the debt.

*Private Funds > Secondaries*

Secondary investments refer to investments made in existing private equity assets. These transactions can involve the sale of private equity fund interests or portfolios of direct investments in privately held companies through the purchase of these investments from existing investors. Often investments in Secondaries are made through a thirdparty fund vehicle, structured similar to a fund of funds. Sellers of private equity fund investments sell not only the investments in the fund but also their remaining unfunded commitments to the funds.

*Private Funds > Energy*

Energy Private Equity funds acquire assets in or lend to the oil and gas industry and/or renewable energy sector providing a key source of investment.

*Private Funds > Direct Club*

Direct Club provide access to private equity investing in part of a small club of investors alongside other institutional investors.

*Private Funds > Direct Club Secondaries*

Direct Club Secondaries provide access to secondary deals investing in part of a small club of investors alongside other institutional investors.

*Private Funds > Emerging Markets*

Emerging Markets Private Equity funds acquire assets in or lend to companies in countries that have characteristics of a developed market but does not meet the standards to be a developed market. The largest emerging markets are Brazil, Russia, India and China.

*Private Funds > Multi-Strategy*

Multi-strategy funds invest in a variety of investment strategies which can decrease asset class and single strategy risks.

*Private Funds > Distressed Debt*

Special situations funds specifically target companies that need restructuring, turnaround, or are in any other unusual circumstances. Investments typically profit from a change in the company’s valuation as a result of the special situation.

*Private Funds > Private Loans*

Private Loans incorporates Direct Lending which is defined as a form of corporate debt when lenders other than banks make loans to companies, such as a private equity firm. The market has grown since around 2009 in response to banks reducing their lending activities to companies in the wake of the financial crisis.

*Private Funds > Other Private Funds*

Private Fund products that cannot be classified into any of the above categories.

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*Real Estate > Fund*

A Real Estate Fund is a fund which invests in a number of underlying real estate assets or lends to acquire real estate assets on behalf of investors. A Real Estate fund may be a ‘Fund of Funds’ which invests in a number of underlying third party real estate funds.

*Real Estate > Club Deals*

A Real Estate Club Deal is where a direct real estate asset(s) is identified for purchase and a number of investors pool their commitments through a collective investment scheme to indirectly acquire the asset.

*Real Estate > Segregated Mandates*

A Real Estate Segregated Mandate is an agreement where an investor acquires direct real estate asset(s) for their own account, normally purchasing 100% ownership of the asset.

*Real Estate > Other Real Estate*

Private Estate investment products that cannot be classified into any of the above categories.

4.6.4 Examples

The following are indicative product level examples:

• Hedge Funds:

o *L3 Hedge Fund: Anchorage Capital Partners Offshore, Ltd.*

o *L3 Liquid Hedge Fund: Marshall Wace UCITS Funds PLC - MW Liquid Alpha UCITS Fund*

• Private Funds:

o *L3 Ventures; HSBC Asian Ventures Syndicate II*

o *L3 Buyout: Vintage 2017 Apollo*

o *L3 Secondaries: HSBC Capital USA Private Equity Syndicate*

o *L3 Energy: Vintage V Energy Special Situations*

o *L3 Direct Club: Secondary Club Deal II*

o *L3 Direct Club Secondary: Secondary Club Deal I*

o *L3 Emerging Markets: HSBC Latin America Private Equity Syndicate*

o *L3 Distressed Debt: Vintage II Energy*

• Real Estate:

o *L3 Fund: (HEGREF) HSBC Emerging Growth Real Estate Fund - Institutional*

o *L3 Fund: (HIPO) HSBC International Property Opportunities Fund*

o *L3 Club Deals: HSBC Downing Student Accommodation Portfolio*

o *L3 Segregated Mandates: Standard Life House, Edinburgh*

4.6.5 FAQs

*Q: How will the new ‘Vision’ product being launched in Asia in 2019 be classified?*

A: Vision will be classified as a Multi-Strategy Private Fund i.e. Alternatives > Private Funds > Multi-Strategy

*Q: How will liquid funds that follow an Alternative mandate, but are not covered or recommend by HSBC Alternative Investments Limited classified?*

A: From a product classification perspective these funds will be classified with other funds and ETFs under ‘Funds & ETFs’. From an Asset class exposure perspective this funds will still have an Alternatives Asset class exposure, see section 5.4 for details.

*Q: How will execution only client holdings in Hedge Fund, Real Estate and Private Equity products be classified?* A: Execution only Hedge Fund, Private Fund and Real Estate holdings may not be clearly aligned to the L3 definitions under a L2, at which point they will bucket into the respective ‘Other Hedge Funds’, ‘Other Private Funds’ and ‘Other Real Estate’ categories.

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4.6.6 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify Hedge Funds

• HSBC are required to identify and classify Private Funds

• HSBC are required identify and classify Real Estate investments

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4.7 Deposits And Cash

4.7.1 Summary

The figure below outlines the schema for of the product schema for Deposit And Cash:

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Deposits And Cash | Deposits | Fiduciary Time Deposits |
| Fiduciary Call Deposits |
| Time Deposits |
| Call Deposits |
| Murabaha Deposits (Islamic products) |
| Blocked Current Accounts |
| Current Accounts |
| Bank Notes |
| EuroFund | EuroFund |
| Cash | Cash |

4.7.2 Level 1 and 2

*Deposits And Cash:*

Deposits And Cash consist of monies placed into banking institutions for safekeeping. These monies are placed in deposit accounts such as Current Accounts. The account holder has the right to withdraw deposited funds, as set forth in the terms and conditions governing the account agreement.

4.7.3 Level 3

*Fiduciary Time Deposits*

A fiduciary time deposit is a deposit which offers the depositor interest but can only be withdrawn with notice after a set time period. The deposit is placed within a recipient entity with a HSBC entity acting as an agent.

*Fiduciary Call Deposits*

A fiduciary call deposit is a deposit which offers the depositor interest and can be withdrawn instantly. The deposit is placed within a recipient entity with a HSBC entity acting as an agent.

*Time Deposits*

A time deposit is a deposit which offers the depositor interest but can only be withdrawn with notice after a set time period.

*Call Deposits*

A fiduciary call deposit is a deposit which offers the depositor interest and can be withdrawn instantly.

*Murabaha Deposits (Islamic products)*

An Islam compliant product which is the holder benefits form the difference between cost and the profit of an underlying commodity. In this instance the holder does not benefit from any interest or loan rate.

*Blocked Current Accounts*

*A blocked current account refers to current accounts on which any withdrawal or deposit is subject to certain predefined controls.*

*Current Accounts*

A current account is a bank account whereby can be deposited or withdrawn instantly.

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*Bank Notes*

Bank Notes are promissory notes which the bank is obliged to convert to legal tender upon the request of the bearer.

*EuroFund*

The EuroFund is a capital guaranteed financial support on which the subscriber of a life insurance policy can invest their savings. It has the advantage of guaranteeing the deposited capital and allows the capitalization of the interest acquired annually by the mechanism known as the "ratchet effect". It aims to protect savings from inflation and offer a better rate than government bonds.

Eurofund is a French/Luxembourg product with a higher return than the risk-free rate but with an equivalent risk level. Because it has its own characteristics it can’t be linked to any other product known on the global financial market. It is a specific product attached to Life Insurance wrappers.

*Cash*

Cash is legal tender which can be used to obtain goods or services.

4.7.4 FAQs

*Q: How will products classified at Level 2 as Deposits And Cash be treated from and Asset Classification perspective?*

A: These will be classified in the Asset Class sector of Liquidity > Liquidity > Liquidity, please refer to sections 5.1.

4.7.5 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify all deposit securities

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4.8 Credit Facilities

4.8.1 Summary

The figure below outlines the schema for of the product schema for Credit Facilities:

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Credit Facilities | Credit Facilities | Loans |
| Overdrafts |
| Fixed Loans |

4.8.2 Level 1 and 2

Credit Facilities*:*

A loan is cash that is extended to a client in exchange for future repayment of the loan value amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as an open ended line of credit up to a specified limit or ceiling amount.

4.8.3 Level 3

*Loan*

A loan is cash that is extended to a client in exchange for future repayment of the loan value amount along with interest or other finance charges. A loan may be for a specific, one-time amount or can be available as an open ended line of credit up to a specified limit or ceiling amount.

*Fixed loans*

This refers to money or advances paid out by the Bank to the Borrower in exchange for future repayment of the principal amount plus interest at a defined date and interest rate.

*Overdrafts*

This refers to the withdrawal of money from the Borrower’s account in excess of the balance (i.e. a negative balance)

4.8.4 FAQs

*Q: How will products classified at Level 2 as Credit Facilities be treated from and Asset Classification perspective?*

A: These will be classified into the Asset Class sector of Others / Mixed > Other / Mixed > Other / Mixed, please refer to sections 5.8.

4.8.5 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify all Credit Facilities

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4.9 Contingent Liabilities

4.9.1 Summary

The figure below outlines the schema for of the product schema for Contingent Liabilities:

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Contingent Liabilities | Contingent Liabilities | Received Commitments |
| Granted Commitments |
| Outstanding Commitments |
| Other Commitments |

4.9.2 Level 1 and 2

Contingent Liabilities:

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event.

4.9.3 Level 3

*Received Commitments*

These refer to guarantees received from another bank or HSBC entity.

*Granted Commitments*

These are bank guarantees or standby letters of credit issued in favour of another bank or HSBC entity.

*Outstanding Commitments*

This can be defined as the remaining capital to be called for private equity investments.

*Other Commitments*

This refers to commitments related to credit cards.

4.9.4 FAQs

*Q: How will products classified at Level 2 as Contingent Liabilities be treated from and Asset Classification perspective?*

A: These will be classified into the Asset Class sector of Others / Mixed > Other / Mixed > Other / Mixed, please refer to sections 5.8.

4.9.5 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify all Contingent Liabilities.

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4.10 Margin Trading

4.10.1 Summary

The figure below outlines the schema for of the product schema for Margin Trading:

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Margin Trading | Margin Trading | Margin Trading |

4.10.2 Level 1, 2 and 3

*Margin Trading*:

This refers to the amount of collateral required that the Borrower must have to trade on derivatives investments to cover the initial margin required.

4.10.3 FAQs

*Q: How will products classified at Level 1 as Margin Trading be treated from and Asset Classification perspective?*

A: These will be classified into the Asset Class sector of Others / Mixed > Other / Mixed > Other / Mixed, please refer to sections 5.8.

4.10.4 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify all Margin Trading

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4.11 Index

4.11.1 Summary

The figure below outlines the three levels of the product schema for Indices.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Index | Index | Index |

4.11.2 Level 1, 2 and 3

*Index:*

Indices are a universe of securities and associated weights defined by predetermined rules. These financial instruments are used as components of HSBC’s Strategic Asset Allocations (SAAs) as well as any bespoke benchmarks.

4.11.3 Examples

The following are indicative product level examples:

• FTSE 100 (Ticker: UKX)

• S&P 500 (Ticker: SPX)

• Euro Stoxx 50 (Ticker: SX5E)

4.11.4 Requirements

*Market Data*

• Appropriate licences from index vendors are required

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4.12 Others

4.12.1 Summary

The figure below outlines the three levels of the product schema for Others.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Others | Others | Checks & Bills for Collection |
| Pro-memoria |
| Others |
| Discretionary Mandates | Discretionary Mandates |

4.12.2 Level 1

*Others:*

Products classified as Others at Level 1 do not fall in to any of the aforementioned Level 1 Product Type, this includes discretionary mandates.

4.12.3 Level 3

*Checks & Bills for Collection:*

Checks are guarantees that are held on behalf of HSBC clients against checks issued by a third party which need to be collected and Bills are credit guarantees held by HSBC on behalf of a client that must be paid by the client to a third party.

*Pro-memoria:*

This refers to all products that currently cannot be classified but will need to be reclassified into another appropriately defined category following the relevant review process.

*Other:*

This is a catch all section which refers to all products that cannot be classified into any aforementioned category.

*Discretionary Mandates:*

These are portfolio management solutions whereby HSBC manages and makes all decision on client’s asset according to pre-defined mandates and guidelines.

4.12.4 FAQs

*Q: How will products classified at Level 2 as Others be treated from and Asset Classification perspective?* A: Product classified as others at Level 2 will be classification as Others / Mixed > Other / Mixed > Other / Mixed, please refer to sections 5.8.

*Q: How will products classified at Level 2 as Discretionary be treated from and Asset Classification perspective?* A: Product classified as deposits at Level 2 will be classified according to their underlying investments, please see Section 5 for detail.

4.12.5 Requirements

*HSBC Security Master Data*

• HSBC are required to identify and classify any securities identified as others

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5 Asset Class

5.1 Liquidity

5.1.1 Summary

Liquidity captures securities that are short term in nature and of high quality.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Liquidity | Liquidity | Liquidity |
| Liquidity – Other / Mixed | Liquidity - Insurance |
| Liquidity – Other / Mixed |

5.1.2 Level 2

*Liquidity*

The bucket captures deposits and fixed income securities that are short term in nature and of a high quality (typically issued by entities domiciled in Developed Markets). Short term is defined as having an original maturity of less than 397 days (~13 months) which is consistent with the SEC 2a-7 ruling in the U.S. for money market funds. High quality is defined as being rated with one of the following short-term ratings:

| **Moody’s** | **S&P** | **Fitch** |
| --- | --- | --- |
| P-1 | A-1+ | F1+ |
|  | A-1 | F1 |

Note that an average of the available short-term ratings will be used to determine the quality of an asset. The logic used to determine the average will be the industry standard Bloomberg Barclays Index rating methodology. This is defined in more detail below in the Fixed Income section.

EuroFunds are captured under the Asset Class “Liquidity – Liquidity Insurance” as their volatility of Eurofund is zero and money invested in such products can be withdrawn at any time, at no cost. The expected value of the Eurofund can also be determined in advance.

Product Types that can map into Liquidity:

- Deposits

- Bonds

o Short term Government debt instruments (Inc. T-Bills)

o Short term Government Related debt (Inc. Municipal Paper & Agency Paper)

o Short term Corporate debt

- Commercial Paper

- Certificates of Deposits

- EuroFund

Note that liquidity held within Third Party Funds & ETFs are treated differently and map into Other Mixed. See section 5.6.

5.1.3 Examples

The following are indicative asset class level examples:

• Liquidity > Liquidity > Liquidity

o *Description:* SYNCHRONY BANK

o *ISIN:* US87164WST61

o *Product Type:* Certificate of deposits/ Commercial Paper (CDs/CPs)

• Liquidity > Liquidity > Liquidity

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o *Description:* NEW YORK ST LOC GOVT ASSISTANC

o *ISIN:* US649876K998

o *Product Type:* Bonds

5.1.4 FAQs

*Q: Are municipal variable rate demand notes captured within Liquidity?*

A: Whilst these securities are eligible for purchase by money market funds, these are not captured within liquidity regardless of the rating. These securities typically carry a much longer maturity than other money market securities (e.g. twenty to thirty years) and they are typically money market eligible as they carry a "demand feature" which allows the investor to put the security back at par with 1 or 7 days’ notice. The put feature renders these securities eligible for purchase by money market funds under rule 2a-7.

*Q: How are unrated short term fixed income securities treated?*

Unrated short term fixed income securities will be classified into Fixed Income Asset Classes based on the issuer. If issued by a Corporate entity in a Developed Market these instruments will fall into “Fixed Income > FI – Other / Mixed”. Otherwise these will be classified in to the appropriate Fixed Income Asset Class specified in section 5.2.

5.1.5 Requirements

*Market Data*

• Short term ratings from Moody’s, Standard & Poor’s and Fitch to define securities falling into liquidity

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5.2 Fixed Income

Products falling into the fixed income asset class are distributed between a further two levels of granularity, based on the country of the security’s issuer, it’s average rating, it’s Bloomberg Barclays Four Pillar sector, the currency in which the security is denominated in and other security characteristics (such as protection against inflation).

The **immediate issuer’s** country of domicile may differ from the **ultimate parent issuer’s** country of domicile, particularly between Developed and Emerging Markets. This is common with financial institutions where debt may be issued by a branch domiciled in a different country to the parent organisation. This case demonstrates that the **ultimate parent issuer’s** country classification is the most appropriate country to use to classify the debt.

For example:

*ISIN: US00182FBD78*

*Immediate Issuer Name: ANZ NEW ZEALAND INTL LTD (LONDON BRANCH)*

*Country of Domicile: United Kingdom*

*Ultimate Issuer Name: AUSTRALIA AND NEW ZEALAND BANKING GROUP LTD*

*Country of Domicile: Australia*

This Bond would be classified as Developed Market Debt (not Emerging)

*ISIN: AU3FN0035473*

*Immediate Issuer Name: BANK OF CHINA LTD (SYDNEY BRANCH)*

*Country of Domicile: Australia*

*Ultimate Issuer Name: CHINA PEOPLES REPUBLIC OF (GOVERNMENT)*

*Country of Domicile: China*

This Bond would be classified as Emerging Market Debt (not Developed)

Additionally, the ultimate parent issuer’s **country of domicile** may differ from the ultimate parent issuer’s **country of incorporation**, particularly between Developed and Emerging Markets. This is common with emerging market companies that are incorporated in other countries (typically countries such as The Cayman Islands, British Virgin Islands etc.). This case demonstrates that the ultimate parent issuer’s **country of domicile**

is the most appropriate country to use to classify the debt.

For example:

*ISIN: US01609WAC64*

*Ultimate Issuer Name: ALIBABA GROUP HOLDING LTD*

*Country of Domicile: China*

*Country of Incorporation: Cayman Islands*

This Bond would be classified as Emerging Market Debt (not Developed)

*ISIN: US47215PAB22*

*Ultimate Issuer Name: JD.COM INC*

*Country of Domicile: China*

*Country of Incorporation: Cayman Islands*

This Bond would be classified as Emerging Market Debt (not Developed)

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Note when there is no ultimate issuer (as there is no shareholder with a >50% holding in the immediate issuer) the ultimate issuer is equivalent immediate issuer, in this instance the immediate issuer’s country of domicile will be used for classification.

If HSBC PB wish to override the classification of a Fixed Income security, an Asset Class override can be provided to Aladdin by the overnight interface files and this can be used to drive Asset Classification.

The country of a security’s issuer may differ from the primary market the securities are trading in. For example, a Hard Currency Emerging Market bond may trade in the US but have a country of exposure of China. Note that supranational entities are treated separately and will be classified as Government Related.

The currency denomination of non-derivative debt instruments is typically the currency in which the face amount of the security is quoted in. For Fixed Income derivatives, the currency denomination will be the pricing currency denoted on the exchange where the derivatives trade.

The average rating calculation leverages the industry standard Bloomberg Barclays Index rating methodology which averages the ratings from the major rating agencies, Moody’s, S&P and Fitch Ratings. If three ratings are available, the middle rating is used. If two ratings are available, the most conservative (lowest) rating is used. If only one agency rates a security, that single rating is used. Please see the below three examples:

| Example 1: | Example 2: | Example 3: |
| --- | --- | --- |
| Moody’s Rating: B1 | Moody’s Rating: Ba2 | Moody’s Rating: Aa3 |
| S&P Rating: BBB | S&P Rating: BBB | S&P Rating: A |
| Fitch Rating: BB+ | Fitch Rating: BBB+ | Fitch Rating: A+ |
| *Average Rating: Ba1/BB+* | *Average Rating: Baa2/BBB* | *Average Rating: A1/A+* |

Note that, due to lack of coverage of the main three rating agencies in Asia, HSBC will pass additional credit ratings to BRS to be used when deriving credit quality.

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5.2.1 Summary

The figure below outlines the three levels of the asset classification schema for Fixed Income. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Fixed Income | Developed Government Debt | Developed Government Debt - Inflation Linked |
| Developed Government Debt - Nominal |
| Developed Government Debt -  Other/Mixed |
| Developed Government Related Debt | Developed Government Related Debt |
| Developed Corporate Debt – IG | Developed Corporate Debt – HY |
| Developed Corporate Debt – HY | Developed Corporate Debt - Mixed / Unrated |
| Developed Corporate Debt - Mixed / Unrated | Developed Corporate Debt – HY |
| Emerging Market Debt | Emerging Market Debt – Asia HC |
| Emerging Market Debt – HC Ex Asia |
| Emerging Market Debt – Asia Corporate HY HC |
| Emerging Market Debt – Asia LC |
| Emerging Market Debt – LC Ex Asia |
| Emerging Market Debt – Other / Mixed |
| Fixed Income - Structured Products / Derivatives | Fixed Income - Structured Products / Derivatives |
| Fixed Income - Other / Mixed | Fixed Income - Other / Mixed |

5.2.2 Level 2

Each level 2 sector is defined in a section below.

*Developed Government Debt*

*Developed* Government securities are identified using the Sovereign sector in the Bloomberg Barclays Four Pillar schema, these include Government bonds with Developed Market issuers as well as Futures and Options on Government bonds.

Government bonds range in maturity, but generally range between two and thirty years. Shorter term government debt (such as Treasury bills) can be captured within Liquidity as opposed to Government bonds. See the Liquidity section for more details. Note that this sector can include both Investment Grade and High Yield Government debt from Developed Market countries as no distinction on credit rating is made.

The definition of Developed Markets can be found below:

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Note that fixed income futures will bucket under Fixed Income > Developed Government > Nominal.

*Developed Government Related Debt*

The developed government-related sector is designed to group all issuers with governmental affiliations separate from corporate, Emerging Markets or securitised sectors. These affiliations are identified by the Bloomberg Barclays Four Pillar sector scheme or by securities issued by agencies, dollars and non-dollar municipalities, supranationals, government guaranteed entities and government owned entities.

The following product types will map into this Asset Class:

- Bonds

o Those with a relevant Bloomberg Barclays Four Pillar Sector (i.e. Government Owned,

Government Guaranteed, Government Sponsored, Pooled Agency, Local Authority,

Municipalities, Supranational)

*Developed Corporate Debt - IG*

Investment grade corporates are identified by using the Bloomberg Barclays Index rating methodology. This takes an average of the ratings from the major rating agencies, Moody’s, S&P and Fitch Ratings and additional rating sources if deemed appropriate. If fewer than three ratings are available, the minimum rating is used.

| • Anguilla  • Australia  • Austria  • Belgium  • Bermuda  • British Indian Ocean Territory • Canada  • Cayman Islands  • Denmark  • European Union  • Falkland Islands  • Falkland Islands (Malvinas) • Finland  • France  • Germany  • Gibraltar | • Great Britain  • Guam  • Guernsey, Channel Islands • Hong Kong  • Ireland  • Isle of Man  • Israel  • Italy  • Japan  • Jersey, Channel Islands  • Liechtenstein  • Luxembourg  • Monaco  • Netherlands  • New Zealand  • Norway | • Portugal  • Puerto Rico  • Singapore  • Spain  • Sweden  • Switzerland  • United Kingdom  • United States  • Virgin Islands, British • Virgin Islands, U.S. |
| --- | --- | --- |

Investment Grade bonds are defined as those with a Bloomberg Barclays Index rating methodology greater than BB+. Securities characterised as Developed Markets, are done so using the list of issuer countries defined above. The following product types will map into this Asset Class:

- Bonds

o Corporate bonds with a relevant average rating

- Convertible Bonds

o Convertible Corporate bonds with a relevant average rating

*Developed Corporate Debt - HY*

High yield corporate bonds are identified by using the Bloomberg Barclays Index rating methodology (defined above). High Yield corporate bond are those with a Bloomberg Barclays Index rating of less than or equal to BB+. Securities characterised as Developed Markets, are done so using the list of issuer countries defined above.

Note, unrated corporate bonds issued by Developed Market issuers will fall under “FI – Other / Mixed” at level two and not “Developed Corporate High Yield”.

The following product types will map into this Asset Class:

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- Bonds

o Corporate bonds with a relevant average rating

- Convertible Bonds

o Convertible Corporate bonds with a relevant average rating

*Emerging Market Debt*

Emerging Market fixed income securities are defined as all those that have an issuer domiciled (or with an identified country of incorporation/risk) in an Emerging Market and are not securitized assets. Emerging Markets are currently defined as all countries that are not Developed Markets. See appendix item 8.1 for further details.

*Fixed Income - Structured Products / Derivatives*

All Structured Products Linked to Fixed Income underlyings or Structured products which simply pay a coupon will be classified will be classified as “Fixed Income -Structured Products and Derivatives”. This will include:

• Rate Notes and Rate Derivatives linked to Interest rates

• Structured Products with Fixed Income underlyings including Credit Linked Notes, Credit Fund Linked Notes and Credit Derivative Products

• Structured Products not linked to a rate and simply pay interest

*Fixed Income – Other / Mixed*

This sector is defined to catch all fixed income securities that are not captured by the above. Securities that will fall into “Other / Mixed” are those such as securitized assets. For example, Commercial Mortgage backed securities will not be captured by “Government Developed”, nor “Corporate Investment Grade Developed”, but would fall into “Other / Mixed”. The same can be said for Asset Backed Securities. See the Securitized product type definitions in Single-Line Fixed Income for more details.

Short term Corporate debt instruments that are issued by a Developed Market issuer may also fall here, in the instance that they have no short-term credit rating. See Liquidity section for more details.

Also, any other corporate bonds which have no ratings available from the main three rating agencies (Fitch, Moody’s and Standard & Poors) or other rating sources will fall under “FI – Other / Mixed”.

- Bonds

o Corporate bonds from Developed Market issuers that are unrated

- Securitized Bonds

o All Securitised Bonds will have an Asset Class exposure of “FI – Other / Mixed”

- Bond Futures

o Derivatives with an Interest Rate (e.g. LIBOR) as the underlying, rather than an interest

bearing instrument

- Syndicated Loans

o All Syndicated Loans, HSBC PB clients however do not currently hold these securities

5.2.3 Level 3

*Government Developed Debt- Inflation linked*

Inflation Linked bonds are defined as those captured by Thomson Reuters as Inflation Protected Bonds.

The following product types will map into this Asset Class:

- Bonds

o Government bonds issued by one of the countries mentioned above as Developed whose payoff is linked to inflation

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*Government Developed Debt - Nominal*

Nominal bonds are those where the principal and/or coupon amount is not linked to inflation

The following product types will map into this Asset Class:

- Bonds

o Government bonds issued by one of the countries mentioned above as Developed whose payoff is not linked to inflation

- Bond Futures

- Bond Options

o Options where the underlying is a Future referencing government bonds

*Emerging Markets Debt – LC Asia* and *Emerging Markets Debt – LC Ex Asia*

Emerging Market fixed income securities are defined as all those that have an issuer domiciled (or with an identified country of incorporation/risk) in an Emerging Market and are not securitized assets. Emerging Markets are currently defined as all countries that are not Developed Markets. See appendix item 9.1 for further details.

Local Currency Emerging Market debt is defined as Emerging Market Debt that is not denominated in a hard currency. See appendix 9.2 for all Hard Currencies. Extra granularity has been added for Asia vs Ex Asia Emerging Markets. Asia EM markets are captured in appendix 9.6.

The following product types will map into this Asset Class:

- Bonds

o Emerging Market debt issued by Governments

o Emerging Market debt issued by Corporates

o Emerging Market issued by agencies, municipalities, etc.

- Convertible Bonds

o Convertible bonds issued by companies domiciled in an Emerging Market country

*Emerging Markets Debt – HC Asia* and *Emerging Markets Debt – HC Ex Asia*

Emerging Market fixed income securities are defined as all those that have an issuer domiciled (or with an identified country of incorporation/risk) in an Emerging Market and are not securitized assets. Emerging Markets are currently defined as all countries that are not Developed Markets. See appendix item 9.1 for further details.

Hard Currency Emerging Market debt is Emerging Market debt, that is denominated in currencies from Development Markets. For example, the United States is a Developed country, and has an associated currency of US Dollars. Thus, we could consider US Dollars a Hard Currency. Similarly, Sterling, Euros and Japanese Yen are all considered Hard Currencies. See appendix 9.2 for all Hard Currencies. An extra level of granularity has been added for Asia vs Ex Asia Emerging Markets to appendix 9.6.

The following product types will map into this Asset Class:

- Bonds

o Emerging Market debt issued by Governments

o Emerging Market debt issued by Corporates

o Emerging Market issued by agencies, municipalities, etc.

- Convertible Bonds

o Convertible bonds issued by companies domiciled in an Emerging Market country

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*Emerging Markets Debt – Corporate Asia HY HC*

Emerging Market fixed income securities are defined as all those that have an issuer domiciled (or with an identified country of incorporation/risk) in an Emerging Market and are not securitized assets. Emerging Markets are currently defined as all countries that are not Developed Markets. See appendix item 9.1 for further details.

Hard Currency Emerging Market debt is Emerging Market debt, that is denominated in currencies from Development Markets. For example, the United States is a Developed country, and has an associated currency of US Dollars. Thus, we could consider US Dollars a Hard Currency. Similarly, Sterling, Euros and Japanese Yen are all considered Hard Currencies. See appendix 9.2 for all Hard Currencies. Asia EM markets are captured in appendix 9.6.

High yield corporate bonds are identified by using the Bloomberg Barclays Index rating methodology (defined above). High Yield corporate bond are those with a Bloomberg Barclays Index rating of less than or equal to BB+.

The following product types will map into this Asset Class:

- Bonds

o Corporate bonds with a relevant average rating issued by companies domiciled in an Emerging Market country

- Convertible Bonds

o Convertible Corporate bonds with a relevant average rating issued by companies domiciled in an Emerging Market country

5.2.4 Product Type Mappings

The list below defines the product types that have Fixed Income exposure:

• Bonds (when not classified as Liquidity)

• Syndicate Loans

• Securitized assets (ABS, MBS, etc.)

• Convertible Bonds

• Bond Options

• Bond Futures

• Certificates of Deposit (when not classified as Liquidity)

• Commercial Paper (when not classified as Liquidity)

• Other Derivatives with interest rate and credit exposure (e.g. Structured Products)\*\*

• ETFs tracking Fixed Income Markets\*

• Funds with Fixed Income exposure\*

\*These securities have multiple underlying, so the issuer country of the security will not be used. For full details on the mapping rules please see section 5.6 of this document

\*\* For full details on Structured Product Asset Classification please see section 5.7 on Structured Product Asset Classification Mapping Rules

5.2.5 Examples

The following are indicative asset class examples:

• Fixed Income > Government Developed > Nominal

o Australian Government Bond, AU3TB0000135 (issuer country: Australia)

• Fixed Income > Emerging Markets Hard Currency

o Argentine Government International Bond, XS0205550170 (issuer country: Argentina, Currency: EUR)

• Fixed Income > Corporate Investment Grade Developed

o 21st Century Fox, US90131HAH84 (issuer country: United States, Rating: BBB+)

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5.2.6 FAQs

*Q: How are municipal bonds handled?*

A: These securities are captured under Developed Government Related if the issuer is domiciled in one of the Developed Marketed countries listed above. If the issuer of the municipal bond is not domiciled in one of the Developed Market countries listed above, the security will fall under an Emerging Markets category.

*Q: How is agency debt handled?*

A: Securities issued by agencies (such as the Government Sponsored Entities, Federal Housing Loan Banks, etc.) will fall under Developed Government Related if the issuer is domiciled in one of the Developed Marketed countries listed above. If the issuer is not domiciled in one of the Developed Market countries listed above, the security will fall under an Emerging Markets category.

*Q: Where are short term Treasury Bills, Municipal and Agency debt captured?*

A: These securities are captured under Bonds in the product type breakdown and map into the “Liquidity” sector in the asset class breakdown given their short-term nature, high quality and developed market issuer. See liquidity section for more details.

*Q: How are Sovereign bonds that are part of international bond programmes captured?*

These bonds will fall in Government Developed or Emerging Market Debt Hard Currency, depending on the issuer’s country of domicile. An example of such as bond is as follows:

- *Description:* SWEDEN KINGDOM OF (GOVERNMENT)

- *ISIN:* XS0895508314

This bond is a part of the international funding of the Kingdom Of Sweden (i.e. not domestic) and is issued on the Euromarket.

*Q: How are securitized assets handled?*

A: Securitized assets will fall under “Fixed Income Other Mixed”. This is true of securities where the issuer is domiciled in a Developed Market country as well as those from Emerging Market countries.

*Q: How are Certificates of Deposits and Commercial Paper handled?*

A: Given these securities are short term FDIC insured money market securities, these securities will generally bucket under “Liquidity” rather than any of the Fixed Income asset class sectors. See the Liquidity section (5.1) for more details on the criteria to be classified as Liquidity.

*Q: How will inflation linked debt issued by Agencies and Corporates be handled?*

A: In the product type schema, these securities will fall under Bonds. In the Asset Class schema, inflation protected securities from these issuers will be fall into either Developed Government Related, Developed Corporate Investment Grade, Developed Corporate High Yield or Emerging Market Debt depending on the characteristics of the issuer. These securities will not fall into the Inflation Linked sub-sector under the Developed Government sector. These securities will however be identified by an additional Inflation-linked (Y/N) attribute.

*Q: How will Fixed Income derivatives be handled?*

A: All Fixed Income derivatives will map into “Fixed Income – Structured Products / Derivatives” regardless if the derivative references Government debt, corporate debt, interest rates, etc. All Structured Products and Fixed Income derivatives are captured in this sector.

*Q: How will unrated and High Yield Developed Government (or Government Related) Debt be captured?* A: No distinction is made regarding the rating of Developed Government (or Government Related) debt. Securities are categorized as Government Developed or Government Related Developed based on the characteristics of their issuer, amongst other things (see definitions above), and ratings are not used in the logic for these sectors.

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*Q: How will unrated Emerging Market debt be captured?*

A: Such securities will fall under “Emerging Market” categories, either Hard Currency or Local Currency depending on denomination.

*Q: How will dual currency bonds be captured?*

Take the following ISIN as an example: US105756BL31, which is a Brazilian Government dual currency bond. Asset Classification captures the pricing currency of dual currency bonds (BRL in this case) as the security’s currency denomination as opposed to the settlement currency (typically USD). As such this bond would have an Asset Class exposure of “Emerging Market Debt Local Currency” and the currency attribute of the bond would be BRL.

Thus, in terms of Asset Class assignments, bonds of this nature would typically be classified as EM Local Currency debt. That is, provided they are not issue by supranational entities which are classified as “Government Related” securities, or by a Developed Market Country.

5.2.7 Requirements

*Market Data*

• Distinguishing between Asset Classes Level 1 to 3 – Thomson Reuters, Bloomberg Barclays Four Pillar • Allocation information for funds and ETFs – Morningstar

*HSBC Security Master Data*

• HSBC may be required to identify the country of a security’s issuer (i.e. the country to be used for asset classification) where this is different to/not available in market data feeds (to be confirmed)

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5.3 Equity

Products falling into the equity asset class are distributed between a further two levels of granularity. For single line equity securities (ex-derivatives), securities are classified based entirely on the security’s country of domicile. The country of domicile relates to the country where the company’s headquarters are based, which may differ from the marketplace of the exchange the security is traded on. Consider an ADR whose market is the U.S. but country of domicile is different.

5.3.1 Summary

The figure below outlines the three levels of the asset classification schema for equities. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Equity | Developed – North America | North America - US |
| North America - Canada |
| Developed – Europe ex UK | Developed – Europe ex UK |
| Developed – UK | Developed – UK |
| Developed – Japan | Developed – Japan |
| Developed – Asia Pacific ex Japan | APAC ex Japan - Australia |
| APAC ex Japan - New Zealand |
| APAC ex Japan - Hong Kong |
| APAC ex Japan - Singapore |
| Developed Markets Other | Developed Markets - Other / Mixed |
| Emerging Markets | Emerging Markets – China |
| Emerging Markets – India |
| Emerging Markets – Indonesia |
| Emerging Markets – Korea |
| Emerging Markets – Malaysia |
| Emerging Markets – Pakistan |
| Emerging Markets – Philippines |
| Emerging Markets – Taiwan |
| Emerging Markets – Thailand |
| Emerging Markets – Other Asia |
| Emerging Markets - EMEA |
| Emerging Markets - LATAM |
| Emerging Markets - Other / Mixed |
| Equity - Structured Products / Derivatives | Equity - Structured Products /  Derivatives |
| Equity - Other / Mixed | Equity - Other / Mixed |

5.3.2 Level 2 and 3

The lists below define the country of domicile used to bucket each security to its given level 2 and 3 sectors.

***Developed - North America > North America* - US**

• United States

• Virgin Islands, U.S.

• Guam

• Puerto Rico

***Developed - North America > North America - Canada***

• Canada

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***Developed - Europe ex UK***

• Austria

• Belgium

• Channel Islands

• Denmark

• Finland

• France

• Germany

***Developed – UK***

• Anguilla

• Bermuda

• British Indian Ocean Territory • Cayman Islands

• Falkland Islands

• Falkland Islands (Malvinas)

***Developed – Japan***

• Japan

• Iceland

• Ireland

• Italy

• Liechtenstein

• Luxembourg

• Monaco

• Netherlands

• Gibraltar

• Great Britain

• Guernsey, Channel Islands • Isle of Man

• Jersey, Channel Islands

• Netherlands Antilles • Norway

• Portugal

• Spain

• Sweden

• Switzerland

• European Union

• United Kingdom • Virgin Islands, British

***Developed - Asia Pacific ex Japan > APAC ex Japan - Australia***

• Australia

***Developed - Asia Pacific ex Japan > APAC ex Japan - New Zealand***

• New Zealand

***Developed - Asia Pacific ex Japan > APAC ex Japan - Hong Kong***

• Hong Kong

***Developed - APAC Pacific ex Japan > APAC ex Japan - Singapore***

• Singapore

***Other Developed Markets***

• Israel

***Emerging Markets > Emerging Markets – China***

• China

***Emerging Markets > Emerging Markets – India***

• India

***Emerging Markets > Emerging Markets – Indonesia***

• Indonesia

***Emerging Markets > Emerging Markets – Korea***

• North Korea

• South Korea

***Emerging Markets > Emerging Markets – Malaysia***

• Malaysia

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***Emerging Markets > Emerging Markets – Pakistan*** • Pakistan

***Emerging Markets > Emerging Markets – Philippines*** • Philippines

***Emerging Markets > Emerging Markets – Taiwan*** • Taiwan

***Emerging Markets > Emerging Markets – Thailand*** • Thailand

***Emerging Markets > Emerging Markets – Other Asia*** • Afghanistan

• American Samoa

• Armenia

• Azerbaijan

• Bangladesh

• Bhutan

• Brunei Darussalam

• Cambodia

• Christmas Island

• Cocos (Keeling) Islands

• Cook Islands

• East Timor

• Fiji

• Georgia

• Heard Island & McDonald Islands

• Kiribati

***Emerging Markets > Emerging Markets - EMEA***

• Lao People's Democratic Republic

• Kazakhstan

• Kyrgyzstan

• Macau

• Maldives

• Marshall Islands

• Micronesia, Federated States of

• Mongolia

• Myanmar

• Nauru

• Nepal

• New Caledonia

• Niue

• Norfolk Island

• Northern Mariana Islands

• Palau

• Papua New Guinea • Pitcairn

• Samoa

• Solomon Islands • Sri Lanka

• Tajikistan

• Timor-Leste

• Tokelau

• Tonga

• Turkmenistan • Tuvalu

• Uzbekistan

• Vanuatu

• Vietnam

• Wallis & Futuna

• Aland Islands

• Albania

• Algeria

• Andorra

• Angola

• Bahrain

• Belarus

• Benin

• Bosnia and Herzegovina • Botswana

• Bouvet Island

• Bulgaria

• Burkina Faso

• Burundi

• Cameroon

• Cape Verde

• Central African Republic • Chad

• Comoros

• Guinea-Bissau

• Holy See (Vatican City State) • Hungary

• Iran, Islamic Republic of • Iraq

• Jordan

• Kenya

• Kuwait

• Latvia

• Lebanon

• Lesotho

• Liberia

• Libyan Arab Jamahiriya • Lithuania

• Macedonia

• Madagascar

• Malawi

• Mali

• Malta

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• San Marino

• Sao Tome and

Principe

• Saudi Arabia

• Senegal

• Serbia, Republic of

• Seychelles

• Sierra Leone

• Slovak Republic

• Slovenia

• Somalia

• South Africa

• South Georgia &

the South Sandwich

Islands

• South Sudan

• Sudan

• St. Helena



• Congo, Democratic Republic of the • Cote D'Ivoire

• Croatia

• Curacao

• Cyprus

• Czech Republic

• Djibouti

• Egypt

• Equatorial Guinea

• Eritrea

• Estonia

• Ethiopia

• Faroe Islands

• French Southern Territories

• Gabon

• Gambia

• Ghana

• Greece

• Greenland

• Guinea

***Emerging Markets > Emerging Markets - LATAM*** • Antigua and Barbuda

• Argentina

• Aruba

• Bahamas

• Barbados

• Belize

• Bolivia

• Bonaire

• Brazil

• Chile

• Colombia

• Costa Rica

• Cuba

• Dominica

• Dominican Republic

• Mauritania

• Mauritius

• Mayotte

• Moldova, Republic of

• Montenegro, Republic of • Morocco

• Mozambique

• Namibia

• Niger

• Nigeria

• Oman

• Palestinian Territory, Occupied • Poland

• Qatar

• Reunion

• Romania

• Russian Federation

• Rwanda

• Saint Helena

• Saint Pierre & Miquelon

• Ecuador

• El Salvador

• French Antilles

• French Guiana

• Grenada

• Guadeloupe

• Guatemala

• Guyana

• Haiti

• Honduras

• Jamaica

• Martinique

• Mexico

• Montserrat

• Nicaragua

• Svalbard and Jan Mayen

• Swaziland

• Syrian Arab

Republic

• Tanzania, United Republic of

• Togo

• Tunisia

• Turkey

• Uganda

• Ukraine

• United Arab

Emirates

• Uzbekistan

• Western Sahara • Yemen

• Zambia

• Zimbabwe

• West Bank and Gaza

• Panama

• Paraguay

• Peru

• Saint Kitts and Nevis • Saint Luca

• Saint Vincent and the Grenade

• Suriname

• Trinidad & Tobago • Turks & Caicos Islands

• Uruguay

• Venezuela

***Emerging Markets > Emerging Markets - Other / Mixed***

• Antarctica

• Falkland Islands (Malvinas)

• French Polynesia

• Kosovo, Republic of

• Multinational

***Other / Mixed***

• Supranational

***Equity - Structured Products / Derivatives***

• Saint Barthelemy

• Saint Martin (French Part) • Saint Maarten (Dutch Part) • United States Minor Outlying Islands

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All Structured Products and derivatives with single or multiple Equity underlyings will be classified as “Equity - Structured Products / Derivatives”. This will include Structured Products and Derivatives linked to: • Equity Shares

• Equity ETFs

• Equity Indices

• Equity Funds

5.3.3 Product Type Mappings

The list below defines the product types that have Equity exposure:

• Preferred Shares

• Depository Receipts (America, Global, European, etc.)

• Bearer Shares

• Ordinary Share – Registered

• Equity Options

• Warrants

• Rights

• Futures Options

• Futures on Equities

• Structured products and Other Derivatives with Equity Underlying \*\*

• Funds and ETFs with Equity exposure\*

*\**These securities have multiple underlying, so the issuer country of the security will not be used. For full details on the mapping rules please see section 5.6 of this document

\*\* For full details on Structured Product Asset Classification please see section 5.7 on Structured Product Asset Classification Mapping Rules

5.3.4 Examples

The following are indicative asset class mapping across product types:

• Equity > Developed – North America > North America - US

o Apple common equity (issuer country: U.S.)

• Equity > Emerging Markets > Emerging Markets - Other / Mixed

o Ultrapetrol Bahamas Limited common equity (issuer country: Bahamas)

• Equity > Emerging Markets > Emerging Markets - APAC

o Alibaba ADR (issuer country: China)

5.3.5 FAQs

*Q: What happens when the country of domicile is different from the country where the security is traded?* A: We are using the country of domicile to define the Asset Class assignments. For example, the Alibaba ADR trades on the NYSE (SEDOL: BP41ZD1) and has a country of domicile of China. This security would fall into Emerging Markets > APAC within the asset classification.

*Q: What is the rationale behind REITs falling under the Equity bucket?*

A: REITs are explicitly referenced in the GICS equity classification industry and sub-industry categories, which makes it reasonable to bucket these securities alongside common equities, from a product classification perspective, rather than alternative products. The BRS risk model maps REITs onto equity risk factors, as they are believed to be more representative than alternative factors.

*Q: What happens when a security is issued from a territory, such as Guam or Bermuda?*

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A: BRS will group these countries alongside their relevant home territory. For example, equities listed in Bermuda will fall under the ‘Developed – UK’ sector. Please review the country groupings above for more detail around sector definitions.

*Q: How is the issue country determined?*

A: Aladdin receives a data feed from Thomson Reuters’ containing basic security information, such as currency and country of domicile. Please note there are market data constraints to consume this data, see ‘Market Data’ section below.

*Q: What happens if a security is captured by level 1 but not explicitly captured in levels 2 or 3 of the asset classification?*

A: The logic applied to allocate equity securities within the different sectors follows a ‘waterfall‘ logic. In other words, each security is tested against each sector’s logic following a predefined order (the list reference order). A given security will evaluate the logic defining each sector and if it returns true, it will fall into that sector, otherwise it will move onto the next sector and re-evaluate. For example, a stock issued in Trinidad and Tobago will fall within Equity > Emerging Markets > LATAM. This is because it satisfies the criteria of being an Emerging Market security but does that meet the criteria of the APAC or EMEA sub-sectors. Hence, this security will then fall into the next sector in Emerging Market Equity, LATAM.

*Q: What happens if the country of domicile is not representative of the economic exposures of the security?* A: If HSBC feels that a security’s country of domicile does not accurately represent the stock’s underling economic exposures, they can override this by providing BRS with an Asset Class override by the overnight interface files sent to Aladdin. This Asset Class override will then be used in the asset classification.

*Q: Where are Equity Volatility products captured?*

A: These will fall into the “Other / Mixed” category at level 1 in the Asset Class schema.

5.3.6 Requirements

*Market Data*

• Distinguishing between Asset Class types Level 1 to 3 – Thomson Reuters

• Information for funds and ETFs – Morningstar

5.4 Alternatives

5.4.1 Summary

The figure below outlines the three levels of the asset classification schema for Alternatives. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| Alternatives | Real Estate | Real Estate - Equity |
| Real Estate - Credit |
| Private Equity | Private Equity |
| Private Credit | Private Credit |
| Hedge Fund | Equity Long/Short |
| Market Neutral |
| Managed Futures (CTA) |
| Macro |
| Credit Long/Short |
| Event Driven |
| Multi-Strategy |
| Volatility Arbitrage |

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|  |  | Distressed |
| --- | --- | --- |
| Fund of Funds |
| Unclassified |
| Commodities | Commodities - Precious Metals |
| Commodities - Other / Mixed |
| Alternatives - Structured Products / Derivatives | Alternatives - Structured Products / Derivatives |
| Alternatives - Other / Mixed | Alternatives - Other / Mixed |

5.4.2 Level 2 and 3

Each level 3 Alternative sector is defined in a section below.

*Real Estate > Real Estate – Equity*

Real estate equity represents a residual interest in a property. When you are an equity investor you are essentially the direct or indirect owner of a property.

*Real Estate > Real Estate – Credit*

Real estate credit refers to investing in debt by lending funds to an owner or purchaser of real estate. You receive periodic interest payments from the owner and a security charge against the property. At the end of the term you get back the balance of your principal.

*Private Equity*

Private equity is capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies, resulting in the delisting of public equity. Investors provide the capital for private equity.

*Private Credit*

Private credit is credit that is extended to companies on a bilaterally negotiated basis. It is not publicly traded such as many corporate bonds and is originated or held by lenders other than banks. Private credit encompasses various strategies including real estate debt, distressed debt, direct lending, mezzanine financing and structured financing.

*Hedge Funds > Equity Long/Short*

The strategy consists of buying under-valued and selling over-valued equities, profiting from price increases in the long positions and decreases in the short positions, whilst managing market risk. The selection of equities bought or sold is usually based on quantitative models and research. Fund managers will have differing approaches to the levels of long and short positions to be held (long or short bias) and the methods of managing these to eliminate market risk.

*Hedge Funds > Market Neutral*

Similar to the equity long/short strategy, however there is no long or short bias. Long and short positions are held at equal monetary amounts

*Hedge Funds > Managed Futures (CTA)*

This strategy historically focused on commodity derivatives investing (futures contracts, options on futures contracts), however more recently this has moved to futures across all markets, such as equities and currencies

(FX forwards). Long and short strategies are applied and there can be use of leverage. Traders can be described as systematic or trend followers. Their skill lies in exploiting large volumes of data to identify trading patterns

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and global demand/supply imbalances. Computer systems and quantitative models are used for forecasting and go beyond rule-based trading systems.

*Hedge Funds > Macro*

The strategy aims to predict and benefit from underlying changes in global economic variables, such as changes in government interest rates, which have onward impact on currency markets, stock exchanges and the bond markets. Global macro managers may invest in all the principal markets, or specialise in stock index strategies, currency strategies or interest rate strategies. Use of leverage and derivatives is allowed, and can increase the effect of market movements. Derivatives are used for hedging purposes, taking bets on the effect of leverage, which can often be the greatest influence on performance.

*Hedge Funds > Credit Long/Short*

The strategy involves taking long and short positions in credit sensitive securities to exploit market opportunities. Positions are based on credit analysis of issuers, securities and market views.

*Hedge Funds > Event Driven*

This strategy concentrates on the current or future occurrence of corporate events such as mergers and acquisitions, restructurings or bankruptcies. The manager`s skill lies in successfully recognising both the probability of such an event occurring and the timing of its realisation, as well as analysis into the quality of the transaction.

Opportunities of event driven investing are higher when markets are performing well due to higher volumes of corporate activity. The strategy’s correlation with traditional markets is typically low. Classic underlying strategies typically include merger arbitrage, distressed securities and strategies based on “special situations”.

*Hedge Funds > Multi-Strategy*

Offering the most flexibility in terms of capital allocation, it can consist of many or as few different Hedge Fund strategies that the manager chooses, based on their skill and expertise.

*Hedge Funds > Volatility Arbitrage*

Volatility arbitrage (or vol arb) is a type of statistical arbitrage that is implemented by trading a delta neutral portfolio of an option and it’s underlie. The objective is to take advantage of differences between the implied volatility of the option, and a forecast of future realized volatility of the option's underlie.

*Hedge Funds > Distressed*

This strategy is based on the purchase of heavily marked down equities, debt securities or debt of companies in financial difficulties. The distressed securities are sold at a discount and can appear attractive. Purchasers take on the view that the company issuing the distressed securities has potential for recovery and therefore profit from the transaction in time. Knowledge and skill is applied to assess and evaluate whether the distressed seller can successfully improve operations to generate positive returns.

*Hedge Funds > Fund of Funds*

A Fund of Funds strategy invest in multiple 3rd party funds. This could be a diversified portfolio of Hedge Funds, whose fund managers use different strategies, limiting the specific risk resulting from any individual strategy or a diversified portfolio of Portfolio Funds, whose fund managers use the same strategy, limiting the specific risk linked to any particular fund manager.

*Hedge Funds > Unclassified*

This sector is for securities that cannot be classified past level 2 Hedge Funds

*Commodities > Commodities – Precious Metals*

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This sector contains physical holdings or derivatives (including Funds & ETFs and Structured Products)\* linked to the following precious metals: Gold, Silver, Palladium and Platinum. This also includes FX Investment which may have on leg of the underlying pair linked to Precious Metals (e.g. Dual Currency Deposits where one of the legs is Bullion).

*Commodities > Commodities – Other / Mixed*

This sector contains physical holdings or derivatives (including Funds & ETFs and Structured Products) investing only in precious metals and Structured Products)\* linked to all commodities other than precious metals.

*Alternatives - Structured Products / Derivatives*

This segment refers to Structured Products linked to Alternatives including:

• Commodities

• Real Estate

• Alternative Funds

*Alternatives - Other / Mixed*

This sector is for holdings that cannot be classified into the 1 of 5 other L2 classification*.*

\*For full details on Funds & ETF and Structured Product Asset Classification please see section 5.6 and 5.7 on Asset Classification Mapping Rules

5.4.3 Product Type Mappings

The list below defines the product types that have Alternative exposure:

• Hedge Funds

• Private Funds

• Real Estate

• Options with commodity underlyings

• Futures with commodity underlyings

• Precious Metal linked deposit investments

• Precious Metals

• Structured Products with with commodity underlyings

• Funds and ETFs following Alternative strategies

\* For full details on the mapping rules please see section 5.6 of this document

5.4.4 Examples

The following are indicative asset class mapping across product types:

• Alternatives > Real Estate > Real Estate - Equity

o Global Real Estate Opportunity Fund

• Alternatives > Real Estate > Real Estate - Credit

o Real Estate Debt Strategies Fund

• Alternatives > Private Equity > Private Equity

o HSBC European Private Equity Syndicate III

• Alternatives > Private Credit > Private Credit

o Vintage V Energy Special Situations

• Alternatives > Hedge Funds > Equity Long/Short

o BlackRock European Hedge Fund Limited

• Alternatives > Hedge Funds > Market Neutral

o Renaissance Institutional Diversified Alpha Fund International LP

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• Alternatives > Hedge Funds > Managed Futures (CTA)

o AHL (Cayman) SPC Evolution

• Alternatives > Hedge Funds > Macro

o Dymon Asia Macro Fund

• Alternatives > Hedge Funds > Credit Long/Short

o Anchorage Capital Partners Offshore, Ltd.

• Alternatives > Hedge Funds > Event Driven

o Davidson Kempner International (BVI), Ltd.

• Alternatives > Hedge Funds > Multi-Strategy

o Citadel Kensington Global Strategies Fund, Ltd.

• Alternatives > Hedge Funds > Volatility Arbitrage

o Laurion Capital Ltd

• Alternatives > Hedge Funds > Distressed

o Silver Point Capital Offshore Ltd

• Alternatives > Hedge Funds > Fund of Funds

o HSBC Portfolio Selection -Multi Adviser Arbitrage

• Commodities

o Gold Spot USD (^XAUUSD)

5.4.5 FAQs

*Q: What Private Funds map into Private Credit?*

A: Distressed Debt and Private Loan funds are the only Alternative > Private Funds products that will map 100% in to the Asset Class Private Credit. Multi-Strategy Private funds may have an Asset Class exposure split between Private Equity and Private Credit.

*Q: How will FX products that have one leg of the underlying linked to a commodity be classified (e.g. Dual currency Deposits with one leg linked to Bullion)?*

A: These will be mapped as Alternatives > Commodities as the underlying commodity is the key driver of the investment.

*Q: How will REITs be classified?*

A: For client reporting purposes (both in Aladdin and in outputs such as Portfolio Reviews) and in aligning to the SAA we will choose to show REITs (and funds solely investing in REITs) as giving an **Asset Class exposure to Equities**. *Note, this does not affect the Risk Methodology or Product Type classification for these securities*.

5.4.6 Requirements

*HSBC Security Master Data*

• HSBC are required to identify & classify Real Estate exposures

• HSBC are required to identify Private Equity exposures

• HSBC are required to identify Private Credit exposures

• HSBC are required to identify & classify Hedge Funds exposures

• HSBC will not identify Other/Mixed exposure as this will be where BRS do not have sufficient data to provide a classification

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5.5 FX Structured Product and Derivatives

5.5.1 Summary

The figure below outlines the three levels of the asset classification schema for FX Derivatives. Each level will be defined in detail below.

| Level 1 | Level 2 | Level 3 |
| --- | --- | --- |
| FX Structured Products and Derivatives | FX Structured Products and Derivatives | FX Structured Products and Derivatives |

5.5.2 Product Type Mappings

The list below defines the product types that have FX exposure:

• Structured Products with FX underlyings

• Derivatives within FX, PM, Other Commodities with FX underlyings

o This includes Dual currency deposit/investments & Digital Plus investments

o Note: Derivatives and Dual Currency Deposits /Investments which may have one leg of the pair linked to Commodities (e.g. DCD linked to Bullion) will be classified as

“Commodities”. Please see section 5.4.2.

5.5.3 FAQs

*Q: Will Structured Products linked to FX rates map into this bucket?*

A: Yes. All structured products that have a payoff linked to a foreign exchange rate will map into “FX Derivatives” regardless of their payoff features.

5.5.4 Requirements

*HSBC Security Master Data*

• HSBC will be required to send the required terms and conditions for all securities falling into this Asset Class sector

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5.6 Funds & ETFs – Asset Class Mapping Rules

This section outlines the Asset Class look through approach for Funds and ETFs. The Asset Class of Funds and ETFs is derived from Aladdin’s fund vendor data and uses the underlying holdings. The most recent data is used for the purposes of classification.

The asset class of Focused funds and ETFs, who have targeted specific mandates aligned to the HSBC Level 3 Asset Class Regime, are separated from other vehicles as they follow a different methodology and will map 100% onto a single asset class level 3 sector rather than using holdings.

5.6.1 Summary

Fund classification will be derived from 'look through' into the underlying securities of the funds (stocks, bonds, cash, derivatives) and aggregating the classification of the underlying positions. Here, the same breakdown methodology that is applied to single assets held in client accounts, is applied to these assets when they exist as fund underlyings.

Please note that all underlying liquidity holdings of a fund (cash, cash equivalents, short term government debt, etc.) will be classified as ‘Other Mixed’. All liquidity positions held in client account/portfolio would be classified as liquidity but any fund underlying liquidity position liquidity position would be classified as ‘Other Mixed’. Where the data is available, Aladdin will perform look through for funds held within funds (fund of fund structures). This also applies to funds held within funds, and to any funds held within those funds. Aladdin will perform look through up to 3 levels deep into fund of fund structure to source the underlying positions of funds for the purpose of classification.

In the absence of Aladdin fund vendor data, Aladdin will fall-back to the CLIENT\_SEC\_TYPE field sent (Avaloq security type for example) to classify the fund in the appropriate Other Mixed bucket (e.g., Fixed Income Other Mixed) rather than just classifying as Other Mixed. E.g., if Avaloq sec type = Fixed Income bond funds, it will bucket in Aladdin as Fixed Income Other Mixed. If the CLIENT\_SEC\_TYPE is not provided/not usable the fund will be mapped into Other / Mixed at level 1. This fall-back is booking center specific given not all booking centers are on Avaloq and has the same data model.

If HSBC wish to override the Asset Classification approach for a particular vehicle, overrides can be received via the interface files HSBC send BlackRock on a nightly basis (specifically the SECURITY\_BREAKDOWN data interface). For example, Legg Mason WA MacroOpps Bd A USD Acc (ISIN: IE00BC9S3Z47) has a category of “Alt - Long/Short Debt”. Given its categorization, this fund would typically be treated as a Focused Fund and mapped 100% to Alternatives > Hedge Funds > Credit Long/Short. However, as this fund appears on the Recommend Funds List as a Fixed Income fund, HSBC can flag that this fund should follow the Non-Focused Approach. Overrides should be channelled through the central governance team at HSBC.

*5.6.2* Focused Methodology

Focused Funds & ETFs are those vehicles with targeted mandates (and subsequently exposures) that are contained within a singular level 3 Asset Class. The Focused designation and a level 3 Asset Class is assigned based on a vehicle’s categorization. For example, all vehicles within the Global category “Japan Equity” and sub category “Japan Large-Cap Equity” are considered Focused based on their mandate and the review/assessment conducted by Morningstar. As such their Asset Class exposure will map 100% onto the level 3 Asset Class “Developed - Japan” under Equity.

Underlying Holding data will not drive the asset classification for these vehicles. Continuing the example above, any “Japan Large-Cap Equity” fund will map 100% onto “Developed - Japan” regardless of what underlying holdings the fund has.

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Please find below some example Focused categories and their associated Asset Class mapping. See the Focused Category Section in the Appendix for further details.

| Morningstar Category | Asset Class | | |
| --- | --- | --- | --- |
| Level 1 | Level 2 | Level 3 |
| EUR Government Bond | Fixed Income | Developed Government Debt | Developed Government Debt – Nominal |
| GBP High Yield Bond | Fixed Income | Developed Corporate Debt - HY | Developed Corporate Debt – HY |
| High Yield Muni | Fixed Income | Developed Government Related Debt | Developed Government Related Debt |
| USD Corporate Bond | Fixed Income | Developed Corporate Debt – IG | Developed Corporate Debt – IG |
| Japan Large-Cap Equity | Equity | Developed – Japan | Developed – Japan |
| Eurozone Large-Cap Equity | Equity | Developed – Europe ex UK | Developed – Europe ex UK |
| Latin America Equity | Equity | Emerging Markets | Emerging Markets - LATAM |
| Brazil Mid & Small Cap Equity | Equity | Emerging Markets | Emerging Markets - LATAM |

Note: Aladdin’s fund vendor categories such as “US Equity Large Cap Blend” or “UK Equity Large Cap” are not considered focused. These categories typically contain stocks that are listed within the region of focus but have domiciles outside of the region. For example, funds within the “UK Equity Large Cap” may contain Royal Dutch Shell which is listed in London but domiciled in the Netherlands. Funds with “UK Equity Large Cap” will therefore follow a non-focused mapping approach so that their allocations to both “Developed - Europe Ex-UK” and “Developed - UK” are captured.

If one share class of a fund is contained within a Focused Morningstar category and follows the Focused approach, all share classes from the fund will follow the same Asset Class mapping approach.

5.6.3 Synthetic ETFs

“Synthetic ETFs” use derivatives to obtain the risk and return profile of the index that they are tracking. However, when the Aladdin Wealth asset classification engine classifies these instruments, due to a lack of terms and conditions provided by Aladdin’s fund vendor for these instruments, these will typically bucket in “Other Mixed”. In order to avoid this, such ETFs are identified and classified using their fund category.

For example, iShares S&P 500 Swap UCITS ETF (IE00BMTX1Y45), a bottom-up approach to classification would classify this ETF as “Other Mixed”. However, using the fund category of “US Large-Cap Blend Equity” we can identify this ETF as being focused on the US equity market and bucket it 100% in US Equities for the purpose of classification.

A full list of the categories treated for synthetic ETFs and which asset classes they map to can be found in the appendix.

This approach improves upon the bucketing of “Other Mixed” for such ETFs however it has its limitations. It can be used to map ETFs 100% to a single asset class sector, but ETFs that may track global or regional indices (e.g. MSCI World or MSCI Asia Pacific) which do not map neatly into a single asset class sector cannot be treated.

5.6.4 FAQs

*Q: If a fund has share classes in different Morningstar categories, what methodology will be used?* A: Holdings of funds are captured at the mother fund level and thus asset class look through happens at the mother fund level. If one share class follows a focused approach, all share classes likely will follow the same

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focused mapping approach are all Alternatives, money market and commodity fund categories are considered focused.

*Q: How will instances where there is no categorization be treated?*

A: If holdings are available but no categorization, the fund cannot be evaluated for the targeted approach and so look through will be applied into the underlying holdings.

If no holdings are available either, the HSBC provided CLIENT\_SEC\_TYPE would be used as a fallback to classify the fund. If the CLIENT\_SEC\_TYPE is not provided/not usable the fund will be mapped into Other Mixed at level 1.

*Q: How will instances where there is no fund vendor data at all be treated?*

A: In the absence of Morningstar data, Aladdin will fall back to the CLIENT\_SEC\_TYPE field sent (Avaloq security type) to classify the fund in the appropriate Other Mixed bucket (e.g. Fixed Income Other Mixed) rather than just classifying as Other Mixed. E.g. if Avaloq sec type = Fixed Income bond funds, it will bucket in Aladdin as Fixed Income Other Mixed. If the CLIENT\_SEC\_TYPE is not provided/not usable the fund will be mapped into Other / Mixed at level 1.

*Q: How do we treat liquidity held within funds?*

A: Aladdin treats liquidity held in funds different from liquidity outside of funds and in client accounts. Liquidity (which involves pure cash, cash equivalents, short-term high-quality government debt, etc.) held in funds would be classified as ‘other mixed’. So, Other Mixed bucket could be inflated or reduced.

*Q: How come there are large negative / positive ‘Other Mixed’ allocations?*

A: Aladdin’s fund vendor data in certain instances creates ‘notional cash offsets’. These are synthetic cash positions sized to offset notional instruments held within funds (interest rate swaps, futures, etc.) to ensure all fund position weights sum to 100%. Such cash offset would be classified as ‘Other Mixed’. So, Other Mixed bucket could be inflated or reduced.

*Q: How do we treat derivatives held within funds?*

A: Derivatives held within funds would fall under the relevant Structured Products & Derivatives bucket (depending on their underlying type).

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5.7 Structured Products - Asset Classification Mapping Rules

This section provides the framework and rules for categorising the structures products into asset classes. All asset class levels nomenclature and mapping business rules, based on the underlying(s), referred to will comply with the regime outlined earlier in this section (Section 5).

***Fixed Income***

*For Rate Notes, and Rate OTC Derivative (such as Interest Rate Swaps):*

• Structured Products with interest rate and credit exposure will be classified as Fixed Income. For notes with Interest rate exposure, if the underlying is a market rate, then the classification will be as follows:

o Fixed income > FI - Structured Products And Derivatives > FI - Structured Products And

Derivatives

*For Credit and Credit OTC Products:*

• Structured Products with credit underlyings will be classified as follows:

o Fixed income > FI - Structured Products And Derivatives > FI - Structured Products And

Derivatives

• Furthermore, Structured Products not linked to a government rate and simply pay interest will be classified as Fixed Income as follows:

o Fixed income > FI - Structured Products And Derivatives > FI - Structured Products And

Derivatives

***Equity (including Equity Shares, Equity ETFs, Equity Indices and Equity OTC products)***

• Structured Products with Equity underlyings will be classified as follows:

o Equity > Equity - Structured Products And Derivatives > Equity - Structured Products And Derivatives

***FX***

• Structured Products with FX underlyings will be classified as follows:

o FX Structured Products And Derivatives > FX Structured Products And Derivatives > FX

Structured Products And Derivatives

***Commodities***

• For all structured products with commodity underlyings, the classification will be as follows: o Alternatives > Alternatives - Structured Products And Derivatives > Alternatives - Structured Products And Derivatives

***Hybrid***

• Structured products made up of multiple underlyings with different level 1 asset classes (e.g. Equity and Fixed Income) would be classified as follows:

o Others / Mixed > Other / Mixed > Other / Mixed

***Fund***

• Structured products linked to fund underlyings would be classified as follows:

o Others / Mixed > Other / Mixed > Other / Mixed

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5.7.1 FAQs

*Q: How will Structured Products linked to multiple underlyings be mapped (i.e. Worst Of, Best Of, Dynamic [e.g. Rainbow, Dynamic Tracker], Average, Basket, Spread)*

A: For Structured Products linked to multiple underlyings all of the Same Level 1, the Asset classification will be as follows:

• *Credit Linked Notes*: Fixed income > FI - Structured Products And Derivatives > FI - Structured Products And Derivatives

• *Rate Notes: F*ixed income > FI - Structured Products And Derivatives > FI - Structured Products And Derivatives

• *Equity Notes:* Equity > Equity - Structured Products And Derivatives > Equity - Structured Products And Derivatives

• *FX Notes:* FX Structured Products And Derivatives > FX Structured Products And Derivatives > FX Structured Products And Derivatives

• *Commodities:* Alternatives - Structured Products And Derivatives > Alternatives - Structured Products And Derivatives > Alternatives - Structured Products And Derivatives

*Note: Limitations*

**Lack of Delta Adjusted Asset Classification Mapping**

For notes with multiple underlyings where the weights are pre-determined (e.g. Average or Basket) the asset classification is straightforward: it will look through fully and map proportionately to where the individual underlyings sit as outlined above.

Where the underlying weights are dynamic and not pre-determined (e.g. Worst Of, Best Of, Rainbow) a dynamic delta adjusted exposure would be the most accurate reflection of the asset class exposure, although there would be some challenge in explaining the approach particularly to investors.

However, based on discussions held on the Asset Classification mapping with the BlackRock Solutions team (as at 26/07/2018), **Aladdin does not currently have the ability to produce a view of delta adjusted exposure.**

Therefore in the absence of a delta adjusted approach, the best option is to have a spate Structured Product and Derivative level and Level 3 approach outlined above. **It is important however to note that this is purely for Asset Classification purposes and the risk modelling for Structured Products will still take into account all risk factors.**

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6 Asset Classification In Portfolios

6.1 Mapping

All instruments will have a one-to-one mapping onto a single Product Type.

Instruments can have a one-to-many mapping onto the Asset Class schema (for example, Multi Asset funds can map onto multiple asset class sectors).

Individual securities will be mapped onto the Asset Class & Product Type schemas according to the methodology outlined above.

6.2 Direction

The direction of a security’s Asset Classification (i.e. positive or negative asset classifications), will depend on whether the security is held in a long or short position. That is, if a long position is taken, then that security will contribute positively to asset classification. Conversely, if a security is held in a short position, that security will contribute negatively to asset classification.

Any purchased option or note will contribute positively and any sold/written option or note will contribute negatively to the asset class exposure.

6.3 Magnitude

Notional Market value is used to determine the weighting of individual security classifications to a portfolio level Asset Classification. That is the weighting of a position is the position’s Notional Market Value divided by the associated portfolio’s Market Value.

For most instruments, notional market value equals market value. However, there are some derivatives where this is not the case. Note the following:

• Futures have no market value since they are fully cash-settled daily. Thus, the notional market value is required for these positions which references the size of the contract, it’s price and the number of contracts held.

• At the money swaps have zero market value which does not capture the economic exposure of the position. Thus, notional market value, which references the notional amount of the contract, is more appropriate for all swaps.

• The notional market value of options equals the market value of the position given that these are fully funded positions. Notional Market value here equates the option premium multiplied by the number of contracts held (accounting for the block sizes that exchange traded options trade in).

• Structured Products (excluding the OTC products mentioned above) are not considered notional securities.

FX Forwards and FX Spot contracts are not notional securities and Aladdin uses their market value for the magnitude of position sizes when bucketing them in breakdowns. Note however that these are treated like notional securities elsewhere in Aladdin for analytical purposes given they are captured as a single security in Aladdin that represents both a pay & receive leg.

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7 Attributes

7.1 Summary

The table below outlines attributes that shall be used in addition to asset class and product types dimensions, their relevance and respective definitions.

**Attribute Possible Values Relevant to … Country** All Possible Countries

Other / Mixed All Asset Classes

**Equity Sector Level 1** GICS Level 1 Classification Scheme Equity Asset Class **Fixed Income Sector Level 1** Barclays Indices Global Sector

Classification Scheme Level 1 Fixed Income & Liquidity Asset Class

**Equity Sector Level 2** GICS Classification Scheme Level 2 Equity Asset Class **Fixed Income Sector Level 2** Bloomberg Barclays Indices Global Sector

Classification Scheme Level 2 Fixed Income & Liquidity Asset Class

**Currency** All Possible Currencies- See Appendix Equity Asset Class Products with Fixed Income Asset Class

**Credit Ratings (Moody's)** Moody's Ratings

**Credit Ratings (S&P)** S&P's Ratings

**Credit Ratings (Fitch)** Fitch's Ratings

**Credit Ratings (Other Source)** *TBC*

**Overall/Combined Credit Rating** AAA, AA, A, BBB, BB, B, Below B, Not Rated, Other

Exposures and Single-line FI Products with Liquidity Asset Class Exposure

Products with Fixed Income Asset Class Exposures and Single-line FI Products with Liquidity Asset Class Exposure

Products with Fixed Income Asset Class Exposures and Single-line FI Products with Liquidity Asset Class Exposure

Products with Fixed Income Asset Class Exposures and Single-line FI Products with Liquidity Asset Class Exposure

Products with Fixed Income Asset Class Exposures and Single-line FI Products with Liquidity Asset Class Exposure

**Islamic Product** Y/N All Product Types Zero Coupon

**Coupon type**

**Bond Maturity Type**

**Bond Maturity (Years)**

*Used in client output not Asset Classification*

Fixed Coupon Floating Coupon Variable Coupon Perpetual

Fixed Term

Sinkable

Single Line FI Product Types

Single Line FI Product Types

*Single Line FI Product Types and Fund & ETFs*

**Inflation Linked** Y/N Single Line FI Product Types Callable

**Callable/Puttable**

Puttable

Callable & Puttable No

Single Line FI Product Types

**Make Whole Call** Y/N Single Line FI Product Types **Bail-in Eligible** Y/N Single Line FI Product Types SENIOR NON-PREFERRED

JUNIOR SUBORDINATE

JUNIOR

SENIOR

MEZZANINE

**Debt Rank**

SENIOR UNSECURED SENIOR SECURED SUBORDINATE

COCO

CAPSEC

AGENCY

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Single Line FI Product Types



MORTGAGE

1st LIEN

2nd LIEN

DIP

UNSECURED

OTHER

**CoCos** Y/N Single-line FI Products **Covered Bond** Y/N Single Line FI Product Types Private Placements

Public

**Registration**

**Primary Market of Issue**

REG-S

144a

Dual (Reg-S + 144a) GLOBAL

EURO

UNITED STATES ETC

Single Line FI Product Types Single Line FI Product Types

**MTN** Y/N

**Dual Currency** Y/N Single Line FI Product Types **Bullet** Y/N Single Line FI Product Types **Non-Deliverable** Y/N All Options, Forwards & Swaps Product Types **Margin Product Product Type** Margin Products FX products

**Hedge Fund Product Type** Hedge Fund, Liquid Hedge Fund Hedge Funds

**Private Funds Product Type** Venture, Buyout, Secondaries, Energy,

Direct Club, etc.Private Funds Products

**Real Estate Product Type** Fund Of Funds, Segregated Mandates,

Club Deals Real Estate Investment Products

**Precious Metals Product Type** Allocated, Unallocated Precious Metals **Private Equity Asset Class tags** Private Equity, Private Credit Private Equity Products **Real Estate Asset Class tags** Real Estate Equity, Real Estate Credit Real Estate Investment Products **Hedge Fund Strategy** Market Neutral, Macro, Credit Long

Short, Distressed, etc.Hedge Funds

**Hedge Fund of funds** Y/N Hedge Funds

**Real Estate Fund of funds** Y/N Real Estate Investment Products **Private Equity Fund of Funds** Y/N Private Funds Products **Direct/Indirect RE Investment** Direct/Indirect Real Estate Investment Products **AIS** Y/N Hedge Funds

**UCITS** Y/N Hedge Funds

Money Market Fund

Equity Only Fund

Fixed Income Only Fund

Multi-Asset Fund

**Fund Type**

**Coupon (Autocall Level) Coupon (Payment Type) Knock In**

**Knock Out**

Commodity Fund

Hedge Fund

Private Fund

Real Estate Fund

Other

Flat

Step-down

Other

Periodic

Accrual

Digital

European

American

N

European

American

Parisian

N

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Funds, ETFs and Hedge Fund Product Types

Structured Products & FX Derivatives

Structured Products & FX Derivatives

Structured Products & FX Derivatives

Structured Products & FX Derivatives



**Strike Observation Schedule**

European

American

Asian

Daily

Weekly

Monthly

Semi-Annually Annually

Other

Structured Products & FX Derivatives Structured Products & FX Derivatives

**Transatlantic** Y/N Structured Products & FX Derivatives Accrual

**Target**

Big Figures N

Structured Products & FX Derivatives

**With or without Call-ability** Y/N Structured Products & FX Derivatives **Participation** % Level Structured Products & FX Derivatives **Cap Coupon** Y/N Structured Products & FX Derivatives **Floor Coupon** Y/N Structured Products & FX Derivatives **Memory on Coupon** Y/N Structured Products & FX Derivatives **Memory on Knock Out** Y/N Structured Products & FX Derivatives Full Protection

**Floored Principal**

**One Touch / Double Touch No Touch / Double No Touch**

Put Spread

Zero Coupon

N

One Touch

Double Touch N

No Touch

Double No Touch N

Structured Products & FX Derivatives

Structured Products & FX Derivatives Structured Products & FX Derivatives

**Lookback** Y/N Structured Products & FX Derivatives Average

Best-Of

**Underlying Valuation Accu/Decu Fixing Schedule**

**Barrier / Double Barrier Binary Options**

Worst Of

Basket

Single

Daily

Weekly

Monthly

Semi-Annually Annually

Other

KI

KO

Double KI

Double KO

KI-KO

No

Digital

Digital KO

One Touch

No Touch

Instant One Touch No

Structured Products & FX Derivatives Structured Products & FX Derivatives

All Options Product Types (Equity, FI, FX etc.) All Options Product Types (Equity, FI, FX etc.)

**Call / Put** Call

Put FX Accumulators

Single

**Barrier**

Double No

FX Accumulators

**Leveraged** Y/N FX Accumulators

**Strike** Single

Dual FX Accumulators

**European KI Barrier** Y/N FX Accumulators

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**PM Type**

Gold

Silver

Platinum Palladium Other

Precious Metals

7.2 Attributes definition

The below table outlines further definition and details around Attributes.

**Attribute Definition Futher Definitions**

~~For Single-line Equity Products - this will be the Country of Domicile (except~~

were overwritten by a HSBC PB country of risk)

For Single-line Fixed Income Products - this will be the Country of Domicile

of the Ultimate Parent Issuer (except were overwritten by a HSBC PB

**Country**

This field represents the Country which is used to drive the Asset Classification a reflects the economic exposures of the security

country of risk to reflect the correct Country of the Ultimate Parent Issuer) For Fund and ETF Products the Country of Risk, as derived from the Global and M\* fund categories, this would only apply to a subset of focused fund which are aligned to a single country, otherwise this field would be

other/mixed

For Structured Products (SPs) - look through based on the underlying, for Indexes this may be hard coded

For Real Estate & Private Equity Alternative Products this will be the country(ies) provided by HSBC and used for Risk Modelling ~~For Products with Equity Asset Class exposure - this will be driven by the~~

**Equity Sector Level 1** The level 1 Equity sector classification of the security,  aligned to GICS

GICS Classification

For Funds & ETFs - this will be driven by the MorningStar Equity Sector and Bond Sector breakdown (which will be mapped to GICS)

For Products with Alternative Asset Class Exposure - there will be no sector For SPs - there will be no sector

For Products with Fixed Income Asset Class Exposure (and Single-line FI Products with Liquidity Asset Class Exposure) - this will be driven by the Bloomberg Barclays Indices Global Sector Classification Scheme

**Fixed Income Sector Level 1**

The level 1 Fixed Income sector classification of the security, aligned to Barclays 4 Pillar

For Funds & ETFs - this will be driven by the MorningStar Equity Sector and Bond Sector breakdown (which will be mapped to GICS and Barclays for consistency)

TBC For Products with Alternative Asset Class Exposure - there will be no sector

TBC SPs - there will be no sector

**Equity Sector Level 2** The level 2 Equity sector classification of the security, aligned to GICS

For Single-line Products with Equity Asset Class exposure this will be driven by the GICS Classification

**Fixed Income Sector Level 2**

**Currency**

**Credit Ratings**

The level 2 Fixed Income sector classification of the security, aligned to Barclays 4 Pillar

The currency associated with each instrument, this will be a single value per instrument and denotes the currency of the instrument not the underlying exposure

For Single-line Products with Fixed Income Asset Class Exposure (and Single-line FI Products with Liquidity Asset Class Exposure) this will be driven by the Bloomberg Barclays Indices Global Sector Classification Scheme

For Single-line Equity Products this will be the currency of the securityFor Single-line Fixed Income Products this will be the pricing currency (as opposed to the settlement currency where different)

For Fund and ETF Products this will be the currency of the share class For Alternative Products this will be the currency of that the instruments NAV is calculated in and reported

For Derivative Products (across Single-line Equity, Single-line Fixed Income, Structured Products (SPs), FX, PM, Other Commodities) this will reflect the denomination of the derivative

**(Moody's)** The credit rating provided by Moody's where available **Credit Ratings (S&P)** The credit rating provided by S&P where available **Credit Ratings (Fitch)** The credit rating provided by Fitch where available

**Credit Ratings (Other Source)**

**Overall/Combined Credit Rating**

**Islamic Product**

The credit rating used by HSBC where none of the main 3 Ratings are available - these might be internal HSBC ratings or Private ratings produced by Markit on request from HSBC

For Single-line Instrument The credit rating which is calculated using the industry standard Bloomberg Barclays Index rating methodology which averages the ratings from the major rating agencies, Moody’s, S&P and Fitch Ratings (and Other Credit Rating where applicable). For Funds & ETFs the Credit Rating lookthrough provided by MorningStar.

This field will identify if a product complies with sharia (Islamic law), examples include: Mudharabah (profit sharing), Wadiah (safekeeping), Musharakah (joint

Yes: Product identified as compliant with sharia (Islamic law) No: All other securities

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venture), Murabahah (cost plus finance), Ijar (leasing),

Takaful (Islamic insurance), and Sukuk (Islamic bonds).

**Coupon type** The type of coupon associated with Single-line Fixed  Income instruments

**Bond Maturity** This field will identify if a product has a fixed maturity  or is perpetual or sinkable

Zero Coupon: Zero Coupon: A Zero Coupon bond is issued at discount and pays no coupon (no interest) over the lifetime of the bond, but pay repay the face value (principal) at maturity

Fixed Coupon: A bond with a Fixed Coupon pays a constant coupon (interest) rate over the lifetime of the bond

Floating Coupon: Floaters are securities where the coupons is reset on defined frequency (generally quarterly). The coupons are set on a benchmark rate (e.g. LIBOR) + a fixed spread

Variable Coupon: Securities where the nature of the coupon will vary throughout the life of the bond. That is, the coupon may go from fixed to floating, or vice versa. This also encompasses securities where the coupon will step up - predefined schedule of coupon increases, when the coupon is not linked to a payment rate, and step down bonds.

Perpetual: A Perpetual bond is a bond with no maturity date, the issuer is obligated to pay coupons indefinitely to the bondholder.

Fixed Term: A Fixed Term bond is a bond with a fixed maturity date, at which point the bond's principal is paid by the issuer to the bondholder. Sinkable: A bond protected by a sinking fund, which ensures that principle and interest payments for that bond will be paid according to the bond agreement. It features scheduled amortization over the course of the life of the bond.

**Bond Maturity (Years)** *Used in client output not Asset Classification*

**Inflation Linked**

The time to maturity of the bond

Inflation linked bonds (or linkers) are bonds where the coupon payments and notional are adjusted for inflation through some inflation indicator, such as the Consumer Price Index (CPI) or the Retail Price Index (RPI)

Yes: Security identified as linked to an inflation indicator

No: All other securities

**~~Callable:~~** A callable bond (also called redeemable bond) is a type of bond (debt security) that allows the issuer of the bond to retain the privilege of redeeming the bond at some point (or one or more specified dates) before

**Callable/Puttable** This field will capture any optionality associated with  Single-line FI products (excluding Bond Options)

This field will capture a Make Whole Call feature

the bond reaches its date of maturity

**Puttable:** A Puttable bond (put bond, puttable or retractable bond) is a bond with an embedded put option. The holder of the puttable bond has the right, but not the obligation, to demand early repayment of the principal. The put option is exercisable on one or more specified dates. **Callable & Puttable:** A bond which is both Callable and Puttable as above **No:** The instrument is neither Callable nor Puttable

**Make Whole Call:** A make whole call provision is a type of call provision on a bond allowing the issuer to pay off remaining debt early. The issuer

**Make Whole Call Bail-in Eligible**

associated with Single-line FI products (excluding Bond Options)

Security is identified as TLAC

*This definition will later be expanded to incorporate MREL debt for disclosures once this classification is available in AVALOQ*

typically has to make a lump sum payment to the investor derived from a formula based on the net present value (NPV) of future coupon payments that will not be paid incrementally because of the call combined with the principal payment the investor would have received at maturity.

**Secured:** Secured debt is backed by a specific set of assets that can be sold as collateral if the firm defaults on the loan. Secured debt is senior and claims are paid first.

**Senior Unsecured:** Senior unsecured debt is not backed by a specific set of assets, but is senior to all other debt (which is subordinated). As such claims on Senior Unsecured debt are paid before all other debt which is not Secured. Collateral from asset-backed debts may be sold to pay off senior secured debt. Senior unsecured debt is then paid using other company assets

**Subordinated:** Subordinated debt is unsecured and junior to all senior unsecured debt

**Junior Subordinated:** Junior Subordinated debt is unsecured and junior to all senior unsecured and all subordinated debt

**Debt Rank** An attribute to identify the debt rank of Fixed Income  instruments

**Senior Non-Preferred:** In Europe, banks that do not have a holding company structure have started to issue non-preferred senior debt, which will be TLAC/MREL eligible. Some call it informally ‘Tier 3 ‘, as it lies below senior unsecured debt but above Tier 2 in the capital structure of the bank. It is a new category of debt instrument with a greater legal capacity to absorb losses than traditional senior unsecured debt.

**CoCo:** CoCos are a subcomponent of Contingent Capital Notes (CCNs). CCNs are hybrid securities issued by Financial institutions that provide a buffer in times of distress by absorbing losses. CCNs have two core features, the loss absorption method (either conversion to equity or a principal write down)

and the trigger (the point at which loss absorption is activated). Triggers can be mechanical triggers (based on a specific capital ratio of the entity) or discretionary triggers (at the discretion of the relevant regulatory body, generally at the point of non-viability (PONV)). HSBC PB distinguishes CoCos from other CCNs based on the trigger, only those instruments with a mechanical trigger are considered CoCos and will also have the Debt Rank

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**Covered Bond**

**Registration**

**Primary Market of Issue MTN**

**Dual Currency**

**Bullet**

Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point of time. They are subject to specific legislation to protect bond holders. Unlike asset-backed securities created in securitization, the covered bonds continue as obligations of the issuer; in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse." Typically, covered bond assets remain on the issuer’s consolidated balance sheet (usually with an appropriate capital charge).

The primary market of issue captures the market on which the security is trading and is distinct from the characteristics of the issuer.

A Dual Currency bond is a fixed income security denominated in one currency whose interest and/or principal is payable in another currency at a predetermined rate.

A bullet bond is a debt instrument whose entire principal value is paid all at once on the maturity date, as opposed to amortizing the bond over its lifetime. Bullet bonds cannot be redeemed early by an issuer, which means they are non-callable. These are equivalent to non-callable, fixed term zero coupon bonds.

"Junior Subordinated". CCNs with a discretionary trigger will not be identified as CoCos.

Yes: Security Identified as a Covered Bond

No: All other securities

~~Private Placements - Securities which are truly privately issued are marked~~ as Private in the Registration.

Public - Both qualified and retail clients can hold

REG-S - Only EU qualified investors can hold

144a - Only US qualified investors can hold

Dual (Reg-S + 144a) Both US and EU qualified investors can hold

Yes: Security Identified as a Dual Currency Bond

No: All other securities

Yes: Security Identified as a Bullet Bond

No: All other securities

**Non-Deliverable** Yes:No: All other securities

**Margin Product Product Type**

**Hedge Fund Product Type**

**Private Funds Product Type**

**Real Estate Product Type**

**Precious Metals Product Type**

**Private Equity Asset Class tags**

**Real Estate Asset Class tags**

HSBC to provide to BlackRock tags for Margin Products for the purpose of Asset Classification as per interface file requirements

HSBC to provide to BlackRock tags for Hedge Funds for the purpose of Asset Classification as per interface file requirements

HSBC to provide to BlackRock tags for Private Funds Products for the purpose of Asset Classification as per interface file requirements

HSBC to provide to BlackRock tags for Real Estate Products for the purpose of Asset Classification as per interface file requirements

HSBC to provide to BlackRock tags for

Allocated/Unallocated FX Products for the purpose of Asset Classification as per interface file requirements HSBC to provide to BlackRock the tags for Private Equity and Private Credit

HSBC to provide to BlackRock the tags for Real Estate Equity & Real Estate Credit

**Hedge Fund Strategy** HSBC to provide to BlackRock the Hedge Funds strategy

for Asset Classification purposes

A "fund of funds" (FOF) holds a portfolio of other

**Hedge Fund of funds**

**Real Estate Fund of funds**

**Private Equity Fund of Funds**

**Direct/Indirect RE Investment**

investment funds rather than investing directly, this type of investing is often referred to as multi-manager investment.

A "fund of funds" (FOF) holds a portfolio of other investment funds rather than investing directly, this type of investing is often referred to as multi-manager investment.

A "fund of funds" (FOF) holds a portfolio of other investment funds rather than investing directly, this type of investing is often referred to as multi-manager investment.

Yes: Security is a Fund of Funds No: All other securities

Yes: Security is a Fund of Funds No: All other securities

Yes:

No: All other securities

Direct:

Indirect

**AIS** Product from Alternative Investment Solutions **UCITS**

**Fund Type** Identifies the 'Type' of Mutual Fund which will be used  to support reporting/client output requirements in Asia

Money Market Fund: These are the focused funds that map 100% to L1 Liquidity Asset Class Exposure

Equity Only Fund: These are the focused & multi region funds that map 100% to L1 Equity Asset Class Exposure, does not include Multi Asset Funds which happen to have all Equity exposure

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**Coupon (Autocall Level)**

This field indicated the field indicates the path of the autocall level which, if certain conditions are met, will knockout the product and pay a predefined coupon.

Fixed Income Only Fund: These are the focused & multi sector and Global bond funds that map 100% to L1 Fixed Income Asset Class Exposure, does not include Multi Asset Funds which happen to have all FI exposure Multi-Asset Fund: These are the funds which have asset class exposure across both Equity and Fixed Income, includes Multi Asset Funds which happen to have all FI or all Equity exposure

Commodity Fund: These are the focused funds which map 100% on to the L2 Commodities

Hedge Fund: These are the focused funds which map 100% on to the L2s: Hedge Funds

Private Fund: These are the focused funds which map 100% on to the L2s: Private Equity; Private Credit

Resl Estate Fund: These are the focused funds which map 100% on to the L2s: Real Estate

Other: Any funds which cannot be classified based on the above rules ~~Flat- same autocall level at each observation date~~

Step-down: reducing autocall level according to predefined schedule Other

**Coupon (Payment Type)** This field indicates the system by which the pay-out is  relayed

This field identifies if there is a return level that will

cause the barrier to be breached and cause the product

Periodic: Coupon is paid out according to a predefined scheduleAccrual: Coupon is accrued and paid out at maturity or redemption Digital: Coupon is conditional and fixed

European: Return level observed at Maturity

American (Daily Close): Return level observed at the close of each day

**Knock In Knock Out**

to act like a normal option

This field identifies if the product is autocallable or redeemable prior to maturity based on pre-defined rules

during the life of the product

American (Intraday): Return level observed throughout the life of the product

European: Autocallable with observation at the end of the period American: Autocallable with observation continuously during the period (Intraday or Daily Close)

Parisian: Autocallable with observations over a pre-defined period No: Security will redeem at maturity

**Strike Observation** This field indicates the observation style for the strike  of the options

**Schedule** This fields defines the frequency of occurrence of

certain events during the life of the product

**Transatlantic** This field indicates whether the product constitutes of both an American and European style option

This field indicates the products target return either in

terms of amount (accrual) or in-the-money fixings (big

European: Observed at the end of the period

American: Observed continuously during the period

Asian: An average of the observations over a defined period

Yes: Product constitutes a transatlantic option

No: Not relevant

Accrual: Maximum dollar value the holder can collect after which the contract knocks out

**Target**

**With or without Call ability**

figures)

This field indicates whether the product can be redeemed by the issuer prior to maturity

Big Figures: Number of in-the-money fixings the holder can participate in before the contract knocks out

No: Not relevant

Yes: Product can be redeemed by issuer prior to maturity No: Not relevant

**Participation** This fields indicates the leverage level of the upside

return that the product could deliver

**Cap Coupon** This field indicates the upper limit on a floating rate

coupon

**Floor Coupon** This field indicates the lower limit on a floating rate

coupon

This field indicates whether any previously unpaid /

100% means no upside leverage

>100% implies upside leverage

Yes: Relevant with cap level

No: Not relevant

Yes: Relevant with floor level

No: Not relevant

Yes: Previously unpaid/unaccrued coupon can be paid/accrued

**Memory on Coupon**

unaccrued coupon can be paid / accrued in a subsequent period if certain conditions are met

No: Unpaid/unaccrued coupons are lost

**Memory on Knock Out** This field indicates whether a historic prices are used in order to determine if a product is knocked out

**Floored Principal** This field indicates whether or not the security has  downside protection

Yes: Memory with schedule and style

No: No knock out memory

Full Protection: Full protection of principal on the downsidePut Spread: Principal protection at a given level in a given band of underlying performance

Zero Coupon: Principal protection at a set % regardless of underlying performance

N: No protection on the downside

**One Touch / Double Touch**

**No Touch / Double No Touch**

This fields indicates if the holder will receive the pay out based on if the underlying reaches (or does not reach) certain pre-defined level or levels

This fields indicates if the holder will receive the pay out based on if the underlying reaches (or does not reach) certain pre-defined level or levels

One Touch : A pay-out Is received if the underlying reaches a certain level Double Touch: A pay-out is received if the underlying reaches one of two defined levels

No: Not relevant

No Touch: A pay-out will be received if the underlying does not reach a certain level

Double No Touch: A pay-out will be received if the underlying does not reach a level beyond a certain range

**Lookback** This field indicates if the strike is determined as the best level traded over a defined period of time

**Underlying Valuation** The field identifies what the product is linked to

No: Not relevant

Yes: Indicates there is a lookback feature on the strikeNo: Not relevant

Average: take the average of the underlyingBest-Of: take the best of underlying basket return Worst-Of: take the worst of underlying basket return Basket: take the weighted average

Single: single underlying

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