Statement in relation to HSBC Holdings plc

15 May 2020

We refer to the announcement made by HSBC Holdings plc (HSBC) on 31 March 2020 relating to the cancellation of its fourth interim dividend for 2019 (Cancellation) and the suspension of payment of any further dividend until the end of 2020 (Suspension).

The Securities and Futures Commission (SFC) has received a large number of enquiries and complaints from the investing public and professional bodies in Hong Kong in relation to the Cancellation and the Suspension which raised (among others) the following key issues:

- Many investors had traded HSBC shares (Shares) on the basis that Shares held on the day immediately prior to the announced ex-dividend date would be entitled to the fourth interim dividend.
- Certain complaints also alleged that HSBC had failed to safeguard shareholders' interests and had caused substantial loss to shareholders in terms of stock value and dividend pay-out, and accordingly, shareholders should be compensated.
- Some complaints questioned whether HSBC had disclosed its discussions with the Bank of England in respect of the cancellation of the fourth interim dividend in a timely manner.

The SFC does not usually comment on individual cases. However, in light of the significant public interest in this matter, the SFC is issuing this statement to inform the public about the actions that the SFC has taken, including its communications with the Bank of England's Prudential Regulation Authority (PRA) and HSBC.

HSBC is listed in a number of jurisdictions, including a dual primary listing on the London Stock Exchange and on The Stock Exchange of Hong Kong Limited (SEHK). The SFC's regulatory ambit extends to regulating HSBC as a listed company on the SEHK pursuant to the laws and regulations that the SFC administers, primarily the Securities and Futures Ordinance (SFO) and related subsidiary legislation.

Matters relating to the banking and prudential supervision of HSBC lie outside the SFC's regulatory ambit. The PRA is responsible for the regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK. It acts as the primary supervisor for a number of UK-headquartered international banking and insurance groups, including the HSBC group.

The SFC understands and appreciates the concerns raised by the investing public and professional bodies in Hong Kong. We have since communicated with HSBC and the PRA to establish the circumstances leading up to the Cancellation and the Suspension. In addition, we have also conveyed to them the views of sections of the investing public in Hong Kong with respect to the Cancellation and the Suspension, including: (i) the overall impact on Hong Kong retail shareholders; (ii) reliance of many Hong Kong retail shareholders on dividend distributions by HSBC as a form of regular income; and (iii) that the Cancellation was made after the ex-dividend date in relation to the fourth interim dividend.

The SFC understands that the PRA's request for the Cancellation and the Suspension, and HSBC's agreement to such request, was made after carefully considering and balancing various factors, including the following:

- The PRA's general objective is to promote the safety and soundness of the firms it regulates. In line with regulators internationally, the PRA has been monitoring the impact of COVID-19 on PRA-regulated firms and their groups and has put in place various measures to advance its general objective during this difficult time.
- As at 31 March 2020, there was a high level of uncertainty as to the duration and impact of the economic implications of COVID-19 on a global basis. The PRA noted that there was a real risk of a very rapid reduction in economic activity globally in response to restrictions imposed by a number of governments and a particular need for additional lending to help real economies bridge the gap to the eventual removal of those restrictions.
- The PRA considered the need for early action to preserve the capital position of firms in the face of continuing economic uncertainty. Further, the PRA has the necessary statutory power to require HSBC to take capital preservation actions and it was clear that the PRA stood ready to exercise such powers should HSBC not agree to take the requested action.
- The material implications for HSBC's shareholders, including the significant number of retail

and institutional shareholders in Hong Kong and the UK, who expect regular payment of dividends.

- The interests of HSBC's shareholders around the world balanced against the urgent need for capital preservation to finance the global economy during, and following, the COVID-19 pandemic. In particular, the PRA noted that a cessation of dividends to ensure adequate capital to support lending, in the case of HSBC, was likely to benefit the Hong Kong economy as well as the UK and the global economy.
- The announcement made by the European Central Bank on 27 March 2020 recommending banks not to pay dividends or engage in share buy-backs, and the subsequent press and research analyst commentary on whether dividends would be cancelled for UK-headquartered banking groups.

Further, according to the board of HSBC, HSBC's long-term interests were best served by acceding to the PRA's requests, instead of requiring the PRA to exercise its statutory powers, and it would not have been in the best interests of HSBC's shareholders or other stakeholders to refuse to agree to the PRA's request.

The SFC also notes that HSBC received the PRA's direct request for the Cancellation at around 5:03p.m. (London time) on 31 March 2020 and HSBC published its announcement on the Cancellation prior to trading in Hong Kong on 1 April 2020.

The SFC has conducted a careful examination of all information available to it to date (including, but not limited to, the matters mentioned above), and assessed it against the threshold criteria for investigating matters under the SFO such as insider dealing, failure to disclose inside information, disclosure of false or misleading information and unfair prejudice to shareholders, and has concluded that there is at present no ground on which regulatory action should be pursued under the SFO in respect of the Cancellation and the Suspension.