Securities and Exchange Commission ("SEC") announces the new ruling for 2a-7 money market funds ("MMFs")

The new ruling announced this week by the SEC relates purely to MMFs that are domiciled in the US, not to International or "offshore" MMFs in USD or other currencies, including in Europe. The SEC ruling is the first of two regulatory announcements that we expect, with the second one being proposed by the European Commission in respect of the regulation of European domiciled MMFs which we expect to be announced next year.

After four years of consultation on further reform of US 2a-7 MMFs, the SEC has announced its new ruling after a 3-2 vote in favour of the regulation by the SEC Commissioners.

We are pleased to see that the SEC has adopted some of the reforms that we have promoted, such as liquidity fees, that we believe will allow 2a-7 MMFs to treat all clients fairly during a period of market stress or stress on an individual fund.

Following the confirmation of the SEC's new ruling we will be working closely with you to discuss the implications of the new regulation that we believe are most impactful for investors in MMFs. We look forward to working with you to navigate through and prepare for the implementation of the new regulations in 2 years' time.

The new ruling announced on 23 July 2014 by the SEC for US domiciled MMFs is the first of two regulatory announcements that we expect, with the second one being in respect of the regulation of European domiciled MMFs which we expect to be announced next year.

The following are the key parts of the new rules for 2a-7 MMFs that the SEC has adopted:

Prime Institutional and Municipal 2a-7 MMFs

- Mandatory conversion to a floating NAV with the price calculated to 4 decimal places. All assets with a maturity >60 days must be marked to market daily
- 2a-7 Prime Institutional and Municipal MMFs are required to have the ability to apply a liquidity fee* and redemption gate*

Retail Exemption

- 2a-7 MMFs whose investor base is "retail" are not required to convert to a floating NAV and can continue to seek to maintain a constant NAV and use amortised cost accounting. "Retail" investors are defined using a Natural Person Definition - (may define as having a social security number (SSN) or in some other way), so the exemption wouldn't apply to pension funds for example, but defined contribution plans (e.g. 401(k), 529, HSAs, education savings accounts, etc) probably get the relief
- 2a-7 Retail MMFs are required to have the ability to apply a liquidity fee* and redemption gate*

Government and Treasury 2a-7 MMFs

- Government and Treasury 2a-7 MMFs are not required to convert to a floating NAV and can continue to seek to maintain a constant NAV and use amortised cost accounting.- Government and Treasury 2a-7 MMFs are not required to have the ability to apply a liquidity fee or redemption gate. An individual 2a-7 MMF Board may apply a liquidity fee or redemption gate if it deems appropriate

Transition Period

- A transition period of 2 years has been announced to allow 2a-7 MMF providers, suppliers and investors to prepare themselves for the new regulation

Tax Clarification

- The SEC confirmed at its open public meeting to announce the new regulation that the US Treasury and Internal Revenue Service ("IRS") would announce a new ruling for floating NAV MMFs in relation to tax reporting. The new ruling is intended to reduce the tax reporting burden on investors in floating NAV 2a-7 MMFs

Other announcements

- The SEC also announced new rulings for 2a-7 MMFs in relation to issuer diversification rules, further transparency, enhanced stress testing and a new public comment on the removal of references to Credit Rating Agencies in rule 2a-7

HSBC
Global Asset Management

* Liquidity fees

- The decision to apply a liquidity fee will be at the discretion of the Board of Directors who must consider whether imposing the liquidity fee is in the best interests of the fund
- If a MMF's level of "weekly liquid assets" falls below 30% of its total assets (the regulatory minimum), the money market fund's board would be permitted to impose a liquidity fee of up to 2% on all redemptions
- If a MMF's level of weekly liquid assets falls below 10 percent, the money market fund would be required to impose a liquidity fee of 1% on all redemptions, although the Board of Directors retain the discretion to determine whether imposing the fee is in the best interests of the fund and the appropriate level of the fee (up to a maximum of 2%)
- If a liquidity fee is applied by the Board of Directors it can be lifted if the level of one week liquidity in the MMF returns to 30% or greater
- If the weekly liquidity "triggers" are met and the Board of Directors decides not to apply a liquidity fee or redemption gate it must report its decision

* Redemption gates

- The decision to apply a redemption gate will be at the discretion of the Board of Directors
- The Board of Directors must decide whether to apply a redemption gate if the weekly liquidity asset level drops below 30%
- If a redemption gate is applied by the Board of Directors it can remain in place for a maximum of 10 business days in any 90 day period
- If the weekly liquidity "trigger" is met and the Board of Directors decides not to apply a liquidity fee or redemption gate it must report its decision

Jonathan Curry
Global Chief Investment Officer
HSBC Global Asset Management

Contact

Take the next step

To learn more about how HSBC can help you better manage liquidity in today's evolving global economy, please contact your usual HSBC client services team.

For more information, please contact us:

Asia
T: +852 2284 1376
E: liquidity.asia@hsbc.com

Americas
T: +1 (1) 212 525 5750
E: global.liquidity@us.hsbc.com

UK and EMEA
T: +44 (0) 20 7991 7577
E: liquidity.services@hsbc.com

France
T: +33 1 58 13 15 26
E: liquidity.client-service@hsbc.fr

Germany
T: +49 (0)211 9104784
E: investorservices@hsbc.de

For more information on our capabilities go to **www.globalliquidity.hsbc.com**

Important Information

For Professional Clients and intermediaries within the countries set out below and for Professional Investors in Canada and Institutional Investors in the USA and Singapore. This document should not be distributed to or relied upon by Retail clients/ investors.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Global Asset Management at the time of preparation, and are subject to change at any time.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. **Before subscription into money market funds, investors and potential investors should consider the investment objectives, charges, expenses and note the general risk factors contained in the fund prospectus. Mutual fund investments are subject to market risks, read all scheme related documents carefully.**

We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified.

HSBC Global Asset Management is the brand name for the asset management business of HSBC Group. The above communication is distributed by the following entities: **in Argentina** by HSBC Bank Argentina S.A.; **in Brazil** by HSBC Bank Brasil S.A.; **in Bermuda** by HSBC Global Asset Management (Bermuda) Limited, of 6 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority; **in Canada** by HSBC Global Asset Management (Canada) Limited which is registered in all provinces of Canada except Prince Edward Island and also provides services in the Northwest Territories; **in Colombia** by HSBC Fiduciaria S.A.; Investments in fund shares do not constitute deposits in HSBC Bank Argentina SA. Thus, according to the Argentinean law for financial institutions, they are not covered by any of the guarantees that such deposits, sight or term, might enjoy according to the appropriate legislation and regulation. Likewise, HSBC Bank Argentina S.A. is not allowed, by BCRA regulations, to assume tacit or expressly, any commitment of maintaining at any moment the value of the invested capital, the yield, the value of the shares at redemption or granting liquidity for such end. Law 25,738 (1st art.); HSBC Bank Argentina S.A., is a corporation constituted under the Argentinean republic' law. Its operations are independent from the other companies of the HSBC group. Shareholders limit their responsibility to their subscribed capital; **in France** by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026); **in Germany** by HSBC Global Asset Management (Deutschland) which is regulated by BaFin; **in Hong Kong** by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission; **In India** by HSBC Asset Management (India) Private Ltd. which is regulated by the Securities and Exchange Board of India; **In MENA** by HSBC Global Asset Management MENA. HSBC Global Asset Management MENA is a unit that is part of HSBC Bank Middle East Limited, PO Box 502601, Dubai, UAE, which is incorporated and regulated by the Jersey Financial Services Commission. Services are subject to the Bank's terms and conditions. HSBC Bank Middle East Limited is a member of the HSBC Group. This material is distributed by the following entities. In the, United Arab Emirates, Qatar, Bahrain, Kuwait & Lebanon by HSBC Bank Middle East Limited which is regulated by Jersey Financial Services Commission, In Oman by HSBC Bank Oman S.A.O.G regulated by Central Bank of Oman and Capital Markets Authority of Oman; **in Singapore** by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore. HSBC Global Asset Management (Singapore) Limited, or its ultimate and intermediate holding companies, subsidiaries, affiliates, clients, directors and/or staff may, at anytime, have a position in the markets referred herein, and may buy or sell securities, currencies, or any other financial instruments in such markets. HSBC Global Asset Management (Singapore) Limited is a Capital Market Services Licence Holder for Fund Management. HSBC Global Asset Management (Singapore) Limited is also an Exempt Financial Adviser and has been granted specific exemption under Regulation 36 of the Financial Advisers Regulation from complying with Sections 25 to 29, 32, 34 and 36 of the Financial Advisers Act); **in Switzerland** by HSBC Global Asset Management (Switzerland) Ltd; **in the UK** by HSBC Global Asset Management (UK) Limited, who are authorised and regulated by the Financial Conduct Authority; **and in the United States** by HSBC Global Asset Management (USA) which is regulated by the Securities and Exchange Commission;

Investment Products:

- ARE NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES
- ARE NOT FDIC INSURED
- ARE NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- ARE NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES
- MAY LOSE VALUE

25799/0714ex291014/FP14-1155