Important information on the transition away from LIBOR

Dear client,

The financial services industry continues to prepare for the move away from Interbank Offered Rates ("IBORs") towards 'Risk-Free Rates' also known as 'Near Risk-Free Rates' ("RFRs")[1] and other alternative rates.

This letter sets out how recent developments will modify our product offering and the options available to you to transition your existing contracts away from LIBOR. Please read it carefully, and contact us if you wish to discuss these changes further. You may consider seeking independent advice if you are unclear about any part of this letter, including legal, tax, accounting, regulatory, financial or other aspects.

Recent announcements related to the LIBOR cessation dates

On 5 March 2021, the Financial Conduct Authority (FCA), the UK regulator, announced that all LIBOR settings for all currencies will either cease or no longer be representative immediately after the following dates:

- 31 December 2021, for Sterling, Euro, Swiss Franc and Japanese Yen LIBOR settings in all tenors, and US Dollar LIBOR 1-week and 2-month settings; and
- 30 June 2023, for US Dollar Overnight, 1-month, 3-month, 6-month and 12-month settings.

The FCA also stated it will consult in Q2 2021 on the continued publication of certain LIBOR settings on a non-representative and 'synthetic' basis (a different calculation methodology), for use in very limited circumstances to provide contractual certainty for specific 'tough legacy' contracts (those that are particularly difficult to renegotiate or amend or where there is no suitable alternative).

Immediately following the FCA announcement, ISDA stated that this constituted an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all 35 LIBOR settings**.** Therefore, **the five-year historical median spread adjustments for LIBOR in its five currencies and all settings were fixed as of Friday 5 March 2021**. The final spread adjustments for each combination of currency and tenor have been published by Bloomberg.

What does this mean for you?

Over the coming months, we will actively contact our clients with single and multi-currency contracts based on LIBOR in GBP, JPY, CHF and EUR that mature post 2021. Our intention is, where possible, to conclude contractual arrangements by the end of September 2021, which will enable the transition of these contracts to alternative rates by the end of 2021. At this stage, the decision to transition existing contracts from LIBOR to an alternative rate and the timing of such transition remain your decisions. The timing of transition could materially impact the value, price, cost and/or performance of the affected transaction, product, or service in the future.

Although we are not planning to actively contact our clients with contracts only based on USD LIBOR (except when they reference USD LIBOR 1-week and 2-month settings) to transition them this year, we will continue to respond to any client requests for transition where possible.

Previous announcements related to new LIBOR-based contracts

On 24 February 2021, the Working Group on Sterling Risk-Free Reference Rates (RFRWG) reiterated its recommendation to banks to cease issuance of GBP LIBOR loans, bonds, securitisations and linear derivatives[2] that expire post 2021 by 31 March 2021 and to cease issuance of GBP LIBOR non-linear derivatives[3] that expire post 2021 by 30 June 2021, unless these derivatives are used for risk management purposes or to facilitate transition. The RFRWG also recommended to cease issuance of cross-currency derivatives with a GBP LIBOR leg that expire post 2021 during Q2/Q3 2021 unless used for risk management purposes. The RFRWG published a guidance document that provides a definition of risk management purposes.

What does this mean for you?

From 1 April 2021, you will no longer be able to sign new lending contracts based on GBP LIBOR with HSBC unless they mature in 2021, regardless of the jurisdiction or governing law used in the documentation. We will offer Sterling Overnight Index Average (SONIA) or the Bank of England's Bank Rate as alternatives to GBP LIBOR where available and subject to eligibility criteria.

From 1 April 2021, for new contracts that reference CHF LIBOR, JPY LIBOR and USD LIBOR and mature after the relevant LIBOR cessation dates, we will aim to include a switch mechanism, whereby the contract would automatically switch from LIBOR to the relevant alternative rate upon a specified trigger or date, as explained in our previous communication in 2020.

Following the RFRWG's guidance, **we do not expect our clients and counterparties to enter into GBP LIBOR-based linear derivatives from 1 April 2021 and non-linear derivatives from 1 July 2021**, unless they mature in 2021 or are entered into for the purposes set out in the RFRWG guidance document, which includes the risk management of existing positions.

Previous announcements related to new USD LIBOR-based contracts

In November 2020, the Federal Reserve Board (FRB), the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) issued supervisory guidance whereby banks were encouraged to transition away from USD LIBOR as soon as practicable and not to enter into new transactions referencing USD LIBOR after 31 December 2021 unless they are used for market making or for existing LIBOR-based exposure hedging. In December 2020, the ARRC confirmed that its recommended best practice to cease issuance of USD LIBOR based loans, derivatives and securitisations that expire post 2021 by 30 June 2021 was fully consistent with the timelines and message set out in the US supervisory guidance.

What does this mean for you?

From 1 July 2021, in line with the ARRC's best practice recommendation and regulatory guidance, **you will no longer be able to obtain new loans, securitisations and derivatives based on USD LIBOR from HSBC, unless they mature in 2021.** You will be offered contracts based on the Secured Overnight Financing Rate (SOFR) as an alternative, wherever possible.

For contracts under US law, as mentioned in our previous communication in 2020, we will continue to include the ARRC hardwired fallback language (a waterfall of alternative rates and specific triggers) in our lending contracts.

Next steps

You may wish to seek guidance from your professional advisors on the possible implications of the changes outlined in this letter on your business including financial, legal, accounting and tax impacts. This letter has been provided to you for general information only and on a strictly non-advised basis. It does not constitute any form of advice or recommendation, nor does it represent an exhaustive description of the impact, likelihood or consequences of any particular option or any particular risk applying to you or any of your contracts.

HSBC is not your advisor and does not through this letter or otherwise provide any advice or recommendation or product offering in this letter, nor does it assume any responsibility to provide advice.

HSBC will continue to accompany you during the IBOR transition journey

We are ready to discuss with you the opportunity of using an RFR or another available alternative rate for your HSBC products and services, where relevant. We will contact you about changes to specific products held with us over the coming months. As these changes impact many products across a range of implementation dates, you may hear from us at different stages.

If you have any queries or would like further information, you are welcome to contact us directly, through your usual Relationship Manager or Sales contact, at any time. You will also find a wealth of information on the transition away from LIBOR and other IBORs on our dedicated Global Banking and Commercial Banking client websites.

Yours sincerely,

Gregory L Guyett Group Managing Director Co-CEO of Global Banking & Markets HSBC Group	Barry O'Byrne Group Managing Director CEO of Global Commercial Banking HSBC Group

[1] RFRs are typically backward-looking overnight rates based on actual transactions and reflect the average of the interest rates that certain financial institutions pay to borrow overnight either on an unsecured basis from wholesale market participants (for unsecured RFRs, such as SONIA) or the average rate paid on secured overnight repurchase or "repo" transactions (for secured RFRs, such as SOFR). RFRs do not include or imply any credit or term premium of the type seen in LIBOR or EURIBOR. However, RFRs are not truly free of risk. RFRs can rise or fall as a result of changing economic conditions and central bank policy decisions.

[2] such as futures, forwards and swaps.

[3] such as caps, floors and swaptions.