

# Business Foreign Exchange Contracts

Product Disclosure Statement

1 May 2014

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# Product Disclosure Statement

## **About this Product Disclosure Statement (PDS)**

This PDS contains information about Business Foreign Exchange Contracts (Business FX Contracts) issued by HSBC Bank Australia Limited (ABN 48 006 434 162 AFSL 232595) (HSBC). It will help you to decide whether Business FX Contracts are right for you, and to assess the benefits and risks associated with Business FX Contracts. It will also help you compare Business FX Contracts with other foreign exchange contracts.

The PDS has 2 Parts (each part is a separate document and together they form the PDS):

- Part 1 – the PDS part of this document; and
- Part 2 – Corporate Banking fees and charges guide.

This PDS is available on request, at no charge.

Current fees and charges are available on request, you can call 1300 731 720 (or from overseas +61 2 9005 8414).

## **PDS Updates**

The information in this PDS is up to date at the time of preparation. However, some information that is not materially adverse may change from time to time. Where this occurs, we will make the updated information available by way of a PDS Update.

## **Warning**

Business FX Contracts involve risks (see pages 11 - 12) for further details. HSBC does not give advice as to whether Business FX Contracts are right for you. Nor will HSBC be responsible for any loss resulting from entering into Business FX Contracts.

## **Our contact details**

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## **HSBC Holdings plc**

Headquartered in London, the HSBC Group serves customers worldwide from around 6,300 offices in over 70 countries and territories in Europe, the Asia-Pacific region, North and Latin America, the Middle East and Africa. With assets of US\$2,671 billion and a core tier one ratio of 13.6% as at 31 December 2013, HSBC is one of the world's largest banking and financial services organisations.

HSBC provides a comprehensive range of financial services to around 54 million customers through four customer groups and global businesses: Retail Banking and Wealth Management (including consumer finance); Commercial Banking; Global Banking and Markets; and Private Banking.

## **HSBC Bank Australia**

In Australia, the HSBC Group offers an extensive range of financial services through a network of 36 branches and offices. These services include retail and commercial financial services, financial planning, trade finance, treasury and financial markets, payments and cash management and securities custody.

Principal HSBC Group members in Australia are HSBC Bank Australia Limited and The Hongkong and Shanghai Banking Corporation Limited.

## Business FX Contracts – key features and benefits

We offer a range of Business FX Contracts. In summary, these Business FX Contracts are all similar. The main difference between them is the amount of time between when you ask us for a Business FX Contract and when the currency is to be converted into another currency.

When we quote you an exchange rate for a Business FX Contract, that rate will include our margin as well as a volatility margin. Each margin will depend on the currencies in your currency pair, the length of the contract and other factors.

This table shows the key features and benefits of the different kinds of Business FX Contracts.

Name of contract	Description	How we calculate
Value Today FX Contract	We can quote you a 'value today' exchange rate for settlement that same day. NOTE: 'value today' exchange rates are subject to payment cut-off times which vary depending on the currency involved. Payment cut-off times with respect to specific currencies can be found at <a href="http://www.hsbc.com.au">www.hsbc.com.au</a> .	We calculate the value today exchange rate by adjusting the prevailing spot exchange rate for the selected currency by a forward margin. The forward margin is calculated by determining the interest rate differential between the two currencies involved and the term to maturity.
Value Tomorrow FX Contract	We can quote you an exchange rate for settlement on the next FX Business Day.	We calculate the value tomorrow exchange rate by adjusting the prevailing spot exchange rate for the selected currency by a forward margin. The forward margin is calculated by determining the interest rate differential between the two currencies involved and the term to maturity.
Spot FX Contract	We can quote you an exchange rate for settlement in 2 FX Business Days' time.	We calculate the spot exchange rate by taking the prevailing spot rate plus our margin. NOTE: For United States Dollar (USD)/Canadian Dollar (CAD) exchange transactions the 'spot' date will be 1 FX Business Day from the deal date.

Forward FX Contract	We can quote you an exchange rate for settlement between 2 FX Business Days and up to 180 days from the deal date. The maximum tenor of Forward FX Contract available to you will be subject to credit approval and will not exceed 180 days.	We calculate the forward exchange rate by adjusting the prevailing spot exchange rate for the selected currency by a forward margin. The forward margin is calculated by determining the interest rate differential between the 2 currencies involved and the term to maturity.
Historic Rate Pre-Delivery	If you wish to settle (all or part) of a Forward FX Contract prior to the previously agreed Settlement Date, we can quote you a rate to do so.	The existing Forward FX Contract rate (for the amount being pre-delivered) will be adjusted by a forward margin which may result in an additional amount being payable by you or to you. The forward margin is calculated by determining the interest rate differential between the 2 currencies involved at the time of the request and the number of days left until maturity of the contract.
FX Swap	If you want to extend the Settlement Date of an existing Business FX Contract, we can do so by swapping your existing Business FX Contract for another Business FX Contract to be delivered at a future date.	<p>In order to swap one Business FX Contract for another, we will quote you 2 rates. The first rate is for the Business FX Contract that is falling due on the date the FX Swap is being entered into and the second rate is for the new Business FX Contract. Both rates make up the one transaction.</p> <p>Each rate will consist of a spot rate component and a forward point adjustment. The spot rate used will be the same for both legs of the transaction. The forward point adjustment for each date of the transaction will be dependant on the requested Settlement Date.</p> <p>Any difference in cash flow resulting from the rate quoted on the original Business FX Contract and the rate quoted to you on the date you enter into the FX Swap will be debited or credited to your nominated Business Multi Currency Account.</p>

We do not allow Business FX Contracts to be entered into for speculative purposes. There must be an underlying commercial transaction.

## About foreign exchange (FX) contracts generally

FX contracts involve the exchange between 2 counterparties of one currency for another at an agreed exchange rate for delivery on an agreed date. An 'exchange rate' is the price of one currency in terms of another currency. In every quote there are 2 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.

Every FX contract specifies a date on which physical exchange of currency will take place, called the 'settlement date' (or 'value date'). The settlement date can be on any FX business day on or after the deal date, subject to value today payment cut-off times for the relevant currencies and the terms of the FX contract. The deal date is the date on which the parties enter into the FX contract.

The benefits of FX contracts include:

- exchange rate certainty – locking in a certain exchange rate for the purchase or sale of foreign currency amounts eliminates exchange rate uncertainty and can help with the management of foreign currency cash flows; and
- diversity – FX contracts can be executed in respect of a wide range of currencies.

### Some examples of how Business FX Contracts work

*Note: In the first 3 examples it is assumed that Monday, Tuesday and Wednesday are all FX Business Days.*

#### **Example – Value Today FX Contract**

Today is Monday. You wish to enter into a Value Today FX Contract where you buy USD 200,000 and sell AUD.

The value today exchange rate we quote consists of a spot rate component and a forward point adjustment. The spot rate component is 0.9500. The forward point adjustment is +0.0004. The value today exchange rate for the transaction is calculated as  $0.9500 + 0.0004 = 0.9504$ .

On the Settlement Date (Monday) you are required to buy USD 200,000 and sell AUD 210,437.71 (i.e.  $200,000 \div 0.9504$ ).

### **Example – Value Tomorrow FX Contract**

Today is Monday. You wish to enter into a Value Tomorrow FX Contract where you buy USD 200,000 and sell AUD.

The value tomorrow exchange rate we quote consists of a spot rate component and a forward point adjustment. The spot exchange rate component is 0.9500. The forward point adjustment is +0.0002. The value tomorrow exchange rate for the transaction is calculated as  $0.9500 + 0.0002 = 0.9502$ .

On the Settlement Date (Tuesday) you are required to buy USD 200,000 and sell AUD 210,482.00 (i.e.  $200,000 \div 0.9502$ ).

### **Example – Spot FX Contract**

Today is Monday. You wish to enter into a Spot FX Contract where you buy USD 200,000 and sell AUD.

The spot exchange rate we quote consists of a spot rate component only. The spot rate component is 0.9500.

On the Settlement Date (Wednesday) you are required to buy USD 200,000 and sell AUD 210,526.32 (i.e.  $200,000 \div 0.9500$ ).

### **Example – Forward FX Contract**

Today is Monday. You wish to enter into a Forward FX Contract where you buy USD 200,000 and sell AUD, to settle in 1 month's time.

The value 1 month exchange rate we quote consists of a spot rate component and a forward point adjustment. The spot rate component is 0.9500. The forward point adjustment is -0.0037. The forward exchange rate for the transaction is calculated as  $0.9500 - 0.0037 = 0.9463$ .

On the Settlement Date (in 1 month's time) you are required to buy USD 200,000 and sell AUD 211,349.47 (i.e.  $200,000 \div 0.9463$ ).

### **Example – Historic Rate Pre-Delivery**

You have previously entered into a 1 month Forward FX Contract where you undertook to buy USD 200,000 and sell AUD. The original FX contract rate was 0.9537.

It is now 2 weeks until the Settlement Date. You wish to utilise the contract today, rather than waiting the final 2 weeks until planned settlement. We quote



you a pre-delivery rate to utilise the FX contract at the earlier date.

The pre-delivery rate we quote consists of the original FX contract rate plus a forward point adjustment for the period remaining on the contract. In this example, the 2 week period has a forward point adjustment of + 0.0017.

The pre-delivery rate is calculated as  $0.9537 + 0.0017 = 0.9554$ .

On the Settlement Date (today) you are required to buy USD 200,000 and sell AUD 209,336.40 (i.e.  $200,000 \div 0.9554$ ).

### **Example – FX Swap**

You have previously entered into a Forward FX Contract to buy USD 100,000 and sell AUD at a certain date in the future. When this day arrives, you wish to extend the arrangement by an additional month. You do this by entering into an FX Swap.

By entering into the FX Swap, you agree to sell USD 100,000 and buy AUD today, and to buy USD 100,000 and sell AUD in 1 month's time.

We quote you 2 rates – 1 for the first date (today) and 1 for the second date (in 1 month's time). Both dates make up 1 transaction.

The spot rate is 0.9500. The first date forward point adjustment is +0.0004.

The second date forward point adjustment is -0.0037. The rate on the first date is  $0.9500 + 0.0004 = 0.9504$ . The rate on the second date is  $0.9500 - 0.0037 = 0.9463$ .

On the first date (today) you will be required to sell USD 100,000 and buy AUD 105,218.86 (i.e.  $100,000 \div 0.9504$ ). On the second date (in 1 month's time) you will be required to buy USD 100,000 and sell AUD 105,674.73 (i.e.  $100,000 \div 0.9463$ ).

## **How to establish a FX facility with us**

To enter into Business FX Contracts, you must first establish a FX facility with us. To establish a FX facility with us, you must be an existing HSBC Commercial Banking customer. You will also need to complete all the following steps:

- complete an application form and obtain credit approval from us;
- execute a Letter of Offer;
- execute an Australian Financial Markets Association Master Agreement for Foreign Currency Transactions;

- open a Business Multi Currency Account with the relevant currencies you intend to trade (if such an account is not already opened);
- provide us with such security as we may require for the establishment of your FX facility;
- complete a Standing Settlement Instruction (SSI);
- complete an email/fax indemnity;
- if you would like to enter into Business FX Contracts via an electronic platform, execute the relevant Electronic Platform agreement and related documents;
- if you have requested and we have agreed to a novation, a novation agreement.

You will advise us whether you wish to use any of our Electronic Platforms. We will provide you with the necessary documents as part of the application process.

## **How to enter into Business FX Contracts**

Once the steps outlined above have been completed, you can then request Business FX Contracts via telephone or an Electronic Platform.

### *Telephone*

Where a Business FX Contract is to be entered into via telephone, you can request Business FX Contracts by calling one of our Relationship Managers and providing details of the nature of the Business FX Contract you want to enter into. At the point when you verbally accept a quote from one of our representatives, you enter into a Business FX Contract which you are legally obliged to honour (for more details, see below under “Your responsibilities”). In industry parlance, at this point the FX contract is “booked”.

If it is a Value Today FX Contract, we will issue a confirmation of the deal to your nominated email address for your review and if approved, for your signature on the same day. For other FX contracts, after it is booked, we will send you confirmation of the deal for your review and signature. You must return the signed deal confirmation by close of business on that same day (i.e. the day you entered into the Business FX Contract) to the destination specified in the deal confirmation.

The person making the request for a Business FX Contract via the telephone must be an Authorised Signatory on your HSBC Business Multi Currency Account. No-one else can enter into Business FX Contracts on your behalf.

## *Electronic Platform*

Where we provide you with access to one of our Electronic Platforms you can request a Business FX Contracts via our Electronic Platform by entering the details of the nature of the Business FX Contract you want to enter into. At the point when you accept a quote, you enter into a Business FX Contract which you are legally obliged to honour (for more details, see below under “Your responsibilities”). In industry parlance, at this point the FX Contract is “booked”. A confirmation of the deal will be issued.

Each Electronic Platform may offer different capabilities and have its limitations, and you may be able to book a limited type of FX Contracts only on a particular platform. You should refer to the documents or agreements relating to the Electronic Platform to find out further their capabilities and limitations.

The person making the request for a Business FX Contract via one of our Electronic Platforms must be established as a user pursuant to the relevant Electronic Platform document/agreement. No-one else can enter into Business FX Contract on your behalf.

## *Novation of existing FX contract*

If you would like an existing FX contract you have with another financial institution to be novated to us, we will consider your request on a case by case basis. If we agree to a novation, we will require that a novation agreement to be entered into by all relevant parties (including you, the relevant financial institution and us). We will then send you confirmation of the deal for your review and signature.

## **Your responsibilities**

You must check the details on any confirmations of the deal and if any discrepancies are evident, inform us immediately by contacting your Relationship Manager.

On the Settlement Date (i.e. the date when your Business FX Contract matures), you must deliver the currency you are selling to us by having the funds available in the currency concerned in your Business Multi Currency Account. HSBC may agree (but is not obliged) to an alternative arrangement instead of debiting your Business Multi Currency Account, please contact one of our Relationship Managers in HSBC to discuss if an alternative is preferred.

Unless alternative arrangements have been made in agreement with HSBC, you must have enough funds in your Business Multi Currency Account the

day before the Settlement Date to enable us to debit your account. If there are insufficient funds to settle your Business FX Contract on the Settlement Date and we do not receive alternate settlement instructions by payment cut-off for the currency concerned, we reserve the right to cancel the contract and to book any loss or gain arising from closing out the contract to your Business Multi Currency Account.

## **Business Multi Currency Account**

You must have an HSBC Business Multi Currency Account in the currency pairs required for your Business FX contract. Unless alternative arrangements have been made in agreement with HSBC, the currency that you buy will be credited to your Business Multi Currency Account, while the currency that you sell will be debited to your Business Multi Currency Account. Your Business Multi Currency Account will be referred to in the confirmation for your Business FX Contract as the “over account.”

Please note that the fees and charges normally applicable to your Business Multi Currency Account will still apply to your Business Multi Currency Account, while you have Business FX Contracts.

If for any reason you close your Business Multi Currency Account, then we reserve the right to terminate any Business FX Contract you have with us and any underlying foreign exchange facility.

## **Termination of Business FX Contracts**

In certain circumstances, as set out in your Business FX Contract Documentation, we or you may terminate a Business FX Contract before the Settlement Date. Some examples are:

- if you do not pay on time any amount due under the contract;
- if you do not perform on time any of your obligations to us;
- if a representation made by you in connection with the contract is untrue or misleading in any material respect; or
- if you become insolvent.

Business FX Contracts which are terminated in this way will be closed out by us at their mark to market value.

## Netting of payments

If you have more than one Business FX Contract with the same Settlement Date and for the same currency pair, we may combine all settlements and settle these Business FX Contracts with a single net payment between you and us. Where this occurs, you will only see the net settlement amount on your Business Multi Currency Account statement.

## Risks

By their nature, Business FX Contracts (along with FX contracts generally) involve risks. Some of these are set out below. There may also be other risks that are specific to your particular situation. We recommend that you obtain independent financial, legal and tax advice before you enter into Business FX Contracts.

### *Exchange rate improvement*

By entering into a Business FX Contract today to set a rate for settlement in the future, you are obliged to deliver under that contract even if the exchange rate improves prior to the Settlement Date.

### *Market risk*

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

In addition, it is possible that you may not receive a benefit from entering into the Business FX Contract as opposed to not entering into it. This may occur if the relevant market exchange rate is more favourable than the agreed exchange rate at the Settlement Date.

### *Default risk*

Meeting your obligations under a Business FX Contract will depend on you having sufficient funds available in your HSBC Business Multi Currency Account to be able to carry out the transaction despite the market risk. If you default in your obligations to us under a Business FX Contract, we may enforce any

security you have given us. This means that we may take, sell or stop you using the assets that you and we have agreed, by the terms of your Business FX Contract, are to secure the performance of your obligations under your Business FX Contract.

### *Operational risk*

Operational risk is the risk of loss from disruptions to internal processes, people and systems or disruptions arising from external events. While these sorts of disruptions are rare, disruptions resulting from operational risks may affect our ability to price and settle your Business FX Contract in a timely and accurate manner. This may result in outcomes under the terms of your Business FX Contract which are less favourable to you, for example, due to technical difficulties we may not be able to settle on the settlement day and the currency market may have moved in an unfavourable direction for your trade (see section headed “Market risk” on page 11).

## **Costs, fees and charges**

When you enter into a Business FX Contract, you agree to pay one currency in exchange for another currency at a fixed rate on an agreed delivery date, or by negotiation, before or after 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 FX Contract, what you pay will depend on factors such as the time to maturity of the contract and interest rates, among other factors.

The fees and charges associated with the establishment of your FX facility will be outlined in the Letter of Offer which we will send you upon approval of your application. Other fees and charges relating to your FX facility are set out in Part 2 of this PDS, **Corporate Banking fees and charges guide** (including fees relating to “Loans and Other Credit Facilities”). Other fees or charges may apply.

## **Taxation considerations**

The summary of taxation considerations in this section is necessarily general in nature and does not take into account specific circumstances of each individual customer. We recommend that you obtain independent tax advice in respect of your specific circumstances before entering into Business FX Contracts.

## *Foreign exchange gains and losses*

Foreign currency transactions may give rise to taxable gains or deductible losses. The treatment of these transactions for taxation purposes will depend on your individual circumstances and you should seek appropriate tax advice.

You should be aware of the A New Tax System (Taxation of Financial Arrangements) Act 2003 (the Act) which introduced foreign exchange tax rules may have an impact on the time foreign exchange gains and losses are brought to tax and the measurement of the foreign exchange gains and losses for income tax purposes.

The impact of the foreign exchange rules, subject to some exceptions, is generally:

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

## **Goods and services tax (GST)**

Dollar amounts stated in any part of your Business FX Contract Documentation include GST where it applies, unless stated otherwise. You may be charged GST in addition to the fees or charges that you are required to pay where the fees or charges are expressed to be GST exclusive.

## **Your contract with us**

If you enter into a Business FX Contract, the following documents make up the contract between you and us:

- this PDS – i.e. the PDS part of this document and Part 2 of this PDS, **Corporate Banking fees and charges guide**;
- your Australian Financial Markets Association Master Agreement for Foreign Currency Transactions;
- your Letter of Offer;
- HSBC General Terms and Conditions;
- your deal confirmation;

- your Account Opening Documents;
- if we have agreed to a novation of any FX contract, the relevant novation agreement.

Together, these documents make up your Business FX Contract Documentation. We advise you to read all these documents carefully.

HSBC may change this PDS or the HSBC General Terms and Conditions. We will give you notice in writing at least 30 days before the change comes into effect if we introduce or increase a fee or charge (other than a government charge). In any other case we will give you notice of the change in writing or by advertisement in the national or local media no later than the day the change takes effect. We may notify you of the introduction or change of a government charge payable directly or indirectly by you by advertisement in the national or local media or in writing. We will not need to do so if the government advertises the change.

The relevant provisions of the Code of Banking Practice apply to Business FX Contracts.

## **If you have a complaint or query**

If you have a complaint or query, please raise your concerns with us. You can speak with your Relationship Manager, other HSBC Representative or our Customer Relations Team. In Australia telephone 1300 308 188 or if you are calling from overseas: +61 2 9005 8181. Alternatively, you can visit our website at [www.hsbc.com.au](http://www.hsbc.com.au) and raise your concerns via the “Contact Us” icon.

If, despite our best efforts, you believe your complaint has not been satisfactorily dealt with, you can contact the Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001, telephone 1300 780 808, [www.fos.org.au](http://www.fos.org.au) (if your complaint falls within its jurisdiction).

## **Dictionary**

In this document:

**Account Opening Document** means any account opening form (either in paper or electronic format), signature card, mandate or other document or agreement signed or entered into in connection with the entering into or maintaining of a Business FX Contract.



**AUD** means Australian dollars.

**Business FX Contract** means a Business Foreign Exchange Contract, issued by HSBC.

**Business FX Contract Documentation** means the documents specified in the section headed “Your contract with us” on page 13.

**currency pair** refers to the 2 currencies which are the subject of the Business FX Contract.

**Electronic Platform** means an online platform provided by HSBC that enables you to enter into Business FX Contracts with HSBC.

**forward points** and **forward margin** refer to the number of basis points added to or subtracted from the current spot rate to determine the forward rate. The forward points are calculated based on the interest rates prevailing in each of the currencies making up your Business FX Contract.

**FX** means foreign exchange.

**FX Business Day** means a day when banks in the United States and both currency pair countries are open and which is not a public holiday or a weekend day in either currency pair country.

**HSBC, we, us** and **our** mean HSBC Bank Australia Limited (ABN 48 006 434 162 AFSL 232595).

**Settlement Date** means the date when your Business FX Contract matures. The Settlement Date is specified on your deal confirmation.

**USD** means United States dollars.

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