HSBC

RISK DISCLOSURE STATEMENT FOR VIRTUAL ASSET-RELATED PRODUCTS

If you wish to trade virtual asset ("**VA**") related products, you should carefully read and understand the nature, terms and risk of the relevant products. VA-related products are products that have a principal investment objective or strategy to invest in VAs, derive their value principally from the value and characteristics of VAs or track or replicate the investment results or returns which closely match or correspond to VAs ("**VA-related Products**"). VA-related Products are complex products due to the terms, features, and characteristics of the product and may not be suitable for all investors. You should ensure they understand the risks specific to an individual VA-related Product and exercise caution before entering into any transactions in VA-related Products.

Please note that this Risk Disclosure Statement explains some principal risks but is not an exhaustive list of all possible risks. Before entering into a transaction, you should therefore be satisfied that you fully understand the precise nature of the transaction, how it works, the extent of your exposure to risks and the potential losses that you could incur. You should also read the relevant product specific terms and the terms set out in the Terms of Business of HSBC Broking Securities (Asia) Limited (**"HSBC Broking Securities"**) and product specific offering documents. This Risk Disclosure Statement also does not deal with issues of taxation or other legal consequences pertaining to any transactions which you enter into.

You should carefully consider whether any proposed transaction relating to VA-related Products is suitable for you in the light of your financial resources, experience, objectives for engaging in the transaction, ability to bear risks and other relevant circumstances. You should consult professional advisers (including legal, tax, financial and accounting) as may be appropriate. By entering into any transaction, you agree that you assume all the risk of your transactions and that we will not be responsible for any losses you may suffer.

RISKS RELATED TO THE UNDERLYING VA

By investing in VA-related products you will be indirectly exposed to the risks related to the underlying VA.

- **New asset class risk**
  VA is a relatively new innovation developed based on emerging technology and is part of a rapidly changing industry. VA and the VA industry are therefore subject to substantial speculative interest, rapid price swings and uncertainty. In addition, VA operates without central authority (such as a bank) and is generally not backed by government. The slowing, stopping or reversing of the development or acceptance of a particular VA may adversely affect the VA's price.

- **Risk relating to the nature and uncertainties over the legal characteristics of VAs**
  VA is generally regarded as a virtual commodity and does not constitute legal tender in many jurisdictions including Hong Kong. VAs are not guaranteed or backed by the government, any issuing institution or any physical assets and have no intrinsic value. VAs may not confer the same level of legal rights and ownership rights as conferred through ownership of a traditional asset, and there exists legal uncertainty on whether VAs can be regarded as "property" under Hong Kong law or in the laws of overseas jurisdictions. This may have in impact on claims over ownership of VAs, for example, on whether VAs vest on bankruptcy or insolvency, can be held on trust, or devolve by will.

- **Risks relating to difficulty in verifying the ownership of VAs**
  Ownership of VAs is reflected on a distributed ledger, which is accessible by both a public key and a private key. If a custodian or owner loses their private key, they irreversibly lose access to the VA and a means of proving their ownership of the VA. Owners of VA may also face difficulty in claiming their holdings if the VA custodian and/or manager go bankrupt.

- **Risks relating to the continuing evolution of VAs**
  The polymorphous and evolving features of VAs mean that they may be, or claim to be, a means of payment, may confer a right to present or future earnings or enable a token holder to access a product or service, or a combination of any of these functions. Although VAs are becoming more popular in some parts of the world, the global regulatory landscape remains uneven. There may be inconsistent and inadequate regulation or other legal, trade, fiscal, monetary and exchange control programs and political changes that may negatively impact the value of VAs.

- **Risk of high price volatility**
  VA prices are extremely volatile and affected by numerous events or factors that are unforeseeable and potentially difficult to evaluate. They include changes in overall market sentiment, changes in acceptance of the VA, regulatory changes, security failures of the underlying network or related trading platforms, fraud, market manipulation, contagious effect from collapses of major players in the VA market and other further development of the underlying network. Compared to traditional securities, a VA may be held by a small number of holders and may be subject to price manipulation.

- **Liquidity risk**
  VA prices on the secondary market are driven by supply and demand and are short-term and volatile by nature. The volatility faced by investors may be further magnified where liquidity pools for VAs are small and fragmented. This means that investors may not always be able to liquidate a position.

- **Market risk**
  VA trading venues are relatively new and, in most cases, largely unregulated. They are typically not subject to the same robust regulation as trading platforms in traditional financial markets, and are not typically required to protect customers to the same extent that regulated securities exchanges or futures exchanges are required. VA trading platforms may therefore be more exposed to theft, fraud, failure, security breaches, market manipulation and insider dealing, compared to established, regulated exchanges for securities, derivatives and other currencies. In particular, some VA trading venues have collapsed or closed due to the above issues. As a result, the prices of VA may be subject to larger and/or more frequent sudden decline than assets traded on more traditional exchanges.

- **Regulatory risk**
  Regulations on VA are still developing and increasing. Regulatory changes or actions may materially alter the nature of an investment in a VA, restrict the use and exchange of the VA, or restrict the operations of the blockchain network or venues on which the VA trades, in a manner that adversely affects the value of the VA. Market disruptions and the resulting governmental interventions are unpredictable, and may make a certain VA illegal.

- **Risk of conflict of interest**
  VA trading platform operators may act as agent for clients as well as principal. They may facilitate the initial distribution of VAs (eg initial coin offerings), and facilitate secondary market trading, or both, as in a traditional exchange, alternative trading system, or securities broker. If these operators are not under the purview of any regulator, it would be difficult to detect, monitor and manage conflicts of interest.

- **Money-laundering risk**
  VAs are generally transacted or held on an anonymous basis. In particular, VA trading platforms which allow conversions between VAs and fiat currencies are inherently susceptible to higher risks of money laundering and terrorist financing. VA investments may be the subject of law enforcement action as a result of criminal activities and investors may not be able to recover any of their investments as a result.

- **Accounting and auditing risk**
  There are currently no agreed standards and practices for how an auditor can perform assurance procedures to obtain sufficient audit evidence for the existence and ownership of VAs, and ascertain the reasonableness of the valuations of VAs.

- **Risk of fraud**
  VAs may be used as a means to defraud investors. VA trading platform operators may not have conducted sufficient product due diligence before allowing a VA to be traded on their platforms, or investing in a VA for their portfolios. As a result, investors may become victims of fraud and may lose all or a part of their investments.

- **Risks relating to custody of assets**
  VA trading platform operators and portfolio managers may store clients' assets in hot wallets (ie online environments which provide an interface with the internet). These can be prone to hacking. Cyber-attacks resulting in the hacking of VA trading platforms and theft of VAs are common. The holders of the VA may not recover any of their VAs, and may have difficulty recovering losses from hackers or trading platform operators. Moreover, we do not provide custody services for VAs. Consequently, if you obtain a right to receive VAs in connection with a VA-related product, you will need to make alternative arrangements for custody of those VAs.

- **Risk of blockchain collapse**
  There is an additional risk that VAs may be lost if a blockchain network collapses, or VA issuers and/or managers go bankrupt or if the bubble bursts. In such cases, the underlying VA you invest in could lose most or all of its value.

HACKING AND TECHNOLOGY-RELATED RISKS

- **Cybersecurity risks**
  VA is vulnerable to cybersecurity attack. Cybersecurity risks relating to a VA's underlying network and entities that custody or facilitate the trading of the VA may result in a loss of public confidence in the VA and a decline in the value of the VA. In particular, malicious actors may exploit flaws in the VA's underlying network (eg phishing, social engineering, hacking, smurfing, malware attacks) to, among other things, steal VA held by others, control the network or issue significant amounts of the VA in contravention of the network protocols. VA may also be vulnerable to exploitation or manipulation of vulnerabilities of the underlying technology, as well as to human error. The occurrence of any of these events is likely to have a significant adverse impact on the value and liquidity of the VA.

- **Risks relating to changes in VA software**
  As a result of the decentralised and open-source nature of VAs and its underlying technology, it is possible that sudden, unexpected changes ("**Forks**") can be made to any VA that may change the usability, functions, compatibility, value or even name of a given VA. Forks may result in multiple versions of a VA, which could lead to the dominance of one or more versions of such VA, and the partial or total abandonment or loss of value of any other versions of such VA.

- **Risks relating to Forks**
  A "hard" Fork of a VA network may occur if VA developers suggest changes to a particular VA's software and the updated software is not compatible with the original software and a sufficient number (but not necessarily a majority) of users and miners elect not to migrate to the updated software. This would result in the existence of two versions of VA network running in parallel and a split of the blockchain underlying the VA network with one prong running the earlier version of the software and the other running the updated software. This could impact demand for the VA and adversely impact the VA's prices.

- **Air drop risk**
  VA developers may send out free VAs to holders of a VA as part of a marketing initiative ("**Air Drop**"). A substantial giveaway of VAs to a VA network may result in significant and unexpected decline in the value of the VA.

- **Risk relating to unavailability of blockchain networks**
  Blockchain networks may also go offline as a result of bugs, Forks, or other unforeseeable circumstances. Further, unlike securities prices of traditional exchanges, the prices of VAs change continuously throughout the day. Outages are not uncommon, and investors may not be able to execute a trade on VAs or liquidate a position when the market price of VAs continues to change.

- **Risks relating to pricing difference and time of execution**
  As the market price of VAs continues to change, there is a risk that instructions in relation to VA-related Products are not executed at the market price at the time an instruction was provided. As a result, the instruction in relation to a VA-related Product may not be executed at the desired price and loss may be suffered.

- **Risk of internet or other technology failure**
  Trading in VA is reliant on the use of the internet and other technologies (including distributed ledger technology), which exposes investors to risks associated with use of the internet or system and technological component disruption or failure, including but not limited to internet connectivity issues, bandwidth issues, and hardware failures. This can result in possible delays or failures in executing instructions in relation to VA-related Products, incorrect execution of instructions and other issues. In the event of any disruption or failure, it is possible that for a certain period of time, investors are unable to carry out any transactions for VA-related Products.

- **Evolving technology risk**
  As cryptographic technologies continue to evolve, there is a risk that VAs are exposed to additional or unforeseen technology-related risks.

GENERAL RISKS RELATED TO VA-RELATED PRODUCTS

- **Price volatility**
  The valuation of VAs and VA-related Products is usually not transparent, and highly speculative. VA-related Products are highly speculative products and their prices can fluctuate greatly within a short period of time.

- **Risks of loss in value of VA or VA-related Products**
  VAs and VA-related Products could be rendered worthless and investors may stand to lose all of their investments. In some cases where VA-related Products have margin or leverage features or characteristics, investors may lose more than the principal amount of their investment.

- **Risk of potential price manipulation**
  Spot markets for VAs and VA trading, lending or other dealing platforms are largely unregulated at present. Some VA may be held by a small number of holders. They are more likely to present investor protection issues, ranging from a lack of pricing transparency to potential market manipulation.

- **Risks relating to the lack of secondary market risk**
  Even if VAs or VA-related Products are tradable in a secondary market, there may not be enough active buyers and sellers, and they may not be widely accepted for transactional purposes. Investors may not be able to liquidate their investments easily. In certain circumstances, investors may not be able to liquidate or utilise their VA or VA-related Products at all.

- **Risk that transactions relating to VA are irreversible**
  VA transactions are irrevocable, and lost or stolen VA may be irretrievable. In the worst-case scenario, investors may suffer a total loss of the principal amount of their investment.

- **Risk that service providers of VAs are unregulated**
  Service providers for VAs and VA-related Products, including custodians, fund administrators, VA trading, lending or dealing platform operators and index providers are private companies which may be unregulated or only subject to light-touch regulation (eg for payment purposes). As such, they may not be subject to the same robust regulation and transparent rules as service providers or products in traditional financial markets, posing additional counterparty risks for VA-related Products, and may be exposed to market manipulative and abusive activities. In particular, the offering documents or product information relating to VA-related Products provided by the relevant issuer may not be subject to regulatory approval. Legal and regulatory changes beyond the control of the VA service providers may restrict or otherwise impact the trade of VAs.

- **Risk of legal and regulatory uncertainty**
  Laws and regulations of VAs and VA-related Products are unsettled and rapidly changing, which may adversely affect the value of VA and VA-related Products. Further, VA and VA-related Products may be considered as “securities” as defined under the Hong Kong Securities and Futures Ordinance (Cap. 571) or equivalent laws in overseas jurisdictions. Investors should exercise caution when trading VAs and/or VA-related Products. Further, VAs may or may not be considered “property” under applicable law in Hong Kong or in overseas jurisdictions, which may affect the nature and enforceability of the interest of investors in such VAs.

- **Counterparty risk**
  Transactions of VA-related products involve various parties and service providers (eg issuers, private buyers and sellers, VA trading, lending or other dealing platforms) and investors will be exposed to counterparty risk. There is a risk that these counterparties may become insolvent.

- **Risk of assets received or held outside of Hong Kong**
  VAs or VA-related Products may be received or held by entities outside Hong Kong, who may or may not be licensed or registered in accordance with the applicable laws and regulations of the relevant overseas jurisdictions. Consequently, such assets may not enjoy the same protection as that conferred on client assets received or held in Hong Kong.

- **Tax risks**
  Transactions involving VA or VA-related Products may be subject to tax laws and regulations in an applicable jurisdiction. There are no agreed standards for the tax treatment of VAs and/or VA-related Products and the standards and treatment may vary in different jurisdictions. Investors should seek independent professional advice.

- **Cross-border risks**
  Transactions involving VAs or VA-related Products are cross-border in nature and may not be confined to one jurisdiction. It could be difficult to verify the authenticity and trace service providers of VA or VA-related Products. It is often unclear in such cases under which law the investors can seek redress in case of fraud, default or bankruptcy. Investors may have difficulty enforcing their rights and interests if anything goes wrong. A local regulatory authority will not be able to compel the enforcement of the rules of regulatory authorities or markets in other jurisdictions where the transactions have been effected.

- **Conversion risk**
  Where VA-related Product transactions are denominated in particular VA or fiat currencies other than the primary reference asset, or where VAs are converted upon carrying out a VA-related Product transaction, there is a risk that if the exchange markets move against the transaction, then upon maturity or any earlier dealing the net proceeds may be significantly less than the initial amount in the primary reference asset and any income or gains may be entirely negated*.*

- **Risks relating to the lack of statutory protection**
  VAs and VA-related Products may not be covered by any statutory investor compensation, customer asset protection, deposit protection schemes or other similar schemes.

- **Unknown risks**
  VAs and VA-related Products are a relatively new asset class with limited history. As such, there may be additional risks relating to VAs and VA-related products which have not been identified. For example, as VAs and VA-related Products continue to evolve, you may be able to invest in new types of VA-related Products which may give rise to new risks. You and other market participants may also be engaging in more complex transaction strategies as VAs and VA-related Products continue to evolve. As a result, you may be exposed to new and/or increased risks.

- **Risks relating to selling restrictions**
  Certain VA-related Products which are considered to be complex products may not be available to all investors as they may be subject to selling restrictions.

- **Risk relating to dealing with unregulated products**
  VA-related Products offered in overseas markets may not be authorized by the Hong Kong Securities and Futures Commission ("**SFC**"), which means that they may not be subject to the regulation of the SFC; their structures, operations and offering documents may not be governed by any rules or regulations in Hong Kong. Further, for VA-related Products described as having been authorized by the SFC, investors should note that SFC authorization is not a recommendation or endorsement of a product nor does it guarantee the commercial merits of a product or its performance.

RISKS SPECIFIC TO VA FUTURES ETFs

- **Nature of VA futures ETFs**
  A VA futures ETF is a derivative product and may not be suitable for all investors. Before investing, investors should understand its nature and risks, such as extremely high price volatility of VA futures and the value of the VA futures may decline significantly, including to zero. All the risks relating to the underlying VA described above may be magnified as trading in VA futures is inherently risky - the underlying VAs are speculative in nature and leverage is used in futures trading.

- **New product and investment risk**
  VA futures are relatively new investments with limited history. Further, VA futures ETFs are not principal guaranteed and there is no assurance that they will achieve their investment objectives.

- **Pricing difference**
  The performance of a VA futures ETF can significantly deviate from that of the VA's spot price, because the VA futures ETF invests in a derivative of the VA, ie VA futures, but not in the VA directly. It is difficult to value VA futures contracts.

- **Extraordinary price movements**
  Historically, bitcoin and other VAs have experienced extreme price volatility and are highly risky. Even when they are combined with ETFs, this nature will not change. Since VA futures ETFs provide the performance of the underlying VA futures, the significant price fluctuations or total loss of value of the underlying VA futures may have an adverse impact on the price of the relevant ETFs.

- **Liquidity risk**
  Investors may be exposed to periods of illiquidity as the VA futures market is still developing and may be more volatile than futures markets that are more established. The large size of the positions which the VA futures ETF may acquire increases the risk of illiquidity, may make its positions more difficult to liquidate, and increase the losses incurred while trying to do so. The rolling strategy of the VA futures ETF and the ability of the ETF in diversifying its futures position may also be adversely affected.

- **Risk of loss**
  The risk of loss is substantial. Under exceptional market circumstances, the price of VA and hence the price of VA futures may drop to zero in a short period of time. An investor should be prepared to lose the full principal value of their investment in VA futures ETFs within a single day. Investors may sustain losses greater than their principal investment as a result.

- **Leverage risk**
  Leverage is used in futures trading. As a result, a relatively small price movement in a VA futures may result in a proportionally high impact and substantial losses to a VA futures ETF, which may negatively impact the value of the VA futures ETF. This may result in losses in excess of the amount invested.

- **Volatility of single asset or single futures contract**
  Unlike conventional ETFs that track equity indices which are typically diversified, VA futures ETFs are subject to the price volatility of the single underlying VA only. Such volatility may be extremely high and substantially higher than the volatility experienced by equity indices or a commodity index which is made up of multiple types of commodities. For VA futures ETFs which only hold a single futures contract, investors will be exposed to high concentration risk.

- **High asset concentration risk**
  Investors are exposed to high concentration risk in a single reference asset (eg bitcoin or ether) and/or a single futures contract. Investors with substantial investments in VA futures ETFs may be exposed to higher concentration risks.

- **Risk of rolling futures contracts**
  Given that a futures-based ETF needs to "rollover" the futures contract to maintain the exposure to the VA (ie selling existing futures contracts that are about to expire and replacing them with a futures contract that will expire at a later date) a loss may occur (ie a roll cost or a negative roll yield). If the prices of the contracts that will expire at a later date are higher than the expiring contracts, also commonly known as a "contango" market, the proceeds from selling the expiring contracts will not be sufficient to buy the same number of contracts that will expire at a later date. As such a loss may occur, which would negatively impact the value of the VA futures ETF. Certain VA futures ETFs adopt active investment strategies, allowing ETF managers more flexibility in managing the roll cost, for example, via adjusting the portfolio compositions and timing of the rollover. Investors should carefully study the investment strategy of an ETF. Subsequently, if the futures market is in "contango", a negative roll yield may be realised over time and reflected in the net asset value of the VA futures ETF when (i) the ETF repeatedly buys the longer-term contracts at a price higher than the selling price of the near-term contracts and (ii) the price of the futures contracts moves down over time to converge to the spot price.

- **Long-term holding risk**
  Investors should read the offering documents carefully and fully understand its features, exposure, operation and risks before adopting a buy-and-hold strategy. Investors should also have a clear understanding of how VA futures contracts work and the rollover mechanism involved as it may adversely affect the value and performance of the VA futures ETF.

- **Operational risk**
  Mandatory measures may be imposed by other parties without advance notice (eg brokers, participating dealers or futures exchanges) due to extreme market conditions, including limiting the size and number of ETF futures positions and/or mandatory liquidation. The corresponding actions taken by the ETF manager may have an adverse impact on the operation, secondary market trading, and the net asset value of the VA futures ETF.

- **Margin risk**
  If the market moves against the futures position, the VA futures ETF may be required to pay additional margins to maintain the trading positions on short notice. A VA futures ETF may need to liquidate its assets at unfavourable prices in order to meet these margin calls and suffer substantial losses.

- **Position limit risk**
  There is a statutory position limit restricting the holding of bitcoin or ether futures contracts traded on the Chicago Mercantile Exchange to no more than a specific number of such futures contracts. If the holding of such futures contracts of a VA futures ETF grows to the limit, this may prevent the creation of units of the ETF due to the inability to acquire further futures contracts. This may lead to differences between the trading price and the net asset value of the VA futures ETF units listed on the Stock Exchange of Hong Kong Limited.

- **Price limit risk**
  There may be dynamic price fluctuations limits set on VA futures. Once the price fluctuation limits have been reached, trading may be temporarily halted or no trades may be made at a price beyond that limit. This may limit the ability of a VA futures ETF to invest in VA futures.

RISKS SPECIFIC TO VA FUTURES INVERSE PRODUCTS

- **Nature of inverse products**
  VA futures inverse products are derivative products and may not be suitable for all investors. Before investing, investors should understand their nature and risks. In particular, inverse products aim to deliver the opposite of the daily return of the underlying index. The inverse product goes down when the underlying index moves upwards, and the inverse product goes up when the underlying index moves downwards.

- **Long-term holding risks**
  Inverse products are not intended for holding longer than the rebalancing interval, typically, one day, as their return over a longer period may deviate from and may be the opposite of the return of the underlying index over the period.

- **Unconventional return pattern risk**
  If the value of the underlying index increases for extended periods, or where the exchange rate of the underlying index denominated in a currency other than the inverse product's base currency rises for an extended period, inverse products can lose most or all of their value.

- **Increased volatility risks**
  Prices of inverse products may be more volatile than conventional ETFs because of using leverage and the rebalancing activities. Daily rebalancing and the compounding effect will make the inverse product's performance over a period longer than one day deviate in amount and possibly direction from the inverse performance of the underlying index over the same period. The deviation becomes more pronounced in a volatile market. As a result of daily rebalancing, the underlying index's volatility and the effects of compounding of each day's return over time, it is possible that the inverse product will lose money over time while the underlying index decreases or is flat.

- **VA futures price volatility risks**
  Given the extreme price volatility of VA futures, the value of VA futures inverse products may decline significantly in one day and the product may encounter challenges in rebalancing its futures holdings at day-end. Therefore, its daily tracking difference may be higher than those of leveraged and inverse products with conventional underlying assets.

- **Rebalancing activity risks**
  There is no assurance that inverse products can rebalance their portfolios on a daily basis to achieve their investment objectives. Market disruption, regulatory restrictions or extreme market volatility may adversely affect the inverse product's ability to rebalance its portfolio.

- **Intraday investment risks**
  The leverage factor of inverse products may change during a trading day when the market moves but it will not be rebalanced until day end. The inverse product's return during a trading day may be greater or less than the leveraged/opposite return of the underlying index.

- **Tracking error risks**
  The inverse product may be subject to tracking error risk, which means that its performance may not track that of the inverse daily performance of the index exactly. Tracking errors may result from the investment strategy used, liquidity of the market and fees and expenses as well as costs of using financial derivatives and the correlation between the performance of the inverse product and the inverse daily performance of the index may be reduced.

- **Risk of rolling futures contracts**
  VA futures inverse products may “rollover” futures contracts to achieve their investment objective by covering the current short positions in existing expiring future contracts and shorting the longer-term futures contracts. If the futures market is in backwardation (ie the price of near-term contracts is higher than the price of longer-term contracts), a negative roll yield may be realized over time and reflected in the net asset value of the VA futures inverse product when the VA futures inverse product repeatedly covers the short positions in the near-term contracts at a price higher than the price of the longer-term contracts. As such, the net asset value of the VA futures inverse product may be adversely affected.

For more information on VA-related products, investors should refer to the offering documents of the specific products.

In the event of conflict or inconsistency between the English and Chinese versions of this document, the English language version of this document shall prevail for all purposes.