Product Disclosure Statement
for Exchange Traded Derivatives (Futures)

HSBC Bank Australia Limited ABN 48 006 434 162 AFSL No. 232595 1 August 2005

Contents

Important Information 3

Introduction 4

Exchange Traded Deritaves 5

Benefits of Futures and Options Contracts 6

Basic Risks Explained 13

Amounts Payable 16

Other Significant Characteristics of Exchange Traded Derivatives Contracts 22

Privacy 26

Dispute Resolution 27

Taxation Implications 28

Cooling-Off Arrangements 30

Other Information Available 31

Other Considerations 32

Important Information

This Product Disclosure Statement ("**PDS**") has been prepared by HSBC Bank Australia Limited ("**HSBC**"), in accordance with the financial product disclosure requirements under the *Corporations Act 2001* (Cth) ("**Corporations Act**"). This PDS has not been lodged with the Australian Securities and Investments Commission ("**ASIC**") and is not required by the Corporations Act to be lodged with ASIC. ASIC takes no responsibility for the contents of this PDS.

This PDS does not take into account your investment objectives, financial situation and particular needs. No member of the HSBC group of companies guarantees the performance of any futures contract entered into by you. Nothing contained in this PDS constitutes the giving of general or personal financial product advice or a recommendation concerning the entry into of any futures contract. Before making a decision whether to enter into a futures contract, HSBC strongly recommends that you obtain your own legal, tax and investment advice, taking into account your particular needs and financial circumstances.

The information in this PDS is subject to change from time to time and is up to date at the date stated on the cover. Where new information is materially adverse information the HSBC will either issue a new PDS or a supplementary PDS setting out the updated information. Where the new information is not materially adverse information HSBC will not issue a new PDS to you, but you will be able to find the updated information on our website www.hsbc.com.au or you can call 1300 308 880. You may also request a paper copy of this information from HSBC.

Before HSBC can enter into any exchange traded derivative contracts with you, you will be required to enter into a Trading and Clearing Agreement with HSBC which will govern the relationship between you and HSBC and sets out the terms and conditions that apply to our agreement to enter into any exchange traded derivative contracts with you. We strongly recommend that you fully consider the terms of this agreement before deciding to enter into any exchange traded derivative contracts with HSBC. You should obtain independent advice if you do not understand any part of the agreement.

Introduction

Purpose of a Product Disclosure Statement

This PDS is an important legal document setting out information about Exchange Traded Derivatives which may be entered into between you and HSBC. The information in this PDS should assist you to:

- decide if the product meets your needs; and
- compare the product with similar products.

If you intend to apply to use this product, please read this PDS thoroughly, then keep it, together with all other documentation which you receive from HSBC in connection with exchange traded derivatives, for future reference.

If you have any questions or need more information, please contact HSBC on 1300 308 880.

Issuer details

Under the Corporations Act, where HSBC enters into an exchange traded derivative on a client's behalf, HSBC is regarded as issuing the derivative to the client.

This PDS is issued by HSBC Bank Australia Limited (referred to in this PDS as "**HSBC**", "**we**" or "**us**").

Additional information about HSBC and the HSBC group is available at www.hsbc.com.au.

Exchange Traded Derivatives

This Document seeks to explain in a clear, concise and effective manner exchange traded derivatives.[1] Derivatives contracts traded on a derivatives market are more commonly known as:

- Futures contracts (both deliverable and cash-settled);
- Futures options (which are options over a futures contract); and
- Exchange traded options (which are options directly over say a bank accepted bill or gold for example).

Derivatives exchanges (a type of financial market) are also know as futures exchanges (and some stock exchanges which offer derivative products). We deal in derivatives traded on a number of exchanges, including for example, the Sydney Futures Exchange ("**SFE**"). Details of these exchanges are available at their respective Internet websites (refer section 11 below).

Before you trade futures contracts/options you should, in conjunction with your broker, give consideration to your objectives, financial situation and needs. You should also be aware of the risks involved and be satisfied that trading in exchange traded derivatives is suitable for you in view of your financial circumstances.

1 *The Document does not deal with derivatives traded on over the counter markets (also known as off market).*

Benefits of Futures and Options Contracts

What are exchange traded futures contracts?

An exchange traded futures contract is an agreement, traded on a derivatives exchange, to deliver or take delivery of a specified amount of a security or a commodity of a given grade or quality, or to make a cash adjustment based on a change in the price of the commodity, financial instrument, security or stock indices at an agreed time in the future. One purpose of derivatives contracts is to provide those who deal in the traded commodities, financial instruments and securities with a facility for managing the risks associated with changing prices for those investments.[2] There are also those who trade in the hope of profiting purely from changing prices in the traded commodities, financial instruments or indices, i.e. speculators. The risk of losing money is generally greater for the speculator.

Types of exchange traded futures contracts

There are two main types of exchange traded futures contracts. One is an arrangement under which the seller agrees to deliver to the buyer, and the buyer agrees to take delivery of, the quantity of the commodity described in the contract. Such contracts will be described in this document as deliverable contracts. The other is an arrangement under which the two parties will make a cash adjustment between them according to whether the price of a commodity, financial instrument or index has risen or fallen since the time the arrangement was made. Such contracts will be described in this document as cash settled contracts.

An exchange traded futures contract's terms are generally set out in the operating rules of the exchange on which the contract was made. Derivatives exchanges exist in a number of countries, notably the United States of America, Japan, Europe and Australia. The material in this document is intended to refer to any exchange traded derivatives contracts traded on a computer based exchange unless otherwise indicated, but there may be differences in procedure and regulation of markets from one country to another and one exchange to another. For example, some futures exchanges still currently operate through open outcry.[3]

2 These people are known as hedgers.

3 This means that each bid to buy or offer to sell must be stated aloud in such a manner that it may be heard by all other traders in the pit trading that particular futures contract. All those present then have an equal chance to accept the bid or offer. If a trader wishes to accept a bid or offer they must state aloud their confirmation (usually with the word "right"). At that point the futures contract is concluded. The quantity must be included in any bid to buy or offer to sell.

Exchange traded futures contracts are made for periods of up to several years in the future, although most are for settlement within 6 months of the contract being made. Part of the standardisation of exchange traded futures contracts is that the time of delivery or settlement is one of a series of standardised maturity times. For example, in the SPI-200® cash settled contract traded on the SFE , contracts can be made for settlement at the end of any month of March, June, September or December during a period of 18 months from the time of the trade.

Deliverable contracts involve an obligation to deliver for the seller of the contract or take delivery at maturity for the buyer of the contract. If you are speculating it is not advisable to enter into such contracts in the last weeks before maturity unless actual delivery is contemplated. If you intend to make or take delivery first check with your broker.

Exchange traded derivatives contracts are standardised

Exchange traded derivatives like futures contracts and options contracts are standardised and fungible.[4] A consequence of contract standardisation is that the price is the only factor that remains to be determined in the marketplace.[5] On the SFE, derivatives contracts are quoted and traded on electronic trading systems which provide a system of continuous price discovery. This means that the price at which trades take place may continually change throughout a trading session.

Another consequence of exchange traded derivative contracts being fungible is that the obligations under a contract can be effectively cancelled by entering into a new contract in the same contract series, but in an opposite position. This process is known as offsetting or closing out the contract. For example, a client who holds a derivatives contract to buy may cancel this obligation by taking a new contract to sell in the same month. In the same way, the holder of a contract to sell can close out by taking a new contract to buy. In each case there will be a profit or loss equal to the difference between the buying and selling prices multiplied by the standard contract amount – minus any transaction costs. In practice, the vast majority of derivatives contracts are offset in this manner, the remainder being fulfilled by delivery or by mandatory cash settlement where no provision for delivery exists.

4 *Fungible means that because futures contracts of a particular class are perfect substitutes for each other they can be closed out against an opposite position in the same class.*
5 *Other than volume and contract month.*

The role of the Clearing House

Exchange traded derivatives entered into on a derivatives exchange are cleared through a clearing house appointed by the relevant exchange to perform that role. In this document a reference to the "**Clearing House**" is a reference to the relevant clearing house. Participants of the relevant exchange must comply with the operating rules of the exchange. Participants who clear the derivatives contracts must also comply with the operating rules of the Clearing House ("**Clearing Rules**").

HSBC is a participant of the SFE and its clearing house, SFE Clearing Corporation Pty Limited ("**SFE Clearing**"). SFE Clearing is a licensed clearing and settlement facility under the Corporations Act.

All exchange traded derivative contracts traded for you by HSBC, will be cleared by the SFE Clearing Corporation, subject to the relevant Clearing Rules.

When we enter into an exchange traded derivative contract for you, the transaction is reported to the Clearing House for registration. On registration of a contract, the original traded contract is terminated and replaced by two contracts (which we refer to as "**open contracts**")[6]. One of those is between the Clearing Participant who clears the contract for the buyer of the contract and the Clearing House. The other is between the Clearing Participant who clears the contract for the seller of the contract and the Clearing House. This process of registration and creation of two open contracts is known as "**novation**".

You, as the client, are not party to either of those open contracts. Although we may act on your instructions or for your benefit, the operating rules of the SFE provide that any contract arising from an order submitted to the market for an exchange traded derivative is regarded as having been entered into by us as principal. Upon registration of the contract with the Clearing House in our name as the Clearing Participant, we incur obligations to the Clearing House as principal, even though the trade may have been entered into on your instructions.

6 *In the Clearing Rules of SFE Clearing, these are referred to as Open Positions.*

Closing-out

The system of novation of transactions to a Clearing House means that closing-out can be achieved without reference to the original party with whom the derivatives contract was traded. The Clearing House stands between the buying and selling brokers (or, where applicable, their clearing participants). The Clearing House is, in effect, able to substitute a new buyer as the contract party when an existing buyer sells to close out their position. This can be represented by the following:

A sells to B at $100 per unit;

B sells to C at $120 per unit;

B has quit the market and has a profit of $20 per unit;

At maturity, A (seller) is matched with C (buyer).[7]

In effect C has replaced B as the buyer of the contract from A. The contracts which B held (one to buy and one to sell) have been settled in cash; B simply receives a profit. Any profit due to B is paid out by the Clearing House in cash, even though the original seller (A) remains in the market. The Clearing House ensures that it is able to pay such profits by calling margin (refer to discussion below under the heading "Margin").

Exchange Traded Futures Options

What is an option?

Option contracts traded over futures contracts are commonly known as futures options. The following attempts to explain the nature of an option contract and the obligations assumed by a person who instructs a broker to enter into an option. Several facts referred to previously are applicable to options, for example, the concept of closing out. These facts will not be repeated, but only the facts particularly relevant to futures options will be discussed below.

Looked at from the buyer's viewpoint a futures option[8] is the right, not the obligation, to enter into a futures contract[9] at the exercise price of the futures option granted in return for a premium. Looked at from the seller's viewpoint the seller has no right as such (other than a right to the premium). The seller will be under an obligation to enter into a futures contract[10] at the exercise price of the futures option if the option is validly exercised. Like futures contracts options are standardised so that having entered into an option position it is possible to close that position out later.

7 This simplified example has ignored transaction costs that are normally payable.
8 Whether it is a call option or put option.
9 Bought in the case of a call option, and sold in the case of a put option.
10 Sold in the case of a call option, and bought in the case of a put option, for futures options traded on the SFE.

You must distinguish between futures options and exchange traded options. If a futures option is exercised it results in the establishment of a futures contract[11]. If an exchange traded option is exercised it results in making or taking delivery of the actual commodity or instrument underlying the option, or making a cash adjustment based on a change in the price of the commodity or instrument or on the movement in an index. The following matters can apply both to futures options and eligible exchange traded options but the discussion will centre on futures options.

European and American options

Options may be American or European style exercise. European style options can only be exercised on the expiry date, not before. American style options can be exercised at any time up to the date the option is due to expire.

Options traded on the SFE may be exercised at any time before the expiry date. Therefore, the seller[12] of an option must be prepared for that option to be exercised any time before the expiry date.

Call and put options

A call option is an option to buy the underlying commodity or instrument at the exercise price[13] at any time on or before the expiry date (depending on the exercise style of the option). A put option is an option to sell the underlying commodity or instrument at the exercise price. In the context of a futures option, the buyer of a call option has the right to enter into a bought position in the underlying futures contract at the exercise price. The buyer of a put option has the right to enter into a sold position in the underlying futures contract at the exercise price. Each put or call option has a buyer and a seller.

11 That is, an eligible commodity agreement or adjustment agreement.
12 Also known as the option writer or grantor of the option.
13 Also known as the exercise price or strike price.

Option Premium

As noted above, the only term of an exchange traded derivative which is not set and pre-determined by the relevant exchange is the price of the contract. The price, known as the "premium" is negotiated between the buyer and seller of the contract through the market.

The value of an option will fluctuate during the option's life depending on a range of factors including the exercise price or level, the price of the underlying commodity or instrument or the level of the underlying index, the volatility of the underlying commodity or instrument or the underlying index, the time remaining to expiry date, interest rates, dividends and general risks applicable to markets.

Most option pricing involves the use of a mathematical formula which includes calculating the intrinsic and time value of the particular option. You can obtain current price information by contacting us. In relation to some of the exchanges on which we deal, you may also find current pricing information on the websites referred to in section 11.

Exercising call and put futures options

The diagram below sets out the results from the buyer's and seller's viewpoint when the buyer exercises a call or put futures option:

Buyer			Seller		
Bought call option	→	Bought futures (at the exercise price of the option)	Sold call option	→	Sold futures (at the exercise price of the option)
Bought put option	→	Sold futures (at the exercise price of the option)	Sold put option	→	Bought futures (at the exercise price of the option)

For further information concerning derivatives contracts traded on the SFE you are referred to the brochure "Introduction to Futures and Options" found on the SFE website at
www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp

Basic Risks Explained

The risk of loss in trading in derivatives contracts can be substantial. A client should carefully consider whether trading is appropriate for them in light of their financial circumstances. In deciding whether or not you will become involved in trading, you should be aware of the following matters:

- **Loss of margin:** You could sustain a total loss of the initial margin that you deposit with your broker to establish or maintain a derivatives contract.
- **Payment of variation margin:** If the derivatives market moves against your position, you may be required, at short notice, to deposit with your broker variation margin in order to maintain your position. Those additional funds may be substantial. If you fail to provide those additional funds within the required time, your position may be liquidated at a loss and you will be liable for any shortfall in your account resulting from that failure.
- **Movement in the underlying market:** Exchange traded derivatives are subject to movements in the underlying market. In the case of options, they may fall in price or become worthless at or before expiry.
- **Placing orders in moving market:** The placing of contingent orders (such as a 'stop-loss' order)[14] may not always limit your losses to the amounts that you may want. Market conditions may make it impossible to execute such orders.
- **Liquidity:** Under certain conditions, it could become difficult or impossible for you to close out a position. This can, for example, happen when there is a significant change in prices over a short period.
- **Strategies:** A "spread" position is not necessarily less risky than a simple "long" or "short" position.[15]
- **Leverage:** The high degree of leverage that is obtainable in trading exchange traded contracts because of small margin requirements can work against you as well as for you. The use of leverage can lead to large losses as well as large gains.
- **Options risk profile:** If you propose to trade in options, the maximum loss in buying an option is the amount of the premium, but the risks in selling an option are the same as in other futures trading.

14 Is an order that becomes a market order (and hence executed) when the derivatives market reaches the designated price.

15 A spread is the holding of bought futures contract for one delivery month and a sold futures contract for another delivery month in the same contract.

- **Options have limited life:** Options have a limited life span as their value erodes as the option reaches its expiry date. It is therefore important to ensure that the option selected meets your investment objectives.
- **Exchange and Clearing House powers:** The exchanges and their Clearing Houses have discretionary powers in relation to the market and the operation of the clearing facility. They may have a range of powers including for example, powers to suspend the market operation, or lift market suspension in options while the underlying is in trading halt if the circumstances are appropriate, restrict exercise, terminate an option position or substitute another underlying, impose position limits or exercise limits or terminate contracts - all to ensure fair and orderly markets are maintained as far as practicable. These actions can affect an investor's option positions.
- **Disputes:** Trades effected on the exchanges may be subject to dispute. When a trade is subject to a dispute the exchanges may have powers, in accordance with their rules, to request that brokers amend or cancel a trade, which will in turn result in the contract with the client being amended or cancelled. In some situations, the exchanges may also exercise powers to cancel or vary, or direct the cancellation or variation, of transactions.
- **Trade cancellations and variations:** Under our terms and conditions, we have the ability to amend or cancel a trade. This could cause you to suffer loss or increase your loss. A trade executed on your behalf can also be amended or cancelled even where the trade has been confirmed to you.
- **System disruption:** Trades effected on many exchanges, like SFE are traded on an electronic trading platform and cleared through the relevant Clearing House, which also relies on electronic systems. As with all such electronic platforms and systems, they are subject to failure or temporary disruption. If the system fails or is interrupted we will have difficulties in executing all or part of your order according to your instructions. An investor's ability to recover certain losses in these circumstances will be limited given the limits of liability imposed by the exchanges and their Clearing Houses.

- **Our powers on default:** If you fail to pay, or provide security for, amounts payable to us or fail to perform any obligation under your contracts, we have extensive powers under our agreements with you to take steps to protect our position including, for example, the power to close out positions.

Amounts Payable

Commission, Fees and Interest

You will be required to pay to HSBC:

(i) commissions and fees as are notified by HSBC to you in writing from time to time (including such fees or other charges as may from time to time be levied on HSBC by a relevant Futures Exchange or Clearing House). We do not have a set fee schedule. The amount of fees and charges payable by you will depend on your anticipated trade volume and the relationship between you and HSBC. We will agree with you at the commencement of our relationship, the fees and charges payable by you. We may at our discretion, review such fees and charges periodically throughout your relationship with us (including where your actual trade volume differs from any indicative volumes supplied to HSBC);

(ii) such fees or other charges as may from time to time be levied in respect of an exchange traded derivatives contract by an executing broker other than HSBC and/or any designated agents of HSBC;

(iii) all stamp duties and other charges and taxes (including, without limitation, GST) payable in connection with, or under any agreement entered into between you and HSBC, or in connection with dealings in exchange traded derivatives entered into, or on your behalf, in respect of any approved securities lodged with HSBC or its designated agents for the purposes of payment of deposits and margins from time to time;

(iv) all amounts payable as a result of making or taking delivery or making a cash adjustment in accordance with the terms of an exchange traded derivatives contract;

(v) in respect of any unpaid amount due under any agreement between you and HSBC (including any amounts due as a result of any exchange traded derivatives contract being closed out), interest at HSBC's Base Lending Rate from time to time plus 5 per cent per annum, and such interest shall accrue and be calculated from the date when the amount was due (irrespective of any grace period) to the date of its final payment in full;

(vi) in the case where:

(A) HSBC makes any taxable supply (as defined in the relevant GST legislation); or

(B) any indemnity payment constitutes the consideration for any taxable supply (whether in whole or in part) by HSBC, to pay to HSBC an additional amount so as to ensure that, after allowing for the payment of any GST by HSBC (and after any adjustment that HSBC determines is appropriate for compliance with Part VB of the Trade Practices Act or any other relevant law) the net amount that HSBC actually receives is to HSBC the economic equivalent of the amount that HSBC would have received but for the imposition of any GST;

(vii) in the case where any payment or other consideration made or provided by HSBC to any person under or in connection with, or for the purpose of any agreement between you and HSBC, or any transaction referred to, in, or contemplated by it, may be increased or added to by reference to any GST, to pay to HSBC the amount that HSBC determines may be necessary to indemnify HSBC in respect of that increase or addition; and

(viii) an additional amount equal to the amount of any penalty or interest as a result of late payment of any GST where that late payment arises because of any failure by you to comply with the provisions of this provision."

Margins

As noted above, the Clearing House contracts with clearing participants such as HSBC as principals. Where a clearing participant has an exposure under an open exchange traded derivative contract to the Clearing House, the Clearing House will call amounts of money known as "**margin**" from the clearing participant as cover. Margins are generally a feature of all exchange traded derivative products and are designed to protect the Clearing House against default. A margin is the amount calculated by the Clearing House as necessary to cover the risk of financial loss on an open exchange traded derivative contract due to an adverse market movement.

The Clearing Houses calculate margin amounts using computerised systems which take into account a range of variables. Amounts of margin are determined daily by the Clearing House, following the close of trading each day. In times of

extreme volatility an intra day margin call may be made by the Clearing House.

You should visit the websites of the relevant exchanges and clearing houses referred to in section 11 below for further details of the relevant margining requirements applicable to them.

We will, under the terms of our agreement with you, call from you all amounts of margin which the Clearing House calls from us in respect of positions which we have entered into for you.

The total margin called by the Clearing House for exchange traded derivative contracts is generally made up of two components, known as "**initial margins**" and "**variation margins**", described as follows:

- Initial margins are set by the Clearing House or the derivatives exchange or both. Initial margin may vary from time to time according to the volatility of the market. This means that an initial margin may change after a position has been opened, requiring a further payment (or refund, where applicable, on request). Initial margins are carefully calculated to cover the maximum expected movement in the market from one day to the next.
- Variation margin is determined by reference to the market value of the particular position at the close of business each day. In other words, each contract is effectively marked to market on at least a daily basis.

Timing and amounts of margin payments we call from you

As a clearing participant of SFE Clearing, we are required under their respective operating rules to call an initial margin on each trade equal to at least the minimum initial margin set by the Clearing House or the relevant exchange. HSBC is entitled to call a higher initial margin than the minimum set by the Clearing House or relevant exchange. Liability for initial margin occurs at the time we execute the transaction for you, but you must pay the amount to us before any trading is conducted on your behalf.

Under the operating rules of SFE Clearing, we are not obliged to call our clients for variation margin on a daily basis, but must call them to pay a margin should the client’s net variation margin position exceed 25% of the client’s total initial margin liability.[16] HSBC is entitled to call a higher variation margin than the variation margin called by

16 Requirements concerning contracts traded on other futures exchanges will vary.

the Clearing House. The variation margin liability is incurred at the time of the occurrence of any movement in the market that results in an unrealised loss, regardless as to when the call to pay is made by us on the client.

Initial and variation margin must be paid immediately.[17] If a client does not pay a margin, HSBC is entitled to close out the client's position and deduct the resulting realised loss from the initial margin. If the realised loss exceeds the initial margin you are required to pay the excess to HSBC. Derivatives markets can be highly volatile and you should ensure that you are always contactable by us. If you are unable to be contacted for the purpose of HSBC communicating the call, HSBC may close out your derivatives contracts without actually speaking to you.

Liability

The liability of a client under an exchange traded derivatives contract is not limited to the initial margin paid when the contracts were first opened. If, after paying the initial margin, the price moves against the client, further margin (known as variation margin) will be called and must be paid on demand. Margin payments can therefore exceed the amount of the initial margin and any variation margin. Initial margin (unless eroded by losses) can be paid to the client on settlement of the contract. Margins that become realised losses are not refundable. Margins concerning unrealised losses are not refundable unless there is a favourable change of direction in market prices before settlement or closing out of the futures contract. The liability of a client is not limited to the amount of the initial or variation margin paid.

17 *This is generally taken to mean within 24 hours of the demand although in times of extreme price volatility this may mean as little as 1 hour*

Profit and loss when trading futures

The diagram below sets out profit and loss situations when trading futures contracts.

Profitable Trades	Losing Trades
Buy low-Sell high	Buy high-Sell low
Sell high-Buy low	Sell low-Buy high

Margins and liability on option contracts

If a client buys a futures option, their loss is limited to the premium, which is non-refundable. If the option buyer pays the full premium at the time the option is traded, they will not be called upon to pay "margins". If the buyer paid only an initial deposit, they may be called upon to pay margins up to the full value of the premium (but no more). A client who sells the option has a similar potential liability to the holder of the underlying futures contract, that is, potentially unlimited. However, they only have limited profit potential, a seller cannot earn more than the premium for which the option is sold.

Profit and loss when trading options

The diagram below sets out profit and loss situations when trading call and put options:

Profitable Trades	Losing Trades
Buying a call option -Buy low Sell high*	Buying a call option -Buy high Sell low*
Buying a put option -Buy low Sell high*	Buying a put option -Buy high Sell low*
Selling a call option -Sell high Buy low**	Selling a call option -Sell low Buy high**
Selling a put option -Sell high Buy low**	Selling a put option -Sell low Buy high**

* Refers to the buying of the option. ** Refers to the selling of the option.

Out of the money options

This is a term used to describe an option that cannot be exercised at a profit. An out-of-the-money option is a call option whose strike price is higher than the current market level or a put option whose strike price is below market.

A client contemplating purchasing a deep out-of-the-money option[18] should be aware that the chance of such an option becoming profitable is ordinarily remote.

18 *That is, an option with an exercise price significantly above, in the case of a call option, or significantly below, in the case of a put option, the current price of the underlying futures contract or commodity.*

Other Significant Characteristics of Exchange Traded Derivatives Contracts

Dealings on foreign derivatives exchanges

Clients who deal on foreign derivatives exchanges should be aware of the following matters:

Dealing subject to foreign rules and laws

Participation in transactions on foreign derivatives involves the execution and clearing of trades subject to the rules of that foreign derivatives exchange and the laws of the country in which that exchange is domiciled.

Australian regulators may not have any jurisdiction

Neither the ASIC or the SFE regulates activities of foreign derivatives exchanges, including the execution, delivery and clearing of transactions, nor do they have the power to compel enforcement of the operating rules of a foreign derivatives exchange or any applicable foreign laws. Generally, the foreign transaction will be governed by applicable foreign law. This is true even if the derivatives exchange is formally linked with an exchange in Australia. Moreover, such rules and regulations will vary depending on the foreign country in which the transaction occurs.

Clients’ segregated monies

Clients who trade on foreign derivatives exchanges may not have the benefit of protective measures provided by the Corporations Act and the SFE operating rules. In particular, clients' funds may not have the same protection as funds deposited in Australia in a broker’s Clients' Segregated Account.

To the extent required by the Corporations Act and the relevant rules of SFE, HSBC will deposit into a Clients’ Segregated Account money paid to HSBC in connection with your dealings in financial products. You waive any interest on funds deposited with us, unless any written agreement between us stipulates that interest is to be paid on such funds. Money or property or both invested according to the Corporations Act, or on the instructions of the client, are invested at the sole risk of the client.

For money deposited in our Clients' Segregated Account, you acknowledge that:

- individual client accounts are not separated from each other;
- all clients' funds are co-mingled into the one Clients' Segregated Account;

- Client Segregated Account provisions may not insulate any individual client’s funds from a default in HSBC's Clients' Segregated Account. Such a default may arise from any clients' trading;
- assets in the Clients' Segregated Account belonging to non-defaulting clients are potentially at risk, even though they did not cause the default;
- HSBC has the right to apply all clients' monies held in its Clients' Segregated Account to meet the default in that account; and
- SFE Clearing has the right to apply all monies in the Client Clearing Account (or House Clearing Account) to meet any liabilities in the Client Clearing Account.

Exchange rate risk

If a client trades in derivatives contracts denominated in currencies other than Australian dollars a client may lose money due to exchange rate fluctuations. These losses may be in addition to any losses on the derivatives contract itself.

Settlement

If you have a deliverable derivative contract open at the close of trading on the last day of trading you will be under an obligation to deliver, or take delivery of and pay the contract price in full for, the commodities described in the specifications. It is HSBC's policy not to permit speculators to make or take delivery under a deliverable derivative contract (except where required by the Clearing House). If you wish to make or take delivery you must first obtain our consent.

If you have a cash settled contract open at the close of trading on the last day of trading you will be under an obligation pay or have a right to receive an amount of money depending on the price movement.

The settlement of derivative contracts that are futures options[19] is more complex. In respect of SFE all in-the-money[20] or at-the-money[21] futures options are automatically exercised by the Clearing House. The resulting position is settled as a futures position. Not all exchanges automatically exercise at-the-money or in-the-money options at expiry, particularly US exchanges. You should check this with us before the expiry date or the option may lapse worthless.

19 A futures option is an option over an exchange traded option or a cash settled contract.
20 A put option with an exercise price above the price of the subject matter of the option or a call option with an exercise price below the price of the subject matter of the option.
21 Is a put or call option with an exercise price equal to the price of the subject matter of the option.

The settlement procedures for derivative contracts that are exchange traded options is different again. Because these instruments can be traded on a range of exchanges the procedures can vary widely.

Regulatory bodies

You may incur losses that are caused by matters outside our control. For example, a regulatory authority exercising its powers during a market emergency may result in losses. A regulatory authority can, in extreme situations, suspend trading or alter the price at which a position is settled. This could also result in you suffering a loss.

Market disruptions / emergencies

A market disruption may mean you are unable to deal in a derivatives contract when desired, resulting in you suffering a loss. Common examples of disruption include the "crash" of a computer based trading system, fire or other exchange emergency, futures regulatory body could declare an undesirable situation has developed in a particular futures contract and suspend trading.

Risk Capital

If you are speculating do not risk more capital than you can afford to lose. A good general rule is never to speculate with money which, if lost, would alter your standard of living.

Placing orders with HSBC

The basis on which we accept and execute orders is set out in our terms and conditions.

You may give us instructions by telephone or by any other method we notify you of from time to time.

You may submit orders to market through our electronic trading platform HSBC Futures Direct, which is an order book management system. HSBC Futures Direct can be used to submit orders to the following markets:

- SFE;
- New Zealand Futures and Options Exchange ("**NZFOE**");
- European Exchange ("**EUREX**");
- London International Financial Futures and Options Exchange ("**LIFFE**");
- Chicago Board of Trade ("**CBOT**");
- GLOBEX;
- Hong Kong Futures Exchange ("**HKFE**");

- Tokyo Stock Exchange ("**TSE**"); and
- Singapore Exchange ("**SGX**").

As described on page 9 above, electronic platforms and systems are subject to failure or temporary disruption. If the system fails or is interrupted we will have difficulties in executing all or part of your order according to your instructions. Your ability to recover certain losses in these circumstances will be limited under the terms of our client agreement with you.

Privacy

General Law

HSBC owe you a duty to keep information about you confidential, except in certain situations, such as where disclosure is:

- compelled by law (eg a disclosure to a court which is required by a subpoena);
- necessary to protect our interests; or
- made with your consent,
- or where we have a duty to the public to disclose.

Commonwealth Privacy Act

If you are a natural person, HSBC are also required to handle your personal information in accordance with the Privacy Act. We are bound by the National Privacy Principles in that Act, and by other requirements relating to personal credit information.

HSBC Privacy Policy

The HSBC Group's privacy policy explains our approach to privacy. You may obtain a copy:

- from our website www.hsbc.com.au;
- by asking at any of our branches;
- by phone: 1300 308 008;
- by email: privacy@hsbc.com.au; or
- by writing to:

The Privacy Officer
HSBC Bank Australia Limited
GPO Box 5302
SYDNEY NSW 2001

Dispute Resolution

Problems and disputes

HSBC is committed to the delivery of excellence through the highest customer service standards. Whether you are providing feedback, paying a compliment or making a complaint your input is important.

We aim to resolve most issues within five working days. If more complex, it can take longer but we'll keep you informed of progress.

If you believe a transaction is wrong or unauthorised, or there is an error in any confirmation, or if you have any concerns about procedure, compliance issue, or have encountered a problem with our service, we want you to tell us about it. We have designed a simple customer complaint process.

If you believe a transaction in exchange traded derivatives is wrong or unauthorised, please contact us on 1300 308 188.

If you have another complaint or concern, the first place to make it known is your Relationship Manager, who should be able to resolve your problem.

If you complaint has not been resolved to your satisfaction, please contact our Customer Relations team:

Toll Free: 1300 308 188
Facsimile: 02 9006 5130

Mail: Customer Relations Department
HSBC Bank Australia Limited
Level 11, 580 George Street
SYDNEY NSW 2000

or you may write to our Chief Executive Officer. The appropriate address is:

Chief Executive Officer
HSBC Bank Australia Limited
580 George Street
SYDNEY NSW 2000

If, despite our best efforts, you believe your complaint has not been satisfactorily dealt with, you may wish to contact an approved external dispute resolution scheme. You may contact the Banking and Financial Services Ombudsman by writing to:

Banking and Financial Services Ombudsman
GPO Box 3A
MELBOURNE VIC 3001
Tel: 03 9613 7344
Toll Free: 1300 780 808
Facsimile: 03 9613 7345
Website: www.bfso.org.au

Or

You can contact ASIC to find out which industry complaints scheme may be available to assist you to settle your complaint.

Phone: 1300 300 630

However, before an external dispute resolution scheme can investigate a matter, we would like you to give us the opportunity to review it first.

Taxation Implications

The taxation implications relating to the dealing in derivatives depend very much on your individual circumstances. In addition, the status of tax law changes constantly and the taxation implications relating to dealing in derivatives may change as a result of changes in legislation or interpretation. The taxation implications discussed below are necessarily general in nature and are not intended to provide any tax advice to you. It is therefore important for you to consult your tax adviser before making any decision to deal in such derivatives.

Broadly speaking, if you are a resident of Australia for income tax purposes, gains and losses arising from dealing in derivatives may impact your Australian income tax. You may also have tax liabilities in other countries if you deal in derivatives in overseas exchanges. As each country has its own set of tax rules, you should ensure that you understand the full implications before dealing in those exchanges.

The Australian income tax implications depend on whether your derivative transactions are classified as trading, hedging or speculative (determined by your own circumstances). This can affect whether the gain or loss is on revenue account (which is treated as ordinary income or expense), or on capital account (in which case the Capital Gains Tax provisions of the Income Tax Assessment Act 1997 will apply), and the timing of recognition of the gain/loss.

If the derivatives you deal in are denominated in foreign currencies, you will need to consider the taxation implications of the gains/losses resulting from the movement in the currency exchange rates. Recent amendments to the Income Tax Assessment Act 1997 have significantly altered the timing and characterisation of such currency gains/losses for Australian income tax purposes.

If you are a non-resident of Australia for income tax purposes, you may still have to consider your Australian taxation implications if you deal in derivatives in Australia, where your gain/loss is sourced in Australia, and/or you deal in derivatives out of a fixed base in Australia.

Currently amounts you pay offshore under the derivative transactions are generally not subject to Australian withholding tax. However, you should consider whether there are any withholding tax obligations applicable to your specific derivative transactions especially as tax laws may change to subject derivative transactions to withholding tax.

The taxation implications relating to dealing in derivatives are complex and we are unable to discuss them in any detail. The following are some key issues and materials you should consider:

- ATO rulings and guidelines;
- Classification of your derivative transactions as hedging, dealing or speculative;
- Whether your activities are part of a business, profit making scheme or a private pursuit;
- The timing of recognition of gains/losses from dealing in derivatives; and
- The application of Part IVA general anti-avoidance provisions to your activities.

Cooling-Off Arrangements

There are no cooling-off arrangements for exchange traded derivative contracts.

Other Information Available

The following is a list of all the recognised exchanges on which we will deal for clients. Some of these exchanges offer exchange traded derivatives.

Exchange	Exchange Name	Web
BMF	Bolsa de Mercadorias & Futuros	www.bmf.com.br
CBOE	Chicago Board Options Exchange	www.cboe.com
CBOT	Chicago Board of Trade	www.cbot.com
CME	Chicago Mercantile Exchange Inc	www.cme.com
COMEX	New York Mercantile Exchange - Comex Division	www.nymex.com
ENX-BE	Euronext Brussels	www.belfox.be
ENX-FR	Euronext Paris	www.euronext.com
ENX-NL	Euronext Amsterdam	www.aex.nl/aex.asp?taal=en
ENZ-PT	Euronext Lisbon	www.bvlp.pt
EUREX	European Exchange	www.eurexchange.com
HKEX	Hong Kong Exchanges & Clearing Limited	www.hkex.com.hk
KOFEX	Korea Futures Exchange Korea	www.kofex.com
KSE	The Korea Stock Exchange Korea	www.kse.or.kr
LIFFE	London Int. Financial Futures & Options Exchange	www.liffe.com
LME	London Metal Exchange UK	www.lme.co.uk
MDEX	Malaysia Derivatives Exchange Bhd Malaysia	www.mdex.com.my
MEFF	Meff Spain	www.meff.com
NYBOT	New York Board of Trade USA	www.nybot.com
NYMEX	New York Mercantile Exchange USA	www.nymex.com
NZFOE	New Zealand Futures & Options Exchange	www.sfe.com.au
OM	Stockholmsborsen Sweden	www.stockholmsborsen.se
SAFEX	Safex/JSE Securities Exchange South Africa	www.safex.com.za
SFE	SFE Corporation Limited Australia	www.sfe.com.au
SGX-DT	Singapore Exchange Derivatives Trading Ltd	www.sqx.com
TIFFE	Tokyo International Financial Futures Exchange	www.tiffe.or.jp
TOCOM	The Tokyo Commodity Exchange Japan	www.tocom.or.jp
TSE	Tokyo Stock Exchange Inc. Japan	www.tse.or.jp

Other Considerations

Off-Market Trading - Block Trade Facility (BTF)

The SFE offers a BTF for SPI 200 Futures contracts. The BTF is an entirely off-market ie non-SYCOM - trading facility, enabling SFE Participants to bilaterally arrange large volume transactions away from the SYCOM market that might have otherwise negatively impacted normal market quality. Once fully negotiated, the initiating party registers the trade into SFE via SYCOM®'s text messaging facility.

For further information in relation to the benefits and features of the BTF, you are referred to the SFE website at www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp

Exchange for Physical (EFP)

The SFE provides an EFP facility for further flexibility in the management of price risk. An EFP allows a futures position to be exchanged for a physical position in the underlying market at a price negotiated between the counterparties.

EFPs provide a mechanism to:

- swap from a futures contract to a physical position or vice versa
- off market price certainty for large physical versus futures transactions
- fulfil delivery commitments.

The physical and futures components must be 'substantially similar' and equal in terms of either:

- value (ie the value of the physical being similar to the value of the futures); or by
- quantity (the quantity of the physical being similar to the quantity of the futures).

For further information in relation to the benefits and features of EFP's, you are referred to the SFE website at

www.sfe.com.au/index.asp?dispage=/site/html/trading/products/intro.asp

Issued by HSBC Bank Australia Limited (ABN 48 006 434 162) AFSL No. 232595 1 August 2005

HBAA021 PDS 08/05