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A Bank Control Risks Make use of the HSBC Method to Manage Risks

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Abstract: *This document sets out the Risk Management Policy ("RMP") for HSBC Asset Management India ("AMIN" or "HSBC") and describes our approach to managing risk to AMIN. RMP is a macro-level description of risk management governance, the organization's risk appetite and key elements of its risk management process. Risk Management Policy is applicable to all employees of AMIN as well as HSBC Mutual Fund and risk management applies to all risks (AMC level risks and scheme level risks) that we are exposed in our mutual fund operations and business*

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I. INTRODUCTION

HSBC Asset Management (India) Private Limited Risk Management Policy

This document sets out the Risk Management Policy ("RMP") for HSBC Asset Management India ("AMIN" or "HSBC") and describes our approach to managing risk to AMIN. RMP is a macro-level description of risk management governance, the organization's risk appetite and key elements of its risk management process. Risk Management Policy is applicable to all employees of AMIN as well as HSBC Mutual Fund and risk management applies to all risks (AMC level risks and scheme level risks) that we are exposed in our mutual fund operations and business. The RMP document is approved by the HSBC Asset Management India Board and the Trustees of HSBC Mutual Fund and applies to the Mutual Fund activities of AMIN. The construct of this document, adapted to the local business, is derived from HSBC Group Risk Management Framework and HSBC Global Asset Management Risk Management Policies and Procedures. This document is also aligned with the requirements of Securities and Exchange Board of India (SEBI) Circular on Risk Management Framework ("Circular") dated 27th September 2021 for Mutual Funds. AMIN RMP will be made available on the AMIN website and will be updated regularly.

HSBC Asset Management (India) Private Limited ("AMIN" or the "Company") is a private limited company incorporated under the Companies Act, 2013. AMIN has been appointed as the Investment Manager of HSBC Mutual Fund (the "Fund") by the Board of Trustees to the HSBC Mutual Fund (MF Trustee Board) vide an Investment Management Agreement (IMA) executed between the MF Trustee Board and AMIN. AMIN manages the schemes of the HSBC Mutual Fund in accordance with the provisions of IMA, the Trust Deed, the SEBI Regulations and the investment objectives of the Schemes as documented in their respective Scheme Information Documents (SID). The schemes of HSBC Mutual Fund are managed by a team of investment professionals with relevant experience and expertise in equity and fixed income asset classes.

Our culture and values

We define culture as the shared attitudes, beliefs, values and norms that shape our behaviour. HSBC's culture is rooted in our purpose and shaped by our values: We value difference; We succeed together; We take responsibility and We get it done. These guide us in all our actions, underpin our culture and set out the behaviour we expect. We believe that behaviour is one of the clearest expressions of culture. This means our culture is not static. As new challenges and opportunities emerge, our culture has to adapt to help us achieve our strategic outcomes. We assess culture through employee sentiment, observed behaviour and business outcomes. We do not consider risk culture as something separate to HSBC's overall culture; rather, it is simply a way of looking at how our culture either supports or inhibits our ability to manage risk. Our culture creates the environment that either enables or inhibits us in delivering the right conduct outcomes. Conduct impacts can arise across all risk types, and are sometimes referred to as

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"conduct risk". Conduct risk is often defined as the risk to the delivery of fair customer outcomes or to market integrity. Each of us in AMIN has a role in in supporting the delivery of good conduct outcomes for customers and maintaining the orderly and transparent operation of financial markets

Risk Management defined

Risk Management can be defined as the overall process of identifying and understanding the full spectrum of an organization's risk and taking informed actions to help it achieve its strategic objectives, reduce the likelihood of failure and decrease the uncertainty of overall business performance.

Our Risk Management Approach

Doing business is fundamentally about taking considered risks within an effective framework of controls to manage them. We face many risks as a Group. Some we accept as part of doing business, but there are others we must avoid so we can protect our customers, people, business, and all our shareholders. HSBC Global Principles guide all that we do at HSBC, embodied in our strategy, our values, how we conduct our business, and sets out how these connect with risk management. Active risk management helps us to achieve our strategy, serve our customers and grow our business safely. HSBC's risk management framework, which is underpinned by our values, outlines our overall approach to managing risk. Our Risk Management Framework ensures we:

i. Manage risk in a consistent manner across the Group

ii. Have a strong risk culture: managing risk is simply part of how we work

iii. Are aware of our risks, identify our most material risks, then make better decisions and take appropriate risks as a result

iv. Have sufficient controls in place to ensure we only take the right type and amount of risk to grow our business safely and within our appetite

v. Deliver fair outcomes for customers and maintain the orderly and transparent operation of financial markets

Governance Structure

AMIN and HSBC Mutual Fund are licensed and regulated by the SEBI. HSBC Mutual Fund is sponsored by HSBC Securities and Capital Markets (India) Private Limited (HSCI). HSCI ("Sponsor) is a member of the HSBC Group, one of the world's largest banking and financial services organizations.

HSBC's governance model includes executive and non-executive governance committees, delegated authority to individuals, and an escalation path for material risks and issues. Boards of Directors and Trustees As a private Limited company, AMIN has a Board of Directors to provide appropriate governance and oversight on the activities carried out by AMIN under its Investment Manager license issued by SEBI. It reviews and sets the strategy and risk appetite for the Company within the context of the HSBC Group's, HSBC Global Asset Management's and Regulator's directions/framework. The Board also oversees the operation, governance on Company's business activities to help ensure the Company is fulfilling its fiduciary responsibilities and is acting in the interests of customers at all times. Further, in accordance with SEBI (MF) Regulations, the Sponsor has appointed a Board of individual Trustees to safeguard the interest of the unit holders of the Fund and to hold the assets of the Fund in trust for the benefit of the unit holders. The Trustee Board provides fiduciary governance and oversight to the activities of the Fund and AMIN through periodic meetings and reviews. Trustee Board's objective is to ensure that the activities of the Fund are being managed in accordance with the Regulations, in the interest of unit holders and in compliance with the Group's values, business principles and risk appetite. The Board of Trustees have also constituted an Audit Committee headed by an Independent Director to review internal controls and deficiencies highlighted by external auditors appointed by the Trustees. Together, the Board of Directors of AMIN and Board of Trustees of HSBC Mutual Fund are executive governance committees for AMIN and have adequate representation from Independent Directors. The Boards of Directors and Trustees are responsible for the overall risk management of AMIN, along with the Management. To enable oversight on the implementation and ongoing monitoring of the RMF, the Boards of Directors and Trustees have each constituted a Risk Management Committee (RMC) as a sub-committee of their respective Boards. The RMCs report to the Board of AMCs and Trustees respectively and will recommend long term solutions regarding risk management both at the AMC level as well as the scheme level. AMIN Chief Risk Officer (CRO) attends the RMCs of both Boards. The RMCs of the Boards have formal Terms of Reference (TOR) approved by the respective Boards and meets at quarterly intervals. The TORs details the roles and responsibilities of the RMCs. Internal governance committees Besides the Board driven risk management governance, AMIN being a part of HSBC Global Asset Management has put in a place a robust internal governance framework with constitution of various key internal governance committees (non-executive committees). AMIN has a matrix reporting structure with key roles have dual reporting structures – functional and entity – to ensure that there is adequate oversight of roles and escalations for appropriate actions around risk mitigation or acceptance.

Escalations of material

risks and issues besides being discussed in the internal governance committees are also escalated to relevant regional/global governance forums, as appropriate in line with internal procedures and to the Boards. A brief overview of the key Internal committees in AMIN are provided below

i. Local Management Committee (LMC)

The AMIN LMC, chaired by the CEO, AMIN assists the CEO in the day to day management of AMIN as well defining broad strategy for the business. The Committee meets every month and reviews the performance of the entity with particular emphasis on business development, sales and distribution activity, product development and HR issues, compliance with Regulations. AMIN Local Management Committee also ensures an appropriate control framework is operating effectively and an appropriate risk and control culture is in embedded within the organization. Besides the CEO, LMC has as its Members all direct reports of the CEO including the CRO and the Compliance Officer. The LMC meets on a monthly basis.

ii. RMM (Risk Management Meeting)

AMIN RMM is a formal risk governance forum established to provide recommendations and advice to the AMIN CRO on enterprise wide risk management of all risks including key policies and frameworks for management of risks within AMIN. RMM supports the CRO's individual accountability for the oversight of enterprise risk as set out in the HSBC's Risk Management Framework. Decision making authority in relation to matters considered at the RMM remains with the CRO, except where the decision making authority is within the scope of another RMM Member (e.g. business related decisions taken by AMIN CEO). RMM is chaired by the CRO with membership broadly mirroring that of the LMC. AMIN RMM reviews material risks affecting the AMIN business and is responsible for the oversight of the risk and internal control environment in AMIN. The RMM meets on a bi-monthly basis and escalations of material risks/issues progresses to the Regional RMM and/or Global RMM, Boards as appropriate.

iii. Pricing and Valuation Committee

Pricing and Valuation Committee establishes and maintains appropriate policies and controls regarding pricing and valuation of securities/funds. This Committee is chaired by AMIN CRO and deliberates and decide on all matters pertaining to the valuation and pricing of securities of the schemes of HSBC Mutual Fund in accordance with the Valuation Policy approved by the Board of AMC and the Board of Trustees.

iv. Investment Management Committee (IMC)/Front Office Management Committee (FOMC) AMN

IMC provides 'front line' governance of investment and trading activities and to review, discuss, set direction and make decisions on associated management issues. The AMIN IMC is also responsible for overseeing the people, process and performance of the AMIN Investment Team. The IMC is chaired by the AMIN Chief Investment Officer (Equity and Fixed Income) and meets on a quarterly basis.

v. Local New Business Committee (LNBC)

LNBC is the product governance committee for AMIN and through this committee AMIN exercises management control and oversight on the risks of launching and distributing new or materially changed products or services and also ensuring that the product is acceptable for the local market. It is also responsible for continuing oversight of products and services during their lifecycle, including product mergers.

vi. AMIN Technology Committee

AMIN Technology Committee has been constituted by the Board of AMIN and Board of Trustees to provide recommendations and advice related to the cyber security and cyber resilience framework, including key policies for the management of information and cyber security related risks within AMIN. Chaired by the AMIN CEO, this committee also has an external independent subject matter expert as a Member of the Committee. This committee meets at quarterly intervals.

vii. Dividend Distribution Committee

Steered by Head – Products, the scope and remit of AMIN Dividend Committee is to determine the dividend policy for the HSBC Mutual Fund; and propose/recommend the dividend amount/rate to be distributed for each fund. The Board of Trustees on basis of the proposal from the Committee review and approve dividends in the schemes. Trustees have delegated to this Committee powers to determine dividends for all frequencies up to and including monthly dividends.

Each of these governance committees follow an agreed meeting agenda and operate under a Terms of Reference (TOR) which details the scope, members, quorum, agenda etc. and this TOR is refreshed on an Third LOD is HSBC Group Internal Audit. HSBC Group Internal Audit provides independent assurance that our risk management, governance and internal control processes are designed and operating effectively in line with the requirements of HSBC Group. In addition, HSBC Mutual Fund Trustees have also appointed external auditors to perform internal audit of the business and operations of AMIN including material third party service providers such as Registrar and Transfer Agent (RTA), Fund Accountant (FA) and Custody to assess if HSBC MF/AMC is operating within the requirements of SEBI (MF) Regulations. Scope of external auditors also include audit of the status of implementation of the SEBI Risk Management Framework.

Accountability for ensuring compliance with rules, regulations and laws lies with the AMIN CEO, as the executive level Risk Owner. Risk Owners are accountable for determining and implementing necessary changes to their operations as a result of changes to rules, regulations and laws, by updating their procedures and ensuring appropriate controls have been implemented. Risk Stewards are accountable for identifying and understanding the rules, regulations and laws that affect their risks. In addition, Risk Stewards is accountable for monitoring for changes to those rules, regulations and laws that impact their risk types, assessing the impact on their specific risk types, updating their policies as required, and communicating these changes to Risk Owners in a timely manner.

AMIN has identified one CXO level officer to be responsible for the risk management of every scheme/AMC risks of the AMC/Mutual Fund. Roles and responsibility assigned to the CXO are aligned as per the requirements of the SEBI Circular on Risk Management Framework for Mutual Funds, as amended from time to time (hereinafter referred to as SEBI RMF circular) and aligned with HSBC guidelines. CXOs have responsibility for line management and process ownership for risk management and the same is reflected in the performance appraisal through Key Result Areas (KRAs) for key officials of line management.

Active Risk Management

Our active risk management is a five step process – Define and enable; identify and assess; manage; aggregate and report; and govern. Governance is covered across this RMP document for various activities and risk types. Hence this section will have specific focus on the first four steps of the active risk
management approach.

i. Define and enable

We expect everyone at HSBC to reflect our values in how they behave and conduct business. We are committed to delivering fair outcomes for our customers, and to ensuring we act with integrity in the financial markets. The personal conduct of our people is critical to our ability to live up to these commitments. People drive risk management and each of us has a responsibility to demonstrate our values through delivering the right conduct behaviour and consistently delivering the appropriate outcomes. The behaviour underpinning our values are designed to support a wide range of outcomes – including a culture that is effective in managing risk and that leads to good conduct outcomes. Our culture supports and encourages the following behaviour – accountability, speak up and good judgement. We recognize and reward exceptional conduct demonstrated by our employees. We also discourage poor conduct and inappropriate behaviour that is not in keeping with our values, or which exposes us to financial, regulatory and reputational risk. We ensure that the basis for managing performance and determining remuneration is consistent with prudent risk management and encouraging the right behaviour.

The principle of individual accountability is exercised across the organization and is fundamental to effective risk management within HSBC. Individual accountability is reinforced through the three LOD model. Risk issues are monitored and actively managed by the accountable individuals as part of their role. Further, HSBC Risk Taxonomy as well HSBC Risk Appetite Statement clearly identify and define our risks as well as appetites/thresholds for these risks so that they can be properly managed.

ii. Identification and Assessment of Risks

Due to the ever-changing business environment that we operate in, risk identification is an ongoing process to ensure all material risks are known, well understood and proactively managed. Therefore, learning from the past and external events is as critical as recognizing new and emerging risks in preparing for what could happen in the future. Identified risks have clear ownership, and their potential impacts are assessed against AMIN's risk profile. We proactively manage any material risks identified, and whenever possible, immediate action is taken to limit the impacts on our business and investors.

When assessing risk, we measure the likelihood of a risk occurring and the impact on our business against risk appetite. The outcome of the risk assessment should provide a forward-looking view that enables the prioritization of appropriate management actions to mitigate the most material risks. Risks are identified, assessed, and recorded in relevant systems and used for reporting and management decisions. The First LOD, in collaboration with the Second LOD (Risk and Compliance), are accountable for assessing risk impacts and likelihood to understand the cost and wider consequences of risk materializing. Risk materiality is assessed by considering the financial, customer, regulatory and reputational impacts. Understanding the risk likelihood is equally important and is assessed along with the risk impact. There are a number of factors considered and different methodologies used when assessing risk likelihood; for example, using historic data and management overlay to model the probability of similar risks materializing in the future.

iii. Management of Risks

Risk Management is an ongoing process involving both the First LOD and Second LOD to ensure we monitor and manage our risks in accordance with our risk appetite and, where necessary, appropriate risk management actions are taken in a timely manner. Controls are defined in our policies and procedures, to ensure our risks are managed effectively and consistently across the entity. Controls are integral to risk management framework, and as such are an integral part of the systems and processes that we use to manage risk. Controls are used to prevent, detect or limit risks across the entity throughout operational processes to ensure risks are managed within appetite. The effectiveness of identified controls must be tested taking into account both the design and operating effectiveness. Continuous monitoring activities are performed across the entity to ensure controls managing material risk are adequately evaluated for intended design and operating effectiveness. Controls are designed to enable effective risk mitigation and help comply with legal and regulatory obligations. Control effectiveness ratings are assigned to individual controls based on the delivery of intended risk mitigation. Identification of issues requiring remediation may arise through any stage of our risk management approach. Issues are raised and action plans are developed to address controls deficiencies and/or inefficiencies in order to improve the operating effectiveness of the current control environment in a timely manner. Remediation actions are recorded in the relevant system of record.

iv. Reporting of Risks

Risk reporting helps senior management to understand what the top risks are and if they are managed within risk appetite. It also provides visibility of common themes and systemic issues across the organization, which enables us to manage risks more proactively and effectively. Three standard enterprise risk reports are used to provide a consistent end to end view of risk management across the entity. The enterprise risk reports are –

1. Risk Appetite Profile - monitors the performance of risk appetite metrics against the Board approved Risk Appetite and Tolerance Thresholds
2. Risk Map – provides a second LOD view of the residual risk profile of the entity
3. Top and Emerging Risk Profile - provides forward-looking analysis of risk themes, which are often external / internal circumstances or events, difficult to predict and are often beyond the entity's ability to directly control

A summary of the key issues and common themes detailed in the enterprise risk reports as well as the three enterprise risk reports are placed in AMIN RMM and also in the Risk Management Committees of the Board and Trustees.

Formalizing AMIN's Risk Appetite

Risk management starts with a strong risk culture, clear accountability, and a formally-defined risk appetite that articulates the level and types of risks that AMIN accepts to achieve our strategic objectives. We formally articulate our risk appetite through our Risk Appetite Statement (RAS) which is approved by the AMIN RMM, RMCs of the Boards and the Boards. The RAS consists of qualitative statements and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. This helps us make sure that planned business activities provide an appropriate balance of return for the risk we are taking and that we agree on a suitable level of risk for the entity. We define Risk Appetite as the articulation of the types of risks and thresholds that we are willing to take in order to achieve our strategic objectives. Our Risk Appetite shapes our requisite controls and dictates risk behaviors. Embedding Risk Appetite means there is a clear understanding among the Board, senior management and all employees for the ownership and accountability for risks, and the acceptable levels of risk.

Risk Appetite Statement provides the foundation for the Second LOD to design policies and limits for the entity. These form the basis of the processes and decision making that the First LOD undertakes in its management of risks. We identify risks to our business and assess their materiality by considering their likelihood and potential customer, financial, reputational and regulatory impacts, as well as market conduct and competition outcomes. We manage these risks through a combination of limits and controls to ensure risks are within our appetite. We then aggregate and report risk data to highlight material risks and support good decision making. Where necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenge and remediation.

HSBC Risk Taxonomy/SEBI Risk Classification

The risks faced by AMIN and its operations can emanate both from external and internal factors. These risks can be broadly categorized as AMC level Risks and Scheme level risks, collectively referred to as Risk Taxonomy. The table below provides a list of the various risks along with the CXO responsible for managing these risks within AMIN.

Types of Risk CXO Assigned

Risk Management Framework governance and reporting CRO Scheme specific risks Investment risk CIO – Equity and Fixed Income Liquidity risk CIO – Equity and Fixed Income Credit risk CIO – Fixed Income Governance risk CIO – Equity and Fixed Income AMC Specific Risks

Operational Risk COO

Technology, Information and Cyber Risk CISO Reputation Risk CRO

Conduct Risk Compliance Officer

Outsourcing Risk COO

Sales and Distribution Risk Head – Retail Sales and Institutional Sales

Financial Reporting Risk CFO (for AMC)/COO (For MF) Legal Risk Compliance Officer

Tax Risk CFO Talent Risk HR

Compliance Risk (covering both scheme specific and AMC specific risks)

Compliance Officer

The CEO shall be responsible for all the risks at both AMC and Scheme level. Board of Directors and Trustees will be responsible for the overall risk management of the mutual fund, along with the Management (broadly includes CEO, CRO, CIOs, CXOs and the Fund Managers)

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To help ensure consistency and comparability in risk categorization across the Group, AMIN uses a standardized set of risk types known as the HSBC Risk taxonomy. The HSBC risk taxonomy categorizes risks into two broad categories -

A. Financial risks – the risk of a financial loss as a result of business activities. We have five level 1 (broad definition) financial risk types (of which only one financial risk type is relevant for AMIN business) and;

B. Non-financial risks – the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. These risks arise during our day-to-day operations, while taking financial risks. Non-financial risks may have an impact on our management of financial risks, for example, inaccurate financial reporting may lead to unexpected capital or liquidity risk, or a trading process failure may result in higher market risk taking. There are seven level 1 (broad definition) Non-financial risks which are Financial Reporting and Tax Risk, Resilience Risk (includes Transaction processing Risk, Third Party Risk, Technology and Cyber Security Risk, Data Risk), Financial Crime Risk, Regulatory Compliance Risk, People Risk, Legal Risk and Model Risk.

SEBI RMF circular categorizes risks into two broad categories – AMC level risks and scheme level risks. There are overlaps between HSBC Risk Taxonomy and SEBI RMF circular especially the Non-Financial Risks as per HSBC Taxonomy and AMC level risks from SEBI Risk Management Framework. This document assimilates both HSBC Risk Taxonomy as well SEBI RMF in defining relevant Risks as well as risk management process in place around these risks.

Scheme specific risks

T here are four scheme specific risks and risk management around these four scheme specific risks are detailed in the sections below. The scheme specific risks are the risks majorly associated with the core activities of investment and portfolio management.

i. Scheme specific Governance

Internal governance and oversight of scheme specific risks rests with the Investment Management Committees of AMIN chaired by the Chief Investment Officer – Equity & Fixed Income respectively and has the CEO, Compliance Officer and CRO as Members. Performance of the Scheme vis-à-vis benchmarks as well as peers are reviewed at these meetings. Scheme specific risks are also part of the Risk Management meeting agenda. The Board of Directors and Trustees in their meetings review the performance of AMIN funds including significant losses and outlier trades. Minutes of the IMC and RMM meetings are also placed in these meetings for the review of the Boards.