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HSBC CHINA AMONG FIRST BANKS TO TRADE RMB IRO IN CHINA'S INTERBANK MARKET

HSBC Bank (China) Company Limited (HSBC China) announced today that it has completed its first RMB Interest Rate Option (IRO) transaction in China's interbank market, becoming one of the first banks to participate in the trading of this new derivative on the first day of its trial operation.

The transaction, conducted by HSBC with a Chinese bank, is an interest rate floor option linked to the 1-year loan prime rate (LPR).

Ivy Zhang, Executive Vice President and Co-Head of Global Markets, HSBC China said, "With the shift of loan pricing to LPR, IRO as a new derivative will improve the risk-pricing mechanism and enable financial institutions and corporates to better manage interest rate volatility risks. Over time, we expect to see a gradual increase in the trading of IRO, which will also drive the growth of interest rate swap transactions. In the long run, the expansion of the interest rate derivatives market will accelerate China's interest rate liberalisation."

China Foreign Exchange Trade System (CFETS) announced, at the beginning of this year, to commence trial operation of IRO trading in the interbank market. Products available are swap options and cap/floor options linked to the 1-year LPR and 5-year LPR.

In addition, HSBC China has recently conducted its first over-the-counter RMB IRO linked to LPR with a large state-owned company. The deal, a floor option linked to 1-year LPR, enables the client to convert part of its fixed-rate loan exposure to a floating rate so as to benefit from the potential interest rate decline. It has helped the client optimise its RMB liabilities and reduce its financial cost.

HSBC remains at the forefront of China's financial derivatives market. It is one of the first market makers for RMB/FX trading, among the first banks approved for RMB/FX forward and RMB/FX options business, as well as one of the first banks to trade interest rate swaps under the central counter party clearing model at Shanghai Clearing House.

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Note to editors:

HSBC Bank (China) Company Limited

HSBC was one of the first foreign banks to locally incorporate its operations in mainland China, establishing HSBC Bank (China) Company Limited in April 2007. HSBC China's network currently comprises about 170 outlets across more than 50 major cities. HSBC China's head office is based in Pudong, Shanghai.

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