



# Market Profile Hungary



Group Trade & Correspondent Banking  
Global Securities Services

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# 1. Overview

## 1.1. GEOPOLITICAL DATA

<b>Time Zone:</b>	GMT + 1
<b>Daylight Saving Time:</b>	YES
<b>Currency:</b>	Forint (HUF)
<b>Banking Holidays:</b>	<a href="#">link</a>
<b>EU Membership:</b>	YES
<b>Schengen Zone:</b>	YES



## 1.2. G30 COMPLIANCE

<b>Trade comparison by T+1 for direct market participants</b>	YES
<b>Trade comparison for indirect participants</b>	YES
<b>Central securities depository</b>	YES
<b>Trade netting system</b>	YES
<b>Delivery vs. payment</b>	YES
<b>Same day funds</b>	YES
<b>Rolling settlement T+2</b>	YES
<b>Securities lending and borrowing</b>	YES
<b>ISIN</b>	YES

## 1.3. COUNTRY RATINGS

<b>Rating Agency</b>	<b>Issuer Default Rating Foreign Currency, LT</b>	<b>Outlook</b>
Fitch	BBB	Negative
Moody's	Baa2	Stable
Standard & Poor's	BBB-	Stable

# 2. Regulation and supervision

## 2.1. REGULATORY / SUPERVISORY BODIES

Supervision of financial markets is carried out by the following institutions:

### MINISTRY OF FINANCE

Ministry for National Economy – As key activities, it oversees the national economic development including trade, the national budget and taxation, the international economic relations and also manages Hungary's science and innovation policies and the participation in international organisations.

### CENTRAL BANK

Central Bank of Hungary (CBH) – acting as supervisory authority has supervisory, consumer protection and market surveillance roles.

## 2.2. KEY MARKET REGULATIONS

Below you will find a list of the key market regulations. For a complete list with up to date information on the acts please contact your local GSS Relationship Manager.

Regulation	Main Focus
Act on the Capital Market	Regulates the issuing of securities, ensures investor protection and efficient supervision of the capital market. Governs the operation of the Stock Exchange, CSD, CCP, registration of securities, nominees, securities lending and disclosure obligations.
Act on the Prevention and Combating of Money Laundering and Terrorist Financing	Full compliance with EU Directive 2015 / 849 on the prevention of the use of the financial system for the purposes of money laundering or terrorism financing. This Act contains the detailed rules of the "Know Your Customer" procedures.
Act on Credit Institutions and Financial Enterprises	Governs the foundation, organisation and operation of financial institutions.
Act on the Civil Code	Governs financial and certain personal relations of entities and persons with regards to their activities, the establishment of companies, their functioning, their rights, liabilities and responsibilities and shareholders' rights in case of Plc's.
Act on the Rules of Taxation	Governs taxation procedures consistent with the rights and obligations of taxpayers and tax authorities. A new Act came into effect as of 1 January 2018.
Act on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities	Regulates investment service providers and commodity dealers and governs the rules of their activities (implemented the MiFID rules).
Act on the Central Bank of Hungary (CBH)	Establishes the CBH's primary objectives, ruling its institutional, organisational, personal and financial independence and its operations, with a view to the definition of macro-prudential tasks and responsibilities, ensuring the possibility for effective macro-prudential intervention, strengthening international macro-prudential cooperation and reinforcing supervision of and control over the system of financial intermediation.
Government Decree on Bonds	Regulates the bonds issued on the Hungarian market.
Government Decree on Questions related to registration in the book of shares of companies limited by shares	Regulates the registration process of limited companies
Law of LXVII of 2019 on Encouraging long-term Shareholder Engagement	Implementation of the Shareholder's Right Directive II
Act on the Business of Insurance (Act LXXXVIII of 2014)	Regulates insurance and reinsurance activities

Government Decree (424 / 2022) regarding the declaration of a state of danger and certain emergency rules in view of the armed conflict and humanitarian disaster in Ukraine, as well as the prevention and management of their consequences in Hungary	Transitional regulation on emergency situation brought about by the war in Ukraine
The Transitional Rules and Epidemiological Preparedness related to the Cessation of the State of Danger (Act LVIII of 2020)	Transitional regulation on the state of danger brought about by the COVID-19 pandemic

### 2.3. SELF-REGULATORY ORGANISATIONS

Major market associations, influencing and promoting the capital market, include the following:

- Hungarian National Securities Market Practice Group (HU-NSMPG);
- National Stakeholder Group (HU NSG) that has been founded on 5 December 2017 as the successor of the T2S National User Group (T2S NUG);
- Market Implementation Group (MIG);
- Custodian Forum, Clearing Forum, Issuer Forum (all managed by KELER) and
- Association of Investment Service Providers.

Furthermore, the Hungarian Banking Association (HBA) represents its members' interests' vis-a-vis third parties in Hungary. To this end, working committees involving professionals from member banks are established. The HBA was founded in 1989 and currently has more than 40 members (banks and financial institutions).

# 3. Trading

## 3.1. COMMONLY TRADED INSTRUMENTS

Equities	Money Market instruments
<input checked="" type="checkbox"/> Ordinary shares	<input checked="" type="checkbox"/> Certificate of deposits
<input checked="" type="checkbox"/> Preferred shares	<input checked="" type="checkbox"/> Commercial papers
<input type="checkbox"/> Employee shares	<input checked="" type="checkbox"/> REPO transactions
<input type="checkbox"/> Interest bearing shares	
Government debt	Corporate debt
<input checked="" type="checkbox"/> Government bonds	<input checked="" type="checkbox"/> Corporate bonds
<input checked="" type="checkbox"/> Treasury bonds	<input checked="" type="checkbox"/> Mortgage bonds
<input checked="" type="checkbox"/> Treasury bills	<input checked="" type="checkbox"/> Convertible bonds
<input checked="" type="checkbox"/> Treasury notes	<input type="checkbox"/> Exchangeable bonds
<input checked="" type="checkbox"/> Municipal bonds	
Derivatives	Other instruments
<input checked="" type="checkbox"/> Options	<input checked="" type="checkbox"/> Exchange traded funds
<input checked="" type="checkbox"/> Futures	<input checked="" type="checkbox"/> Investment funds
<input checked="" type="checkbox"/> Warrants	<input checked="" type="checkbox"/> Eurobonds funds
	<input checked="" type="checkbox"/> Depository receipts
	<input checked="" type="checkbox"/> Commodities

## 3.2. BUDAPEST STOCK EXCHANGE – BSE

<b>Legal name</b>	Budapest Stock Exchange
<b>Website</b>	<a href="http://www.bse.hu">http://www.bse.hu</a>
<b>Ownership structure</b>	<ul style="list-style-type: none"> <li>• 81.35% Central Bank</li> <li>• KBC Securities Hungarian Branch Office</li> <li>• 13.45 % Free float</li> </ul>
<b>Trading members</b>	Brokers, Investment Banks and Banks – remote membership is supported. Trading members shall apply for section membership and trading right, clearing membership is determined at KELER CCP level: General Clearing Member, Individual Clearing Member, Non-Clearing Member.
<b>Traded instruments</b>	<p>Spot Market: Equities (Categories: Prime, Standard), decategorised equities, ETF, Investment Certificate, Turbo Certificate and Warrant, Investment funds, Compensation notes, Government bonds, Treasury bills, Corporate bonds, Mortgage bonds.</p> <p>Derivatives Market: Index futures, Single stock futures, Currency futures, Index options, Single stock options, Currency options.</p> <p>Commodities Market: Grain futures, Grain options, Grain spot.</p> <p>BÉTa Market: Foreign equities, ETF</p> <p>XTend Market: equities of medium size companies</p> <p>XBond market: secondary trading for bonds issued within the Bond Funding for Growth Scheme of the Central Bank of Hungary.</p>

<b>Traded instruments</b>	Although it is legally possible to trade with Hungarian government securities on the BSE, the secondary market for Hungarian government bonds and T-bills is the MTS Hungary Trading Platform.	
<b>Trading method</b>	Spot market trading takes place on XETRA (T7) trading platform. Derivatives, Commodities and BÉTa Market trading remained on BSE's remote electronic trading system (MMTS2).	
<b>Settlement agent</b>	KELER Central Depository Ltd. (KELER CSD)	
<b>Clearing agent</b>	KELER Central Counterparty Ltd. (KELER CCP)	
<b>Trading hours</b>	Cash Market	from 8.15 a.m. to 5.20 p.m. (Continuous trading with auctions and Several auctions) and from 8.30 a.m. to 5.20 p.m. (Continuous auction)
	Derivatives Market	from 8.30 a.m. to 5.07 p.m (random end)
	BÉTa Market	from 8.15 a.m. to 5.20 p.m. (Continuous trading with auctions)
	Commodities Market	from 11.00 a.m. to 4.06 p.m (random end).
<b>Settlement cycle</b>	T+2 for all types of securities	

### 3.3. MTS HUNGARY – MTS

<b>Legal name</b>	MTS Hungary	
<b>Website</b>	<a href="http://www.mtsmarkets.com">http://www.mtsmarkets.com</a>	
<b>Ownership structure</b>	The MTS Group is majority owned by London Stock Exchange Group plc.	
<b>Trading members</b>	Brokers, Investment Banks, Banks – remote membership is supported.	
<b>Traded instruments</b>	Hungarian government bonds (fixed and floating rate bonds), Hungarian treasury bills, Hungarian student loan bonds, Hungarian corporate bonds and bonds issued by the Hungarian Development Bank Ltd.	
<b>Trading method</b>	Through MTS Hungary Platform.	
<b>Settlement agent</b>	KELER Central Depository Ltd. (KELER CSD)	
<b>Clearing agent</b>	KELER Central Counterparty Ltd. (KELER CCP)	
<b>Settlement cycle</b>	T+2	
<b>Indices</b>	MTS Indices include the EuroMTS Index (ex-CNO Etrix), EuroMTS Inflation-Linked Indices and many more.	

### 3.4. OTC TRADING

OTC trades are settled on a bilateral basis, settlement details (including settlement cycle) are to be agreed by the contracting parties.

All transactions made off-exchange (e.g. by foreign investors without direct access to regulated markets) are OTC from the settlement point of view, while an underlying transaction may be a BSE / MTS trade (through a local or remote trading member) or another OTC transaction.

The Hungarian CSD, KELER, settles the OTC trades in the order of receipt (first instruction received first settled if cover is available), and there is no possibility to link a delivery to a certain receipt, except in case of free of payment transactions.

Trading of government securities takes place mostly OTC even though MTS gathers an increasing portion of bond transactions.

The settlement of secondary bond market deals takes place in KELER real time, and the settlement cycle mostly follows the regulated market, i.e. T+2.

# 4. Clearing

## 4.1. KELER CCP LTD. – KELER CCP

<b>Legal name</b>	KELER CCP (KELER KSZF Ltd.)
<b>Website</b>	<a href="https://kelerkszf.hu/">https://kelerkszf.hu/</a>
<b>Ownership structure</b>	<ul style="list-style-type: none"><li>• 99.85% KELER Central Depository Ltd.</li><li>• 0.08% Central Bank of Hungary</li><li>• 0.07% Budapest Stock Exchange</li></ul>
<b>Clearing members</b>	<p>Mainly domestic and international brokers and banks who concluded a Clearing Membership Agreement with KELER CCP for the clearing of guaranteed regulated market transactions.</p> <p>Types of clearing membership: General Clearing Member, Individual Clearing Member, Non-Clearing Member. Any Clearing Member or Non-Clearing Member may appoint a Settlement Agent to perform all clearing related services on its behalf.</p>
<b>Scope of services</b>	<p>With respect to the Hungarian regulated markets, KELER CCP acts as a central counterparty, which makes it possible for the regulated market transactions to settle in a risk-free environment as it guarantees the financial settlement on the cash and derivative markets of the BSE and MTS Hungary and handles the collaterals. In case of multinet markets and the MTS, KELER CCP accepts cash and securities as financial collateral.</p> <p>Its partners are mainly investment firms and credit institutions.</p> <p>KELER CCP acquired the EMIR license issued by the Central Bank of Hungary.</p> <p>In the framework of acting as a central counterparty, KELER CCP is responsible for:</p> <ul style="list-style-type: none"><li>• Managing clearing memberships;</li><li>• Owning and managing collaterals and the guarantee schemes available in the market (including Exchange Settlement Fund and Collective Guarantee Fund);</li><li>• Managing non-performance on the cash / securities side;</li><li>• Perform buy-ins, if necessary.</li></ul>
<b>Risk model</b>	<p>KELER CCP guarantees the settlement of transactions concluded on the cash, derivatives and BÉTa markets of the BSE as well as trades made on the MTS Hungary Trading Platform. CCP activity is supported by complex risk management mechanisms featuring individual and collective guarantee elements. The undertaking of the CCP guarantee is established by the end-of-day trade confirmations provided by BSE and MTS.</p>



# 5. Settlement

## 5.1. KELER CENTRAL DEPOSITORY LTD. – KELER CSD

**Legal name** KELER Central Depository Ltd.

**17f-7 eligibility** YES

**Website** <https://www.keler.hu>

**Ownership structure**

- 53.33% Central Bank of Hungary
- 46.67% Budapest Stock Exchange

**Scope of services** KELER serves as the national and central securities depository of Hungary and provides securities settlement as part of the clearing services for the BSE and MTS Hungary as well as settlement services for the OTC market (for eligible instruments). KELER is a securities depository operating on the basis of the Act CXX of 2001 on the Capital Market and is regulated by the Central Bank of Hungary (CBH), as the financial supervisory authority. KELER's General Business Rules and other regulations must be approved by the CBH.

KELER keeps securities accounts for both banks and brokerage companies and maintains cash accounts for brokerage companies.

KELER's main services are: issuance of securities codes (ISIN); central register of dematerialised securities; management of dematerialised securities (issue, cancellation); settlement of OTC transactions; financial and securities settlement as a part of the clearing process; lending money and securities including the operation of securities lending system; safekeeping and registration of financial instruments and related account keeping; custody services.

All securities issued to the public in Hungary are eligible for deposit at KELER. Non-publicly issued securities shall only be eligible if the data supply is guaranteed by the issuer on a continuous basis

On 6 February 2017 Hungary joined T2S in the fourth migration wave. The Central Bank of Hungary (CBH) and KELER decided to make all domestically issued securities available in T2S; however, the Hungarian currency, HUF was not brought onto the T2S platform from its start. Hungary follows the Partial Entry Model (PEM) in which the Euro settlement volume is routed through T2S and domestic settlement in HUF is settled by KELER using an omnibus account model within T2S. KELER supports participants in ICP mode and provides an automatic communication with T2S.

By default, KELER keeps the securities positions of its Clients registered in KELER in a consolidated manner using an omnibus account in the T2S system.

The range of securities transactions that can be settled on the T2S omnibus securities account are DVP-type orders in EUR

- Securities Purchase and Sale (TRAD)
- Primary market transactions (KELR / PRMT)
- BSE fix transactions (KELR / BSEA)
- BSE auction transactions (KELR / BSEF)
- DVP initiated by Multinet default process (KELR / MTNS)
- Repos (REPU, RVPO)

All cash side settlements within T2S are performed in all T2S currencies, on DCAs (Dedicated Cash Accounts). In the case of transactions executed in T2S currencies (currently in EUR), KELER serves its clients through its dedicated omnibus T2S cash account in T2S.

On 16 December 2020, the Hungarian Supervisory Authority (the Central Bank of Hungary) granted KELER (the Hungarian CSD) with an authorisation for operation in accordance with CSDR. As a result, KELER can now offer its clients services that support a safe and efficient securities market as a depository operating on the basis of the unified European regulations.

By obtaining the CSDR license, KELER has also received an approval to provide ancillary banking services to its clients. This authorisation only covers the cash settlement of operations performed in the securities settlement system, thus KELER will not be considered a payment service provider in the future.

<b>Scope of services</b>	<p>The local CSD also introduced stricter access rules according to which, access to the settlement system will be evaluated at regular intervals and immediately when a risk arises. Based on CSDR, in addition to the already available own and principal account segregations, additional options, such as distinguishing between client-individual and omnibus accounts is available.</p> <p>As part of its system enhancement program KELER implemented a new system on December 6, 2021 while maintained the current securities and cash account management systems. New services and mechanisms were introduced that are required primarily by the provisions of the CSDR and the related EU regulation (SDR) governing settlement discipline. Among the new features partial settlement, bilateral cancellation, hold and release functions were introduced along with new tolerance limits.</p> <p>In line with the launch of the new KELER system changes in the securities settlement procedures were also implemented to comply with the requirements of T2S and CSDR. The Hungarian Market Practice Group updated the market practice templates for settlement with new standards effective as of December 6, 2021.</p> <p>KELER, the Hungarian CSD, aiming to fully comply with the SRD II requirements set by the local regulation, introduced new services aiming to facilitate the exercising of rights by shareholders, to help issuers know their investors, to facilitate information flow in relation to general meetings and other corporate events.</p> <p>In order to reach compliance with the SRD II, KELER provides Shareholder Identification service for Hungarian securities, forwarding corporate event notification for general meetings and other corporate actions.</p> <p>Services of KELER are provided via its newly developed, web-based system, KELER CAPS (available for direct clients of KELER), and as of April 1 2021, SWIFT ISO 20022 communication is also available.</p> <p>The market practices for Proxy Voting and other type of corporate action did not significantly change. Usage of ISO 20022 standard for Proxy related events (general meeting) is required, however electronic voting as described in the SRD II EU regulation is not implemented on the market, thus voting procedures and Proxy POA market practices remain the same.</p> <p>Shareholder Identification Procedure is new in the market and exists in parallel with the disclosure and registration processed in case of corporate actions or regulatory requests</p>
<b>Accounts held</b>	<p>KELER opens both securities settlement accounts and related cash accounts by currency for clearing members. A Settlement Agent may be appointed by the clearing member to operate these accounts on behalf of the clearing member. The account structure ensures proprietary and client asset segregation.</p> <p>Custodian banks must keep securities accounts at KELER for facilitating OTC settlements. Each custodian has a main account at KELER, under which unlimited number of sub-accounts can be opened based on the needs of the local custodian and its clientele.</p> <p>Individual client segregation as defined in Article 38 (4) of the CSDR is also available. Securities held in an Individual Account are segregated from custodian banks' own proprietary securities and also segregated from securities of custodian banks' other clients.</p> <p>Issuers can open a securities custody account and keep their securities directly at KELER.</p>
<b>Eligible instruments</b>	Equities, bonds (government and corporate), T-bills, investment fund notes, certificates.
<b>Level of dematerialisation</b>	<p>In Hungary securities may be issued either in physical or in dematerialised form; however, the vast majority of the market is already dematerialised.</p> <p>Listed companies had to dematerialise their shares until the end of 2004 and all government securities have been issued in dematerialised form since April 1999. As per the new Civil Code (Act V of 2013) that came into effect on 15 March 2014, public limited companies had to be listed on the Budapest Stock Exchange by 15 March 2016 or they had to change their status to private limited company.</p> <p>Only registered and, with the exception of government securities, dematerialised securities may be offered to the public.</p> <p>Currently only private limited companies may issue physical securities; if the company has already converted its shares into dematerialised form, the new Civil Code allows the conversion of dematerialised shares back to physical ones. All dematerialised securities need to be held at KELER.</p>

## **Stock Exchange Settlement**

For regulated markets (BSE and MTS) settlement KELER manages the securities settlement accounts for all clearing members, including brokerage companies and credit institutions. Also, KELER manages the exchange cash accounts (per currency) for clearing members. The financial settlement of transactions concluded by brokers and remote clearing members is done on the exchange cash accounts, while those executed by domestic credit institutions are completed on the banks' nostro accounts managed by the CBH. The direct participants in the settlement procedure are banks and brokerage houses with trading and clearing licenses.

KELER CCP is the sole provider of the trade netting service for all regulated market transactions. All stock exchange / MTS transactions are received by KELER CCP with confirmed status. KELER CCP reports the net (buying or selling) securities positions by ISIN for Settlement Day (SD) to each clearing member following multilateral netting on T+1 and one net cash position is created per clearing member for each SD.

Settlement is made based on BIS Model 3: Simultaneous Net Settlement of Securities and Funds Transfers. Transfer instructions for both securities and funds settle on a net basis, with final transfers of both securities and funds occurring at the end of the processing cycle. Trades are cleared and settled on a rolling basis (T+2 for all types of securities).

As of 1 February, 2024 KELER CCP introduced a multi-round settlement model for transactions subject to multinet clearing. The final deadline for full settlements shall be at 15:00 CET on SD for both net securities seller (delivery) positions and net securities buyer (financial) positions. The first round of multinet settlement takes place automatically at 12:00 CET, provided that the net securities seller and net securities buyer positions are fully covered. The second round of settlement will be activated at 12:00 CET on settlement day if the net securities buyer positions are fully covered, regardless of whether the net seller positions are not yet fully covered. The final round of settlement will be initiated at 15:00 CET on SD at the latest irrespective of whether the net seller and/or net buyer positions are covered. Failure to cover the net positions till 15:00 CET on SD shall result in default.

Once all securities and cash funds are credited to the central account, KELER immediately initiates securities and cash transfers from the central account to the beneficiaries, credits buyers' securities accounts and sellers' cash accounts. The process shall be finalised by 15:00 CET the latest and can take place any time before this time on SD provided that all positions of all clearing members are available for settlement.

The securities and financial settlements are final and irrevocable. Any failure by account holders to meet obligations would immediately trigger compulsory measures (penalty, buy-in procedure, compulsory sale, etc.) against the defaulting participant.

## **OTC Settlement**

All transactions made off-exchange (e.g. by foreign investors without direct access to regulated markets) are OTC from the settlement point of view. OTC transactions are not regulated; settlement cycle and details are fully negotiable by the partners. KELER settles OTC transactions in a gross manner, transaction by transaction, in line with the DVP (delivery versus payment) principle, according to the BIS model 1. Matching of trade details at KELER is obligatory for successful settlement. Matching is not binding; i.e. matched transactions can be cancelled bilaterally; however, settlement is final and irrevocable.

Free of payment settlement is possible, even if there is no change in the beneficial owner (NCBO).

KELER operates a real time securities settlement protocol which is linked to gross cash movements made in real time through VIBER, the electronic payments system operated by the Central Bank of Hungary.

**Physical securities** The deadline for physical securities delivery to and from KELER's vault is at 14:00 CET SD-1.

## **Settlement protection**

Currently no guarantee mechanism exists for OTC deals. In line with the European regulation (CSDR) KELER implemented penalty mechanism for settlement fails from May 2, 2022. Penalties are imposed on instructions that are late matched and / or do not settle on the intended settlement date. It is applicable for the settlement of financial instruments that can be traded on EU trading venues or can be cleared by EU central counterparty where the primary trading venue of the share is not outside the EU.

Penalties are determined based on the status the matched instruction has at the end of the settlement time window (at cut-off) and the reason of failure. This reason defines whether for the given instruction the penalty could be calculated, i.e. the party for which the penalty is to be imposed, thus e.g. in case of insufficient securities cover the seller, in case of insufficient cash cover the buyer. In case of instructions in hold status penalties can be imposed on both parties at the same time.

KELER calculates the penalty for all instructions to be settled in its own system.

The external settlement platform (T2S) or the central securities depositories calculating and reporting the penalty will report to KELER the penalties imposed on instructions to be settled outside KELER (T2S or cross-border) directly or indirectly.

**Settlement protection**

The following penalties are to be introduced for failed trades:

Late Matching Fail Penalty (LMFP): If settlement orders are matched after the intended settlement date.

Settlement Fail Penalty (SEFP): Penalty calculated for settlement orders that are matched until the applicable cut-off on the intended settlement date, but are not settled on the intended settlement date or on the following business day(s). On one business day, only the SEFP applicable to the day concerned is charged.

In line with the decision of the European Council the implementation of the buy-in regime on the Hungarian market has been postponed to a later date.

On the regulated market (BSE spot and derivatives, BÉT Market and MTS Hungary) KELER CCP provides a guaranteed system with the following elements:

- Individual guarantee elements: collateral provided by clearing members (basic financial collateral, initial margin, variation margin, supplementary collateral, additional financial collateral);
- Collective guarantee elements: default fund contribution by clearing members (Exchange Settlement Fund for cash market – TEA, and Collective Guarantee Fund for derivatives market – KGA);
- KELER CCP's assets;
- Default procedures in case of securities / financial default.

Default procedures:

- If the necessary securities or cash is not available for settlement on the accounts of a clearing member by 15:00 CET on SD KELER CCP declares default event and initiates non-performance procedures;
- For securities side default KELER CCP may initiate a buy-in procedure as a last resort on SD+5 at 9.00 a.m. CET against the defaulting member;
- Depending on the type and length of default, the defaulting clearing member shall pay different types of penalties.

**Investor Protection**

Investor Protection Fund (BEVA) is a legal entity established by investment service providers pursuant to the Act on the Capital Market to protect the interests of investors. All investment service providers must join the fund. Membership fees constitute the bulk of the Fund's revenue (affiliation fees, annual membership dues, extraordinary dues based on the Board's order).

With certain limitations, upon a court order for the liquidation of a fund member, the Fund compensates investors whose claims are blocked in an investment firm. Some investor groups are excluded from compensation, e.g. the state, institutional investors, financial institutions, investment firms. The maximum amount of compensation per person and investment firm is EUR 100,000 (above HUF 1 million only 90% of the claim amount is honoured).

**Identified Risk**

None

# 6. Payment System

## 6.1. GENERAL INFORMATION

Cash clearing in Hungary takes place in the following two clearing systems: VIBER and Interbank Clearing System called GIRO. The Interbank Clearing System consists of three payment platforms: InterGiro 1, InterGiro2 (widely referred to as IG2) and Instant Payment. Payments of foreign banks / institutional investors are processed through the VIBER and IG2 systems.

VIBER is the RTGS system operated by the Central Bank of Hungary which works real time and it is used for high value commercial payments and bank-to-bank payments.

IG2 is an automated clearing platform performing typically the processing of low value and high-volume payments in Hungary. It is operated by GIRO Ltd., which is fully owned by the CBH. IG2 works in batches, clearing takes place in ten intra-day clearing cycles.

Hungarian Forint instant payments allows the local clientele to initiate payments 24 hours a day, 7 days a week, 365 days in a year, irrespective of weekends and public holidays. Maximum amount per payment is HUF 20 million, the instant payment shall reach the beneficiary within 5 seconds. This payment method is not available for foreign banks / institutional investors for outgoing payments however credits may occur.

Hungary adopted the EU's Payment Services Directive in 2009 and the PSD2 EU Directive that came into force in Hungary on 13 January 2018.

## 6.2. LIMITATIONS, DEADLINES, CUT-OFF TIMES

The timeframe of real-time VIBER settlement is between 7.00 a.m. and 6.00 p.m. CET on each value date. Customer payments (i.e. payment instructions – both MT103 and MT202 – of the customers of direct VIBER participants) can be initiated until 5.00 p.m. CET, settlement of securities transactions against payment (DVP) until 5.30 p.m. CET, and payments of direct VIBER participants (managing their own positions) until 6.00 p.m. CET.

The operation principle of the IG2 intraday clearing is the “4-hour execution rule” which is supposed to ensure that transfer orders are executed, and funds are made available for the beneficiary within four hours of receipt of the order by the remitting bank. Ten clearing phases are completed each day starting from 7.30 a.m. until 5.00 p.m. CET.

## 6.3. CONTINUOUS LINKED SETTLEMENT – CLS

The Hungarian Forint is a CLS settlement currency as of 16 November 2015.

# 7. Securities Lending

## 7.1. SECURITIES LENDING

The Capital Market Act regulates the securities lending and borrowing in Hungary, stipulating the following main characteristics:

Securities lending agreements (with mandatory elements) must be concluded for specific terms and cannot be incorporated into any other contract.

The parties shall agree how the voting rights can be exercised in connection with the lent shares.

The borrower becomes the owner of the securities, so it is eligible to exercise the shareholders rights.

As a precondition for lending, the lender must have unrestricted control over the securities.

Firms (e.g. investment fund managers, insurance companies) stipulated by the Capital Market Act shall advise the Authority about their intention to engage in securities lending operations in advance.

There is a relatively active informal bilateral lending market among local brokers.

Currently KELER provides securities lending (i) for the purpose of facilitating XETRA settlements, (ii) in order to facilitate market making on the Budapest Stock Exchange. A "General Agreement for Lending Securities", i.e. a framework agreement which contains the detailed rules relating to the securities lending has to be signed with KELER for using the above services.

In addition to the above two lending types, KELER's Treasury and the Government Debt Management Agency provide overnight and weekly repo services to foster the smooth settlement of MTS Hungary transactions. Securities lending is permitted for foreign investors. There are no restrictions on the activities that foreign investors can conduct.

## 7.2. SHORT SELLING

Short selling is regulated by EU Regulation No. 236 / 2012 on short selling (SSR) that prescribes the following requirements:

All those entering into short sales of shares must be covered by either having borrowed the instruments concerned, have arranged to borrow them; or have an arrangement with a third party who has confirmed that the share has been located i.e. naked short selling in shares is banned;

All those entering into short sales of sovereign debt instruments must have borrowed the instruments concerned, have an agreement to borrow them, or have an arrangement with a third party who has confirmed that the securities have been located or expects that the trade can be settled when due i.e. naked short selling in sovereign debt is banned;

All those entering into credit default swaps (CDS) positions related to a sovereign issuer must have an underlying exposure to the risk of default of that sovereign issuer or of a decline in the value of the sovereign debt of that issuer i.e. naked sovereign CDS are banned.

Central counterparties providing clearing services must ensure that there are adequate arrangements in place for buy-in of shares as well as fines where there is a settlement failure. KELER CCP complies with this requirement.

Mandatory transparency of net short positions:

Significant net short positions in shares must be reported to the CBH in line with EU regulation 236 / 2012 on short selling (Chapter II. Transparency of net short positions).

Notifications by private or institutional investors on short selling positions are sent to the CBH through a dedicated SSR-application. In addition to this, investors make public announcements via <http://kozvetetelek.mnb.hu> operated by the CBH.

Reporting in relation to sovereign debt is completed based on the duration adjusted figure of the outstanding amount of sovereign debt of Hungary. Such figures are published by ESMA each quarter for all EU member states, including Hungary.

The SSR provides exemptions for market making activities and authorised primary dealers, prescribing the notification of intent to make use of the exemption to be made to the home authority of the notifying entity (in Hungary the CBH), while the exempted activities might also take place in other jurisdictions outside the supervision of the home authority.

# 8. Corporate actions

## 8.1. COMMON CORPORATE ACTION EVENTS

Mandatory events	Voluntary events
<input checked="" type="checkbox"/> dividend, cash	<input type="checkbox"/> exercise of rights
<input type="checkbox"/> dividend, option	<input type="checkbox"/> issue, priority
<input type="checkbox"/> dividend, stock	<input type="checkbox"/> exchange offer
<input checked="" type="checkbox"/> interest payment	<input checked="" type="checkbox"/> tender offer
<input type="checkbox"/> issue, bonus	<input checked="" type="checkbox"/> repurchase offer
<input type="checkbox"/> issue, rights	<input checked="" type="checkbox"/> shareholders meeting
<input checked="" type="checkbox"/> maturity	
<input checked="" type="checkbox"/> maturity final	
<input type="checkbox"/> merger	
<input type="checkbox"/> pari-passu	
<input type="checkbox"/> redemption, early	
<input type="checkbox"/> redemption, partial	
<input type="checkbox"/> spin-off	
<input checked="" type="checkbox"/> split	
<input checked="" type="checkbox"/> split, reverse	

## 8.2. DATING CONVENTIONS

No straightforward standards exist in the market for corporate actions processing, issuer companies set dating conventions, documentation requirements and other conditions in their announcement of the event on a case-by-case basis. For KELER eligible securities, issuer companies however usually liaise with KELER and order data collection for the purpose of an update in the book of shares if they deem necessary for the processing of the event.

Generally speaking, shareholders are entitled to participate in corporate actions with the closing settled position on their account as of record date, while the record date (if exists) may be flexibly set by the issuer on a case-by-case basis.

## 8.3. SOURCES OF CA INFORMATION

As of 15 March 2016, all public companies in Hungary must get listed on the BSE. Public limited companies must publish their announcements on their website and on the website of the BSE as well. In addition, public limited companies are also obliged to publish their announcements on <https://kozzetetelek.mnb.hu>, a website operated by the Central Bank of Hungary. From September 2021, a newly developed web-based platform – called CAPS – was implemented by KELER. Issuers can upload corporate action information which can be downloaded by market participants.

Corporate actions related announcements are usually made only once, generally 30 days prior to a corporate action date in case of public limited companies.

Companies being in the Premium Equity Category of BSE publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

Private companies are not obliged to make public announcements - instead, they must inform their shareholders directly in writing 15 days prior to the meeting.

As of 1 January 2016, the Capital Market Act requires issuers of dematerialized securities to publish their announcements as specified in the General Business Rules of the CSD. Nevertheless, the implementation is still in progress.

## 8.4. LOCAL C / A SPECIFICS

### REGISTRATION OF SECURITIES

In Hungary, as a general market practice registration takes place in the following cases:

When a corporate action occurs;

When it is requested by the issuer or by the Central Bank of Hungary;

The custodian has to request the registration of shares (both physical and dematerialised) within two business days after receipt of the securities, unless

(i) the shareholder explicitly prohibits the registration or

(ii) the safekeeping account holder is not authorised to register the shares by the shareholder

(these latter two options are applicable only in the case of dematerialised securities of public limited companies).

There is no central registrar in Hungary. Issuer companies have the right to choose a registrar or they can set up their own registrar within the company. KELER acts as registrar for most equities listed on the BSE based on an agreement with the issuer.

Re-registration does not mean physical re-registration, only an update in the issuer's book of shares through KELER. The securities of public limited companies are tradable during the registration period while private limited companies may request for blocking of their shares between the record date and event date.

The registration can be performed in the name of the customer of the local custodian's client, in the name of the client of the local custodian or in any other name disclosed by the client of the local custodian taking into consideration that according to the Capital Market Act unless evidenced to the contrary, the holder of a (dematerialised) security shall be the person on whose account it is registered (maintained). The Civil Code explicitly states that the lack of registration in the book of shareholders does not have an impact on the ownership rights of the shareholder. However, registration of shareholders is a pre-condition for entitlement / exercise of shareholders' rights.

A special case is when the shares are registered in the name of a nominee, who is typically the client of the local custodian.

In case of debt securities, there is no separate registration procedure in place, these securities are registered simply by being credited on the securities accounts, the account holder is considered as the holder of the security (unless evidenced otherwise by the account holder).

### DOCUMENTATION REQUIREMENTS

In case of voluntary events usually a Power of Attorney is required from the registered shareholder, and additional documentation may be necessary on a case-by-case basis as per the issuer's conditions.

Representation can be exercised by a fully legalized Proxy Power of Attorney (PoA) that shall be valid until revocation, but maximum for five years. However, it is the sole discretion of the issuers to define what type of Proxy PoA they accept for proxy representation at the general meetings. In practice either an event specific PoA or a PoA that is valid for 12 months is used.

### MARKET CLAIM, TRANSFORMATION AND BUYER PROTECTION

KELER offers and handles market claim, transformation process and buyer protection only if the underlying securities transaction is EUR DVP and in case of market claims for fixed income instruments only.

In case of fixed income instruments reverse market claim is not possible, so the cum / ex indicators are currently not applicable.

As the opt-out indicators cannot be submitted to KELER along with the settlement instruction, additional instruction has to be sent to KELER if an investor would like to take part in the market claim process. Upon receipt of these free format instructions from both parties with matching opt-out indicators KELER calculates the compensation (i.e. the amount of the market claim). In case the currency of the corporate action is HUF, the place for compensation is in KELER, and in case of EUR, it is in T2S.

Transformation is applicable to matched EUR DVP instructions and cross-CSD transactions that are pending at close of business on event date-1 (PD-1). KELER applies transformation for all eligible transactions automatically, without separate instruction.

KELER offers a manual buyer protection process for elective corporate actions from which the buyer can benefit even in case of having pending transactions around market deadline. So, the buyer can practice the rights related to the securities purchased even though the securities have not been credited to its account (due to a pending transaction). Applicable only if the underlying securities transaction is EUR DVP.



# 9. Proxy voting

## 9.1. GENERAL CHARACTERISTICS

Voting entitlement is based on the closing settled position on record date, which is usually E-5 (E being the event date). In case of general meetings though, the issuer can determine a different record date in its announcement.

Registration is made based on the Record Date closing settled position on Record Date+1 between 8.00 a.m. and 3.00 p.m. CET.

Sub-custodians provide details of shareholders to KELER and KELER then either forwards the information to the issuer (if the issuer holds itself the book of shareholders) or updates the book of shareholders itself if it acts as an agent of the issuer. The book of shareholders must be closed by the close of business on E-2, i.e. two days before the event takes place.

In the Hungarian market corporate and government bond holders are not entitled to participate in any GM as these securities do not represent shareholder rights. The same applies to investment fund notes.

In case of general meetings, the representative shall carry a proxy Power of Attorney (POA) to be able to vote in the name and on behalf of the registered shareholder. According to the new Civil Code representation can be exercised by a fully legalized Proxy Power of Attorney (PoA) that shall be valid until revocation, but maximum for five years. However, it is the sole discretion of the issuers to define what type of Proxy PoA they accept for proxy representation at the general meetings.

The Proxy PoA has to be issued and signed by the registered shareholder (either the ultimate beneficial owner or the nominee). There may be some special issuer requirements or limitations (e.g. proxy POA valid for one meeting only) on a case-by-case basis, and companies may request some additional documentation to be completed by the shareholders.

In case the general meeting has no quorum and a second meeting is conveyed with an unchanged agenda, the reconvened meeting can be held on the same day of the first meeting date.

Hungary adopted the EU Shareholders Directive 2007 / 36 / EC in November 2009.

## 9.2. ANNOUNCEMENT

Private limited companies are not obliged to make public announcements - instead, they must inform their shareholders directly in writing 15 days prior to the meeting.

As of 15 March 2016, all public limited companies in Hungary must get listed on the BSE. Public limited companies must publish their announcements on their website and on the website of the BSE as well. In addition, public limited companies are also obliged to publish their announcements on <https://kozzetetelek.mnb.hu>, a website operated by the Central Bank of Hungary. From September 2021 a newly developed web-based platform – called CAPS – was implemented by KELER. Issuers can upload corporate action information which can be downloaded by market participants.

Corporate actions related announcements are usually made only once, generally 30 days prior to a corporate action date in case of public limited companies.

Companies being in the Premium Equity Category of BSE publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

As of 1 January 2016, the Capital Market Act requires issuers of dematerialized securities to publish their announcements as specified in the General Business Rules of the CSD; in practice however, the implementation has not been completed yet.

## 9.3. VOTING PROCESS

According to the Civil Code (that is harmonised with the EU's Shareholders Directive 2007 / 36 / EC) blocking of shares prior to general meetings is not allowed for public limited companies, while private limited companies may impose such requirement based on their articles of association.

Voting via proxy cards and correspondence (e.g. post) is allowed by law, however it is not a general market practice, a vast majority of companies still require personal attendance.

Partial voting is possible, however split voting is allowed for nominees only. Should a shareholder keep shares of a public limited company on more than one securities account, the shareholder may appoint more representatives (unless the issuer stipulates otherwise), but these representatives shall not vote differently. Should different votes be cast by the representatives of the same shareholder, all votes are considered null and void.

Electronic voting as specified by SRD II is not implemented on the market. Voting by electronic means (via internet or other communication channels) is possible, however the standards are not harmonized amongst issuers.

# 10. Income collection

## 10.1. DIVIDEND PAYMENTS

Hungarian companies pay dividend on an annual basis, usually one month after their general meeting, which is held mostly around April-May each year. Dates and any special procedures are set at the Annual General Meeting of the issuer.

In case of a corporate event involving payment (payment of dividend, payment of interim dividend and share dividend) the issuers of all public shares are obliged to require shareholder registration from KELER and at least ten business days must pass between the date of the general meeting and the initial date of payment of dividend.

As per the new Civil Code, those shareholders will be entitled for dividend who are registered in the shareholders' register for the general meeting that defines the dividend payment. However, deviation from this section of the Civil Code is allowed for the issuers. They can set different rules in their Articles of Associations (e.g., KELER rules are followed).

In case of dividend payments, Hungarian regulations do not force the issuer or its paying agent to pay the dividend on the earliest payment date of the announced dividend payment period. Shareholder accounts are credited with the dividend amount after actual receipt from the issuer or its paying agent unless the local custodian provides contractual income services.

**Announcements** Announcements are made by the issuer company on the official places where the given issuer shall publish all corporate actions related news. For further details please refer to Section 8.3. Issuers announce a dividend payment period with an earliest payment date (which is the starting date of the dividend payment period).

**Dating Conventions** Shareholders are entitled to receive dividends according to the closing, settled position on record date, which position is registered through KELER. Dating conventions in case of equities are generally as follows:

CUM DATE: E - 7 working days

EX DATE: E - 6 working days

RECORD DATE: E - 5 working days

Registration of shareholders is a pre-condition for dividend payment. Private limited companies usually set special procedures for registration and dividend collection.

**Payment Execution** Payment on actual basis, shareholder accounts are credited with the dividend amount upon actual receipt from the issuer or from its paying agent.

Pending entitlements due to late settlements are not automatically adjusted in the payment process according to market practices, but there is a valid legal ground for claims based on the Hungarian Civil Code.

## 10.2. INTEREST & MATURITY PAYMENTS

In case of government bonds and treasury bills the Government Debt Management Agency (GDMA) pays interest and redemptions to investors through KELER Ltd. as principal paying agent. GDMA transfers the total amount in one lump sum to KELER Ltd. and KELER executes the payments to the custodians or to the securities account keepers based on the data collected by KELER as of the record date. Custodians and securities account keepers distribute the interest and redemption amount and credit the accounts of the government securities' holders.

The amounts are credited on the announced payment date (contractual payment).

The issuer (GDMA) may repurchase the government bonds before maturity in the course of reverse auctions. Primary dealers are authorised to participate in reverse auctions that are held one to four months before redemption date, so investors may participate in these events through primary dealers.

In case of corporate bonds, the CSD reports the position of the custodian banks as per their securities accounts held with the CSD to the issuer or to its paying agent. Then the issuer or its paying agent pays the interest or redemption amount in one lump sum directly to the custodian banks who will distribute the due interest or redemption amount to their clients.

Issuers' are committed to pay interest and other returns on the date stipulated in the Prospectus of the given securities.

**Announcements** The issuer of government debt makes announcements on income and redemptions on its website <http://www.akk.hu>. The pay-dates of interest and redemption for bonds are announced upon issue, so these events are known for the whole lifecycle of these securities in advance.

Similarly to government bonds and treasury bills the prospectuses of the corporate bonds are publicly available upon issue so the schedules of all income events are announced in advance.

**Dating Conventions** Securities holders are entitled to receive interest and principal payments according to the closing, settled position on record date.

CUM DATE: E - 4 working days

EX DATE: E - 3 working days

RECORD DATE: E - 2 working days

In case of dividend payments KELER reports record date positions to the issuer and custodian provides all beneficial owner related documentation to KELER / issuer.

As for payments of interest, the custodian is considered to be the paying agent therefore he takes care of all tax related procedures, formation on final beneficiaries are reported by custodians and other investment service providers.

**Payment Execution** Issuers are committed to pay interest and other returns on the date stipulated in the Prospectus of the given securities in advance.

Pending entitlements due to late settlements are not automatically adjusted in the payment process according to market practices, but there is a valid legal ground for claims based on the Hungarian Civil Code.

**Market claim** KELER offers and handles market claims if the underlying securities transaction was EUR DVP and for fixed income instruments only.

In case of fixed income instruments reverse market claim is not possible, so the Cum / Ex indicators are currently not applicable.

As the opt-out indicators cannot be submitted to KELER along with the settlement instruction, additional instruction has to be sent to KELER if an investor would like to take part in the market claim process. Upon receipt of these free format instructions from both parties with matching opt-out indicators KELER calculates the compensation (i.e. the amount of the market claim). In case the currency of the corporate action is HUF, the place for compensation is in KELER, and in case of EUR, it is in T2S.

# 11. Taxation

## 11.1. WITHHOLDING TAX

In Hungary, among others, the Act LXXXI of 1996 on Corporate Tax and Dividend Tax, Act CXVII of 1995 on Personal Income Tax and Act CL of 2017 on the Rules of Taxation govern the taxation matters of domestic and foreign investors. In addition, the relevant Double Tax Treaty (DTT) is to be examined to determine any tax exemption or tax relief opportunities. Since the dividend and interest withholding tax form an integral part of the personal income tax regime, based on the above rules, interest and dividend income of private individuals is subject to 15% withholding tax in Hungary, while legal entities, including foreign institutional investors, are generally exempt from withholding tax. Relief at source is available.

Dividend paid to private individuals is also subject to 13% social contribution tax up to HUF HUF 6 403 200 yearly income in case the dividend derives from instruments that are not listed in any regulated market within the European Economic Area.

In case of Hungarian residents as of 1 July 2023 interests on debt instruments and investment fund units are also subject to 13% social security contribution (with certain exceptions i.e. tax exempt debt securities and real estate fund units).

As of 1 January 2017, income of Alternative Investment Funds (AIFs) that are issued and distributed in private placement is also treated as dividend thus it is subject to 15% dividend withholding tax if the income is paid to a private individual. Income from investment units of other types of investment funds is still treated as interest.

If the respective DTT refers to a more favourable tax rate on dividend and the application criteria are met, the more favourable tax rate provided by the DTT shall be applied, provided that the necessary documents are presented to the payer of the dividend.

As of 1 June 2019, interest on debt securities issued by the Hungarian State and distributed to private individuals is exempt from the PIT.

<b>Tax Rates</b>	<b>Type of income</b>	<b>Tax rate</b>
	Interest income (for legal entities)	0%
	Interest income (for individuals)	15%
	Dividend income (for legal entities)	0%
	Dividend income (for individuals)	15%
	Additional distributions (for individuals)	13%

**Relief at Source** Relief at source (RAS) is available for foreign private individual investors when the DTT between Hungary and the country of tax residence of the beneficial owner provides for a lower tax rate. Act CXVII of 1995 on Personal Income Tax recognises the RAS method, which is obligatory for issuers and paying agents, if the necessary documents are in good order and received by the issuer or paying agent in a timely manner. For achieving RAS, Certificate of Tax Residency and Declaration of Tax Beneficial Ownership (if required by DTT) shall be provided prior to payment by the recipient of the income.

**Tax Reliefs** Based on relevant DTT at the time of payment or via tax reclaims.

## 11.2. CAPITAL GAINS TAX

Non-resident institutional investors are fully exempt from capital gains tax. According to the Act CXVII of 1995 on Personal Income Tax, the place of gainful activity in respect of capital gains is the state in which the private individual is a resident, thus no capital gains tax is deducted from non-resident private individuals in Hungary.

**Tax Rates** 15%

**Relief at Source** N / A

**Tax Reliefs** N / A

## 11.3. STAMP DUTY

No Stamp Duty is applicable.

**Tax Rates** N / A

**Tax Reliefs** N / A

## 11.4. OTHER TAXES

### VAT

Management and safekeeping services with respect to physical securities are subject to 27% VAT in Hungary.

### TRANSACTION TAXES

In Hungary FTT applies to all institutions resident in Hungary or having branch offices in Hungary and cross - border service providers that are engaged in payment services or money exchange, including but not limited to financial institutions.

FTT rate on cash payments is 0.6%, while the FTT rate on transfers between accounts is 0.3%, with the upper limit of HUF 10,000.

The scope of the FTT covers money transfers, collections, direct debits, cash withdrawals, money remittance (paid through cashier), letters of credit, cheque collections, foreign exchange, amortisation of loans and fees and commissions. Loan repayments in cash made to financial institutions providing credit and financial loans, which do not qualify as payment services providers, is also subject to financial transactions tax.

As of 1 July 2022 the Hungarian government has imposed special taxes in several areas, which are laid down in Government Decree 197 / 2022 (4.VI) on Extra Profit Taxes (the "Government Decree"). The new resolution expanded the scope of financial transaction tax and introduced the Securities Transaction Tax (STT). Investment companies, credit institutions resident in Hungary (including Hungarian branches of foreign institutions) and cross- border service providers providing investment services are obliged to pay transaction tax on the purchase of financial instruments with an ISIN code issued by KELER Central Depository Ltd.

The liability refers to purchases for both client and own accounts, with the corresponding liability of the submission of a tax return. The tax base of the STT is the value (purchase price) of the respective financial instruments-, the tax rate is 0.3% capped at HUF 10,000 per transaction. The tax liability shall arise on the day of settlement of the purchase of the financial instrument.

## 11.5. TAX RECLAIM PROCESS

The statutory deadline for reclaiming withholding tax in Hungary is five years following the end of the year, in which the relevant payment of the interest or dividend occurred. If the tax relief is not possible at source due to missing or incomplete documentation tax reclamation procedure can be launched. According to the current tax rules, legal entities are not subject to withholding tax in Hungary. Tax reclaim process might be applicable for foreign private individual investors only.

Tax reclaim can be submitted by the beneficial owner itself, or through an authorised representative, who can be a tax advisor, a legal advisor or the local custodian.

#### Documentation requirements:

- Certificate of Tax Residency,
- Declaration of Tax Beneficial Ownership,
- Certificate of Payment issued by the issuer or paying agent,
- Free format tax reclaim letter,
- Power of Attorney signed by the beneficial owner when the reclaim is submitted through a representative.

Tax reclaims are not standardised; payment dates cannot be projected. The tax authority is bound by a 30-day limit to pay the funds following the legally binding resolution of the refund.

If a private individual investor had been registered for the dividend payment behind a nominee (thus the standard Hungarian dividend withholding tax had been applied by the issuer) and the investor would like to reclaim the difference of the deducted tax and the tax applicable according to the relevant DTT, then they should request the nominee (via its Hungarian custodian) to request for re-registration at the issuer latest by the end of the calendar year when the dividend was paid. The nominee will be required to disclose the personal details of the private individual together with their settled, closing position of shares on the record date. On the basis of the disclosure the issuer will issue a confirmation for the re-registered investor within 30 calendar days from receipt of the disclosure request about the dividend amount paid and the dividend tax withheld. As soon as the issuer's declaration is received, the investor may start the tax reclaim process by representing the documents mentioned above.

## 11.6. DOUBLE TAXATION TREATIES

For the most up to date DTTs please refer to our website: <http://gss.unicreditgroup.eu> DTTs are listed in the / MARKET / DOCUMENTS section.

# 12. Disclosure requirements

## 12.1. OBLIGATIONS FOR ISSUERS

Issuers of securities admitted to the Budapest Stock Exchange (BSE) shall provide reports, documents and notices to the BSE in accordance with the BSE's Regulations.

Issuers shall invite the BSE to their press conferences or discussions and shall simultaneously deliver to it any materials released to the press.

Issuers of equities have to give advance notice to the BSE of their general meetings and have to invite it to participate.

Issuers must report to the BSE any change in connection with the person or representative responsible for the relations with the BSE within one trading day.

The issuer has to publish, inter alia, (i) any amendment to its Deed of Foundation within one trading day after receipt of the court order verifying registration and has to ensure that a copy is delivered to BSE which is a complete version with all amendments inserted; and (ii) the name and address of the party responsible for keeping its register of shares and any changes thereto within one trading day.

The issuer must publish, inter alia, the same information to be disclosed under the laws regulating the respective issuer (i.e. the Capital Market Act in the case of issuers of shares).

According to the Capital Market Act issuers of securities that have been offered to the public shall make their semi-annual report, annual report and interim management report public (except for issuers which publish quarterly financial reports in accordance with the requirements prescribed for semi-annual reports). Issuers also have to publish the number of voting rights attached to their shares separately for each series, indicating also the portfolios of own shares and the amount of the capital on the next business day at the latest and with respect to the last day of each calendar month.

Companies being in the Premium Equity Category of BSE shall publish their corporate governance report at the time of listing and a corporate actions calendar at the beginning of each business year.

Issuers of securities that have been offered to the public must disclose without delay or within the following business day any information that concerns, directly or indirectly, the value or yield of their securities issue or the reputation of the issuer. Issuers shall, at the same time, file that information with the CBH and the BSE, too.

Any public company limited by shares that is listed on a regular market (including the BSE) shall post information on its website each calendar year, at the time of convocation of the annual general meeting concerning (i) the names of the members of the management board or the board of directors, and the members of the supervisory board and (ii) their remuneration or any kind of benefits (if any) provided under any legal title for their services. The company shall provide continuous access to these data on its website.

Besides the above disclosure requirements, the issuer of securities that have been offered to the public have to report to the CBH, inter alia, on ownership structure, voting rights, amount of treasury shares, management of the company, strategic employees and main financial data.

## 12.2. OBLIGATIONS FOR INVESTORS

- In accordance with the Capital Market Act, nominees are obliged to disclose the underlying beneficial owners in case of a request submitted by a shareholder, the company or by the CBH and should produce any evidence in support of their capacity as nominees when duly requested by the company or by the CBH. In addition, any person who is able to substantiate his valid concern shall be entitled to request the CBH as Supervisory Authority to reveal the identity of the shareholders represented by a particular nominee. In lack of such evidence, shareholder rights cannot be exercised.
- Investors (i.e. shareholders or the holder of the voting right attached to the shares) must disclose to the CBH and to the issuing company both direct and indirect holdings (shares or voting rights) in a public company limited by shares when reaching or exceeding 5% and every additional multiple of 5%, immediately but within two calendar days of the acquisition at latest. This disclosure requirement extends up to 50%, after which the thresholds are 75%, 80%, 85% and 90%. Above 90%, the disclosure is compulsory after every single 1% increase. The obligation for notification stipulated above also applies if an investor's holding in the company is reduced by falling below the same percentages.
- The Transparency Directive Amending Directive (2013 / 50 / EU) was implemented in Hungary through changes made to the Capital Market Act. Accordingly, disclosure obligation described in the previous section applies to any person who, directly or indirectly, is in possession of any financial instruments (such as transferable securities, options, futures, swaps, forward rate agreements, financial contracts for differences; or any other contracts with economic effects similar to these financial instruments) that on maturity provide the holder, under a formal agreement, either with the unconditional right to acquire or with the discretion as to his right to acquire such shares to which voting rights are attached. If the shares are in fact acquired on the basis of the financial instrument repeated disclosure obligation exists in case reaching / exceeding thresholds percentages set forth in the law. Holdings of shares, voting rights and financial instruments shall be aggregated when considering the disclosure requirements.

- Any acquisition of shares in an exchange, whereby the direct or indirect holding of a single shareholder reaches 33, 50, 66, 75 or 100 per cent shall be subject to the CBH's prior authorisation and shall also be reported to the CBH by the exchange. The exchange may additionally define the maximum ownership level that can be acquired by one shareholder in its Articles of Association.
- The prior permission of the CBH must be obtained (i) for the acquisition of a qualifying holding in a financial institution, or (ii) for the acquisition of additional qualifying holding in a financial institution by which to reach the 20, 33 or 50 per cent limit. This applies both to increasing and decreasing ownership attaining the above percentage levels.
- Also, the CBH's permission is required for the acquisition of majority interest in an enterprise that has a qualifying holding in a financial institution. "Qualifying holding" shall have the same meaning as defined in Regulation (EU) No. 575 / 2013 of the European Parliament and of the Council.
- Based on the Act V of 2013 on the Civil Code acquisition of a qualifying holding (75% or more of the voting rights) in private limited companies shall be reported to the competent court of registry within 15 days after the holding is in fact acquired. In case of non-compliance the court of registry has powers to impose judicial supervisory sanctions (a warning and a fine) against the person acquiring the holding.
- Any shareholder acquiring more than 33% of the voting shares of a company is obliged to make a takeover bid. However, should an investor acquire a 25% holding, at a time when no other investor has more than a 10% holding, the investor is obliged to make a takeover bid at that time. Acquisition in excess of the percentages specified above shall be reported to the competent court of registry within 15 days after the holding is in fact acquired. In case of non-compliance, the court of registry has the power to impose legal (supervisory) sanctions (a warning and a fine).

The shareholder shall not be required to comply with the obligation of notification if:

- the notification requirement is satisfied by its parent company, or if the parent company is a controlled company itself, by that parent company,
- the voting rights are attached to shares acquired for stabilization purposes in accordance with the regulation for transactions conducted under a buy-back program or to transactions conducted for the stabilization of financial instruments, if performed in compliance with Commission Regulation (EC) No. 2273 / 2003, provided that the issuer ensures that the voting rights attached to those shares (i) are not exercised, and (ii) they are not otherwise used to intervene in the decisions relating to the appointment and removal of members for the issuer's decision-making, management bodies, supervisory board and their bodies.

Credit institutions and investment firms shall not be required to comply with the obligation of notification in connection with shares registered in the trading book if:

- voting rights cannot be exercised and
- they are not involved in the decisions relating to the appointment and removal of members for the issuer's decision-making, management bodies, supervisory board and their bodies, and
- the voting rights held in the trading book do not exceed five per cent.

Market makers shall not be required to comply with the obligation of notification if

- they ensure that the voting rights attaching to their shares are not exercised,
- they notify the Supervision in advance of the commencement and termination of market making activities,
- they keep separate accounts on the shares and financial instruments required for market making activities.

Regulations on foreign investments:

- Pursuant to a regulation effective as of 1 January 2019 prior approval from the Minister of Defense is required for the acquisition of foreign ownership in Hungarian companies active in sectors considered sensitive to Hungary's national security. The ownership restriction is 25% or bigger stake in non-public companies, 10% or bigger stake in public companies; joint ownership of foreign investors that exceeds 25% (except for public companies) or any influencing stake as defined by the Civil Code of Hungary. The scope of the regulation covers legal entities registered outside the European Union (EU), European Economic Area (EEA) and the Swiss Confederation, furthermore legal entities registered in Hungary, European Union (EU), European Economic Area (EEA) and the Swiss Confederation having a majority stakeholder being a legal entity or a citizen outside the European Union (EU), European Economic Area (EEA) and the Swiss Confederation.
- As of 18 June 2020, the Law LVIII of 2020 stipulates new conditions of foreign investment in strategic sectors. In line with the law, in certain circumstances, acquisition of ownership in Hungarian companies considered strategically important is subject to an acknowledgment of the relevant minister.

### 12.3. VIOLATION CONSEQUENCES

Depending on the nature of the violation the CBH acting as Supervisory Authority may:

- suspend the shareholder rights in the given company;
- name the person or entity responsible for the disclosure of obligatory information and indicate the nature of the infringement in an announcement published on its website;
- prohibit the person or entity responsible for the disclosure of obligatory information to continue or to repeat the injurious behaviour;
- impose fines
- in the case of a legal person maximum HUF 2,984,800,000 (app EUR 9.6 million) or maximum 5% of the annual revenue as stated in the last annual report;
- in the case of a natural person maximum HUF 596,960,000 (app EUR 1.9 million) or the profit arising from the infringement of rights or double of the amount of loss that has been avoided by the infringement of rights.

From the amounts defined above, in all cases the higher amount should be applied.

The CBH may also mention the name of the natural person committing the infringement of rights in its legally binding resolution. The CBH makes its resolutions about certain measurements or exceptional measurements or fines available on its website at least for 5 years and maximum for 10 years.



# 13. Account management

## 13.1. COMMON ACCOUNT STRUCTURES

The following types of securities accounts are supported on the market:

- Individual client segregation;
  - End-investor segregation
- Omnibus client segregation accounts (that can also be opened under the name of a nominee);
- Any mixture of the above.

In line with the Capital Market Act, unless evidenced to the contrary, the holder of a (dematerialised) security shall be the person on whose account it is registered (maintained). The level of segregation in the books of the local custodian and KELER is usually different. Local custodians keep more detailed records than it is reflected in the CSD.

### SEGREGATED ACCOUNTS

In case of segregated accounts, the account holder is considered to be the beneficial owner of the dematerialised assets held on the account. One separate account is opened for each underlying investor who will be registered as the shareholder / ultimate beneficial owner and will receive the income and can participate in corporate actions in its own name. Any tax or other documentation shall be submitted to the market in the name of the investor in whose name the segregated account is maintained. For private individuals it is highly recommended to open segregated securities account.

### OMNIBUS ACCOUNTS

Hungarian regulations do not contain precise rules for omnibus accounts. However, their use is a market practice taking into account that in case the account holder provides data on the underlying investors they will be considered as the ultimate beneficial owners instead of the account holder. It is the decision and responsibility of the omnibus account holder to what extent the underlying investors are disclosed.

Omnibus accounts may be setup in accordance with the preference of the local custodian's client, e.g.:

- Omnibus account by residency of the underlying investors;
- One omnibus account for all underlying clients;
- Omnibus account(s) for legal entities;
- Any other combinations.

### THE NOMINEE CONCEPT IN HUNGARY

According to the Hungarian legal regulations the nominee means "shareholder representative", thus the nominee concept is interpreted in case of equities only. There are several specialities to be considered:

A foreign investor can act as a nominee if it is allowed to operate as a nominee according to the legislation of its own country.

By default, the nominee will be registered in the book of shareholders as a nominee and not as a shareholder.

According to the Capital Market Act a nominee might be appointed only by the shareholder itself. Thus, there might not be an intermediary between the shareholder and the nominee.

The nominee shall reveal the identity of the shareholders represented when demanded by any other shareholder, by the issuing company or by the market supervision. In addition, any person who is able to substantiate his valid concern shall be entitled to request the CBH as Supervisory Authority to reveal the identity of the shareholders represented by a particular nominee.

The nominee agreement must be a separate document and must not be a part of any other agreement.

The nominee must be able to prove its nominee status however the format / wording of such document is not defined. Since the timeframe for such a disclosure on the shareholders or the submission of the nominee documentation is not defined by law, these could be demanded any time, even at the time and the premises of a general meeting. If the above documentation is not provided in due course, the voting right may be suspended.

## 13.2. KYC / AML REQUIREMENTS

There are strict Customer Due Diligence (including KYC) rules in force in Hungary regulated by the Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorism Financing (“Anti-Money Laundering Act”) – which is in compliance with the EU Directive 2015 / 849 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing. Its major characteristics are as follows:

- Customer Due Diligence measures must be applied (amongst other cases)
  - when establishing a business relationship;
  - when carrying out occasional transactions that amount to HUF 4.5 million or more.
- As part of the Customer Due Diligence process:
  - Identification of clients (including client’s agent, proxy and other authorized representatives) is obligatory before the business relationship is established.
  - Customers have to provide statement whether h considered politically exposed (PEP)
  - Customers are required to provide information of their Beneficial Owners (in addition to that, customers must provide statement declaring whether the Beneficial Owner is a Politically Exposed Person)
- All Customers must be subject to Due Diligence. According to the law, types of due diligence: regular, simplified and enhanced due diligence. Enhanced due diligence procedure shall be applied in certain cases (e.g. politically exposed persons, customer is not physically present, correspondent banking relationship, and also, if service providers’ internal regulations stipulate it).
- A bank is obliged to report the suspicious transactions to the relevant Authority
- In specific cases, the Bank shall suspend the execution of the transaction
- Customer payment instructions (e.g. MT103): in the case of international payments Hungarian financial institutions are required to ask their clients to identify their ordering customers with their name, address and account number.

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