

Product Disclosure Statement

for Foreign Exchange Transactions



The world's local bank

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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**").

The date of this PDS is [insert date].

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.

The information in 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 foreign exchange transaction 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 foreign exchange transactions. Before making a decision whether to enter into a foreign exchange 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 HSBC will issue either a new PDS or give notice 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.

Introduction

Purpose of a Product Disclosure Statement

This PDS is an important legal document setting out information about Foreign Exchange Transactions 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 any of the products described in this PDS, please read this PDS thoroughly, then keep it, together with all other documentation which you receive from HSBC in connection with Foreign Exchange Transactions, for future reference.

If you have any questions or need more information, please contact HSBC on 1300 308 880 or by writing to us at
Mail: Customer Relations Department
HSBC Bank Australia Limited
Level 11, 580 George Street
SYDNEY NSW 2000

Issuer details

This PDS is issued by HSBC Bank Australia Limited.

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

Foreign Exchange Contracts

What is a Foreign Exchange Transaction?

A Foreign Exchange Transaction ("**FX Transaction**") is a transaction that involves a contract for the exchange of one currency for another at an agreed exchange rate ("**FX contract**"). An "exchange rate" is the price of one currency in terms of another currency.

How does a FX Transaction work?

When you enter into any FX Transaction, you will be asked to nominate an amount ("**Contract Amount**") and the two currencies to be exchanged.

In every FX Transaction there are two currencies as follows:

1 fixed unit of a currency =
X variable units of another
currency

The fixed currency is called the "base" currency and the variable currency is called the "terms" currency. Together, these are known

as the currency pair. The currencies the subject of any FX Transaction must be currencies which are acceptable to HSBC.

In addition to the Contract Amount and the two currencies, you will also be asked to specify a date on which the exchange of currency will take place. This date is known as the "settlement date" and can be any business day on or after the "deal date" (i.e. the date on which you enter into the relevant FX Transaction with HSBC.)

A settlement date for a FX Transaction can be any business day falling on or after the deal date .

What exchange rate will apply to a FX Transaction?

Exchange rates for FX Transactions are quoted by HSBC as "spot exchange rates", "value today exchange rates", "value tomorrow exchange rates" or "forward exchange rates". In respect of any FX Transaction, the exchange rate quoted by HSBC will depend on the settlement date nominated by you for that FX Transaction.

A “spot exchange rate” is the exchange rate which applies to a FX Transaction with a settlement date that occurs 2 business days after the deal date (“**spot date**”). FX Transactions with a spot exchange rate are commonly referred to as “spot contracts”.

A “value today exchange rate” is the exchange rate which applies to a FX Transaction settling on the same day as the deal date, but not immediately at the time of entering into the FX Transaction. FX Transactions with a value today exchange rate are commonly referred to as “value today contracts”.

A “value tomorrow exchange rate” is quoted for a transaction settling on the next business day after the deal date. FX Transactions with a value tomorrow exchange rate are commonly referred to as “value tomorrow contracts”.

A “forward exchange rate” is quoted for any FX Transaction settling at any time after the spot date, i.e. FX Transactions with a settlement date that is more than 2 business days after the deal date. FX Transactions with a forward exchange rate

are commonly referred to as “forward contracts”. A forward contract can also have an optional delivery period which enables you to take delivery of the currency at any time in any agreed period leading up to the settlement date with no adjustment to the agreed forward exchange rate

In determining a value today exchange rate, value tomorrow exchange rate and forward exchange rate, HSBC will take the spot exchange rate and adjust it by a + or - “forward margin”. The forward margin is a margin calculated by HSBC on the basis of the interest rate differential between the two currencies involved and the term to maturity of the FX Transaction.

What FX Transactions are available at HSBC?

HSBC offers the following FX Transactions:

- ▶ spot contracts
- ▶ value today contracts
- ▶ value tomorrow contracts
- ▶ forward contracts (including optional forward contracts)
- ▶ foreign exchange swaps
- ▶ foreign exchange options (purchase only)

Following are a description of each of these FX Transactions together with hypothetical examples.

You should be aware that the examples used to explain each of the FX Transactions are not intended to be indicative of future performance.

Spot contracts, value today contracts, value tomorrow contracts.

Depending on whether you wish to enter into a spot contract, a value today contract or a value tomorrow contract, HSBC will quote you a spot exchange rate, value today exchange rate or value tomorrow exchange rate for delivery of specified currency on the relevant date.

Example:

Assume today is Monday. You wish to enter into a spot contract to sell United States Dollars (“**USD**”) 200,000 and buy Australian Dollars (“**AUD**”) on Wednesday.

The spot exchange rate for AUD/USD quoted by HSBC is AUD/USD 0.7000.

Acceptance of this quote will create a spot contract between you and HSBC.

On Wednesday, you are required to sell USD200,000 and buy AUD285,714.28. i.e:
 $USD200,000 \div AUD/USD 0.7000 = AUD285,714.28$

This same example could be applied for a value today or value tomorrow exchange rate for settlement on the same business day or the next business day respectively, with the spot exchange rate adjusted by the relevant forward margin.

Forward contracts

FX Transactions which have a settlement date that is more than 2 business days after the deal date are referred to as forward contracts.

A forward contract involves the forward-foreign exchange market. HSBC calculates the forward exchange rate for a forward contract by adjusting the prevailing spot exchange rate for the selected currency, by a forward margin.

Example:

You wish to enter into a forward contract to sell USD200,000 and buy AUD with a settlement date of 3 months from the deal date.

The spot exchange rate for AUD/USD quoted by HSBC is 0.7000 and based on the interest rate differentials for AUD/USD for 3 months, the forward margin is -0.0085.

The forward exchange rate for AUD/USD quoted by HSBC is $(0.7000 - 0.0085) = 0.6915$.

On the settlement date, you are required to sell USD200,000 and buy AUD289,226.31. i.e:
 $USD200,000 \div AUD/USD$
 $0.6915 = AUD289,226.31$

Optional forward contracts

An optional forward contract is a forward contract that includes an option for you to elect an earlier settlement date within an agreed period (the "optional maturity period").

Under an optional forward contract with HSBC you will have the option to vary the settlement date relating to that transaction to any day within the selected optional maturity

period without adjustment to the existing agreed forward exchange rate.

Example:

You wish to enter into an optional forward contract to sell USD 200,000 and buy AUD with a settlement date of 3 months from the deal date, with an option to elect an earlier settlement date any time from the first day of the 2nd month.

The spot exchange rate for AUD/USD quoted by HSBC is 0.7000 and based on the interest rate differentials for AUD/USD for the optional maturity period, the forward margin is -0.0060 .

The optional forward exchange rate for AUD/USD quoted by HSBC is $(0.7000 - 0.0060) = 0.6940$.

You decide during the 3rd month to settle the contract. On the settlement date, you are required to sell USD200,000 and buy AUD288,184.43 i.e:
 $USD200,000 \div USD/AUD$
 $0.6940 = AUD288,184.43$

Foreign exchange swaps (FX swaps)

A "swap" is the simultaneous agreement to purchase/sell and sell/purchase one currency

against another. A swap is made up of two legs, known as the “near leg” (the first exchange by calendar date) and the “far leg” (the re-exchange by calendar date).

HSBC calculates two rates, one for the first leg of the swap, the second rate for the second leg of the swap. Each rate is a spot price which will be adjusted by a margin if either leg occurs on a date other than the spot date. Like a forward margin the swap margin is an interest rate differential which is applied to a spot rate.

Example:

You wish to enter into a FX swap to sell AUD150,000 and buy USD for settlement in two days time (near leg) and simultaneously buy AUD150,000 and sell USD for settlement in 1 month (the far leg).

The spot exchange rate to sell AUD/USD quoted by HSBC is 0.9600. This will be the rate for the near leg.

Based on the interest rate differentials for AUD/USD for 1 month, the forward margin is - 0.0040. This margin will adjust the spot rate to buy AUD/USD

which, in this example, would be 0.9600. Therefore the rate for the far leg quoted by HSBC is $(0.9600 - 0.0040) = 0.9560$.

On the settlement date for the near leg you are required to sell AUD150,000 and buy USD144,000

On the settlement date for the far leg you are required to buy AUD150,000 and sell USD143,400

Foreign exchange options - purchase only (FX options)

A “FX option gives the purchaser the right, but not the obligation, to exchange (buy or sell) an amount of one currency for another, at a specific rate, on a specific date. A FX option can be either a “call” or a “put”. A “call option” gives the purchaser the right, but not the obligation, to buy the underlying currency. A “put option” gives the purchaser the right, but not the obligation, to sell the underlying currency. The seller of an option, in this case HSBC, will be obligated to deliver/purchase the underlying currency if the holder exercises their rights under the option.

FX options have the following characteristics:

An option premium: The premium represents the price the purchaser pays to the seller for the privilege of holding the option. The premium is paid on the spot date (i.e. two business days after the deal date).

A strike price: The “strike price” of an option is the specific rate at which the purchaser/holder can exercise their right to buy/sell the underlying currency.

An expiry date: The expiry date represents the date at which the option to buy/sell expires. If the option is not exercised on the expiry date it simply lapses.

A principal amount: This represents the amount that can be called/put under the terms of the option.

Example: Purchase of a FX call option

You wish to purchase the right, but not the obligation, to “call” or purchase AUD100,000 and sell USD in two months time, at a rate of 0.9500 HSBC will quote an option premium in AUD which you will settle on the spot date.

In two months time you will have the right, but not the obligation, to buy AUD100,000 and sell USD at a rate of 0.9500. If you choose to exercise the option you will buy AUD100,000 and sell USD95,000 on the expiry date.

How do I enter into FX Transactions with HSBC?

To enter into a FX Transaction, you will need to obtain credit approval from HSBC and have foreign exchange limits established with HSBC. In deciding whether or not we will provide credit approval and set up foreign exchange limits for you, HSBC will determine your credit worthiness in accordance with our normal credit requirements. HSBC will not consider the suitability of any of the FX Transactions in this PDS for you. You will need to make your own assessment in this regard.

If you are successful in your application for credit approval and foreign exchange limits, HSBC will advise you of this. You will then be required to execute HSBC standard terms and conditions for FX Transactions (“**FX documentation**”). The FX documentation which HSBC will require from you will depend on the type of FX Transactions you wish to enter into. Examples of FX documentation which you may be asked to sign include an Australian Financial Markets Short Form FX Agreement or

an ISDA Master Agreement and Schedule.

The FX documentation that you sign with HSBC will regulate your dealing relationship with HSBC as well as each of the FX Transactions which you enter into with HSBC. For example, the FX documentation will set out rights of termination by you or HSBC and the way in which any amounts payable on termination will be calculated.

The FX documentation we ask you to sign can involve complicated issues. If you do not understand any aspects of the FX documentation, we strongly recommend that you obtain independent advice prior to signing it.

Following credit approval and establishment of a foreign exchange limit by HSBC and your due execution of the FX documentation you may then request to enter into FX Transactions with HSBC by contacting your HSBC representative and providing details of the nature of the FX Transactions requested. You may do this by nominating your desired currency pair together with the settlement

date desired. HSBC will then quote you a rate in respect of this request. If you accept the quotation a FX contract is entered into between you and HSBC.

Can I change the settlement date of a FX Transaction?

Variations to settlement dates, whether the variation is to make the settlement date earlier or later, are available on request and are determined in accordance with our normal credit application process.

Pre-Delivery

Early delivery or settlement of a forward contract is possible on your request.

Please note that the existing forward exchange rate will be adjusted by a forward margin which may result in an additional amount being payable by you. The forward margin is calculated by determining the interest rate differential between the two currencies involved at the time of the request and the number of days left until the maturity of the forward contract.

Extensions

If you require the foreign exchange on a later date, then on maturity of the forward contract, HSBC can negotiate a mark-to-market swap of the FX Transaction. This means that the existing FX Transaction will be closed out at the current spot exchange rate, thereby locking in either a profit or loss for you. A new FX Transaction will then be established based on the same spot exchange rate used to close out the existing deal, plus/minus the forward margin at the time of the swap.

If you wish to request an extension of the maturity of a forward contract, you will be asked to sign our standard Historical Rate Rollover documentation, a copy of which is available from HSBC on request. HSBC will then determine your request in accordance with our normal credit approval process. HSBC does not guarantee to always extend existing forward contracts.

Termination of a FX contract

In certain circumstances as set out in the FX documentation, HSBC or you may terminate a FX contract before the settlement date. FX contracts which are terminated by either you or HSBC before the settlement date will be closed out by HSBC at their mark-to-market value. HSBC will quote to you the exchange rate for a transaction that would terminate your obligation to make delivery under your original FX Transaction. Depending on how the exchange rate has fluctuated, this second transaction may result in you being required to make a further payment to HSBC.

What happens on the maturity of a FX contract?

For each FX contract that you enter into, you will be required to pay to HSBC on the settlement date of the FX contract, the relevant amount in the currency that you are selling to HSBC under the FX contract. HSBC will pay to you the relevant amount in the currency that you are buying from HSBC.

For information on how to carry out settlement of the transaction please contact your branch or relationship manager.

What are my responsibilities?

You may provide instructions to HSBC to enter into a FX Transaction in writing, or where HSBC agrees, you may send us instructions electronically via any agreed electronic method (including but not limited to any electronic dealing platforms, internet banking platforms, fax or email). Separate terms and conditions may apply in regards to your use of such methods. Please contact HSBC for further details.

Once you have accepted a quote from HSBC in respect of a FX Transaction and enter into a FX contract with HSBC, you are obliged to honour your obligations under that FX contract.

In respect of each FX Transaction, you will be provided with a confirmation of the transaction by HSBC. You must check the details

on any confirmation and if any discrepancies are evident, inform HSBC immediately.

You are required to notify HSBC of your settlement instructions and meet your obligations under the FX contract.

You must ensure that you have sufficient cleared funds and cash balances to meet your settlement obligations under each FX Transaction you enter into with us.

Significant Benefits & Risks of FX Transactions

Benefits

Exchange rate certainty - locking in a certain exchange rate for the purchase or sale of foreign currency amounts will reduce or eliminate exchange rate uncertainty and provide cash flow certainty.

Diversity - FX Transactions are available for a wide range of currencies.

Flexibility - FX Transactions are flexible and can be tailored to meet your requirements.

Disadvantages

Opportunity Cost – by entering into a FX contract today to set a rate for settlement in the future, you are obliged to deliver under that FX contract even if the exchange rate improves prior to settlement. You may therefore forego any benefit of a favourable movement in the exchange rate between the time you enter into the FX contract and the settlement date.

Significant Risks

In deciding whether or not to enter into a FX Transaction you should be aware of the

risks set out below. However, this section does not purport to disclose all of the risks associated with FX Transactions. HSBC recommends that you obtain independent financial, legal and taxation advice before you enter into FX Transactions.

Market risk

Market risk is the risk that the value of your FX position will change as a result of a movement in the underlying market price. If you enter into a FX Transaction without an underlying currency cash flow you should be aware that you will be exposed to changes in the market price. You will suffer a loss if the underlying foreign exchange rate moves unfavourably.

Operational Risk

Operational risk is the risk of loss from disruptions to internal processes, people and systems or disruptions arising from external events. Such disruptions may affect the ability of HSBC to price and settle your FX Transaction in a timely and accurate manner. This may result in contractual outcomes under the terms of the FX

documentation which are less favourable to you.

Counterparty Risk

Performance of a FX Transaction will depend on HSBC being ready, willing and able to meet its obligations under the FX contract at settlement. The risk that HSBC is unable to do so is sometimes described as counterparty risk, credit risk or default risk. You should satisfy yourself that HSBC is capable of meeting its obligations to you under FX contracts as you can only deal with HSBC in relation to that FX contract. Your obligations under that contract will not be assignable (unless novated by agreement between the counterparties) and the product cannot be traded on the market.

No Cooling Off

No cooling off period applies to FX Transactions.

Early Termination

If a FX contract is terminated before the settlement date, there may be costs payable by you.

Changes to settlement dates

There may be costs payable by you for settlement date pre-delivery or extensions.

Costs, Fees and Charges

When you enter into a FX Transaction with HSBC, you agree to pay one currency in exchange for another currency at a fixed rate on an agreed delivery date, or by mutual negotiation, before the agreed delivery date.

Exchange rates vary depending on a range of factors such as interest rate differentials, economic conditions and government actions. What you pay will depend on the type of contract you enter into. For a forward contract, what you pay will depend on factors such as the time to maturity of the contract and interest rates.

You will not be charged any establishment fees or commissions in connection with FX Transactions which you enter into with HSBC under the FX documentation. However, other fees or charges may apply for related transactional services such as telegraphic transfers of funds. Information about these costs is contained in the Product Disclosure Statement or other document relating to these products or services, including our *“Corporate Banking fees and charges guide”*.

HSBC will derive a financial benefit in respect of the FX Transaction by incorporating a margin into the relevant exchange rate it quotes.

Our charges in respect of specific services are as follows:

Establishment of new FX Transaction: no charge

Extension: no charge

Pre-delivery: no charge

Termination: Early termination of a FX contract may result in a cost to you at the time of termination. For instance if you instructed us to buy AUD and sell USD and then instructed us to terminate the FX contract we would buy USD and sell AUD and you would have to pay us any difference between the two deals.

FX option: A FX option contract involves a “premium”. This is the cost of purchasing the option. This amount is payable on the spot date (i.e. two business days after the deal is entered into). This amount is not refundable and is a cost you incur even if you decide not to exercise the FX option. HSBC

will calculate the amount of the premium and advise you of the amount before you enter into the FX option. The amount of the premium will depend on market forces prevalent at the time the "premium" is calculated.

Taxation Considerations

The summary of taxation implications in this section is necessarily general in nature and does not take into account the specific circumstances of any individual customer. Before entering into any FX Transaction, HSBC recommends that you obtain independent taxation advice in respect of whether the FX Transaction is suitable for you, and the taxation implications it may have for you.

You should be aware of the *New Business Tax System (Taxation of Financial Arrangements) Act 2003* (Cth) (the “**Act**”) that introduces foreign exchange tax rules from 1 July 2003. Broadly, this will have a significant impact on the time foreign exchange gains are brought to tax, foreign exchange gains are claimed as a tax deduction and the measurement of the foreign exchange gains and losses for income tax purposes.

The foreign exchange rules under the Act may apply if you:

- ▶ dispose of foreign currency;
- ▶ dispose of a right to receive foreign currency;

- ▶ cease to have a right or obligation to receive foreign currency; or
- ▶ cease to have a right or obligation to pay foreign currency.

The impact of the Act, subject to some exceptions, is generally:

- ▶ if you make a gain from a foreign currency arrangement and part of that gain is attributable to a currency exchange rate fluctuation, that part of the gain is included in your assessable income as a foreign exchange realisation gain;
- ▶ if you make a loss from a foreign currency arrangement and part of that loss is attributable to a currency exchange rate fluctuation, that part of the loss is deducted from your assessable income as a foreign exchange realisation loss.

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 (e.g. a disclosure to a court which is required by a subpoena);
- ▶ necessary to protect our interests;
- ▶ made with your consent; or
- ▶ in accordance with a duty we have to the public.

Commonwealth Privacy Act

If you are a natural person, HSBC are also required to handle your personal information in accordance with the *Privacy Act 1988* (Cth) (the “**Privacy Act**”). We are bound by the National Privacy Principles in the Privacy Act, and by other requirements relating to individuals’ credit information.

HSBC Privacy Policy

The HSBC Group’s privacy policy explains our approach to privacy. You can get 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

Code of Banking Practice

HSBC warrants that it will comply with the requirements of the Code of Banking Practice ("**COBP**"), where those requirements apply to your dealings with us. The relevant provisions of the COBP will apply to FX Transactions if you are an individual or a small business customer, as defined in the COBP.

General descriptive information about our banking services is set out in our Corporate and Business Banking Financial Services Guide and Code of Banking Practice Guide ("**FSG**"). The FSG includes the following information:

- ▶ HSBC's account opening procedures;
- ▶ HSBC's obligations regarding the confidentiality of your information;
- ▶ complaint handling procedures;
- ▶ a recommendation that you inform HSBC promptly if you are in financial difficulty; and
- ▶ a recommendation that you read the applicable terms and conditions (which in relation to FX Transactions means you should carefully read this PDS and the FX

documentation).

A copy of the FSG is available on request.

Complaints 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 a 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 under a FX contract 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 designated Relationship Manager, who should be able to resolve your problem.

If your 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:

Financial Ombudsman Service
GPO Box 3

MELBOURNE VIC 3001

Toll Free: 1300 780 808

Facsimile: 03 9613 7345

Website: www.fos.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.

