

Information about Hang Seng Bank (China) Limited's Foreign Exchange and Metals Terms of Dealing

This notice sets out some of the key aspects of the relationship between Hang Seng Bank (China) Limited ("Hang Seng China") and its clients when dealing with Hang Seng China Global Markets in Foreign Exchange and Metals products (collectively FX&M), where Hang Seng China transacts in the market as a principal dealer. It is intended to supplement other disclosures concerning the terms and conditions of FX&M transactions with Hang Seng China, and by continuing to trade with Hang Seng China, the client does so on the basis of the information described below. This notice does not affect or reduce Hang Seng China's legal or regulatory duties to its clients.

Hang Seng China's FX&M Principal Dealing Activities and Services

Where Hang Seng China transacts in the market as a principal dealer, Hang Seng China's goal is to participate in the orderly operation of the markets, to offer consistently competitive prices and to protect and enhance its long-term sustainable relationships with clients.

Hang Seng China deals at arm's-length as principal, putting its own capital at risk, in transactions with clients. This is true when Hang Seng China is responding to a request for quote, providing indicative pricing, executing client orders, or otherwise transacting in the market.

With respect to FX&M dealing activities and services, Hang Seng China does not act as the agent or fiduciary of its clients. Accordingly, Hang Seng China does not assume any of the responsibilities that would be associated with such roles. Each client is responsible for performing their own independent assessment of any FX&M transaction prior to execution and based on its own facts and circumstances.

Potential Conflicts of Interest

The nature of the FX&M market and the role of firms such as Hang Seng China gives rise to potential conflicts of interest that cannot be completely eliminated.

As such, at any time Hang Seng China may be engaged in transactions with a large number of different counterparties (including Hang Seng China's affiliates), each of whose interests may differ. As part of Hang Seng China's management of client activity, Hang Seng China trading personnel may seek to anticipate near-term client demand, and take positions in connection with its risk management activities. In such cases, Hang Seng China's actions are intended to provide it with sufficient inventory to service its clients.

It would not be unusual for Hang Seng China to hold positions or trade in a way that may not be aligned with the objectives of an individual client. Given Hang Seng China's activities in the market are consistent with its role as a principal dealer, Hang Seng China may, for example:

- Impact the execution or price of certain transactions, such as barriers, stop loss orders or other limit orders;
- Impact the level at which benchmarks or other reference prices are set through its trading activity prior, during or after the "Calculation Window"; and/or
- Enter into transactions in proportion to the requirements of its expected and/or actual order book, taking into account the size of orders and applicable market conditions in order to effectively support its customers' proposed and/or actual activity.

There may be instances of transactions being executed or cleared on trading venues or clearing systems in which Hang Seng China may have a commercial interest or other relationship with, and which may result in financial or other benefits for Hang Seng China.

Hang Seng China has policies and procedures to manage and mitigate potential conflicts of interest. When conducting these activities, Hang Seng China seeks to avoid undue market impact to the extent consistent with its trading and risk management needs and objectives.

Client Information

In its role as a principal dealer and unless otherwise explicitly agreed, Hang Seng China may, for example:

- Use information provided by clients to inform business decisions related to mitigating and hedging against risk;
- Use or disclose information on an aggregated and non-attributable basis to inform Hang Seng China's view of the market and any related client-facing business, product or service.

Hang Seng China may share information about client activities with regulators and in accordance with any applicable law or regulation.

Hang Seng China has policies and procedures designed to protect confidential information and ensure it is not used or disclosed improperly. When handling Client Information, Hang Seng China seeks to promote effective communications that support a robust, fair, open, liquid, and appropriately transparent FX&M Market.

Pre-Hedging

Pre-Hedging is the management of the risk associated with one or more anticipated client orders, designed to benefit the client in connection with such orders and any resulting transactions¹. Where a client indicates interest in a potential transaction, provides a request for a quote or leaves an order, Hang Seng China may use that information to engage in Pre-Hedging activities by dealing as principal with a view to facilitate a potential transaction. Any such Pre-Hedging transactions could be at different prices from the price at which Hang Seng China transacts with a client, may affect the market price or liquidity, and may result in a profit or loss to Hang Seng China. Hang Seng China has policies and procedures to manage and mitigate potential conflicts of interest arising from Pre-Hedging.

Basis for Pricing and Order Execution

Hang Seng China's goal is to offer consistently fair and reasonable prices to its clients. A number of factors may be taken into account when pricing transactions, for example and in no particular order:

- The commercial return on risk Hang Seng China assumes under the transaction, accounting for matters such as Hang Seng China's risk appetite, business strategy, positions and risk management costs, and characteristics of the specific transaction;
- Infrastructure and other operational costs;
- The channel used for executing the transaction;
- Counterparty, capital and funding related costs, such as the nature and credit risk of the client, and internal credit and/or funding charges;
- Fees and costs that arise during the execution and life of the transaction, such as trading platform costs, clearing, settlement and other delivery costs, documentation and legal costs, and regulatory costs and taxes;
- Client services such as non-standard execution, sub-allocations, trade structuring, trade simulations and related information;
- Hang Seng China's relationship with the relevant client, taking into account factors specific to that client; and/or
- Any pre-agreed fees or charges (for example, some execution services entail a fee, which is agreed with the client in advance).

The relevant impact of each individual factor upon the price of a transaction will differ depending on the prevailing market conditions and specific circumstances of that transaction. The way client transactions are priced may also differ depending on whether Hang Seng China is providing quotes and indicative prices or is facilitating the execution of a client order. As a result, Hang Seng China may offer different prices to different clients for the same or substantially similar type of transaction based on factors above.

Unless otherwise agreed, orders linked to or triggered at a specific level will be considered triggered at the level agreed with the client. Any margin will be subsequently applied to the final price of the resulting transaction.

Pricing Availability

Hang Seng China takes all reasonable measures to monitor and oversee the quality and availability of our electronic platforms, however there remains a risk that pricing and execution of trade requests or orders, and availability of data may be delayed or interrupted. During this time, clients may be unable to submit, cancel or modify trade requests or orders, and as a result may be exposed to damages or losses for which Hang Seng China will not be liable.

¹ Source: FX Global Code

Execution of Client Orders

Clients can send orders to Hang Seng China using various channels, including voice or electronic means as agreed between Hang Seng China and the client. An order will only be considered to be received once Hang Seng China acknowledges that order.

When placing an order with Hang Seng China, a client offers to transact with Hang Seng China, as principal, on or near the parameters set out in the order. Subject to any express agreement to the contrary, Hang Seng China is entitled to exercise discretion in determining whether to accept that order, to fill the order in whole or in part, and whether and how to enter into transactions in the market to hedge, pre-hedge, facilitate or otherwise enable Hang Seng China to execute or fill the order, including the pricing, size, and timing of such transactions. Where Hang Seng China has trading interest from multiple sources (including from within Hang Seng China itself), Hang Seng China retains discretion on how to satisfy such competing interests, including as to order execution, fill quantity, aggregation, priority, timing and pricing.

When exercising discretion to aggregate or prioritise a client's order with orders for other counterparties or orders entered into by Hang Seng China for the purposes of risk management activities, Hang Seng China will do so on the basis it considers appropriate to meet the needs of these competing interests. It is possible this may result in a worse outcome than if the client's order had been executed sequentially or on an individual basis.

Hang Seng China is committed to protecting Client Information and is under no obligation to disclose information about trading interests of its counterparties. Where Hang Seng China chooses to make such disclosures, Hang Seng China will be truthful in its statements and will do so in line with the principles detailed in Client Information section.

Hang Seng China has policies and procedures in place to ensure orders are time-stamped appropriately. Where orders are received via email, voice or chat, relevant email record, or phone recording system or the chat system records the date and time stamp of such orders.

Quotes and Indicative Prices

Unless otherwise agreed, any firm or indicative price quoted by Hang Seng China to a client is an "all-in" price, inclusive of any margin applied to the price at which Hang Seng China may be able to transact in the market, whether the price is quoted electronically or by sales, trading or other personnel.

In relation to both electronic and voice trading with Hang Seng China, it is the client's obligation to ensure that they are satisfied with the price (indicative or firm) and other terms of any transaction with Hang Seng China prior to the transaction being executed.

At Hang Seng China, we are committed to building a sustainable business with long term client relationships. This commitment includes maintaining the highest levels of integrity and treating all our clients fairly. If you have questions about this notice, please contact your Hang Seng China representative. This notice is also available at https://www.hangseng.com.cn/1/PA_esf-ca-app-content/content/pws/others/pdfs/gm_fx_metals.pdf and may be updated from time to time. Updates will be made available on that website.

Additional information available in appendices:

Appendix: Information about Last Look in Electronic Trading

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The following outlines Hang Seng China's framework by which it determines whether or not to accept a client's request to transact when dealing electronically, a process commonly referred to as "Last Look".

Pre-Trade Controls

Prices published electronically by Hang Seng China are indicative. When a client submits a trade request it is an offer to transact, and in determining whether or not to accept that offer Hang Seng China performs a series of checks, including:

- ◆ Validity Checks: confirming the details contained within the trade request and availability of credit limits (and any other applicable risk limits) related to the particular client.
- ◆ Price Checks: where a client submits a trade request to Hang Seng China, it is possible that Hang Seng China may have refreshed its pricing independent of and prior to receiving the trade request. Where this is the case, the price checks ascertain whether or not the client's trade request is within a pre-defined price tolerance for execution.

Validity and Price Checks are carried out concurrently and failure of either will result in a trade request being rejected.

Where technologically practicable, Hang Seng China will take reasonable steps to inform clients of trade rejections and the associated reasons.

Price Checks

Where Hang Seng China has refreshed its pricing, given the electronic trading system currently is not capable for price improvements, Hang Seng China will reject the trade request if the requested price falls outside of a pre-defined tolerance.

Where Hang Seng China has not refreshed its pricing, the trade request will be accepted subject to all other Pre-Trade Control requirements being satisfied.

These controls are designed to provide Hang Seng China's clients with a similar experience to trading on a central limit order book.

Risk Management and Client Information

All Last Look checks are initiated and completed as soon as technologically practicable, after receiving a trade request and without applying any additional holding periods. Hang Seng China will only engage in risk management activities in relation to the trade request once the Validity and Price Checks are completed and the trade request has been accepted.

Where a trade request is rejected on the basis of Last Look, the Client Information obtained will not be used in Hang Seng China's pricing and risk management activities.