

# LIBOR Risk Disclosure

**The following is provided for information only and you should conduct your own assessment of the risks involved in conjunction with your legal, tax and/or accountancy advisors. The information below is not exhaustive and HSBC is not in a position to express a view on the likelihood of any particular event occurring nor is HSBC providing any advice or recommendation.**

## What is LIBOR?

The London Interbank Offered Rate or "LIBOR" is an interest rate benchmark often used to determine the interest payable under products including securities, credit facilities, derivatives and other financial instruments ("Products"). LIBOR is published in a number of currencies including USD, EUR, CHF, GBP and JPY. In addition to LIBOR, calculation methodologies of some other benchmarks may be linked to LIBOR and these benchmarks may be directly or indirectly impacted as a consequence of LIBOR transition.

## What is changing?

LIBOR and a number of other benchmarks are subject to national and international regulatory guidance and reforms, causing them to perform differently than they have in the past or to disappear entirely.

Financial regulatory authorities are encouraging the use of alternative interest rate benchmarks, such as near Risk-Free Rates ("RFRs"), which along with other interest rate benchmarks (e.g. central bank rates) are calculated in a different way to LIBOR.

## Why are we sending this to you?

As you are considering an investment product or a credit facility that uses LIBOR, we wanted to make you aware of the use of alternative interest rate benchmarks and the potential impact of these changes.

## What's the impact for you?

A Product may have fallback interest rate provisions to address the temporary unavailability of LIBOR. However, these fallback interest rate provisions may not be appropriate or work if there is a permanent discontinuation of LIBOR. If there is a permanent discontinuation of LIBOR, or it is no longer appropriate to be used, this may create uncertainty in the value and calculation of interest payments due under the relevant Product.

While the financial services industry is developing a more permanent solution, the current expectation is that impacted

Products that refer to LIBOR will need to be amended to refer to an alternative interest rate benchmark. Where an alternative interest rate benchmark is used to replace the current LIBOR rate, this may affect you in a number of ways which may include, *inter alia*, the following:

- ◆ If the alternative interest rate benchmark for your product is a lower rate than LIBOR, an amount may need to be added to the alternative interest rate benchmark to make it similar to LIBOR. This additional amount is referred to as an "adjustment spread".
- ◆ Notwithstanding the application of the "adjustment spread" it is possible that the alternative interest rate benchmark, may result in changes to the amounts payable and receivable under the Product. These amounts might be lower or higher as a result.
- ◆ We also expect the way interest is calculated may change. This may include only being able to determine the amount of interest payable at the end of interest period.
- ◆ Your credit facility documentation may also have to be amended to refer to an alternative interest rate benchmark potentially resulting in additional legal and/or other costs.
- ◆ If you have an investment product that is linked to a credit facility, the interest rates that apply to the two products, may no longer match and could result in the products no longer being fully aligned. This may result in, for example, a cash flow mismatch, or a basis risk if you are using the investment product to hedge your obligations under the linked products, and may have a tax or accounting impact.
- ◆ Furthermore, an amount may become payable by you as a result of any mark to market determinations, restructuring or termination of any associated hedging product you have with HSBC Private Banking or any other hedging provider. The amount of such payment may be significant.

## Where can I find further information?

If you have any questions, please speak to your Relationship Manager. However, please note we are unable to provide specific advice or recommendations to you on this issue. Given the current level of uncertainty and the complexity of this issue, we strongly recommend you seek guidance from your usual professional advisors if you have any questions.

### Further information is available on our website:

[www.hsbcprivatebank.com](http://www.hsbcprivatebank.com) (Financial Regulation section)