The forensic lens

Share-based payments: Perspective on the impenetrable

Free to View
ESG - Global

- Share-based payments: a complicated accounting area, but it cannot be ignored as it is often material to company analysis
- We demystify the accounting and explore how investors might consider such transactions
- We pose 10 questions that investors could use to identify potential governance issues that might arise

Dylan Whitfield*, FCA
Head of Forensic Accounting
HSBC Bank plc

** Employed by a non-US affiliate of HSBC Securities (USA) Inc, and is not registered/ qualified pursuant to FINRA regulations*

The forensic lens – our regular digest looking at accounting issues and news from a forensic accountant's perspective

A material and complicated area

Share-based payments are amongst the most technical areas of accounting outside of transactions involving financial instruments. However, their use is relatively common and their impact is often material. For example, we found that, for the combined FTSE 350 and Euro Stoxx 600 (most recently reported year end):

- 46% had share-based compensation expenses in the latest reported year; and
- of those, 24% accounted for 5% or more of the reported EBIT.

Companies may invite you to ignore, but often that is the wrong answer

We also note that for various, often tenuous, reasons, companies remove share-based payments when calculating non-GAAP measures such as "adjusted earnings". We agree with the oft-quoted sentiment of Warren Buffett that "*If [share-based payments] aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?"*

We have set out the basics of the accounting in order to demystify the subject and provide sufficient context to explore how one can think about these transactions when:

- analysing a company's current and forecast earnings;
- determining a share count and dilution (when considering any 'per share' metrics); and
- governance and shareholder controls (in which we set out 10 questions for investors to consider).

Ultimately we think that with some common sense analysis and some straightforward questions, one can garner potentially valuable insights into the governance and valuation of a company which may be worth the effort of unpicking the transactions.

This is an abridged version of a report by the same title published on 29-Mar-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

For reference

Definitions

Share-based payments: settling of an expense for goods and services with shares (or other instruments) or with reference to a share price

Dates related to share options: *GRANT* date = when options are awarded; *VESTING date(s)* = when a granted option begins to become available; *EXERCISE date* = when an option is purchased by a recipient

Accounting: Depends upon the nature of the share-based payment...

Ten questions that investors may wish to consider

1. What are the nature of the share-based payments, and what grant and vesting conditions exist? Who determines those metrics?
2. Have there been any changes to any assumptions within share-based payment related balances in the year (or recent years)?
3. To what extent is the recipient able to influence the achievement of any non-market metric (e.g. "adjusted earnings") for granting or vesting?
4. If non-market metrics are achieved, how close was the company to those metrics (companies that hit the target every year, particularly by small margins, should be considered carefully)?
5. For market related measures (e.g. TSR or share price), are there any indications that there have been deliberate changes in order to meet metrics (e.g. changing the peer group of stocks or using share buy backs to increase the share price)?
6. If management are adjusting out share-based payments from adjusted earnings, what rationale do they provide?
7. Where share options exist, are there any potential circumstances (particularly outside the influence of the company) that could give rise to unexpected and "bumper" payments?
8. Are share-based payments in standard shares or are there any special conditions or privileges associated with those shares that might disproportionately dilute shareholder voting rights? If so does that increase the risk related to the investment decision?
9. Do the share-based payments represent value for money, considering whether the company gets better terms if the transaction was undertaken in cash and/or the deferred nature of the payment?
10. Is the company using share-based payments as it is cash poor or earnings poor (particularly if adjusting back the share-based payments in non-GAAP metrics)? If so, is their use a potential warning sign that a company's finances are under pressure?

Other forensic lens reports

Related Parties: run-of-the-mill or run away?

Related party transactions have played a part in many accounting scandals over the years. Consequently, they often provoke negative reactions from investors, some of whom consider them and instant "red flag". However, we think that, in an ever-increasingly inter-connected world, related party relationships and transactions should be understood first, before rapidly jumping to a negative conclusion. In this report we explore, how related party relationships are defined and what the disclosure and transactions might tell investors about the governance and structure of a company.

Is an expense ever not an expense?

- Share-based payments: Complicated? Yes. Imprecise, and based upon estimation, and subjective judgement? Yes. Just adjust out? We think not.
- Understanding enough of the accounting is vital to appropriately analyse the impact of such transactions and crucial if one is to identify potential valuable information that others may have missed
- We set out our forensic approach for identifying governance insights and risks from the accounting choices made

Perspective on the impenetrable

Complexity is high, amounts can be material and will impact any analysis undertaken

A complex subject, but potentially material to investment decisions
The accounting for share-based payments (i.e. settling of expense for goods and services with shares[1] or with reference to a share price) is undoubtedly complex.

It is, unfortunately, complicated still further by the multitude of variations in the contractual arrangements that companies use to issue them. Consequently, most large accounting firms have written extensive guides on the subject, some of which are voluminous (for example, KPMG's *Share-based payments IFRS 2 handbook* runs to 391 pages).

Although helpful (albeit rather impenetrable), these guides often focus on the impact to corporates preparing the disclosure rather than investors and other users of financial information.

However, the issue cannot be simply ignored as, share-based payments can have a substantive impact on an investment analysis as they can:

- be material components of a company's net earnings (and therefore a material adjustment if excluded from non-GAAP measures);
- potentially have a dilutive effect on shareholders' equity;
- add significant complexity and inconsistency to investment analysis;
- potentially provide an insight into corporate governance.

One doesn't need a granular understanding of IFRS 2

Keeping it simple in order focus on key areas of interest to investors and other users of the financial information
Readers will be relieved to learn that we have not sought to replicate the technical accounting discussion papers in this report. Instead we have simplified the concepts to contextualise the

1 or other instruments

issues we have considered from a forensic accountant's perspective which we think will be relevant to investors without getting into the granular detail of the standards.

Our forensic accountant's approach

We have considered:

- a historical but still relevant view of exclusion of share-based payments;
- how share-based payments are defined;
- the accounting of commonly used share-based payments;
- how widely share-based payments are used;
- how to consider share-based payments in relation to:
  - current and forecast earnings;
  - share count and dilution; and
  - governance and shareholder control (in which we set out 10 questions for investors to consider).

If you don't like the accounting, just adjust it out…

What are they if not an expense?

> **"The most egregious case of let's-not-face-up-to-reality behaviour by executives and accountants has occurred in the world of stock options."**
> **Warren Buffett (in 1992)**[2]

In 1992, when Warren Buffett made the statement above, common accounting practice in relation to share-based payments was more straightforward, but arguably ignored substantial portions of the expense. In simple terms, if a company settled **any expense** by issuing just shares then often no expense would be recognised against earnings.

Mr Buffett (and indeed others) argued that any expense settled in shares remained a real expense to a company (albeit with a degree of accounting estimation included) and that these amounts should be charged to the income statement. Mr Buffett continued his point, (which he was making in relation to employee share options) that:

> **"If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world should they go?"**
>
> **Warren Buffett (in 1992)**

2 Letter to Berkshire Hathaway shareholders (1992)

Accounting standards have moved on but companies still direct us to ignore

Accounting standards have changed so is this quote still relevant?

We think that it is.

Accounting standards have moved on since the 1990s, and IFRS 2 *Share-based payments* sets out a range of requirements for recognition of share-based payments, including an attempt to match expense recognition in line with when the obligation is incurred where appropriate.

What about US GAAP?

The treatment under US GAAP, is similar to IFRS, however, there are more choice and variations of treatment available under US GAAP. Therefore, if comparing companies reporting under different accounting regimes one must be particularly cautious if share-based payments are material. For the sake of simplicity, this report will not consider the accounting under US GAAP.

So what's the problem if these expenses are now accounted for?

Unfortunately, it is relatively common for companies to exclude any share-based payment charges in their "adjusted" earnings (or other similar non-GAAP metrics), dismissing these expenses as 'merely accounting'.

However, logically such payments (which are often related to employee reward) are granted with an expectation that there will be at least some possibility of outflow of value towards the party to which the share-based payments are directed. Otherwise why would the receiving party accept the grant as a means of payment?

Therefore, we agree with the sentiment that share-based payments should not be ignored. Dealing with them is, however, sometimes a challenge.

Just because something is complicated and based on estimation should not exclude it from earnings

The accounting is not straightforward, but that is an insufficient reason to exclude

As we will discuss later, the accounting is complicated, and often requires a significant level of subjective estimation and judgement, for example, when estimating levels of vesting and valuation.

> **"It is therefore inconsistent (at best) to assert that share-based payments charges should be excluded merely because they cannot be estimated with precision.**

However, accounting is not an exact science, and is full of assumption and estimation for example:

- the useful economic life of assets;
- valuation of inventory and work-in-progress;
- level of provisions for credit losses (i.e. bad debts), etc etc.

It is therefore inconsistent (at best) to assert that share-based payments charges should be excluded merely because they cannot be estimated with precision. For example, it is often not possible to be absolutely certain about valuation of accrued income but one rarely observes companies adjusting that out of in their "adjusted" earnings (or other similar non-GAAP metrics).

Share-based payments have a wide definition

Not just management incentives

Typically, people think of share-based payments as relating to employee and executive share schemes and/or any incentives provided following an M&A transaction. Although these are probably the most common share-based transactions that investors come across, the accounting definition, and hence what may be included in any charges, is wider.

Consequently, the argument for excluding related charges becomes more difficult to justify, although as we explore below, many companies do so.

IFRS 2' definition (simplified)

In straightforward terms, IFRS 2 governs how a company should account for **goods or services** received in exchange for:

- cash or other assets of the company, for amounts that are based on the price (or value) of equity instruments of the entity (or another group entity). Referred to as "**cash settled** share-based payments"; or
- equity instruments of the entity (or another group entity) provided that the specified vesting conditions, if any, are met. Referred to as "**equity settled** share-based payments".

IFRS 2 **also excludes** any transfer of shares for goods acquired as part of corporate acquisition but **includes** any equity instruments granted to employees of the acquiree in their capacity as employees (which may, depending on the circumstances, include deferred considerations).

It is also worth noting that "**goods and services"** excludes making shareholder distributions in shares rather than cash and any purchase of treasury shares.

Understanding the accounting

But we keep it simple

Focusing on employee related transactions

As we set out above, IFRS 2 and many of the technical guides have to go into a significant amount of detail in order to sufficiently cover the various situations and scenarios that could give rise to a share-based payment transaction, and the accounting thereafter.

We will keep it simple.

We have limited our technical discussion to transactions with employees as these are most common use of share-based payments (outside of business combinations, although deferred consideration may be included within the realms of share-based payments).

We have summarised below the key areas only in order to provide sufficient context and only in relation to transactions with employees. Transactions with other entities follows slightly different accounting than that laid out below. Consequently, this should not be considered exhaustive but we hope will cover most of the terms that investors should be aware of.

Equity settled arrangements (simplified)

Initial measurement

The measurement of equity-settled share-based payment transactions is the price (or fair value) of the equity instrument at the grant date (i.e. the date at which the company and the recipient of the instrument agree to the arrangement). The measurement is not updated after the grant date to reflect changes in the price of the shares or share options (as any changes in price do not reflect in goods or services rendered).

Where the instrument is a **share option** the measurement may require use of valuation models (which will increase the subjectivity of the measurement) which take into consideration factors such as price, volatility, life of the option and risk-free interest rate).

Performance and service vesting conditions

Any performance conditions that are market related (e.g. a target based upon a future share price) must be taken into account at the grant date. Service related conditions (e.g. continued employment throughout the vesting period) and non-market relating vesting conditions are not included in the measurement calculation.

When are the cost and liability recognised?
The expense is recognised in the income statement over the period in which the services are provided, the corresponding liability entry being in equity. The period is determined with reference to any vesting conditions.

Cash settled arrangements
Initial measurement and vesting conditions

Although the initial measurement is ostensibly the same as above, as the amount of cash that will have to be paid varies. IFRS 2 requires the measurement of the share-based payment to be undertaken at each reporting date. This includes the consideration of vesting conditions, which are dealt with in a similar manner as for equity settled transactions.

When are the cost and liability recognised?
The expense is recognised in the income statement as the service is incurred, fair value movements are recognised as they arise. The corresponding entry is shown as a liability rather than equity.

Where there is a choice of settlement between cash or equity
It depends whose choice it is:

- If the company has the choice then it is accounted for as an equity settled (unless there is an obligation to pay over cash, then it is cash settled)
- If the recipient has the choice, then the company has issued a compound instrument and should account for a proportion as cash settled and a proportion as equity settled.

How widely are share-based payments used and are they material?

Commonly used across multiple sectors, although potentially greater impact on "younger" companies

In order to provide context on the extent of use of share-based payments, we have analysed the most recent year end amounts reported by FTSE350 and Euro Stoxx 600 companies and identified where their share-based compensation has been separately disclosed. We found that:

- 46% had share-based compensation expenses in the latest reported year; and
- of those 24% accounted for 5% or more of the reported EBIT.

Not just "young" technology companies
There is a common misconception that share-based payments are only relevant to "young" technology companies. Our analysis shows, however, that use of stock-based compensation is not confined to a particular industry or sector but, importantly where companies are making thin or no profits, arguably the impact is likely greater.

If one cannot ignore share-based payments what do you do?

How we think about share-based payments

A forensic accountant's perspective

We have argued above that one cannot simply ignore these transactions; after all the value transferred to the recipient has to come from somewhere.

So if that value does not come from the company or shareholders in some way, where does it come from?

Although that is a simple premise, dealing with the numbers and how that might affect company analysis and valuation can become more challenging. Similar to the accounting technical guides, there are multiple technical and theoretical guides on how to reflect share-based payments in valuations, and we do not seek to replicate those here. Instead we have set out below the key areas that, from a forensic perspective, we consider when analysing a company with share-based payments.

Current and forecast earnings

A simple scenario

Consider the following scenarios:

1. A company has a market cap of GBP2.5 billion and it employs a new CEO paid at an assumed market rate of GBP2.5 million. The company generates GBP250 million per year (after the CEO's salary has been deducted)

If the CEO is paid in cash, then there would be little doubt that the charge would go against earnings and that a similar charge should be forecast going forward.

2. However, instead of being paid GBP2.5 million in cash the CEO will be paid with c0.1% of the shares (i.e. GBP2.5 million) every year.

The fact that the CEO obtains the value through shares is irrelevant to the economic reality of the earnings; and the forward likely expenses, if one considers that the company will require a CEO, paid at the market rate. That is equally true if there are performance conditions attached to the shares.

An exception that perhaps proves the rule? Dealing with one-off share-based payments

Whilst that example is clear, one has to consider what the share-based payments relate to before one can be certain. If, for example, the share-based payments related to deferred consideration for an acquisition it is arguable that these are not recurring (although remain real expenses). Therefore, one might choose to exclude such charges from any forecasts. However, one must only do so cautiously.

Share count and dilution

Dilution calculations are often the cause of some confusion

In scenario 1, the shareholders would be entitled to 100% of the GBP250 million generated. However, in scenario 2, the shareholders would only be entitled to 99.9% of the GBP250 million generated in earnings.

This is often considered to be double counting, however, unfortunately for the existing shareholders it is not double counting – the cost to earnings in the current year remains GBP2.5 million, however the dilution perpetuates into future periods. Therefore, one must include in both the numerator and denominator when considering earnings per share metrics.

The use of options further complicates matters

This becomes particularly complex when dealing with share options and what level of dilution to use in that case. How to deal with that will depend upon the circumstances and is more valuation rather than accounting. We note, however, that Professor Aswath Damodaran[3] advocates:

3 Professor of Finance at the Stern School of Business at New York University

- If using a DCF to subtract the value of the options (determined using an option pricing model) from the present value of the company (but he suggests that one doesn't add the number of shares within the option into the number of shares as that is taken into account in the valuation of the option).
- Being aware that, if using multiple and peer group comparison, companies with more options outstanding will look cheaper if a fully dilutive EPS number is used and that one should ensure that any comparisons are like-for-like.

Cash flow and cash conversion

Depending upon what analysis one is undertaking should determine whether to include or exclude in cash conversion

If one considers the scenarios again, whilst the value of the two payment methods is equal from an accounting perspective (i.e. the value of the service provided by the CEO is GBP2.5 million) the cash flows will clearly not be. Therefore, when analysing a company with a significant level of share-based payments we consider, depending upon the circumstances and the objective of the analysis, whether to include or exclude the charge. For example:

- When considering cash conversion amongst peers, one might include the share-based payments as pseudo-cash payments.
- When considering levels of historical cash conversion when comparing to revenue, EBITDA or EBIT to identify potential revenue/earnings over recognition one should exclude the effect of share-based payments and consider these separately (as an increased use could be a sign that the company is running short of cash and paying in a future share rather than in cash).
- One must also consider whether there will be any cash inflows where options are involved.

Scenarios 1 and 2 compared

A company has a market cap of GBP2.5 billion and it employs a new CEO paid at an assumed market rate of GBP2.5million. The company generates GBP250 million per year (after the CEO's salary has been deducted)

CEO paid in	Cash	Shares
Effect on EBIT	GBP-2.5 million	GBP-2.5 million
Effect on cash flow	GBP-2.5 million	Zero (assuming shares issued)
Dilution	Zero	c.0.1%
Existing shareholders entitlement to	100%	c.99.9% (ongoing)

Source: HSBC

Governance and shareholder control

When considering any company with significant share-based payments (particularly to senior management personnel) one gets drawn into debates around management incentives and effectiveness and preferences on what measures lead to the most effective outcomes for shareholders.

10 questions to consider what the accounting choices might tell one about governance

Leaving those debates aside in this instance (as one could write a significant missive on those alone), from a forensic accounting perspective, we start by considering a number of straightforward questions:

1. What are the nature of the share-based payments, and what grant and vesting conditions exist? Who determines those metrics?
2. Have there been any changes to any assumptions within share-based payment related balances in the year (or recent years)?
3. To what extent is the recipient able to influence the achievement of any non-market metric (e.g. "adjusted earnings") for granting or vesting?
4. If non-market metrics are achieved, how close was the company to those metrics (companies that hit the target every year, particularly by small margins, should be considered carefully)?
5. For market related measures (e.g. TSR or share price), are there any indications that there have been deliberate changes in order to meet metrics (e.g. changing the peer group of stocks or using share buy backs to increase the share price)?
6. If management are adjusting out share-based payments from adjusted earnings, what rationale do they provide?
7. Where share options exist, are there any potential circumstances (particularly outside the influence of the company) that could give rise to unexpected and "bumper" payments?
8. Are share-based payments in standard shares or are there any special conditions or privileges associated with those shares that might disproportionately dilute shareholder voting rights? If so does that increase the risk related to the investment decision?
9. Do the share-based payments represent value for money, considering whether the company gets better terms if the transaction was undertaken in cash and/or the deferred nature of the payment?
10. Is the company using share-based payments as it is cash poor or earnings poor (particularly if adjusting back the share-based payments in non-GAAP metrics)? If so, is their use a potential warning sign that a company's finances are under pressure?

Conclusion

Although share-based payments are complicated and often the accounting and analysis treatment can seem unfathomable, simply ignoring them (or following many companies' signal to do so) is likely to be unwise.

But, with a basic understanding of the accounting (which we have outlined above) and the effect on the income statement, cash flows and share counts along with some common sense and some straightforward questions we think one can garner potentially valuable insights into the governance and valuation of a company which may be worth the effort of unpicking the transactions. Finally, understanding how to deal with share-based pavements in any analysis may depend on what one is trying to achieve. If one is in any doubt, proceed with caution.

Disclosure appendix

Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Dylan Whitfield, FCA

Important disclosures

Equities: Stock ratings and basis for financial analysis

HSBC and its affiliates, including the issuer of this report ("HSBC") believes an investor's decision to buy or sell a stock should depend on individual circumstances such as the investor's existing holdings, risk tolerance and other considerations and that investors utilise various disciplines and investment horizons when making investment decisions. Ratings should not be used or relied on in isolation as investment advice. Different securities firms use a variety of ratings terms as well as different rating systems to describe their recommendations and therefore investors should carefully read the definitions of the ratings used in each research report. Further, investors should carefully read the entire research report and not infer its contents from the rating because research reports contain more complete information concerning the analysts' views and the basis for the rating.

From 23rd March 2015 HSBC has assigned ratings on the following basis:

The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:

For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 29 March 2021, the distribution of all independent ratings published by HSBC is as follows:

Buy	58%	(29% of these provided with Investment Banking Services)
Hold	33%	(28% of these provided with Investment Banking Services)
Sell	9%	(22% of these provided with Investment Banking Services)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see “Stock ratings and basis for financial analysis” above.

For the distribution of non-independent ratings published by HSBC, please see the disclosure page available at http://www.hsbcnet.com/gbm/financial-regulation/investment-recommendations-disclosures.

To view a list of all the independent fundamental ratings disseminated by HSBC during the preceding 12-month period, please use the following links to access the disclosure page:

Clients of Global Research and Global Banking and Markets: www.research.hsbc.com/A/Disclosures

Clients of HSBC Private Banking: www.research.privatebank.hsbc.com/Disclosures

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

Non-U.S. analysts may not be associated persons of HSBC Securities (USA) Inc, and therefore may not be subject to FINRA Rule 2241 or FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts.

Economic sanctions imposed by the EU, the UK, the USA, and certain other jurisdictions generally prohibit transacting or dealing in any debt or equity issued by Russian SSI entities on or after 16 July 2014 (Restricted SSI Securities). Economic sanctions imposed by the USA also generally prohibit US persons from purchasing or selling publicly traded securities issued by companies designated by the US Government as “Communist Chinese military companies” (CMCs) or any securities that are derivative of, or designed to provide investment exposure, to the targeted CMC securities (collectively, Restricted CMC Securities). This report does not constitute advice in relation to any Restricted SSI Securities or Restricted CMC Securities, and as such, this report should not be construed as an inducement to transact in any Restricted SSI Securities or Restricted CMC Securities.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at www.hsbcnet.com/research. HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

Additional disclosures

1 This report is dated as at 29 March 2021.

2 All market data included in this report are dated as at close 26 March 2021, unless a different date and/or a specific time of day is indicated in the report.

3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.

4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

Disclaimer

Legal entities as at 1 December 2020

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; 000 HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

Issuer of report
HSBC Bank plc
8 Canada Square, London
E14 5HQ, United Kingdom
Telephone: +44 20 7991 8888
Fax: +44 20 7992 4880
Website: www.research.hsbc.com

[1168090]